SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Brekford Corp.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended **December 31, 2012**

Or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from: _____ to _____

BREKFORD CORP.

(Exact name of registrant as specified in its charter)

Delaware	**000-52719**	**20-4086662**
(State or Other Jurisdiction of Incorporation or Organization)	Commission File Number	(I.R.S. Employer Identification No.)

7020 Dorsey Road
Hanover, Maryland 21076
(Address of Principal Executive Office) (Zip Code)

(443) 557-0200
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $0.0001

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes☐ No ☑

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 ☑ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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	☑

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, as of June 30, 2012, was approximately $11,392,442 based upon the closing price reported for such date on the OTCQB of the OTC Markets. For purposes of this disclosure, shares of common stock held by persons who hold more than 10% of the outstanding shares of common stock and shares held by executive officers and directors of the registrant have been excluded because such persons may be considered to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: 44,248,569 as of February 20, 2013.

DOCUMENTS INCORPORATED BY REFERENCE: Part III of this 10-K incorporates by reference certain information from the registrant's definitive proxy statement for its annual stockholders meeting to be filed not later than 120 days after the end of the fiscal year covered by this Form 10-K.

BREKFORD CORP.

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PART I

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K ("Annual Report") may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Readers of this report should be aware of the speculative nature of "forward-looking statements." Statements that are not historical in nature, including those that include the words "anticipate", "estimate", "should", "expect", "believe", "intend", and similar expressions, are based on current expectations, estimates and projections about, among other things, the industry and the markets in which we operate, and they are not guarantees of future performance. Whether actual results will conform to expectations and predictions is subject to known and unknown risks and uncertainties, including risks and uncertainties discussed in this report; general economic, market, or business conditions and their effects; industry competition, conditions, performance and consolidation; changes in applicable laws or regulations; changes in the budgets and/or public safety priorities of our customers; economic or operational repercussions from terrorist activities, war or other armed conflicts; the availability of debt and equity financing; and other circumstances beyond our control. Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated will be realized, or if substantially realized, will have the expected consequences on our business or operations.

Forward-looking statements speak only as of the date the statements are made. Except as required by applicable laws, we do not intend to publish updates or revisions of any forward-looking statements we make to reflect new information, future events or otherwise. If we update one or more forward-looking statements, then no inference should be drawn that we will make additional updates with respect thereto or with respect to other forward-looking statements.

Depending upon the context, the terms "BFDI," "Brekford Corp.," "Company," "we," "our," and "us," as used in this Annual Report refer to Brekford Corp. and its consolidated subsidiary.

ITEM 1. BUSINESS

Our History

The Company (formerly California Cyber Design, Inc. ("CCDI")) was incorporated in Delaware on May 27, 1998 and changed its name to American Financial Holdings, Inc. on August 11, 2004. AFHI, a publicly-traded corporation with no operations, announced the completion of its share exchange transaction with Pelican Mobile Computers, Inc., a Maryland corporation ("Pelican Mobile"), on January 6, 2006. Pelican exchanged each issued and outstanding share of Pelican Mobile Computers (1,000 shares issued and outstanding at the time of the share exchange) for 25,000 shares of AFHI on a post-split basis (the "Share Exchange") with an aggregate of 25,000,000 shares of Common Stock of AFHI issued to the former shareholders of Pelican Mobile. At the time of the Share Exchange, the existing stockholders of AFHI retained 5,512,103 shares of AFHI's outstanding Common Stock after the cancellation of approximately 2,549,000 shares of Common Stock. As a result, the former shareholders of Pelican Mobile became the majority stockholders of AFHI. Under the terms of the Share Exchange, the Company changed its name to Tactical Solution Partners, Inc. On April 25, 2008, the Company's stockholders approved a proposal to change its name from Tactical Solution Partners, Inc. to Brekford International Corp. to better reflect our business strategy. Subsequently on July 9, 2010, the Company's stockholders approved a proposal to change our name from Brekford International Corp. to Brekford Corp. On October 27, 2010, the board of directors approved the merger of our subsidiary Pelican Mobile, with the holding company, Brekford Corp., pursuant to Section 253 of the General Corporation Law of the State of Delaware. The merger became effective upon the filing of a Certificate of Ownership and Merger with the State of Delaware (and the appropriate Articles of Merger with the State of Maryland), pursuant to the terms of an Agreement and Plan of Merger. The merger documents were filed with the states of Delaware and Maryland on October 28, 2010. Effective upon the completion of the merger, the corporate name of the Company, which was the surviving entity in the merger, remained as Brekford Corp. The operations of Pelican Mobile were continued by the Company without interruption following the merger.

Overview

Brekford Corp. (OTCBB; OTCQB: BFDI) headquartered in Hanover, Maryland is a public safety technology services provider of mobile computer and video systems through its vehicle upfitting services to homeland security agencies and federal, state, and municipal law enforcement agencies and offers traffic safety solutions to municipalities, including automated photo speed enforcement and red light camera solutions. Brekford is an established company which, for more than a decade, has provided services to branches of the U.S. military, various federal entities and numerous security and public safety agencies throughout the United States. Brekford provides these departments and agencies with an end-to-end suite of rugged mobile information technology (IT), vehicle upfitting services, and automated traffic safety photo enforcement technology solution. Brekford has one wholly-owned subsidiary, Municipal Recovery Agency, LLC, a Maryland limited liability company, that was formed in 2012 and engages in the business of providing collection systems and services for unpaid citations and parking fines.

Brekford is a one-stop shop with its unique 360-degree approach to vehicle upfitting installations, cutting edge rugged mobile technology, and automated traffic enforcement services for jurisdictions and municipalities. We provide bumper-to-bumper vehicle modification, automated traffic enforcement products, road safety camera programs, including red light and speed photo enforcement systems, and back office processing services. The Brekford 360-degree approach provides our customers with a one-stop engineered solution. Our commitment to top quality services, along with the core values that our employees strongly uphold: integrity; accountability; respect; excellence; and teamwork; is why we believe Brekford is the premier all-around vehicle upfitting and automated traffic safety technology solutions provider.

Products and Services

Public safety is a major concern for most communities – especially as populations grow, public safety budgets are reduced. One way to help make streets safer while reducing workload is a well-run photo red light or speed enforcement program. The objective of photo enforcement is to help reduce the incidences of aggressive driving through voluntary compliance. Revenue generated from fines routinely goes directly back into supporting other public safety initiatives.

According to the National Highway Traffic Safety Administration's (NHTSA) *Traffic Safety Facts 2008 Report*, there were more than 2.3 million reported intersection-related crashes, approximately 733,000 injury crashes, and more than 7,770 fatalities in 2008. NHTSA's Fatality Analysis Reporting System (FARS) reports that red-light running crashes alone caused 762 deaths in 2008. An estimated 165,000 people are injured annually by red-light runners. (Source: *Status Report, Vol. 42, No. 1*, IIHS, January 2007).

Although opponents of red light cameras cite the increase in rear end collisions as cause for disapproval of cameras, a recent study conducted by the Insurance Institute for Highway Safety (Feb. 2011) reported that red-light cameras reduced fatal red light running crashes by 24%. Because the types of crashes prevented by red light cameras tend to be far more severe than rear-end crashes, research has shown there is a positive aggregate benefit. Photo Enforcement solutions can reduce collisions, injuries and deaths by providing a useful tool for municipalities and law enforcement agencies – without unduly taxing drivers who do not break the law. Today, more than 500 communities across the U.S. operate red light or speed camera enforcement programs.

Brekford's automated traffic safety enforcement products offer intersection safety (red light), photo speed, work zone and school bus enforcement options by way of a complete suite of solution-based products. By assembling a team of industry professionals with the most experience in this field, we have developed equipment and a full turn-key solution that we believe will ensure the success of any program. Having the advantage of a team with experience, we have created and implemented some of the most cutting-edge features into our design – while constructing end-to-end systems specifically with our clients' needs in mind.

Automatic Traffic Safety Enforcement - Photo Speed & Red light Enforcement

Automatic traffic enforcement systems are one of a wide range of measures that are effective at reducing vehicle speeds and crashes. The automated speed enforcement (ASE) system is an enforcement technique with one or more motor vehicle sensors producing recorded images of motor vehicles traveling at speeds above a defined threshold. Images captured by the ASE system are processed and reviewed in an office environment and violation notices are mailed to the registered owner of the identified vehicle. ASE, if used, is one technology available to law enforcement as a supplement and not a replacement for traditional enforcement operations. Evaluations of ASE, both internationally and in the United States have identified some advantages over traditional speed enforcement methods. These include:

- ***High rate of violation detection***. ASE units can detect and record multiple violations per minute. This can provide a strong deterrent effect by increasing drivers' perceived likelihood of being cited for speeding.
- ***Physical safety of ASE operators and motorists***. ASE can operate at locations where roadside traffic stops are dangerous or infeasible, and where traffic conditions are unsafe for police vehicles to enter the traffic stream and stop suspected violators. With ASE there is normally no vehicle pursuit or confrontation with motorists. ASE might also reduce the occurrence of traffic congestion due to driver distraction caused by traffic stops on the roadside.
- ***Fairness of operation***. Violations are recorded for all vehicles traveling in excess of the enforcement speed threshold.
- ***Efficient use of resources***. ASE can act as a "force multiplier," enhancing the influence of limited traffic enforcement staff and resources.

