VIEW SYSTEMS INC
Form 10-Q
May 15, 2013
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

[X]QUARTERLY REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED March 31, 2013

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-30178

VIEW SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Nevada	59-2928366
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1550 Caton Center Drive, Suite E, Baltimore, Maryland 21227

(Address of principal executive offices) (Zip Code)

(410) 242-8439

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [ ] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [ ]	Accelerated filer [ ]	Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ]No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 15, 2013
Common Stock, $.001 par value per share	186,087,845

VIEW SYSTEMS, INC.

FORM 10-Q

FOR THE PERIOD ENDED SEPTEMBER 30, 2011

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Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Information included in this Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended ("Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). This information may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of View Systems, Inc. (the "Company"), to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words "may," "will," "should," "expect," "anticipate," "estimate," "believe," "intend," or "project" or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that these projections included in these forward-looking statements will come to pass. Actual results of the Company could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, the Company has no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

View Systems, Inc. and Subsidiaries
Consolidated Balance Sheets (Unaudited)

	March 31, 2013	December 31, 2012
ASSETS		
Current Assets		
Cash	$13,897	$107,181
Accounts Receivable	133,314	41,675
Inventory	28,769	142,065
Prepaid Expenses	109,062	109,062
Total Current Assets	285,042	399,983
Property and Equipment (Net)	13,268	16,150
Other Assets		
Prepaid Expenses (Non-current Portion)	—	27,266
Deposits	2,872	2,872
Total Other Assets	2,872	30,138
Total Assets	$301,182	$446,271
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts Payable and Accrued Expenses	$576,971	$681,197
Deferred Compensation	64,772	28,102
Accrued and Withheld Payroll Taxes Payable	164,319	155,886
Accrued Interest Payable	65,865	54,885
Accrued Royalties Payable	225,000	225,000
Loans from Stockholders	208,534	199,173
Notes Payable	197,136	197,058
Stock Settlement Payable	124,578	124,578
Deferred Revenue	129,502	215,976
Total Current Liabilities	1,756,677	1,881,855
Noncurrent Liabilities		
Note payable	68,707	76,231
Total Liabilities	1,825,384	1,958,086
Stockholders' Deficit:		
Convertible Preferred Stock, Authorized 10,000,000 Shares, $.01 Par Value, Issued and outstanding 2,989,647	29,896	29,896
Common Stock, Authorized 950,000,000 Shares, $.001 Par Value, Issued and Outstanding 182,421,178	182,421	—
Issued and Outstanding 170,421,178	—	170,421
Stock Settlement in Process	(124,578)	(124,578)
Common stock issuable	72,500	267,000
Additional Paid in Capital	24,453,391	23,748,391
Accumulated Deficit	(26,137,832)	(25,602,945)
Total Stockholders' Deficit	(1,524,202)	(1,511,815)
Total Liabilities and Stockholders' Deficit	$301,182	$446,271

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View Systems, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)

	For the Three Months Ended March 31, 2013	2012
Revenues		
Product Sales and Installation	$320,741	$82,308
Revenue from Extended Warranties	17,489	29,221
Total Revenue	338,230	111,529
Cost of Sales	197,490	55,298
Gross Profit	140,740	56,231
Operating Expenses		
Business Development	45,927	34,911
General and Administrative	39,740	91,096
Professional Fees	62,120	46,020
Salaries and Benefits	64,946	49,825
Total Operating Expenses	212,733	221,852
Loss from Operations	(71,993)	(165,621)
Other Income (Expense)		
Stock Option Compensation	(450,000)	—
Interest Expense	(12,894)	(15,658)
Total Other Income (Expense)	(462,894)	(15,658)
Net Loss	$(534,887)	$(181,279)
Net Loss Per Share (Basic and Diluted)	$(0.00)	$(0.00)
Weighted Average Shares Outstanding (Basic and Diluted)	173,621,178	137,179,400

View Systems, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

	For the Three Months Ended March 31, 2013	2012
Cash Flows from Operating Activities:		
Net Loss	$(534,887)	$(181,279)
Adjustments to Reconcile Net Loss to		
Net Cash Used in Operations:		
Depreciation & Amortization	2,882	4,800
Common Stock Issued in Payment of Services	57,266	—
Stock Option Compensation Expense	450,000	—
Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(91,639)	74,401
Inventory	113,296	(27,676)
Prepaid Expenses	—	5,400
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	(104,226)	(47,059)
Deferred Compensation	36,670	16,737
Accrued and Withheld Payroll Taxes	8,433	—
Accrued Interest	10,980	13,213
Deferred Revenue	(86,474)	(10,581)
Net Cash Used in Operating Activities	(137,699)	(152,044)
Cash Flows from Financing Activities:		
Proceeds from issuable common stock	35,000	187,000
Principal payments on notes payable	(7,446)	(6,916)
Loans from Shareholders	16,861	9,361
Net Cash Provided by Financing Activities	44,415	189,445
(Decrease) Increase in Cash	(93,284)	37,401
Cash at Beginning of Period	107,181	29,041
Cash at End of Period	$13,897	$66,442
Non Cash Investing and Financing Activities:		
Issuance of Common Stock Issuable	$267,000	$—
Notes Payable Paid Down with Common Stock	$7,500	$15,000
Accounts Payable Paid with Common Stock	$—	$28,500
Cash Paid For:		
Interest	$—	$247
Income Taxes	$—	$—

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

View Systems, Inc. (the "Company") designs, develops and sells computer software and hardware used in conjunction with surveillance capabilities. The technology utilizes the compression and decompression of digital inputs. In March 2002, the Company acquired Milestone Technology, Inc., which has developed a concealed weapons detection portal. In July 2009, the Company acquired FiberXpress, Inc., which is a company that specializes in developing and selling equipment and components for the fiber optic and communication cable industries.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, FiberXpress, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from the estimates that were used.

Accounts Receivable

Accounts receivable consists of amounts due from customers. Management periodically reviews the open accounts and makes a determination as to the ultimate collectability of each account. Once it is determined that collection is in doubt the account is written off as a bad debt. In order to provide for accounts that may become uncollectible in the future, the Company has established an allowance for doubtful accounts. The balance of the allowance for doubtful accounts is based on management's judgment and the Company's prior experience with managing accounts receivable.