Financial Services- Revenue Reclamation Services

Beyond traditional tax collection on income or property - both subject to levies and encumbrances enforcement - state agencies and local municipalities rely heavily on fine and fee revenue generated from a multitude of violator funded sources. For example, jurisdictions generate sizable revenues from court fees, traffic and parking violations, ordinance infractions, and library and utility arrearages. Each of these revenue sources funds public safety and community development initiatives and without the income the services are curtailed. Brekford offers client-specific solutions to these agencies and municipalities to assist them with collecting unpaid fines, including:

- *Notification Continuance*
- *Mail House and Printing Service*
- *Data Purification and Verification Service*
- *Back Office Support Service*
  - Call Center Response (Inbound & Out Bound)
  - Lock-Box & Treasury Services
  - Payment Processing

Electronic Ticketing System- Slick-Ticket ™

Many of today's law enforcement agencies are struggling to balance the increasing demand from their citizens for more services with limited and/or declining budgets. One of the easiest and most cost-effective ways agencies can address this issue is by deploying an electronic ticketing, or E-Ticketing solution. Automating the ticket issuing and processing system can significantly decrease cost, increase productivity and improve officer safety.

Brekford offers a unique functionality that streamlines the data entry process even further. Many law enforcement agencies that have deployed a mobile data system run background queries from national (NCIC), state, and local databases and Brekford's solution captures the data from these mobile query files and auto-populates all of the requisite data into the electronic citation (E-Tix) form on the screen. Brekford's Slick-Ticket ™ product is a fully portable, over-the-seat organizer for public safety vehicles, specially designed to house a printer and scanner to allow law enforcement officers to quickly access driver's license and registration information as well as issue tickets, warnings and citations.

Rugged Information Technology Solutions –Mobile data & Digital Video

Law enforcement agency, fire department and EMS personnel have unique requirements for fleet vehicle upfitting and IT equipment to include characteristics such as ruggedness and reliability. The equipment must be able to work in extreme environments that include high levels of vibration and shock, wide temperature ranges, varying humidity, electromagnetic interference as well as voltage and current transients. Our rugged and non-rugged IT products and mobile data communication systems provide public safety workers with the unique functionalities necessary to enable effective response to emergency situations.

For more than a decade, Brekford has been a distributor for most major brands in the mobile technology arena. We handle everything from Panasonic Toughbooks® and Arbitrator® digital video systems to emergency lighting systems and wireless technology. We believe that we have all of the high-end products our customers need to handle their day-to-day operations and protect the public they serve. Every product we sell is tested by highly trained technicians and guaranteed to work in even the most extreme conditions. We specialize in seamlessly incorporating custom built solutions within existing networks. We deliver our end-to-end solutions with service programs that work for agencies large and small, from turn-key drop shipping to municipal leases. Our commitment is to design and deliver solutions that meet or exceed industry standards for safety, ergonomics, reliability, serviceability and uniformity.

We develop integrated, interoperable, feature-rich mobile systems that enable first responders, such as police, fire and EMS, to obtain and exchange information in real time. The rapid dissemination of real time information is critical to determine and assure timely and precise resource allocation by public sector decision makers. As a premiere Panasonic Toughbook partner, we augment these rugged laptops by designing and manufacturing vehicle mounting systems and docking stations for in-vehicle communications equipment. From rugged laptop computers, tablets and hand-helds, GPS terminals, two-way radios, and full console systems, we provide ergonomically sound mounting products with full port replication.

Toughbook Arbitrator is a rugged revolution in law enforcement video capture. The fully integrated system offers unparalleled video capture (up to 360 degrees), storage and transfer, and is designed to work with back-end software for seamless video management, including archiving and retrieving. Brekford augments this solution with an Automatic License Plate Reader (ALPR / LPR), an image-processing technology used to identify vehicles by their license plates. License Plate Readers (LPRs) can record plates at about one per second at speeds of up to 70 MPH and they often utilize infrared cameras for clarity and to facilitate reading at any time of day or night. The data collected can either be processed in real-time, at the site of the read, or it can be transmitted to remote centers and processed at a later time.

The Company purchased substantially all rugged IT products that it resold during 2012 and 2011 from a single distributor. Revenues from rugged IT products amounted to 53% and 43% of total revenues for the year ended December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, accounts payable due to this distributor amounted to 58% and 57% of total accounts payable, respectively.

360° Vehicle Solution- Upfitting

The Brekford 360-degree vehicle solution provides complete vehicle upfitting, mobile data and video solutions including municipal financing and leasing services for agencies. The 360-degree vehicle solutions approach provides customers with a one-stop upfitting, cutting edge technology and installation service. The 360-degree approach is the only stop our customers need to purchase law enforcement vehicles (GM, Ford, Dodge), have them upfitted with lights, sirens, radio communication and rugged IT technology, and then have them "ready to roll". Our mission is to provide and install equipment that ensures safe and efficient mission critical vehicles while incorporating the latest technological advances. We adhere to strict quality control procedures and provide comprehensive services. The Brekford certified installation team provides our customers the highest level of expertise and service from inception to completion, including maintenance and upgrades.

We distinguish ourselves by truly being a “one-stop shop” for vehicle upfitting, cutting edge technology, and installation services. Unlike our competitors, we provide customers with one place to purchase law enforcement vehicles that are not only upfitted with the traditional lights and sirens but also with rugged IT hardware and communications equipment. Our 360-degree engineered bumper-to-bumper vehicle solution, our commitment to top quality, fast, reliable service, along with our streamlined purchasing process is why we believe Brekford is the best all-around vehicle and automated traffic enforcement technology solutions provider.

Purchasing and Order Fulfillment

We work with manufacturers and distributors to secure the lowest cost possible while taking advantage of any available incentives in order to maximize product margins, provide competitive pricing and minimize delivery time to our customers. Typically, once our salespersons receive orders from our customers, we then purchase the required products from manufacturers and then sell (and where necessary install) the products to our customers.

Business Strategy

Brekford Corp. is a technology services provider of mobile computer and video systems through its vehicle upfitting services to homeland security agencies and federal, state, and local law enforcement agencies and traffic safety enforcement which includes photo speed enforcement and red light camera solutions for municipalities. The primary products and services from which Brekford has earned revenue and anticipates we will continue to earn revenue is through this suite of products and services.

The public safety communications market is a $4.2 billion market with the rugged mobile technology market growing at 10% per annum. Police, fire and EMS personnel have unique requirements for communication, ruggedness, reliability and quality. Their equipment must be able to work in extreme environments that include high levels of vibration and shock, wide temperature ranges, varying humidity, electromagnetic interference and voltage and current transients. Furthermore, public safety personnel and emergency responders are demanding tailored mobile communication solutions that enable real-time access and exchange of critical data to assure timely and precise resource allocation by public sector decision makers. Brekford's in-vehicle technology and communication solutions provide public safety workers and emergency responders with the unique functionalities necessary to enable effective response to emergency situations.

The automated traffic safety enforcement solutions include speed and red-light camera technologies that are increasingly in demand. The U.S. market for red-light systems is estimated at 20,000 to 30,000 systems and the market for speed cameras is estimated at 35,000 to 50,000 systems. According to the Insurance Institute for Highway Safety (IIHS), as of February, 2013, 24 states (543 communities) have red light cameras currently operating and 13 states (125 jurisdictions) and the District of Columbia have speed cameras operating in at least one location. We have established a foothold in this business within a relatively short time by securing contracts with several municipalities and our goal is to become a major player concentrating initially within the Mid-Atlantic region. There are only a handful of competitors that are currently providing automatic traffic enforcement services with three companies that are considered leaders of this industry. Because we possess a technical advantage and reputable customer service we anticipate competing with these leaders within a relatively short time.

The majority of our recent sales and services have occurred within the Mid-Atlantic region, which is comprised of the states of Maryland, Virginia, Delaware, New Jersey and Pennsylvania. However, our goal is to expand our products and services to customers nationwide, especially with respect to our automated traffic enforcement services.

Competition

Although we operate in an industry that has experienced substantial growth in recent years, it is also characterized by extensive fragmentation and intense competition. As such, larger competitors may have greater buying power and therefore may be able to offer better pricing, which is one of the key factors in determining whether a contract will be awarded by local, state and federal agencies with limited budgets. In addition, although the majority of our sales are to government agencies and other government contractors with historically stable operating budgets, the significant economic downturn and recession has had and will most likely continue to have a detrimental effect on our rate of growth and, if long-term, an adverse effect on our financial condition and operating results. At the same time, our technology, size, and strategy provides more flexibility when bidding on contracts in smaller to medium sized municipalities which collectively constitutes the majority of installation opportunities within the U.S.

To address these competitive pressures and industry trends, we intend to grow revenues by:

- Offering an expanded platform of products and higher-end technical services to our existing customers;
- Increasing our customer base by expanding our offerings into additional regions;
- Offering 360 Degree one-stop shop for “smart” law enforcement vehicle and municipal lease/financing options on full vehicle build-outs;
- Using our placement on the General Services Administration (“GSA”) Schedule 84, a preferred, pre-negotiated contract that provides significant revenue opportunities from federal, state and local governments, which, along with the passage of the Local Preparedness Acquisition Act, management believes will benefit our upfitting group by opening up our products and services to federal, state and local governments with which we have not done business before;
- Increasing installation and services of Automated Traffic Safety Enforcement (both speed and red light). The global economic environment may present opportunities and challenges in the year ahead, yet municipalities will still need to address road safety issues and photo-enforcement is a crucial tool in that task; and
- We intend to continue to invest in research and development to ensure that out technologies remain at the forefront of the industry.

Customers

The Company has several contracts with government agencies, of which net revenue from one major customer during the period ended December 31, 2012 represented 11.43% of the total net revenue for such 12-month period. Accounts receivable due from two customers at December 31, 2012 amounted to 54.04% of total accounts receivable at that date.

Future Legislation

Because much of our business involves providing traffic enforcement solutions to governmental agencies and municipalities, the future passage of laws and regulations affecting red light camera and speed camera systems could have a material adverse impact on our business. Camera-operated traffic enforcement solutions have recently been the subject of significant public criticism and legislators in various jurisdictions have introduced, or have indicated that they intend to introduce, legislation to better monitor and control traffic enforcement activities. For example, several bills are pending before the Maryland General Assembly that, if enacted, would significantly change current law, including, without limitation, by imposing a civil penalty on enforcement contractors like Brekford if they issue erroneous citations on behalf of a municipality, and by prohibiting contractors such as Brekford from receiving compensation that is based on the number of citations issued by the municipality or citations actually paid. We cannot predict whether these or any other pieces of legislation will be enacted or, if so, the impact they may have on us.

Employees

As of February 20, 2013, we employed 70 full-time employees. We have never had a work stoppage, and none of our employees are represented by collective bargaining agreements. We anticipate hiring additional employees to ensure timely delivery of customer projects and services, as necessary. Additionally, we intend to use the services of independent consultants and contractors to perform various professional services, when appropriate. We believe that this use of third-party service providers may enhance our ability to contain general and administrative expenses.

Corporate Information

Our principal executive offices are located at 7020 Dorsey Road, Hanover, Maryland 21076, and our telephone number is (443) 557-0200, www.brekford.com.

Available Information

Our internet address is www.brekford.com. We provide, free of charge, on the Investor Relations page of our website access to our annual report on Form 10-K and quarterly reports on Form 10-Q, as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). Information appearing on our website is not incorporated by reference and is not a part of this report.

ITEM 2. PROPERTIES

Our corporate headquarters is located in Hanover, Maryland in an approximately 22,000 square foot office and warehouse facility which is leased at various monthly rates for a 92-month term expiring on January 15, 2015. The Company also leases approximately 2,500 square feet of office space from Peppermill Properties, LLC, a Maryland limited liability company ("Peppermill"). Peppermill is owned and managed by Chandra (C.B.) Brechin and Scott Rutherford, officers, directors and principal stockholders of the Company. On June 1, 2010, the Company entered into a three-year lease with Peppermill. This space is used for the expansion of business. The total minimum annual lease payments due under the Company's lease agreements are $459,630.

ITEM 3. LEGAL PROCEEDINGS

The Company is not involved in any material pending legal proceeding. The Company may be involved in litigation and other legal proceedings from time to time in the ordinary course of its business. The Company believes the ultimate resolution of these ordinary course litigation matters will not have a material effect on the Company's financial position, results of operations or cash flows.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

As of February 20, 2013, there were 44,248,569 shares of Common Stock outstanding held by approximately 55 stockholders of record (based solely on the information provided to us by our transfer agent). This number of stockholders does not include:

- any beneficial owners of Common Stock whose shares are held in the names of various dealers, clearing agencies, banks, brokers and other fiduciaries, or
- broker-dealers or other participants who hold or clear shares directly or indirectly through the Depository Trust Company, or its nominee, Cede & Co.

On January 30, 2008, our Common Stock began trading on the Over-the-Counter Bulletin Board (the "OTCBB") under the ticker symbol "BFDI". Prior to January 30, 2008, our Common Stock was quoted over-the counter on the Pink Sheets LLC automated electronic quotation service under the ticker symbol "TTSR". Since April 2010, our Common Stock has also been quoted on the OTCQB tier of the OTC Markets under the ticker symbol "BFDI". Our Common Stock is not listed on any national or regional securities exchange.

The following table sets forth, for the periods presented, the high and low bid price ranges of our Common Stock as reported on the OTCBB. The over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	High	Low
Fiscal year ended December 31, 2011:		
First Quarter	$ 0.16	$ 0.10
Second Quarter	$ 0.25	$ 0.10
Third Quarter	$ 0.59	$ 0.23
Fourth Quarter	$ 0.70	$ 0.41
Fiscal year ended December 31, 2012:		
First Quarter	$ 0.71	$ 0.54
Second Quarter	$ 0.75	$ 0.45
Third Quarter	$ 0.54	$ 0.35
Fourth Quarter	$ 0.62	$ 0.41

On March 6, 2013, the closing sales price of our common stock as reported on the OTCBB was $0.69 per share.

Dividends

We have never declared or paid dividends on our Common Stock. We intend to use retained earnings, if any, for the operation and expansion of our business, and therefore do not anticipate paying cash dividends in the foreseeable future.

In addition, the General Corporation Law of the State of Delaware prohibits us from declaring and paying a dividend on our Common Stock at a time when we do not have either (as defined under that law):

- a surplus, or, if we do not have a surplus; or
- net profit for the year in which the dividend is declared and for the immediately preceding year.

Equity Compensation Plan

Pursuant to the SEC's Regulation S-K Compliance and Disclosure Interpretation 106.01, the information regarding First United Corporation's equity compensation plans required by this Item pursuant to Item 201(d) of Regulation S-K is located in Item 12 of Part III of this annual report and is incorporated herein by reference.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Issuer Repurchases

In September 7, 2010, the Company's board of directors adopted a stock repurchase program which permitted the Company to purchase up to $500,000 in shares of Common Stock from time to time over a 12-month period in open market transactions or privately-negotiated transactions at the Company's discretion. On September 7, 2011, the board of directors extended the program for an additional 12 months, until September 7, 2012. On September 28, 2012, the board of directors approved a new stock repurchase program which authorizes the Company to repurchase the $363,280 in shares of Common Stock that were not repurchased under the prior program. The new program's terms and conditions are the same as under the prior program, except that the period during which shares may be repurchased is 24 months. The Company publicly disclosed the adoption of each of these plans.

Neither the Company nor any of its affiliated purchasers (as defined by Rule 10b-18 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) purchased any shares of Common Stock during the quarter ended December 31, 2012.

Unregistered Sales of Equity Securities

During the period ended December 31, 2012, the Company issued an aggregate of 25,000 shares of restricted Common Stock to a consultant as equity compensation for future services to be rendered to the Company. Based on a per share price of $0.42 on the date of grant, these shares represent $10,500 in services to be rendered by the consultant. The shares were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), as a transaction by an issuer not involving a public offering. Accordingly, the shares may not be offered or sold in the United States absent registration under the Securities Act and applicable state securities laws or an applicable exemption from those registration requirements.

All other unregistered sales of securities issued during the fiscal year ended December 31, 2012 have been previously reported on the Company's quarterly reports on Form 10-Q or current reports on Form 8-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the notes thereto and other financial information appearing elsewhere in this Annual Report.

This section contains forward-looking statements. These forward-looking statements are subject to various factors, risks and uncertainties that could cause actual results to differ materially from those reflected in these forward-looking statements. Further, as a result of these factors, risks and uncertainties, the forward-looking events may not occur. Relevant factors, risks and uncertainties include, but are not limited to, those discussed in Item 1 of Part I of this Annual Report and elsewhere in this Annual Report. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's beliefs and opinions as of the date of this Annual Report. We are not obligated to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Application of Critical Accounting Policies and Pronouncements

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and judgments affecting the reporting amounts of assets and liabilities, expenses and related disclosures. We base our estimates on historical experience, our knowledge of economic and market factors and various other assumptions we believe to be reasonable under the circumstances. We may also engage third party specialists to assist us in formulating estimates when considered necessary. Estimates and judgments used in the preparation of our financial statements are, by their nature, uncertain and unpredictable and depend upon, among other things, many factors outside of our control, such as demand for our products and economic conditions. Accordingly, our estimates and judgments may prove to be different from actual amounts that may only be determined upon the outcome of one or more confirming events and actual results may differ, perhaps significantly, from these estimates under different estimates, assumptions or conditions. The Company believes the critical accounting policies below are affected by estimates, assumptions and judgments used in the preparation of our financial statements.

Accounts Receivable

Accounts receivable are carried at estimated net realizable value. The Company has a policy of reserving for uncollectable accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company calculates the allowance based on a specific analysis of past due balances. Past due status for a particular customer is based on how recently payments have been received from that customer. Historically, the Company's actual collection experience has not differed significantly from its estimates, due primarily to credit and collections practices and the financial strength of its customers.

The Company's practice of reserving for uncollectable citations is based on its best estimate of the amount of probable losses. This estimate accounts for an initial loss in expected receivables from the existing population of uncollected receivables. The Company calculates allowances based on the historical information from similar programs in the industry. Past due status is based on varying client business rules for the extension of time allotted for payment. For certain contracts the Company manages both the issuance and the collection of unpaid fines. Calculating "outstanding" with respect to a normal collections timeline is not an exact science. To be conservative, the percentage of allowance is calculated from the first day of citation issuance. The Company reviews and evaluates their collections efforts and makes necessary adjustment to the allowance accounts and complete write-off's as deemed necessary on periodic basis.

Revenue Recognition

The Company recognizes revenue when all four basic criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery or installation has been completed; (iii) the customer accepts and verifies receipt; and (iv) collectability is reasonably assured. The Company considers delivery to its customers to have occurred at the time in which products are delivered and/or installation work is completed and the customer acknowledges its acceptance of the work.

For automatic traffic enforcement revenue, the Company recognizes the revenue either on the date that the Company determines a valid violation has occurred or when the collection efforts are completed, depending on the specific terms of the contract with each municipality. The Company records revenue related to automated traffic violations for the Company's share of the violation amount.

Income Taxes

The Company uses the liability method to account for income taxes. Income tax expense includes income taxes currently payable and deferred taxes arising from temporary differences between financial reporting and income tax bases of assets and liabilities. Deferred income taxes are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense, if any, consists of the taxes payable for the current period. Valuation allowances are established when the realization of deferred tax assets are not considered more likely than not.

The Company files income tax returns with the U.S. Internal Revenue Service and with the revenue services of various states. The Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years prior to 2009. The Company's 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.

Results of Operations

Results of Operations for the Years Ended December 31, 2012 and 2011

The following tables summarize and compare selected items from the statements of operations for the years ended December 31, 2012 and 2011.