Revenue Recognition

The Company has three main products, namely the concealed weapons detection system, the visual first responder system and the Viewmaxx digital video system. In all cases revenue is considered earned when the product is shipped to the customer, installed (if necessary) and accepted by the customer as a completed sale. The concealed weapons detection system and the digital video system each require installation and training. The customer can engage us for installation and training, which is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training and acceptance by the customer. However, the customer can also self-install or can engage another firm to provide installation and training. Each product has an unconditional 30 day warranty, during which time the product can be returned for a complete refund. Customers can purchase extended warranties, which provide for replacement or repair of the unit beyond the period provided by the unconditional warranty. Warranties can be purchased for various periods but generally they are for one year period that begins after any other warranties expire. The revenue from warranties is recognized on a straight line bases over the period covered by the warranty. Prior to the issuance of financial statements management reviews any returns subsequent to the end of the accounting period which are from sales recognized during the accounting period, and makes appropriate adjustments as necessary. Product prices are fixed or determinable and products are only shipped when collectability is reasonably assured.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in-first-out method (LIFO). As of March 31, 2013 the Company's inventory consisted of unassembled parts of products. As of December 31, 2012 the inventory consisted of assembled units as well as unassembled parts of products.

Property and Equipment

Property and equipment is recorded at cost and depreciated over their useful lives, using the straight-line and accelerated depreciation methods. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the results of operations. The useful lives of property and equipment for purposes of computing depreciation are as follows:

EquipmentM-7 years

Software toolsK years

Depreciation expense for the periods ended March 31, 2013 and 2012 amounted to $2,882 and $4,800, respectively.

Stock Options

Stock based compensation costs are determined at the grant date using the Black-Scholes option pricing model. The compensation expense is recognized on a straight-line basis over the vesting period.

Income Taxes

Income taxes are recorded under the assets and liabilities method whereby deferred tax assets and liabilities are recognized for the future tax consequences, measured by enacted tax rates, attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carry forwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the rate change becomes effective. Valuation allowances are recorded for deferred tax assets when it is more likely than not that such deferred tax assets will not be realized.

The Company files income tax returns in the U.S. federal jurisdictions, and in various state jurisdictions. The Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years prior to 2009. the company policy is to recognize interest related to unrecognized tax benefits as income tax expense. The Company believes that it has appropriate support for the income tax positions it takes and expects to take on its tax returns, and that its accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss available to common stockholder by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares and dilutive potential common share equivalents then outstanding. Potential common shares consist of shares issuable upon the exercise of stock options and warrants in addition to shares that may be issued in the event that convertible debt is exchanged for shares of common stock. The calculation of the net loss per share available to common stockholders for the periods ended March 31, 2013 and 2012 does not include potential shares of common stock equivalents, as their impact would be antidilutive.

2. GOING CONCERN

The Company has incurred and continues to incur, losses from operations. For the periods ended March 31, 2013 and March 31, 2012, the Company incurred net losses of $534,887 and $181,279, respectively. In addition, certain notes payable have come due and the Company is in default.

Management is very actively working to cure these situations. It has implemented major plans to for the future growth and development of the Company. Management is in the process of renegotiating more favorable repayment terms on the notes payable and the Company anticipates that these negotiations will result in extended payment plans. In addition, during 2013 and 2012, the Company implemented marketing and information strategies to increase public awareness of its products and thereby sales. It has established new international markets which it believes will be the source for sales growth in the very near future. It also was able to reduce the per-unit cost of manufacturing its products. Additionally, the Company has increased the efficiency of its processes and focused its development efforts on products that appear to have greater sales potential.

Historically, the Company has financed its operations primarily through private financing; however, increases in sales revenue during 2013 and 2012 and decreases in expenses during 2013 and 2011 made contributions to working capital. It is management's intention to finance operations during the remainder of 2013 primarily through increased sales although there will still be a need for additional equity financing. In addition, management is actively seeking out mergers and acquisitions which would be beneficial to the future growth of the Company. There can be no assurance, however, that this financing will be successful and the Company may be required to further reduce expenses and scale back operations.

As previously noted the Company is currently in default on a $50,000 loan from a stockholder and it is also in default under the terms of a joint venture agreement in an amount equal to 50% of the net profit under the terms of the agreement. The ultimate determination of the net profit realized from the venture has yet to be determined.

The consolidated financial statements presented above and the accompanying Notes have been prepared on a going concern basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future, and does not include any adjustments to reflect possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result from the outcome of any extraordinary regulatory action, which would affect our ability to continue as a going concern.

Due to the conditions and events discussed above, there is substantial doubt about the Company's ability to continue as a going concern.

3. NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board ("FASB") periodically issues new accounting standards in a continuing effort to improve standards of financial accounting and reporting. The Company has reviewed the recently issued pronouncements and concluded that there are no new accounting standards are applicable to the Company.

4. NOTES PAYABLE

Notes payable as of March 31, 2013 and December 31, 2012 consists of the following:

	March 31, 2013	December 31, 2012
Stockholder An unsecured loan from a stockholder which is payable on demand with interest at 12%. The note was dated November 1, 2007, and the note matures and the principal is payable upon the demand of the lender.	$116,000	$116,000
Lafayette Community Bank A term loan secured by a stockholder, payable in monthly installments of $2,587 commencing in December 25, 2009 but refinanced in May 2011. The loan is due in full on May 18, 2016. Interest accrues monthly at 7.5% per annum.	91,209	97,185
Stockholder Demand loan payable with interest at 5% per month. The loan is secured by the Company's accounts receivable. The note payable matured on December 17, 2009 at which the debt became due and payable and therefore currently in default.	50,000	50,000
Chase Equipment loans to finance the purchase of a trucks, payable monthly in installments of $533, which include interest at 5.34% per annum.	8,634	10,104
TOTAL	$265,843	$273,289
Less current portion	197,136	197,058
Non-current portion	$68,707	$76,231

Principal payments for the next five years ending March 31:

2014	$197,136
2015	29,549
2016	29,093
2017	10,065
Thereafter	0
Total	$265,843

5. INCOME TAXES

For income tax purposes the Company has net operating loss carry forwards of $24,961,000 as of December 31, 2012 that may be used to offset future taxable income. In the instance of future corporate acquisitions, the net operating losses may be used to offset the future taxable income of a qualifying subsidiary corporation which meets IRS regulations governing such situations. The losses have accumulated since 1998 and they will start to expire in 2018. Due to the continuous losses from operations the Company has assigned a full valuation allowance against its deferred tax assets.

6. PREFERRED STOCK

In July 2005 the Company issued 7,171,725 shares of Series A Preferred Stock in payment of services. The issuance had been previously authorized by the Board of Directors. Each share of Series A Preferred Stock has a liquidation preference, in the event of liquidation of the corporation, of $0.01 per share before any payment or distribution is made to the holders of common stock.

During 2008 the Board of Directors approved a reverse split of the stock in which one new share of preferred stock was issued in exchange for each 80 shares of stock outstanding. Accordingly, the total issued of preferred stock was adjusted from 7,171,725 shares to 89,647 shares. The par value and the total authorized shares did not change.

Effective in 2010 the initial issuance of preferred of Series A Preferred can be converted into common stock in the ratio of 15:1. During 2011 the Board of Directors authorized the issuance of an additional 1,400,000 shares of Series A Preferred Stock in payment of a loan from a shareholder in the amount of $64,000 and also in payment of services in the amount of $34,000. These additional shares can be converted to common stock in 2013. Each share is entitled to fifteen votes and shall be entitled to vote on any matters brought to a vote on the common stock shareholder.

During 2012 the Board of Directors authorized the issuance of an additional 1,500,000 shares of Series A Preferred Stock in payment of deferred compensation and current compensation of $161,463.

No shares have been issued in the three months ended March 31, 2013.

7. OPERATING LEASE

The Company leases 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland, under a non-cancellable operating lease which expires in December 2013. The original base rent was $3,077 per month with a 3% annual rent escalator clause. The current monthly rent is $3,464. Rent expense, which includes the Caton Center property as well as some other short-term leases, was $13,145 and $16,733 for the periods ended March 31, 2013 and 2012, respectively.

8. STOCK BASED COMPENSATION

During the periods ended March 31, 2013 and 2012 the Company issued stock in payment of services and debts as follows:

For the three month period ended March 31, 2013 the Board authorized the issuance of 1,000,000 shares of common stock in payment of services amounting to $30,000. In addition 1,500,000 shares were issued in payment of loans in the amount of $7,500. In both instances, although authorized prior to March 31, 2013 the shares were not issued until April 2013.

For the three month period ended March 31, 2012 3,000,000 shares of common stock were issued in payments of accounts payable amounting to $28,500. In addition 3,000,000 shares were issued in payment of loans in the amount of $15,000.

Independent contractors and consultants' expense was based on the value of services rendered or the value of the common stock issued, if more reliably determined.

Stock Options and Warrants

On April 2, 2010, the Company adopted its 2010 Equity Incentive Plan, which authorized, among other forms of incentives, the issuance of stock options. Reserved for equity issuances under the 2010 Equity Incentive Plan are 50,000,000 shares of our common stock. No equity issuances have been made from the 2010 Equity Incentive Plan. Stock options, which may be tax qualified and non-qualified, are exercisable for a period of up to ten years at prices at or above market prices as established on the date of the grant.

Stock Options

Certain nonqualified stock options were issued during the three months ending March 31, 2013 to a member of the board of directors as compensation for services performed.

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2013	—	—	—	—
Granted	15,000,000	$0.03	4.92	$—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Outstanding at March 31, 2013	15,000,000	$0.03	4.92	$—
Exercisable at March 31, 2013	15,000,000	$0.03	4.92	$—

The Company uses the Black-Scholes option pricing model to calculate the fair value of options. Significant assumptions used in this model include:

	Three Months Ended March 31	
	2013	2012
Annual Dividend	—	NA
Expected Life (in years)	5.00	NA
Risk Free Interest Rate	0.78 %	NA
Expected Volatility	325.25%	NA

The 15,000,000 options granted for the three months ended March 31, 2013 had a weighted average grant date fair value of $0.03.

9. RELATED PARTY TRANSACTIONS

During the periods reflected on this report certain shareholders made cash advances to the Company to help with short-term working capital needs. The total balance due on unstructured loans from shareholders amount to $208,534 at March 31, 2013 and $199,173 at December 31, 2012. Loans from stockholders made with repayment terms are described in Note 4 above.

10. STOCK SETTLEMENT IN PROCESS

During 2006 the Company negotiated a loan from an individual in the amount of $100,000. Under the terms of the loan it was to be repaid in full within one year together with interest at the rate of 15% per annum. The Company was unable to pay the loan when due and under the threat of litigation the note holder was given 3,500,000 shares of common stock. The stock was issued on January 28, 2010. At that time the principal, accrued interest and legal fees amounted to $163,366. Under the terms of a court ordered stipulation agreement if the note holder was unable to liquidate the stock in full payment of the stipulated amount then the Company would be obligated to issue more stock to him to make up for the shortage. As a part of the agreement the note holder is required to account for proceeds realized from the sales of stock. The note holder has yet to report any stock sales so this settlement is considered to be in process.

During the year ended December 31, 2011 $38,788 was levied against the Company's bank accounts as a result of a legal action brought to force collection of the balance. The note holder's contention was that stock sales had fallen well short of the balance due and thus he was due to be paid. While the Company had a complaint that they had not been provided with any information regarding sales of stock management was unable to stave off the forced levy. As a result of the levy the debt balance as of December 31, 2011 was reduced to $124,578.

11. JOINT VENTURE PROFIT SHARING

During 2011 the Company entered into an agreement with CRA, Inc. regarding a sale of 50 scanners to a municipal school system. Under the terms of the deal CRA, Inc. purchased all of the materials and paid substantially all of the cost, View Systems, Inc. assembled the products, shipped the scanners for installation and billed the school system. The terms of the agreement provide that each party is to share equally in the profits. As of March 31, 2013 and December 31, 2012 the estimated amount that the Company may ultimately owe to CRA, Inc. has not been determined. The Company is technically in default under the terms of the agreement because of late payments.

12. CONTINGENT LIABILITIES

The Company is party to certain legal and pending actions in the course of business. Based on information available at this time, it is management’s opinion that the outcome of these matters, individually or in the aggregate, will not have a material effect on the results of operations or financial position of the Company.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

EXECUTIVE OVERVIEW

The following analysis of our consolidated financial condition and results of operations for the three month period ended March 31, 2013 and March 31, 2012 should be read in conjunction with the Consolidated Financial Statements and other information presented elsewhere in this quarterly report.

Overview

View Systems, Inc. develops, produces and markets computer software and hardware systems for security and surveillance applications. In 1998 digital video recorder technology was our first developed product and we enhanced this product line by developing interfaces with other various technologies, such as facial recognition, access control cards and control devices such as magnetic locks, alarms and other common security devices. In 2003 we sold this product to various commercial entities including schools, restaurants, night clubs, car washers and car dealers (license plate recognition was incorporated into these types of installations), ranches and gas stations. In these installations we integrated the digital video recorded technology with other electronic devices, and we gained knowledge of the security needs of a wide range of businesses.