	Year Ended December 31,		Increase	
	2012	2011	$	%
Net Revenues	$ 18,295,906	$ 16,716,560	$ 1,579,346	9.45%
Cost of Revenues	14,706,098	12,379,607	2,326,491	18.79%
Gross Profit	$ 3,589,808	$ 4,336,953	$ (747,145)	(17.23)%
Gross Profit Percentage of Revenue	19.6 %	25.9%		

Revenues

Revenues for the year ended December 31, 2012 were $18,295,906 compared to $16,716,560 for the year ended December 31, 2011, an increase of $1,579,346 or 9.45%, primarily due to the continued growth of our automated traffic enforcement products and additional increased revenue in the area of rugged IT products.

Cost of Revenues

Cost of revenues for the year ended December 31, 2012 was $14,706,098 compared to $12,379,607 for the year ended December 31, 2011, an increase of $2,326,491 or 18.79%, primarily due to the increase in purchases of rugged technology, including docking and mounts for the equipment. There were moderate increases in the cost of installation due to the increased volume of installation of mobile technology. Expenses for automated traffic enforcement also increased as the program expanded.

Gross Profit

Gross profit for the year ended December 31, 2012 amounted to $3,589,808 as compared to $4,336,953 for the year ended December 31, 2011, a decrease of $747,145 or 17.23%, primarily due to lower profit margins from electronic ticketing systems and rugged IT products.

Expenses

	Year Ended December 31,		Increase	
	2012	2011	$	%
OPERATING EXPENSES				
Salaries and related expenses	$ 1,554,377	$ 1,287,776	$ 266,601	20.70%
Selling, general and administrative expenses	3,153,914	1,710,790	1,443,124	84.35%
Total operating expenses	$ 4,708,291	$ 2,998,566	$ 1,709,725	57.02%

Salaries and Related Expenses

Salaries and wages for the year ended December 31, 2012 amounted to $1,554,377 compared to $1,287,776 for the year ended December 31, 2011, an increase of $266,601 or 20.70%. The increase was primarily due to the increase in employees related to the higher volume of business required to support the automated traffic enforcement products and the growth in the sales of upfitting products. There were also some increases due to the cost of the Company's benefit programs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the year ended December 31, 2012 were $3,153,914 compared to $1,710,790 for the year ended December 31, 2011, an increase of $1,443,124 or 84.35%. The increase was primarily due to bad debt expense. There were also increases in equipment depreciation, investor relations and automated traffic consulting.

Other Expense and Income

	Year Ended December 31,		(Decrease)/Increase	
	2012	2011	$	%
OTHER (EXPENSE) INCOME				
Interest Expense	$ (149,337)	$ (129,556)	$ (19,781)	15.27%
S Interest Income	4,809	2,497	2,312	92.59%
ↄ Other Expense	(3,660)	—	(3,660)	(100)%
Total other (expense) income	$ (148,188)	$ (127,059)	$ (21,129)	16.63%

Interest expense for the year ended December 31, 2011 was $149,337 compared to $129,556 for the year ended December 31, 2011, an increase of $19,781 or 15.27%. The increase was primarily due to additional equipment financed for operations.

Interest income for the year ended December 31, 2012 was $4,809 compared to $2,497 for the year ended December 31, 2011 an increase of $2,312 primarily due to additional funds invested in interest bearing accounts.

Net (Loss) Income

The Company recorded a net loss of $1,266,671 for the year ended December 31, 2012 compared to net income of $1,211,328 for the year ended December 31, 2011. Basic and diluted net loss per common share were $0.03 for 2012, compared to basic and diluted earnings per common share of $0.03 for 2011. The difference in operating results in 2012 over 2011 resulted primarily from lower gross profit margins and increased bad debt expense, as well as increased equipment depreciation, investor relations and consulting. We believe the increased expenditures were necessary to support the continued expansion of the Company's business.

Financial Condition, Liquidity and Capital Resources

At December 31, 2012, the Company had total current assets of $6.6 million and current liabilities of $5.4 million, resulting in a working capital surplus of $1.2 million. At December 31, 2011, we had total current assets of $6.1 million and current liabilities of $3.3 million, resulting in a working capital surplus of $2.8 million.

The Company reported a net loss of $1,266,671 for the year ended December 31, 2012 and its accumulated deficit increased to $7,648,976 at December 31, 2012. Cash flow provided by operations for the year ended December 31, 2012 was $846,804, compared to $369,171 for 2011.

Management believes that the Company's current level of working capital combined with funds that it expects to generate in its operations during the next twelve months and available from its $3,500,000 credit facility will be sufficient to sustain the business through at least January 1, 2014. While the Company has taken certain measures to conserve its capital and maintain its liquidity as it continues the effort to pursue its business initiatives, there can be no assurance that the Company will be successful in its efforts to expand its operations or that the expansion of its operations will improve its operating results. The Company also cannot provide any assurance that unforeseen circumstances, such as the continuation, or further deterioration, of the current weak economy, will not have a material adverse effect on the business that could require it to raise additional capital or take other measures to sustain operations in the event that outside sources of capital are not available. Although the Company has no specific indication that its business will be affected by the current weakened economic conditions or at a level beyond management's ability to manage this risk, this matter is an uncertainty that is under continuous review by management. The weakened economy could also have an effect on the Company's ability to obtain external funding if needed. If the Company encounters unforeseen circumstances, then it may need to curtail certain of its operations. Although management believes the Company has access to adequate capital resources, it has not secured any commitments for new financing at this time nor can it provide any assurance that new capital will be available to it on acceptable terms, if at all.

Management expects to incur a significant increase in working capital requirement for the Company's continued expansion of the automated traffic enforcement products, but we believe that we will be able to cover the requirements of this expansion with funds generated by operations in future periods.

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 material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Brekford Corp.

We have audited the accompanying consolidated balance sheets of Brekford Corp. (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the two year period ended December 31, 2012. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Brekford Corp. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the two year period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

/s/ Stegman & Company
Stegman & Company

Baltimore, Maryland
March 8, 2013

BREKFORD CORP.
CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash	$ 1,415,252	$ 1,832,969
Accounts receivable, net of allowance $95,976 and $261,417 at December 31, 2012 and2011, respectively	4,236,018	3,673,195
Unbilled receivables	208,051	92,969
Prepaid expenses	61,278	47,305
Inventory	672,874	426,500
Total current assets	6,593,473	6,072,938
Property and equipment, net	2,477,642	1,514,996
Other non-current assets	274,998	551,070
TOTAL ASSETS	$ 9,346,113	$ 8,139,004
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 4,093,356	$ 2,008,372
Accrued payroll and related expenses	78,303	50,645
Line of credit	—	500,000
Income taxes payable	50,076	68,937
Deferred revenue	483,784	289,593
Customer deposits	71,199	43,624
Obligations under capital lease – current portion	583,976	325,102
Obligations under notes payable auto – current portion	23,454	14,937
Deferred rent – current portion	41,975	39,470
Total current liabilities	5,426,123	3,340,680
LONG - TERM LIABILITIES		
Notes payable – stockholders	500,000	500,000
Obligations under capital lease, net of current portion	813,945	405,975
Notes payable – auto, net of current portion	49,468	15,712
Deferred rent, net of current portion	79,557	137,556
Total long-term liabilities	1,442,970	1,059,243
TOTAL LIABILITIES	6,869,093	4,399,923
STOCKHOLDERS' EQUITY		
Preferred stock, par value $0.0001 per share; 20,000,000 sharesauthorized; none issued and outstanding	—	—
Common stock, par value $0.0001 per share; 150,000,000 sharesauthorized; 44,248,569 issued and outstanding, at December 31, 2012 and 43,842,265 issued and outstanding at December 31, 2011	4,425	4,385
Additional paid-in capital	10,127,461	10,117,001
Treasury Stock, at cost 10,600 shares at December 31, 2012 and none at December 31, 2011	(5,890)	—
Accumulated deficit	(7,648,976)	(6,382,305)
TOTAL STOCKHOLDERS' EQUITY	2,477,020	3,739,081
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 9,346,113	$ 8,139,004

The accompanying notes are an integral part of these consolidated financial statements.

BREKFORD CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2012	2011
Net Revenue	$ 18,295,906	$ 16,716,560
Cost of Revenue	14,706,098	12,379,607
Gross profit	3,589,808	4,336,953
Operating expenses:		
Salaries and related expenses	1,554,377	1,287,776
Selling, general and administrative expenses	3,153,914	1,710,790
Total operating expenses	4,708,291	2,998,566
(Loss) Income from operations	(1,118,483)	1,338,387
Other (expense) income:		
Interest expense	(149,337)	(129,556)
Interest income	4,809	2,497
Other expense	(3,660)	—
Total other (expense)income	(148,188)	(127,059)
(Loss) Income before income taxes	(1,266,671)	1,211,328
Income tax expense	—	—
Net (loss) income	$ (1,266,671)	$ 1,211,328
(Loss) Earnings per share – basic and diluted	$ (0.03)	$ 0.03
Weighted average shares outstanding used in computing per share amounts:		
Basic	44,128,602	40,799,298
Diluted	44,128,602	43,912,527

The accompanying notes are an integral part of these consolidated financial statements.

BREKFORD CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2012 and 2011

	Common Stock		Treasury Stock		Additional Paid-In	Accumulated	
	Shares	Par Value	Shares	Par Value	Capital	Deficit	Total
BALANCE – January 1, 2011	40,580,513	$ 4,059	—	$ —	$ 9,853,059	$ (7,593,633)	$ 2,263,485
Repurchase and cancellation of common stock	(858,315)	(86)	—	—	(130,746)	—	(130,832)
Shares issued upon exercise of warrants	1,671,495	167	—	—	(167)	—	—
Restricted shares issues to non-employees and directors	220,000	22	—	—	83,078	—	83,100
Restricted shares issues to employee	800,000	80	—	—	111,920	—	112,000
Shares issued upon notes conversion	1,428,572	143	—	—	199,857	—	200,000
Net income	—	—	—	—	—	1,211,328	1,211,328
BALANCE – December 31, 2011	43,842,265	4,385	—	—	10,117,001	(6,382,305)	3,739,081
Shares issued upon exercise of warrants	381,304	38	—	—	(38)	—	—
Restricted shares issues to non-employees	25,000	2	—	—	10,498	—	10,500
Repurchase of common stock	—	—	(10,600)	(5,890)	—	—	(5,890)
Net loss	—	—	—	—	—	(1,266,671)	(1,266,671)
BALANCE – December 31, 2012	44,248,569	$ 4,425	(10,600)	$ (5,890)	$10,127,461	$ (7,648,976)	$ 2,477,020

The accompanying notes are an integral part of these consolidated financial statements.