We expanded our product line in 2002 to include a concealed weapons detection system we call ViewScan. We have penetrated four major market segments for this product: correctional facilities, judicial facilities, probation offices and federal facilities in the Mid-Atlantic States, the West Coast and the South. In 2003 we added a hazardous material first response wireless video transmitting system to our product line we refer to as Visual First Responder. The markets for these units are first responder units for agencies such as the National Guard, Coast Guard, Army, state law enforcement agencies, and fire departments. Both of these technologies were licensed from the U.S. Department of Energy's Idaho National Engineering Laboratory ("INEL"). Until 2005 we assembled all of our products in-house, but we currently contract with third party manufacturers to manufacture some components of our products.

Historically, the Company relied upon exclusive technology licensing agreements with federal departments to license and distribute the ViewScan technology. In anticipation of the expiration of federal licenses, we developed propriety components and made sufficient engineering design changes to the ViewScan product to lower production costs and to accommodate the price points required by competitive pressures. By redesigning the ViewScan, we offset the impact of the expiration of our license agreements and continued to capitalize on the competitive advantage we had in the markets we had entered. We have a similar strategy for the Visual First Responder, which is now in its third generation.

Our strategy for 2013 for ViewScan is to extend our sales and service provisions. To increase sales we offer demonstrations of our products to potential customers in specific geographical areas and at region - specific trade shows, such as sheriff's conventions, court administrators' meetings, civil support team, state police and dealer shows. When a demonstration results in a sale of one of our products, then we attempt to expand that market by contacting other potential customers in the area, such as, correctional facilities, courthouses and other municipal buildings.

In the short term, management plans to raise funds through sales of our common stock for fulfillment (manufacturing, packaging and shipment), which will set the stage for future orders becoming self funding. Then the next phase of our business plan will be to raise additional funds through common stock offerings to provide working capital to finance several acquisitions and the integration of new technologies and businesses. We also intend to continue to strengthen our balance sheet by paying off debt either through exchange of equity for cancellation of debt obligations or the payment of debt obligations with cash.

Products and Services

Our current principal products and services include:

ViewScan Concealed Weapons Detection System

ViewScan, which is also sold under the name “Secure Scan”, is a walk-through concealed weapons detector which uses data sensing technology to accurately pinpoint the location, size and number of concealed weapons. This walk-through portal is controlled by a master processing board and a personal computer based unit which receives magnetic and video information and combines it in a manner that allows the suspected location of the weapon to be stored electronically and referenced. Because ViewScan does not produce a graphic anatomical display of a scanned person, the Company does not believe that ViewScan is susceptible to privacy concerns raised about certain personnel scanners produced by other companies.

ViewScan products are distributed in three basic configurations; stand-alone units, portable units and integrated door systems.

While electromagnetic induction systems of the type described above have been used for decades as concealed weapons detection systems, they are not without their problems. For example, such electromagnetic induction systems are generally sensitive to the overall size, i.e., surface area of the object, including its mass. Consequently, small, compact, but massive objects, such as a small pistol, may not produce a "signature" that is significantly larger than the signature produced by a light weight object of the same or greater size, such as a cell phone or compact camera. Another problem associated with electromagnetic induction systems is related to the fact that electromagnetic systems are sensitive to electrically conductive objects, regardless of whether they are magnetic or non-magnetic. That is, electromagnetic systems tend to detect non-magnetic objects, such as pocket change, just as easily as magnetic objects, such as weapons. Consequently, electromagnetic systems tend to be prone to false alarms. In many circumstances, such false alarms need to be resolved by scanning the suspect with a hand-held detector in order to confirm or deny the presence of a dangerous weapon.

ViewScan is designed to overcome the traditional shortcomings of electromagnetic induction scanners. The ViewScan portal uses an array of advanced magnetic sensors, each with internal digital signal processors. The sensors communicate with the control unit's software which spatially places identified magnetic anomalies and visually places the location of the potential threat object with a red dot that is superimposed over a real time snapshot image of the person walking through the portal. Along with the snapshot, a graph displays the sensor data which automatically scales the signal strength of the individual sensors and cross-references them to the video image. All of this information is brought together on a video screen that displays the image of the person, the location of the weapon(s) and the size of the weapon(s), depending on the intensity of the magnetic signature. The visual image allows the operator to determine what the object is without the need to conduct a personal search to locate the object and look at it.

The ViewScan system operates faster than ordinary metal detectors and can scan as high as 1,200 persons per hour. Since the ViewScan technology does not use transmitters to produce electromagnetic induction, it does not pose a problem for pacemakers. The ViewScan self calibrates and does not need operator intervention or special calibration tools.

In 2004 we introduced the ViewScan product to the venue and stadium market. In February 2005 we tested the ViewScan at the pre-game venues of the Super Bowl football game in Jacksonville, Florida. During that installation, the portal scanned up to 3,000 to 4,000 people and at various times throughput ranged from approximately 600 to 1,200 persons per hour.

During 2005 we contracted with the University of Northern Florida to design new sensor boards for the ViewScan product which has allowed us to reduce the installed sensor cost by a factor of four. The new lower costs allow us to offer price points to the market which compete directly with traditional metal detectors.

In February 2006 we demonstrated a ViewScan product with a precision optical biometric fingerprint terminal. As expected, the demand for biometric interfaces has increased significantly. In addition to verifying that an individual is not carrying guns, knives and sometimes cameras, the units can perform multi-modal double and triple identity checks, including: fingerprint, facial, iris, driver’s license and employee identification card verification.

Today we sell these units for an average retail price of approximately $9,000 with a one year extended warranty. We feel the new reduced price points and enhanced interface abilities will allow us to be more competitive, along with the advantages of three to four times the throughput rate, non-contact imaging and permanent visual storage, and a log of all individuals scanned. We have been making additional cost reductions through economies of scale and larger scale integration by taking advantage of ongoing computer component improvements.