BREKFORD CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2012	2011
Cash flows from operating activities:		
Net (loss) income	$ (1,266,671)	$ 1,211,328
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	765,106	324,967
Share-based compensation and payments to consultants	10,500	195,100
Bad debt expense	1,076,708	256,917
Changes in operating assets and liabilities:		
Accounts receivable	(1,639,533)	(2,216,540)
Unbilled Receivables	(115,083)	(53,434)
Prepaid expenses and other non-current assets	262,099	(546,492)
Inventory	(246,375)	(227,168)
Accounts payable and accrued expenses	1,824,984	1,206,417
Accrued payroll and related expenses	27,658	2,234
Income tax payable	(18,861)	—
Customer deposits	27,575	29,565
Deferred rent	(55,494)	(46,900)
Deferred revenue	194,191	233,177
Net cash provided by operating activities	846,804	369,171
Cash flows from investing activities:		
Purchases of property and equipment	(1,401,246)	(806,375)
Net cash used in investing activities	(1,401,246)	(806,375)
Cash flows from financing activities:		
Borrowing on Line of Credit	(500,000)	500,000
Equipment Financing	1,000,000	624,000
Payments on notes payable - auto	(24,233)	(10,283)
Principal payments on lease obligation	(333,152)	(247,026)
Repurchase of common stock	(5,890)	(130,832)
Net cash provided by financing activities	136,725	735,856
Net (decrease) increase in cash	(417,717)	298,652
Cash – beginning of year	1,832,969	1,534,317
Cash – end of year	$ 1,415,252	$ 1,832,969
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 149,338	$ 129,556
Cash paid for income taxes	$ 18,861	$ —
Notes payables settled for stock	$ —	$ 200,000
Property and equipment acquisitions	$ 1,727,752	$ 828,013
Cash paid for property and equipment acquisitions	(1,401,246)	(806,375)
Property and equipment acquisitions financed	$ 326,506	21,638
Cancellation of treasury stock	$ —	(130,832)

The accompanying notes are an integral part of these consolidated financial statements.

BREKFORD CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 – DESCRIPTION OF THE BUSINESS

Brekford Corp. (OTCBB; OTCQB: BFDI) headquartered in Hanover, Maryland is a technology services provider of mobile computer and video systems through its vehicle upfitting services to homeland security agencies and federal, state, and municipal law enforcement agencies and offers traffic safety solutions to municipalities, including automated photo speed enforcement and red light camera solutions. Brekford is an established company which, for more than a decade, has provided services to branches of the U.S. military, various federal entities and numerous security and public safety agencies throughout the United States. Brekford provides these departments and agencies with an end-to-end suite of rugged mobile information technology (IT), vehicle upfitting services, and automated traffic safety photo enforcement technology solutions.

Brekford is a one-stop shop with its unique 360° approach to vehicle upfitting installations, cutting edge rugged mobile technology, and automated traffic enforcement services for jurisdictions in the United States. We provide bumper-to-bumper vehicle modification and automated traffic enforcement products, road safety camera programs, including red light and speed photo enforcement systems, and back office processing services. The Brekford 360° approach provides our customers with a one-stop engineered solution. Our commitment to top quality services, along with the core values that our employees strongly uphold: integrity; accountability; respect; excellence; and teamwork; is why we believe Brekford is the premier all-around vehicle upfitter and automated traffic safety technology solutions provider.

Depending upon the context, the terms “BFDI,” “Brekford Corp.,” “Company,” “we,” “our,” and “us,” as used in these notes refer to Brekford Corp. and its consolidated subsidiary.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

Principles of Consolidation and Basis of Presentation

The consolidated financial statements of Brekford include accounts of the Company and its wholly-owned subsidiary, Municipal Recovery Agency, LLC. Intercompany transactions and balances are eliminated in consolidation.

Use of Estimates

Preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes. Actual results could differ from those estimates.

Concentration of Credit Risk

The Company maintains cash accounts with major financial institutions. From time to time, amounts deposited may exceed the FDIC insured limits.

Accounts Receivable

Accounts receivable are carried at estimated net realizable value. The Company has a policy of reserving for uncollectable accounts based on its best estimate of the amount of probable credit losses in its existing accounts receivable. The Company calculates the allowance based on a specific analysis of past due balances. Past due status for a particular customer is based on how recently payments have been received from that customer. Historically, the Company's actual collection experience has not differed significantly from its estimates, due primarily to credit and collections practices and the financial strength of its customers.

The Company's practice of reserving for uncollectable citations is based on its best estimate of the amount of probable losses. This estimate accounts for an initial loss in expected receivables from the existing population of uncollected receivables. The Company calculates allowances based on the historical information from similar programs in the industry. Past due status is based on varying client business rules for the extension of time allotted for payment. For certain contracts the Company manages both the issuance and the collection of unpaid fines. Calculating "outstanding" with respect to a normal collections timeline is not an exact science. To be conservative, the percentage of allowance is calculated from the first day of citation issuance. The Company reviews and evaluates their collections efforts and makes necessary adjustment to the allowance accounts and complete write-off's as deemed necessary on periodic basis.

Inventory

Inventory principally consists of hardware and third-party packaged software that is modified to conform to customer specifications and held temporarily until the completion of a contract. These amounts are stated at the lower of first-in, first-out ("FIFO") cost or market.

Property and Equipment

Property and equipment is stated at cost. Depreciation of furniture, vehicles, computer equipment and software and phone equipment is calculated using the straight-line method over the estimated useful lives (two to ten years), and leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the lease term (which is three to five years).

Revenue Recognition

The Company recognizes revenue when it meets all of the following criteria: (i) persuasive evidence of an arrangement exists; (ii) delivery or installation has been completed; (iii) the customer accepts and verifies receipt; and (iv) collectability is reasonably assured. The Company considers delivery to its customers to have occurred at the time in which products are delivered and/or installation work is completed and the customer acknowledges its acceptance of the work.

The Company provides its customers with a warranty against defects in the installation of its vehicle upfitting solutions for one year from the date of installation. Warranty claims were $27,644 and $29,675 for the year ended December 31, 2012 and 2011, respectively. The Company also performs warranty repair services on behalf of the manufacturers of the equipment it sells. Effective January 2011, the Company offers separately priced extended warranty and product maintenance contracts to its customers on the equipment sold by the Company. Revenues from extended warranty services are apportioned over the period of the extended warranties service contracts and the warranty costs are expensed as incurred. Revenue from extended warranties for the years ended December 31, 2012 and 2011 amounted to $355,150 and $222,438, respectively.

For automatic traffic enforcement revenue, the Company recognizes the revenue either on the date that the Company determines a valid violation has occurred or when the collection efforts are completed depending on the specific terms of the contract with each municipality. The Company records revenue related to automated traffic violations for the Company's share of the violation amount.

Shipping and Handling Costs

All amounts billed to customers related to shipping and handling are included in products revenues and all costs of shipping and handling are included in cost of sales in the accompanying consolidated statements of operations. The Company incurred shipping and handling costs of $54,652 and $39,530 for the years ended December 31, 2012 and 2011, respectively.

Advertising Costs

The Company expenses advertising costs as incurred. These expenses are included in selling, general and administrative expenses in the accompanying statements of operations. Advertising expense amounted to $24,073 and $10,831 for the years ended December 31, 2012 and 2011, respectively.

Share-Based Compensation

The Company accounts for stock incentive plans by measurement and recognition of compensation expense for all share-based awards on estimated fair values, net of estimated and actual forfeitures, on a straight line basis over the period during which the employee is required to provide services in exchange for the award.

Treasury Stock

The Company accounts for treasury stock using the cost method. As of December 31, 2012, 10,600 shares of our Common Stock were held in treasury at an aggregate cost of $5,890.

Income Taxes

The Company uses the liability method to account for income taxes. Income tax expense includes income taxes currently payable and deferred taxes arising from temporary differences between financial reporting and income tax bases of assets and liabilities. Deferred income taxes are measured using the enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense, if any, consists of the taxes payable for the current period. Valuation allowances are established when the realization of deferred tax assets are not considered more likely than not. Accordingly, at December 31, 2012 and 2011 net of valuation allowance, the net deferred tax assets were reduced to zero.

The Company files income tax returns with the U.S. Internal Revenue Service and with the revenue services of various states. The Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years prior to 2009. The Company's 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.

Earnings (loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) available to common stockholders by the weighted-average number of common shares outstanding and does not include the effect of any potentially dilutive common stock equivalents. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted-average number of shares outstanding, adjusted for the effect of any potentially dilutive common stock equivalents. There is no dilutive effect on the loss per share during loss periods. See Note 8 for further information.

Fair Value of Financial Instruments

The carrying amounts reported in the balance sheets for cash, accounts receivable, accounts payable and accrued expenses approximate their fair values based on the short-term maturity of these instruments. The carrying amount of the Company's note obligations approximate fair value, as the terms of these notes are consistent with terms available in the market for instruments with similar risk.

Segment Reporting

Financial Accounting Standards Board Accounting Standards Codification Topic 280, Segment Reporting, requires that an enterprise report selected information about operating segments in its financial reports issued to its stockholders. Based on the analysis performed by the Company, management has determined that the Company has only one operating segment, which is Traffic Safety Solutions. The chief operating decision-makers use combined results to make operating and strategic decisions, and, therefore, the Company believes its entire operation is covered under a single segment.