3D Facial Recognition Technology - Animetrics Inc

On August 9, 2012, the Company entered into a partnership with Animetrics Inc. ("Animetrics"), a leading developer of advanced 3D facial recognition and identify management solutions (the "Animetrics Agreement"). In accordance with the terms and provisions of the Animetrics Agreement, the Company will integrate Animetrics' next-generation 3D facial recognition technology into its concealed weapons detection systems used for security screening at correctional facilities, stadiums, courthouses, schools and other public facilities. The Company's ViewScan Concealed Weapons Detector is a walk-through portal which uses advanced magnetics technology to accurately pinpoint threat objects on a visual image of the subject. The system is sensitive enough to locate items such as hidden razor blades and cellular phones but will ignore common objects such as coins, keys and belt buckles. The initial objective is to integrate Animetrics' facial identify management software, the FaceR identity management solution (FIMS) onto the Company's ViewScan, incorporating next generation facial recognition and investigative face biometric capabilities into the weapons detection and identification system. The Company also plans to utilize Animetrics' cloud-based FaceR FIMS and its suite of FaceR facial biometric identify and screening applications, including FaceR Mobile ID, FaceR Credential Me and ForensicaGPS across its entire portfolio of security and surveillance systems and applications.

The FIMS is deployed either via Web server or in a clod-based architecture system. Both configurations provide centralized and scalable management of highly distributed “one-to-many" identity searched in the field. FIMS utilized Animetrics' FACEngine biometric facial recognition technology that converts 2D images to accurate 3D geometrics for enhanced biometric templates. FIMS makes these 3D facial "signatures" for identification purposes available to credentialized users via any mobile or fixed digital device with internet connectivity. This powerful combination with the ViewScan delivers most advanced facial-recognition and comparison technology to personnel in the field providing accurate and fast results.

National Security Resources

On February 9, 2012, the Company entered into a partnership (the "Partnership") with National Security Resources, Inc., a facial recognition company ("National Security Resources"). In accordance with the Partnership, the Company and National Security Resources will work together to develop and deliver an integrated solution for a combined technology line. The Company intends to integrate National Security Resources' advanced "scan and match facial recognition" ability into the Company's concealed weapons detection ViewScan.

Multi-Mission Mobil Video

The Multi-Mission Mobil Video (MMV) is a lightweight, wireless camera system housed in a tough, waterproof body. The camera system sends back real-time images to a computer or video monitor at the command post located outside the exclusion zone or containment area. The MMV is able to transmit high quality video in the most difficult environments. The image is received from the MMV and displayed on a monitor and can be easily recorded using a common camcorder or VCR with video input. The camera can be completely submerged for fast and easy decontamination.

The MMV also uses an Extension Link which is a separate transmitter and receiving system that increases the operating range of the MMV. The Extension Link has field-selectable channels to avoid interference at longer distances. We have also incorporated a video encryption feature that allows first responders to transmit on-scene video to the command post without the data being intercepted by unwanted parties.

The complete MMV is fully deployed by one person in a stand-alone configuration in less than 10 minutes. The system is battery operated and can operate for eight continuous hours using one set of spare camera batteries. We sell this base product for approximately $9,000 retail, but the cost can be as high as $18,500 depending on additional special features such as the extension link and encryption capabilities.

This product allows hands-free operation of the unit because it allows the person to wear the unit with a helmet mounted monocle.

ViewMaxx Digital Video System

ViewMaxx is a high-resolution, digital video recording and real-time monitoring system. This system can be scaled to meet a specific customer's needs by using anywhere from one camera up to 32 surveillance cameras per each ViewMaxx unit. The system uses a video capture card recording which translates closed-circuit television analog video data (a format normally used by broadcasters for national television programs) to a computer readable digital format to be stored on direct access digital disk devices rather than the conventional television format of video tape.

ViewMaxx offers programmable recording features that can eliminate the unnecessary storage of non-critical image data. This ability allows the user to utilize the digital disk storage more efficiently. The ViewMaxx system can be programmed to satisfy each customer's special requirements, be it coverage which is continuous, or only when events are detected. For example, it can be programmed to begin recording when motion is detected in a surveillance area, or a smaller field of interest within the surveillance area, and can be programmed to notify the user with an alarm or message.

Viewing of the stored digital images can be performed locally on the computer's video display unit or remotely through the customer's existing telecom systems or data network. It also uses a multi-mode search tool to quickly play back files with simple point and click operations. The search mode parameters can be set according to a specific monitoring need, such as: certain times of day, selected areas of interest in the field of view or breaches of limit areas. These features and abilities avoid the need to review an entire, or many, VCR tapes for a critical event.

Additional Applications and Integration of ViewScan and ViewMaxx

We also offer integration of other products with ViewScan or ViewMaxx. Biometric verification is a system for recognizing faces and comparing them to known individuals, such as employees or individuals wanted by law enforcement agencies. This product can be interfaced with ViewScan and/or ViewMaxx to limit individual access to an area. ViewScan and/or ViewMaxx can be coupled with magnetic door locks to restrict access to a particular area. We also offer a central monitoring or video command center for ViewScan or ViewMaxx products.

The MINI

The MINI (Mobile Intelligent Network Informer) is a portable, wireless watchdog communication device that checks for intrusion into uninhabited areas such as foreclosed houses, storage spaces and vacation homes. The MINI senses motion and sends text messages to a user's cell phone. Property and remote assets may be guarded by this innovative device that requires no plug-in electricity, no physical phone line and no monitoring service. The MINI runs on batteries and one configuration of the system can even send a photo of the intruder to the user's cell phone. Camera settings can be controlled and changed via SMS commands.

We license the MINI from its manufacturer and act as a distributor. The Company established a dedicated e-commerce platform for the direct sale of this innovative product, which went online in February 2010. We are marketing the MINI to large potential users, such as real property managers, as well as retail customers through the www.minicamsim.com website. We have had non-material amounts of revenue from MINI sales thus far, which we attribute to a lack of advertising funds and market awareness.

RESULTS OF OPERATIONS

The following discussions are based on our consolidated financial statements, including our subsidiaries. These charts and discussions summarize our financial statements for the three months ended March 31, 2013 and March 31, 2012 and should be read in conjunction with the financial statements, and notes thereto, included with our most recent Form 10-K for fiscal year ended December 31, 2012.

SUMMARY COMPARISON OF OPERATING RESULTS*

	Three ended March 31,	
	2013	2012
Revenues	$338,230	$111,529
Cost of sales	197,490	55,298
Gross profit	140,740	56,231
Total operating expenses	212,733	221,852
Loss from operations	(71,993)	(165,621)
Total other income (expense)	(462,894)	(15,658)
Net loss	(534,887)	(181,279)
Net loss per share (basic and diluted)	(0.00)	(0.00)

Three Month Period Ended March 31, 2013 Compared to Three Month Period Ended March 31, 2012.

Our net loss for the three month period ended March 31, 2013 was ($534,887) compared to a net loss of ($181,279) during the three month period ended March 31, 2012 (a decrease in net loss of $96,392). We generated net revenues of $338,230 during the three month period ended March 31, 2013 compared to $111,529 during the three month period ended March 31, 2012 (an increase in net revenue of $226,701). Revenue is considered earned when the product is shipped to the customer. The concealed weapons system and the digital video system each require installation and training. Training is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training. Revenue recognition may be delayed for other reasons. Product shipments may require more lead-time and may be delayed for a variety of reasons beyond our control, including additional time necessary to conduct product inspections prior to shipping, design or specification changes by the customer, the customer's need to prepare an installation site, and delays caused by other contractors on the project.

We have experienced an increase in sales of our products which resulted in increased revenues for the three month period ended March 31, 2013 compared to the three month period ended March 31, 2012. We believe the increased revenue is the result of recognition of deferred revenue and an increased demand for security products in times of potential general unrest and increased awareness of our product.

Inflation has not been a significant factor in either our price points nor in the cost of products sold. The sales cycles are long and cross budget and annual review boundaries. The approval for purchase process is affected by both federal funds being available and state decisions interacting with local needs and review of safety and homeland security committees comprised of sheriffs, police, fire and SWAT teams. We have not found elasticity in price affecting decision for purchase or approval.

Cost of goods sold increased during the three month period ended March 31, 2013 to $197,490 from $55,298 incurred during the three month period ended March 31, 2012, resulting in a gross profit of $140,740 for the three month period ended March 31, 2013 compared to a gross profit of $56,231 for the three month period ended March 31, 2012. During the three month period ended March 31, 2013, the prevailing trend of increasing cost of goods sold was due to an increase in the security-related products ordered by government agencies and due to the increase in associated costs related to the components of our security-related products, which is based on general overall economic factors. The gross profit percentage on our non-warranty revenue, which is a measurement of gross profit as a percent of sales of products, installations and related revenue, increased during the three month period ended March 31, 2013 as compared to the three month period ended March 31, 2012. This increase is attributable to increases in unit selling prices during March 31, 2013. During the three months ended March 31, 2012 unit prices had been reduced for a specific bulk sale contract for marketing purposes.

During the three month period ended March 31, 2013, we incurred operating expenses of $212,733 compared to $221,852 incurred during the three month period ended March 31, 2012 (a decrease of $9,119). These operating expenses incurred during the three month period ended March 31, 2013 consisted of: (i) general and administrative of $39,740 (2012: $91,096); (ii) professional fees of $62,120 (2012: $46,020); (iii) salaries and benefits of $64,946 (2012: $49,825); and (iv) business development of $45,927 (2012: $34,911).

During the three month period ended March 31, 2013, our general and administrative expenses generally consisted of: (i) bank service charges of $877 (2012:$4,729); (ii) contractual temporary labor of $2,350 (2012:$15,182) (iii) filing and service fees of $6,922 (2012:$32,471); (iv) insurance of $3,147 (2012:$6,003); (v) postage and delivery of $1,868 (2012:$1,508); (vi) rent of $13,145 (2012:$16,733); (vi) supplies of $2,080 (2012:$1,890); (vii) telephone of $2,957 (2012:$3,307); (viii) Other of $745 (2012:$955; (ix) utilities of $2,767 (2012:$3,518; and (x) depreciation of $2,882 (2012:$4,800).

During the three month period ended March 31, 2013, our professional fees consisted of: (i) accounting fees of $9,520 (2012:$19,020); (ii) engineering fees of $22,600 (2012:$20,000); (iii) legal fees of $0 (2012:$7,000); and (iv) investor relations fees of $30,000 (2012:$0).

Operating expenses incurred during the three month period ended March 31, 2013 compared to the three month period ended March 31, 2012 decreased primarily due to the decrease in general and administrative expenses of $51,356.

Our net operating loss during the three month period ended March 31, 2013 was ($71,993) compared to a net operating loss of ($165,621) during the three month period ended March 31, 2012.

During the three month period ended March 31, 2013, interest expense in the amount of ($12,894) (2012: ($15,658) was incurred. The decrease in interest expense was due to a decrease in interest bearing notes payable.

During the three month period ended March 31, 2013 the Company incurred an expense for stock option compensation in the amount of $450,000 as a result of issuing stock options to a Board member.

After deducting other expense, we realized a net loss of ($534,887) or ($0.00) for the three month period ended March 31, 2013 compared to a net loss of ($181,279) or ($0.00) for the three month period ended March 31, 2012. The weighted average number of shares outstanding was 173,621,178 for the three month period ended March 31, 2013 compared to 137,179,400 for the three month period ended March 31, 2012.

LIQUIDITY AND CAPITAL RESOURCES

Three Month Period Ended March 31, 2013

As at the three month period ended March 31, 2013, our current assets were $285,042 and our current liabilities were $1,756,677, which resulted in a working capital deficit of $1,471,635. As at the three month period ended March 31, 2013, current assets were comprised of: (i) $13,897 in cash; (ii) $133,314 in accounts receivable (net of allowance of $1,000); (iii) $28,769 in inventory; and (iv) $109,062 in prepaid expenses. As at the three month period ended March 31, 2013, current liabilities were comprised of: (i) $576,971 in accounts payable and accrued expenses; (ii) $64,772 in deferred compensation; (iii) $164,319 in accrued and withheld payroll taxes payable; (iv) $65,865 in accrued interest payable; (v) $$225,000 in accrued royalties payable; (vi) $208,534 in loans from stockholders; (vii) $197,136 in notes payable; (viii) $124,578 in stock settlement payable; and (ix) deferred revenue of $129,502.

As of March 31, 2013, our total assets were $301,182 comprised of: (i) $285,042 in current assets; (ii) property and equipment (net) of $13,268; and (iii) $2,872 in deposits. The decrease in total assets during the three month period from fiscal year ended December 31, 2012 was primarily due to the decrease in cash and in inventory.

As of March 31, 2013, our total liabilities were $1,825,384 comprised of: (i) $1,756,677 in current liabilities; and (ii) $68,707 in long term portion of notes payable. The decrease in liabilities during the three month period ended March 31, 2013 from fiscal year ended December 31, 2012 was primarily due to the decrease in accounts payable and accrued expenses.

Stockholders' deficit increased from ($1,511,815) for fiscal year ended December 31, 2012 to ($1,524,202) for the three month period ended March 31, 2013.