Newly Issued Accounting Pronouncements

Management does not believe that any recently issued but not yet effective accounting pronouncements, if adopted, would have a material effect on our financial statements.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31,	
	2012	2011
Leasehold improvements	$ 498,025	$ 471,120
Computer equipment and software	484,624	349,463
Vehicles	223,868	157,362
Furniture	100,089	92,685
Cameras	2,573,516	1,094,341
Phone equipment	48,817	36,215
	3,928,939	2,201,187
Accumulated depreciation and amortization	(1,451,297)	(686,191)
	$ 2,477,642	$ 1,514,996

Depreciation and amortization of property and equipment for the years ended December 31, 2012 and 2011 was $765,106 and $324,967, respectively. As of December 31, 2012 and 2011, the Company had approximately $294,000 and $226,000 of property and equipment that was not placed in service at those respective dates.

NOTE 4 – LINE OF CREDIT AND NOTES PAYABLE - AUTO

On July 12, 2012, the Company closed on an aggregate $3.5 million credit facility (the “Credit Facility”) with PNC Bank, National Association (“PNC”) as lender consisting of $3.0 million in revolving loans (the "Revolving Facility") and $500,000 in a committed non-revolving line of credit loan for the purpose of financing up to 90% of the cost of certain equipment (the “Equipment Loan”). The terms and conditions of the Credit Facility are set forth in a Loan Agreement between the Company and PNC dated June 28, 2012 (the “Loan Agreement”), and the Revolving Facility is evidenced by a Committed Line of Credit Note issued by the Company to the order of PNC (the “Revolving Note”). As part of the financing transaction, each of C.B. Brechin and Scott Rutherford, who serve as directors of the Company and as Chief Executive Officer/Chief Financial Officer and as President of the Company, respectively, entered into a Subordination Agreement dated June 28, 2012 with PNC (each, a “Subordination Agreement”) pursuant to which they agreed that all indebtedness owed to them by the Company (the “Subordinated Debt”) is subordinate to the indebtedness owed to PNC by the Company. The Subordination Agreements permit the Company to make regular loan payments to Messrs. Brechin and Rutherford so long as the Company is not in default under its loan agreements with PNC. The terms of the Equipment Loan will be evidenced by a separate promissory note if the Company requests that loan. As of December 31, 2012, amounts outstanding under the line of credit were $0.

On November 4, 2010, the Company entered into a $500,000 revolving line of credit agreement with Bank of America. Under this agreement, the Company may repay principal amounts and re-borrow them during the term of the agreement. Interest is payable at the rate of the BBA LIBOR Daily Floating rate plus 4%. The line of credit is collateralized by all assets of the Company and is personally guaranteed by the two principal officers of the Company. The line of credit agreement expired on November 30, 2012, and the Company did not extend the line of credit. As of December 31, 2012 and 2011, amounts outstanding under the line of credit were $0 and $500,000, respectively.

The Company financed certain vehicles and equipment under finance agreements. The agreements mature in June 2013, September 2014, March 2017 and May 2017. The agreements require various monthly payments under the finance agreements. As of December 31, 2012 and 2011, financed assets of $88,948 and $42,074, respectively, net of accumulated amortization of $28,647 and $9,016 respectively, are included in property and equipment on the balance sheets. As of December 31, 2012 future maturities of notes payable are as follows:

2013	$ 23,454
2014	18,397
2015	13,517
2016	13,820
2017	3,734
Total	$ 72,922

NOTE 5 – NOTES PAYABLE – STOCKHOLDERS

The Company financed the repurchase of shares of Common Stock and warrants from the proceeds of convertible promissory notes issued on November 9, 2009 by the Company in favor of a lender group that included two directors of the Company, Messrs. C.B. Brechin and Scott Rutherford, and a former director, Mr. Bruce Robinson, in the respective principal amounts of $250,000, $250,000 and $200,000 (each, a “Promissory Note, and together, the “Promissory Notes”). Each Promissory Note bears interest at the rate of 12% per annum and at the time of execution was to be convertible into shares of Common Stock, at the option of each holder, at an original conversion price of $.07 per share. At the time of the execution of the Promissory Notes, the Company agreed to pay the unpaid principal balance of the Promissory Notes and all accrued but unpaid interest on the date that was the earlier of (i) two (2) years from the issue date of the notes, or (ii) ten (10) business days from the date of closing by the Company of any equity financing generating gross proceeds in the aggregate amount of not less than Five Million Dollars ($5,000,000).

On April 1, 2010, the Company and each member of the lender group executed a First Amendment to the Unsecured Promissory Note. Each Promissory Note was amended to:

- Revise the conversion price in the provision that allows the holder of the Promissory Note to elect to convert any outstanding and unpaid principal portion of the Promissory Note and any accrued but unpaid interest into shares of the Common Stock at a price of fourteen cents ($0.14) per share of Common Stock, and

- Amend the maturity date provided the Company agrees to pay the unpaid principal balance of the Promissory Note and all accrued but unpaid interest on the date that is the earlier of (i) four (4) years from the issue date of the Promissory Note or (ii) ten (10) business days from the date of closing by the Company of any equity financing generating gross proceeds in the aggregate amount of not less than Five Million Dollars ($5,000,000).

On December 12, 2011, the Promissory Note issued to Mr. Bruce Robinson was repaid in full by converting the outstanding balance into 1,428,572 shares of Common Stock. As of December 31, 2012 and December 31, 2011, the amounts outstanding under the Promissory Notes totaled $500,000

NOTE 6 – LEASES

Capital Leases

The Company financed certain equipment and vehicles under separate non-cancelable equipment loan and security agreements.The agreements mature in March 2015 and April 2015. The agreements require various monthly payments and are secured by the assets under lease. As of December 31, 2012 and 2011, capital lease assets of $1,678,435 and $877,556, respectively, net of accumulated amortization of $612,137 and $153,016, respectively, are included in property and equipment on the consolidated balance sheets.

Future minimum lease payments under these lease agreements at December 31, 2012 are as follows:

2013	$ 644,865
2014	644,865
2015	199,967
Total minimum lease payments	1,489,697
Less: amounts representing interest	(91,776)
Present value of net minimum lease payments	$ 1,397,921

Operating Leases

The Company rents office space under separate non-cancelable operating leases expiring in June 2013 and January 2015.

Future minimum lease payments under these lease agreements, exclusive of the Company's share of operating costs at December 31, 2012 are as follows:

2013	229,166
2014	212,736
2015	17,728
Total	$ 459,630

In addition, the lessor provided the Company with a $221,400 leasehold improvement incentive that was recorded as a component of property and equipment and is included in deferred rent and is being amortized over the lease term. The lease agreement provides for the Company to reimburse the lessor for the cost of the improvements on a pro rata basis over the term of the lease in the event of the Company's default on or termination of the lease agreement prior to the expiration of term of the lease in 2015.

The Company records rent expense over the term of the lease on a straight-line basis, less amounts received under sub-lease arrangements. Total rent expense amounted to $234,981 and $229,508 for the years ended December 31, 2012 and 2011, respectively.

The Company leased approximately 2,500 square feet of office space from Peppermill Properties, LLC, a Maryland limited liability company ("Peppermill"). Peppermill is owned and managed by Chandra (C.B.) Brechin and Scott Rutherford, both officers, directors and principal stockholders of the Company. On June 1, 2010, the Company entered into a 3-year lease with Peppermill. For the year ended December 31, 2012 and 2011, lease payments amounted to $42,465 and $42,874 respectively.

NOTE 7 – INVENTORY

As of December 31, 2012 and December 31, 2011 inventory consisted of the following:

	2012	2011
Raw Materials	$ 672,874	$ 379,200
Work in Process	—	47,300
Total Inventory	$ 672,874	$ 426,500

NOTE 8 – (LOSS) EARNINGS PER SHARE

Basic (loss) earnings per common share is calculated by dividing net (loss) income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted (loss) earnings per common share is calculated by dividing net (loss) income available to common stockholders by the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents such as stock-based awards and warrants. There is no dilutive effect on the (loss) per common share during loss periods. The following table provides information relating to the calculation of (loss) earnings per common share.

	Years Ended December 31,	
	2012	2011
Basic (loss) earnings per share		
Net (loss) income	$ (1,266,671)	$ 1,211,328
Weighted average common shares outstanding - basic	44,128,602	40,799,298
Basic earnings per share	$ (0.03)	$ 0.03
Diluted (loss) earnings per share		
Net (loss) income	$ (1,266,671)	$ 1,211,328
Weighted average common shares outstanding	44,128,602	40,799,298
Potential dilutive securities	—	3,113,229
Weighted average common shares outstanding – diluted	44,128,602	43,912,527
Diluted earnings per share	$ (0.03)	$ 0.03
Common stock equivalents excluded due to anti-dilutive effect	3,946,429	1,320,000

NOTE 9 – SHARE-BASED COMPENSATION

The Company has issued restricted stock and warrants to purchase shares of Common Stock ("Common Stock Purchase Warrants") and has granted non-qualified stock options to certain employees and non-employees at the discretion of the board of directors. On April 25, 2008, the Company's stockholders approved the 2008 Stock Incentive Plan (the "2008 Incentive Plan"). To date, there have been no stock option grants under the 2008 Incentive Plan. All stock options granted to employees were granted under previous arrangements, have exercise prices that are less or equal to the fair value of the underlying common stock at the date of grant and have terms of ten years.

Stock Options

There was no share-based compensation expense during the years ended December 31, 2012 or 2011 related to stock options. As of December 31, 2012 and 2011, there were no outstanding stock options.