Cash Flows from Operating Activities

We have not generated positive cash flows from operating activities. For the three month period ended March 31, 2013, net cash flows used in operating activities was ($137,699) compared to net cash flows used in operating activities of ($152,064) for the three month period ended March 31, 2012. Net cash flows used in operating activities consisted primarily of a net loss of $534,887 (2012: $181,279), which was partially adjusted by: (i) $57,266 (2012: $-0-) in common stock issued for services; (ii) $2,882 (2012: $4,800) in depreciation and amortization; and (iii) $450,000 in stock options issued.

Net cash flows used in operating activities was further changed by: (i) ($91,639) (2012: $37,854 in accounts receivable; (ii) $113,296 (2012: ($46,960) in inventories; (iii) $-0- (2012: $85,362) in pre-paid expenses; (iv) ($104,226) (2012: ($179,257)) in accounts payable and accrued expenses; (v) $36,670 (2012: $215,988 in deferred compensation; (vi) $8,433 (2012: $-0- in payroll taxes accrued and withheld; (vii) $10,980 (2012: $46,168) in accrued interest; and (viii) ($86,474) (2012: $171,521 in deferred revenue.

Cash Flows from Investing Activities

For the three month periods ended March 31, 2013 and March 31, 2012, net cash flows used in investing activities was $-0-.

Cash Flows from Financing Activities

We have financed our operations primarily from debt or the issuance of equity instruments. For the three month period ended March 31, 2013, net cash flows provided from financing activities was $44,415 compared to $155,439 for the three month period ended March 31, 2012. Cash flows from financing activities for the three month period ended March 31, 2013 consisted of: (i) $35,000 in proceeds from sales of common stock; and (ii) $16,861 in loans received from stockholders, which was offset by ($7,446) in principal payment on notes payable.

Cash flows from financing activities for the three month period ended March 31, 2012 consisted of $187,000 in proceeds from sales of common stock, which was offset by ($6,916) in principal payment on notes payable and ($9,316) in loans from shareholders.

PLAN OF OPERATION AND FUNDING

We have incurred losses for the past two fiscal years and had a net loss of $888,022 at December 31, 2012 and $1,761,019 at December 31, 2011. We had insufficient funds to deliver our backlog in the last half of 2012 through the present. Our revenues from several product sales have been increasing and some others decreasing but are not sufficient to cover all of our operating expenses. Our auditors have expressed substantial doubt that we can continue as a going concern. We are continuing to push sales and control costs.

Management intends to finance our 2013 operations primarily with the revenue from product sales and any cash short falls will be addressed through equity or debt financing, if available. Management expects revenues will continue to increase but not to the point of profitability in the short term. We will need to continue to raise additional capital, both internally and externally, to cover cash shortfalls and to compete in our markets. At our current revenue levels management believes we will require an additional $1,200,000 in equity financing during the next 12 months to satisfy our cash requirements of approximately $100,000 per month for operations and to facilitate our business plan.

These operating costs include cost of sales, general and administrative expenses, salaries and benefits and professional fees related to contracting engineers. We have insufficient financing commitments in place to meet our expected cash requirements for 2013 and we cannot assure you that we will be able to obtain financing on favorable terms. If we cannot obtain financing to fund our operations in 2013, then we may be required to reduce our expenses and scale back our operations.

Going Concern

If the market price of our common stock falls below the fixed price of our registered stock offering, as in prior years we may again have insufficient financing commitments in place to meet our expected cash requirements for 2013. We cannot assure you that we will be able to obtain financing on favorable terms. If we cannot obtain financing to fund our operations in 2013, then we may be required to reduce our expenses and scale back our operations. These factors raise substantial doubt of our ability to continue as a going concern. Footnote 2 to our financial statements provides additional explanation of Management’s views on our status as a going concern. The audited financial statements contained in this Annual Report do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result should we be unable to continue as a going concern.

Our independent registered accounting firm included an explanatory paragraph in their reports on the accompanying financial statements regarding concerns about our ability to continue as a going concern. Our financial statements contain additional note disclosures describing the circumstances that lead to this disclosure by our independent auditors.

COMMITMENTS AND CONTINGENT LIABILITIES

We lease 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland. We renewed the lease for one year commencing February 1, 2013 and expiring December 31, 2013. The base rent had been $3,047 per month with an annual rent escalator of 3%. Under the current renewal the monthly lease payment is $3,077.

Our total current liabilities decreased to $1,756,677 at the three month period ended March 31, 2013 compared to $1,881,855 at fiscal year ended December 31, 2012. As of March 31, 2013, our short and long term notes payable consist of the following:

We have an unsecured convertible loan from a former director, William D. Smith, in the principal amount of $116,000. The holder of the note has been receiving interest payments irregularly in the form of cash and common stock. The amount currently outstanding is $116,000.
We have a term loan arranged for and secured by our Director Dr. Bagnoli in the amount of $200,000 of which the outstanding balance is $97,185. Interest is payable monthly at 7.5% per annum and the loan is due during 2016. The line of credit was used to purchase inventory and equipment for our fiber optics business.
We have financed a vehicle in 2009 through Chase Auto Finance with an outstanding balance of $10,104. Payments are $533 per month which includes interest at 5.34%. The loan is for 60 months with the final payment due in July 2014.
We are in default of a September 18, 2009 demand loan payable to an investor which was due December 17, 2009 in the amount of $50,000. Interest has accrued at 5% per month since December 17, 2009. The loan is secured by our accounts receivable. Effective July 1, 2012 the accrual of interest was halted by agreement with the lender.

OFF BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

CONTRACTUAL OBLIGATIONS

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

CRITICAL ACCOUNTING POLICIES

We have three main products, namely the concealed weapons detection system, the visual first responder system and the Viewmaxx digital video system. In all cases revenue is considered earned when the product is shipped to the customer, installed (if necessary) and accepted by the customer as a completed sale. The concealed weapons detection system and the digital video system each require installation and training. The customer can engage us for installation and training, which is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training and acceptance by the customer. However, the customer can also self-install or can engage another firm to provide installation and training. Each product has an unconditional 30 day warranty, during which time the product can be returned for a complete refund. Customers can purchase extended warranties, which provide for replacement or repair of the unit beyond the period provided by the unconditional warranty. Warranties can be purchased for various periods but generally they are for one year period that begins after any other warranties expire. The revenue from warranties is recognized on a straight line bases over the period covered by the warranty. Prior to the issuance of financial statements management reviews any returns subsequent to the end of the accounting period which are from sales recognized during the accounting period, and makes appropriate adjustments as necessary. Product prices are fixed or determinable and products are only shipped when collectability is reasonably assured.