Restricted Stock Grants

For the year ending December 31, 2011, Company granted an aggregate of 1,020,000 shares of restricted stock to the directors, non-employees and to its key employees in consideration of services rendered and part of employment agreement. The weighted average value of the shares amounted to $0.19 per share based upon the closing price of shares of the Company's Common Stock on the date of the grant. These shares were fully vested on the date of the grant. The Company recorded $195,100 in share-based compensation expense for the year ending December 31, 2011 related to restricted stock grants.

During the period ended December 31, 2012, the Company issued an aggregate of 25,000 shares of restricted Common Stock to a consultant as compensation for future services to be rendered to the Company. Based on a per share price of $0.42 on the date of grant, these shares represent $10,500 in services to be rendered by the consultant.

	Restricted Stock Shares	Weighted Average Value
Nonvested restricted stock at January 1, 2011	—	$ —
Granted	1,020,000	0.19
Vested	(1,020,000)	0.19
Forfeited or expired	—	—
Nonvested restricted stock at December 31, 2011	—	$ —
Granted	25,000	0.42
Vested	(25,000)	0.42
Forfeited or expired	—	—
Nonvested restricted stock at December 31, 2012	—	$ —

Common Stock Purchase Warrants

For the year ended December 31, 2012 and 2011, there was no share-based compensation expense for common stock purchase warrants. As of December 31, 2012, there are no unvested common stock purchase warrants.

A summary of warrant activity is as follows:

	Shares Underlying Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Outstanding at January 1, 2011	4,595,000	$ 0.31	1.17
Granted	—	—	—
Forfeited or expired	—	—	—
Exercised	(3,000,000)	0.29	—
Outstanding at December 31, 2011	1,595,000	0.37	0.56
Granted	—	—	—
Forfeited or expired	(220,000)	0.39	—
Exercised	(1,000,000)	0.39	
Outstanding at December 31, 2012	375,000		
Exercisable at December 31, 2012	375,000	$ 0.30	0.37
Intrinsic Value at December 31, 2012	$ 82,500		

2008 Stock Incentive Plan

The 2008 Incentive Plan is designed to provide an additional incentive to executives, employees, directors and key consultants, aligning the long term interests of participants in the 2008 Incentive Plan with those of the Company and the Company's stockholders. The 2008 Incentive Plan provides that up to 8 million shares of the Company's common stock may be issued pursuant to awards granted under the 2008 Incentive Plan. There are 6,680,000 shares available for future issuances under the 2008 Incentive Plan.

2008 Employee Stock Purchase Plan

On February 19, 2008, the Board of Directors authorized the adoption of the 2008 Employee Stock Purchase Plan (the "Purchase Plan"), subsequently approved by the stockholders on April 25, 2008, which is designed to encourage and enable eligible employees to acquire a proprietary interest in the Company's Common Stock. The Purchase Plan provides that up to 2 million shares of the Company's Common Stock may be issued under the Plan. No shares have been issued under the Plan.

NOTE 10 – EMPLOYEE BENEFIT PLANS

The Company has a defined contribution savings plan under Section 401(k) of the Internal Revenue Code. The 401(k) Plan is a defined contribution plan, which covers substantially all U.S.-based employees of the Company and its wholly-owned subsidiaries who have completed six months of service. The 401(k) Plan provides that the Company will match 50% of the participant salary deferrals up to 6% of a participant's compensation for all participants. The Company contributed $18,519 and $10,658 during the years ended December 31, 2012 and December 31, 2011, respectively.

NOTE 11 – MAJOR CUSTOMERS AND VENDORS

Major Customers

The Company has several contracts with government agencies, of which net revenue to one major customer during the year ended December 31, 2012 represented 11.43% of the total net revenue for such period. Accounts receivable due from two customers at December 31, 2012 amounted to 54.04% of total accounts receivable at that date.

The Company has several contracts with government agencies, of which net revenue to one major customer during the year ended December 31, 2011 represented 23.22% of the total net revenue for such period. Accounts receivable due from three customers at December 31, 2011 amounted to 71.27 % of total accounts receivable at that date.

Major Vendors

The Company purchased substantially all rugged IT products that it resold during the periods presented from a single distributor. Revenues from rugged IT products amounted to 53% and 43% of total revenues for the year ended December 31, 2012 and 2011, respectively. As of December 31, 2012 and 2011, accounts payable due to this distributor amounted to 58% and 57% of total accounts payable, respectively.

NOTE 12 – INCOME TAXES

As of December 31, 2012, the Company has approximately $3.68 million of federal and state net operating loss carryforwards available to offset future taxable income, if any, through 2032. These net operating losses begin to expire in 2028. If, however, there is an ownership change in the Company, Section 382 of the Internal Revenue Code may restrict the Company's ability to utilize these loss carryforwards to a percentage of the market value of the Company at the time of the ownership change. Therefore, these operating loss carryforwards could become limited in future years if ownership changes were to occur as defined in the Internal Revenue Code and similar state income tax provisions. The Company files income tax returns with the U.S. Internal Revenue Service and with the revenue services of various states. The Company is no longer subject to U.S. Federal income tax examinations by tax authorities for years before 2009.

The Company's deferred tax assets and liabilities are as follows for each of the periods presented:

	December 31,	
	2012	2011
Net operating loss carry forwards	$ 1,452,000	$ 782,000
Property and Equipment	(514,000)	(404,000)
Allowance for uncollectable accounts	38,000	103,000
	976,000	481,000
Valuation allowance	(976,000)	(481,000)
Net deferred tax asset	$ —	$ —

The Company's recorded income tax, net of the change in the valuation allowance for each of the periods presented, is as follows:

	Years Ended December 31,	
	2012	2011
Current		
Federal	$ —	$ —
State	—	—
	—	—
Deferred		
Federal	(389,000)	332,000
State	(106,000)	121,000
	(495,000)	453,000
Change in valuation allowance	495,000	(453,000)
Income tax expense	$ —	$ —

Management has evaluated the recoverability of the deferred income tax assets and the level of the valuation allowance required with respect to such deferred income tax assets. After considering all available facts, the Company fully reserved for its deferred tax assets because management believes that it is more likely than not that their benefits will not be realized in future periods. The Company will continue to evaluate its deferred tax assets to determine whether any changes in circumstances could affect the realization of their future benefit. If it is determined in future periods that portions of the Company's deferred income tax assets satisfies the realization standard, the valuation allowance will be reduced accordingly.

A reconciliation of the expected Federal statutory rate of 34% to the Company's actual rate as reported for each of the periods presented is as follows:

	Years Ended December 31,	
	2012	2011
Expected statutory rate	(34.0)%	34.0 %
State income tax rate, net of Federal benefit	(5.3)%	5.4 %
Permanent differences		
Other	0.2 %	0.1 %
	39.1 %	39.5 %
Valuation allowance	(39.1) %	(39.5) %
	— %	— %

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act with the SEC, such as this Annual Report, is recorded, processed, summarized and reported within the time periods specified in those rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive officer who also serves as the principal accounting officer ("CEO"), to allow for timely decisions regarding required disclosure. In designing and evaluating these disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated can provide only reasonable, but not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain judgments and assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls and procedures as of December 31, 2012 was carried out under the supervision and with the participation of the Company's management, including the CEO. Based on that evaluation, the Company's management, including the CEO, has concluded that the Company's disclosure controls and procedures were not effective due to the material weakness described in Management's Report on Internal Control Over Financial Reporting, which appears on the following page.

During the fourth quarter of 2012, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

As required by Section 404 of the Sarbanes-Oxley Act of 2002, management has performed an evaluation and testing of the Company's internal control over financial reporting as of December 31, 2012. Management's report on the Company's internal control over financial reporting is included on the following page. The Company is a "smaller reporting company" as defined by Rule 12b-2 promulgated under the Exchange Act and, accordingly, its independent registered public accounting firm is not required to attest to the foregoing management report.

Management's Report on Internal Control Over Financial Reporting

Board of Directors
Brekford Corp.

Management of Brekford Corp. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. This internal control system was designed to provide reasonable assurance to management and the Board of Directors as to the reliability of the Company's financial reporting and the preparation and presentation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States, as well as to safeguard assets from unauthorized use or disposition.

An internal control system, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements in the financial statements or the unauthorized use or disposition of the Company's assets. Also, projections of any evaluation of effectiveness of internal controls to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

A material weakness is a control deficiency (within the meaning of Public Company Accounting Oversight Board Auditing Standard No. 5) or combination of control deficiencies that result in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework. Based on this assessment and on the foregoing criteria, management has concluded that, as of December 31, 2012, the Company's internal control over financial reporting was not effective due to the material weakness described below.

Management has concluded that, as of December 31, 2012, a material weakness exists because the Company does not currently employ a sufficient number of qualified accounting personnel to ensure proper and timely evaluation of complex accounting, tax, and disclosure issues that may arise during the course of the Company's business. The Company intends to address this material weakness by reviewing the Company's accounting and finance processes to identify any improvements thereto that might enhance the Company's internal control over financial reporting and determine the feasibility of implementing such improvements and by seeking qualified employees and/or outside consultants who possess the knowledge needed to eliminate this weakness. The Company's ability to remediate this weakness may, however, be delayed or limited by resource constraints, a lack of qualified persons in the Company's market area and/or competition from other employers.

Dated: March 8, 2013

By: /s/ Chandra (C.B.) Brechin
Chandra (C.B.) Brechin
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Princial Accounting Officer)

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated herein by reference to the following sections of Brekford Corp.'s definitive Proxy Statement for the 2013 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A (the "Proxy Statement"):

- PROPOSAL 1 – ELECTION OF DIRECTORS;
- QUALIFICATIONS OF DIRECTOR NOMINEES;
- EXECUTIVE OFFICERS;
- CORPORATE GOVERNANCE MATTERS; and
- SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the sections of the Proxy Statement entitled "EXECUTIVE COMPENSATION" and "DIRECTOR COMPENSATION".

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table provides information as of December 31, 2012 with respect to Company's equity compensation plans.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted–average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	—	—	6,680,000
Equity compensation plans not approved by security holders	—	—	—
Total	—	—	6,680,000

(1) **Note:** In addition to stock options and stock appreciation rights the Company's 2008 Incentive Plan permits the grant of stock awards, stock units, performance units and other stock-based awards. As of December 31, 2012, the Company has granted 1,320,000 shares of restricted stock that are not reflected in column (a) of this table.

All other information required by this item is incorporated herein by reference to the section of Brekford Corp.'s definitive Proxy Statement for the 2013 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A entitled "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT".

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the sections of the Proxy Statement entitled "CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS" and "CORPORATE GOVERNANCE MATTERS.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the section of the Proxy Statement entitled "INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM".

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1), (2) and (c) Financial Statements.

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2012 and 2011
Consolidated Statements of Operations for the Years Ended December 31, 2012 and 2011
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2012 and 2011
Consolidated Statements of Cash Flows for the Years Ended December 31, 2012 and 2011
Notes to Consolidated Financial Statements

(a)(3) and (b) Exhibits.

The exhibits filed or furnished with this annual report are listed on the Exhibit Index that follows the signatures to this annual report, which list is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Brekford Corp.

Date: March 8, 2013

By: /s/ C.B. Brechin
Chandra (C.B.) Brechin
Chief Executive Officer, Chief Financial Officer
,Treasurer and Director
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ C.B. Brechin Chandra (C.B.) Brechin	Chief Executive Officer, Chief Financial Officer, Treasurer and Director	March 8, 2013
/s/ Scott Rutherford Scott Rutherford	President and Director	March 8, 2013
/s/ Douglas DeLeaver Douglas DeLeaver	Director	March 8, 2013
/s/ Jessie Lee, Jr. Jessie Lee, Jr.	Director	March 8, 2013
/s/ ROBERT S WEST Robert S West	Director	March 8, 2013

EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Share Exchange by and between Pelican Mobile Computers, Inc. and American Financial Holdings Inc. (formerly known as California Cyber Design, Inc.)(previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
2.2	Agreement and Plan of Merger by and between the Company and its wholly-owned subsidiary, Pelican Mobile Computers, Inc., dated October 27, 2010 (previously filed as an exhibit to the Company's form 10-Q filed on November 2, 2010 and incorporated herein by reference)
3.1.1	Certificate of Incorporation of California Cyber Design, Inc. as filed with the State of Delaware on May 27, 1998 (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
3.1.2	Certificate of Correction of Certificate of Incorporation of California Cyber Design, Inc. as filed with the State of Delaware on July 17, 1998 (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
3.1.3	Certificate of Amendment of Certificate of Incorporation of California Cyber Design, Inc. as filed with the State of Delaware on August 11, 2004 (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
3.1.4	Certificate of Amendment of Certificate of Incorporation of American Financial Holdings Inc. (formerly known as California Cyber Design, Inc.) as filed with the State of Delaware on January 6, 2006 (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
3.1.5	Certificate of Amendment of Certificate of Incorporation of American Financial Holdings Inc. as filed with the State of Delaware on January 6, 2006 (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
3.1.6	First Amended and Restated Certificate of Incorporation of Brekford International Corp. as filed with the State of Delaware on January 4, 2006 (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
3.1.7	Certificate of Amendment to the First Amended and Restated Certificate of Incorporation of Tactical Solution Partners, Inc. as filed with State of Delaware on April 29, 2008. (previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q filed on May 15, 2008 and incorporated herein by reference)
3.1.8	Second Amended and Restated Certificate of Incorporation of Brekford International Corp. as filed with the State of Delaware on February 4, 2010 (previously filed as an exhibit to the Company's Annual Report on Form 10-K filed on March 15, 2010 and incorporated herein by reference)
3.1.9	Certificate of Amendment to the Second Amended and Restricted Certificate of Incorporation of the Company as filed with the State of Delaware on July 9, 2010 (previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q filed on August 4, 2010 and incorporated herein by reference)
3.2	Bylaws of Brekford Corp. (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
4.1	Stock Purchase Agreement by and between Brekford International Corp. and Paul Harary and Paris McKenzie TBE (Subscriber) dated January 31, 2007 (previously filed as an exhibit to the Company's Amendment No. 1 to the Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on September 21, 2007 and incorporated herein by reference)

4.2	Warrant to Purchase Brekford International Corp. Common Stock in favor of Paul Harary and Paris McKenzie TBE (Warrant Holder) dated January 31, 2007 (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
4.3	Form of Subscription Agreement to Purchase Units of Brekford International Corp. (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
4.4	Form of Warrant to Purchase Brekford International Corp. Common Stock by and among Brekford International Corp. and the Unit purchasers signatory thereto (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
4.5	Form of Registration Rights Agreement, by and among Brekford International Corp. and the Unit purchasers signatory thereto (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
4.6	Form of Warrant issued to Sierra Equity Group, Ltd. Inc. with respect to the Company's March 2007 private offering closed March 30, 2007 and its assigns (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
4.7	Form of Warrant issued to Sierra Equity Group, Ltd. Inc. under the Investment Banking Advisory Agreement dated December 18, 2006 and its assigns (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
4.8	
4.9	Warrant issued to Trilogy Capital Partners, Inc., dated May 23, 2007 (previously filed as an exhibit to the Company's Annual Report on Form 10-K filed on March 23, 2009 and incorporated herein by reference)
4.10	Form of Warrant issued to Birch Systems, LLC pursuant to the General Release and Settlement Agreement between the Company and Birch Systems, LLC (previously filed as an exhibit to the Company's Annual Report on Form 10-K filed on March 23, 2009 and incorporated herein by reference)
10.1	Lease Agreement by and between Brekford International Corp. and Greenbrier Point Partners, L.P. dated February 13, 2006 (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
10.2	Contract by and between Pelican Mobile Computers, Inc. and the State of Maryland dated July 15, 2001 (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
10.3	Lease Agreement by and between Brekford International Corp. and FRP Hillside LLC #3 dated May 16, 2007 (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
10.4	Letter from Panasonic Personal Computer Company confirming Pelican Mobile Computers, Inc. as the only Maryland based Company authorized to sell the fully ruggedized line of Panasonic Notebooks to Maryland State and Local government agencies dated February 8, 2006 (previously filed as an exhibit to the Company's Amendment No. 1 to the Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on September 21, 2007 and incorporated herein by reference)
10.5	Sublease Agreement by and between Brekford International Corp. and TSO Armor and Training, Inc. dated December 8, 2008 (previously filed as an exhibit to the Company's Annual Report on Form 10-K filed on March 23, 2009 and incorporated herein by reference)
10.6	Stock Purchase Agreement, effective November 4, 2009, by and between the receiver of stockholder Legisi Marketing, Inc. and certain directors of Brekford International Corp., on behalf of the Company (previously filed as an exhibit to the Company's Current Report on Form 8-K filed on November 10, 2009 and incorporated herein by reference)
10.7	Form of Promissory Note, dated November 9, 2009, in favor of certain directors of Brekford International Corp. (previously filed as an exhibit to the Company's Current Report on Form 8-K filed on November 10, 2009 and incorporated herein by reference)

10.8	Form of First Amendment to Unsecured Promissory Note, dated April 30, 2010, between the Company and each member of the Company's lender group (previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q filed on May 6, 2010 and incorporated herein by reference)
10.9	Landlord –Tenant Lease, by and between Peppermill, Properties, LLC and Brekford Corp., dated June 1, 2010 (previously filed as an exhibit to the Company's Quarterly Report on Form 10-Q filed on August 4, 2010 and incorporated herein by reference)
10.10	Loan and Security Agreement dated November 4, 2010 by and between Brekford Corp. and Bank of America N.A. (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 2011)
10.11	Form of Non-Qualified Option Agreement to Purchase Shares of Common Stock of Brekford International Corp. (previously filed as an exhibit to the Company's Registration Statement on Form 10-SB (SEC File No. 000-52719) filed on July 6, 2007 and incorporated herein by reference)
10.12	2008 Stock Incentive Plan (incorporated by reference to Appendix C to the Company's definitive proxy statement on Schedule 14A, filed on April 10, 2008)
10.13	Loan Agreement, dated as of June 28, 2012, between the Company and PNC Bank, National Association (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on July 8, 2012)
10.14	Committed Line of Credit Note, dated as of June 28, 2012, issued by the Company to the order of PNC Bank, National Association (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on July 8, 2012)
10.15	Subordination Agreement, dated as of June 28, 2012, by and among PNC Bank, National Association, the Company and C.B. Brechin (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K, filed on July 8, 2012)
10.16	Subordination Agreement, dated as of June 28, 2012, by and among PNC Bank, National Association, the Company and Scott Rutherford (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K, filed on July 8, 2012)
21	Subsidiaries of the Company (filed herewith)
31.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)
32.1	Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith)

EXHIBIT 21

SUBSIDIARIES

Brekford Corp. has one subsidiary, which is wholly-owned: Municipal Recovery Agency, LLC, a Maryland limited liability company.

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, C.B. Brechin, certify that:

1. I have reviewed this annual report on Form 10-K of Brekford Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2013

By: /s/ C.B. Brechin
C.B. Brechin,
Principal Executive Officer and Principal Financial Officer

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND
PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906
OF SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Brekford Corp. (the "Company") on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, C.B. Brechin, Principal Executive Officer and Principal Financial Officer, certify to my knowledge and in my capacity as an officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and,

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Date: March 8, 2013

By: /s/ C.B. Brechin
C.B. Brechin
Principal Executive Officer and Principal Financial Officer

The foregoing certification is being furnished solely pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Section 1350 of Chapter 63 of Title 18 of the United States Code) and is not being filed as part of the Report or as a separate disclosure document.