Restatements of Financial Statements for December 31, 2010, and March 31, June 30, and September 30, 2011

In conjunction with the Company’s previously reported change of independent accountants, the Company engaged an outside consultant to perform a review of 100% of the Company’s 2011 revenue arrangements and to identify any misapplication of US GAAP with respect to those arrangements. As a result of this review, the Company determined to restate its financial statements as of and for the period ended December 31, 2010 to reflect a correction to an understatement of deferred income that resulted from allocating the revenue received under extended warranty arrangements over the life of the warranty. Also, we are correcting a revenue overstatement due to recognition of sales prior to the installation of our products. As a result of reducing sales revenue there was a corresponding reduction in cost of sales and accounts payable. In addition, the Company is restating its December 31, 2010 financial statements due to the reclassification of common stock that was issued to a holder of a note payable. The Company had originally recorded the issuance of the stock as a payment in full for the note and related costs however after a further review of the legal documents it was determined that the debt was not satisfied but instead the ultimate resolution of the debt was contingent on events that were still unfolding. Because of the errors that are being corrected, we will revise management’s report on internal controls over financial reporting to conclude that our internal controls over financial reporting were not effective. Amendment No. 2 to our Form 10-K for the year ended December 31, 2010 discloses the restated financial statements for December 31, 2010.

The correction and restatement to our financial statements for the year ended December 31, 2010 also resulted in corrections and restatements to our financial statements included in Forms 10-Q filed for periods ending in 2011. Thus, we amended our Forms 10-Q for the periods ending March 31, 2011, June 30, 2011, and September 30, 2011.

Going Concern Opinion

You should carefully consider the risks, uncertainties and other factors identified below because they could materially and adversely affect our business, financial condition, operating results and prospects and could negatively affect the market price of our Common Stock. Also, you should be aware that the risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we do not yet know of, or that we currently believe are immaterial, may also impair our business operations and financial results. Our business, financial condition or results of operations could be harmed by any of these risks. The trading price of our Common Stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks you should also refer to the information contained in or incorporated by reference to our Form 10-K for the year ended December 31, 2012, including our financial statements and the related notes thereto.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer/Principal Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of March 31, 2013. Based on such evaluation, we have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer/Principal Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining internal control over our financial reporting. Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over our financial reporting includes those policies and procedures that:

(1) pertain to the maintenance of records that in reasonable detail accurately and fairy reflect our transactions.

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error or circumvention through collusion of improper overriding of controls. Therefore, even those internal control systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2013. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSD) in Internal-Control-Integrated Framework and implemented a process to monitor and assess both the design and operating effectiveness of our internal controls. Based on this assessment, management believes that as of March 31, 2013, our internal control over financial reporting was not effective.

This quarterly report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this quarterly report .

On July 30, 2012, our management concluded that it was necessary to correct a revenue error uncovered in the audit of our financial statements for the year ended December 31, 2011. Due to accounting errors uncovered in the audit of our financial statements for the year ended December 31, 2011, we have restated our financial statements as of and for the period ended December 31, 2010 to reflect the correction of: (i) an understatement of deferred income that resulted from incorrectly allocating the revenue received under extended warranty arrangements over the life of the warranty; (ii) an overstatement of revenue due to recognition of sales prior to the installation of the products, and (iii) the classification of common stock that was issued to the holder of a note payable. We have taken steps to correct the error in financial reporting and have revised its interim financial disclosures for periods after December 31, 2010. In conjunction with the correction and restatement to our financial statements for the year ended December 31, 2010, we are also correcting and restating our financial statements included in Forms 10-Q for the quarterly periods ending March 31, 2011, June 30, 2011, and September 30, 2011.

As a result of that detection of accounting errors, we have identified material weakness in our internal controls over financial reporting, that, if not corrected, could result in material misstatements in our financial statements. The material weakness identified resulted from inadequate oversight by management and accounting personnel into the process of recognizing revenue in accordance with generally accepted accounting principles.

We have instituted a remediation plan which involves reeducating our management, the accounting staff, and the administrative staff as to the elements of a completed sale. We increased the oversight of the process by increasing the frequency of involvement of outside accounting consultants. Internal systems are being put into place to track and document significant dates, such as delivery, installation and customer acceptance. In addition, the bookkeeping system has been modified so that all sales of extended warranties are automatically recorded as deferred revenue and that the amount of revenue that is ultimately recognized as warranty revenue is as the result of an analysis of the significant aspects of the warranty such as coverage and price.

Changes in Internal Control Over Financial Reporting

Our management has evaluated, with the participation of our Chief Executive Officer/Chief Financial Officer, changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the period ended March 31, 2013. In connection with such evaluation, there have been no changes to our internal control over financial reporting that occurred since the beginning of our three month period ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting. While there have been no changes, we have assessed our internal controls as being deficient and will be taking steps during 2013 to remedy such deficiencies.

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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following exhibits are filed as part of this Form 10-Q:

10.1	View Systems, Inc. 2010 Equity Incentive Plan (Incorporated by reference to exhibit 10.1 to Form 10-Q filed May 14, 2010)

10.2	View Systems, Inc. 2010 Service Provider Stock Compensation Plan (Incorporated by reference to exhibit 10.4 to Form 10-Q filed August 19, 2010)
10.3	Employment agreement between View Systems and Gunther Than, dated December 1, 2009 (Incorporated by reference to exhibit 10.1 to Form 8-K, filed January 11, 2010)
10.4	Subcontractor Agreement dated March 9, 2009 between MasTec North America, Inc. and View Systems, Inc. (Incorporated by reference to exhibit 10.3 for Form 10-Q, Amendment No. 1, for the period ended March 31, 2009)
10.3	Purchase Agreement, dated June 1, 2012 (Incorporated by reference to exhibit 10.1 to Form 8-K, filed July 3, 2012)
10.4	Amendment to Purchase Agreement, dated June 28, 2012 (Incorporated by reference to exhibit 10.2 to Form 8-K, filed July 3, 2012)
21.1	List of Subsidiaries
31.1	Rule 13a-15(e)/15d-15(e) Certification by the Chief Executive Officer and Chief Financial Officer *
32.1	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VIEW SYSTEMS, INC.

Date: May 15, 2013	By: /s/ Gunther Than
	Gunther Than
	Chief Executive Officer
	(Principal executive officer, principal financial officer, and principal accounting officer)