

VIEW SYSTEMS INC  
Form 10-Q  
August 14, 2013

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2013

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

Commission file number **000-30178**

**VIEW SYSTEMS, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**59-2928366**

(I.R.S. Employer Identification No.)

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

(Address of principal executive offices) (Zip Code)

**(410) 242-8439**

(Registrant's telephone number, including area code)

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

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 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  Smaller reporting company   
(Do not check if a smaller reporting company)

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

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

| Class                                    | Outstanding at August 8, 2013 |
|--|-------------------------------|
| Common Stock, \$.001 par value per share | 196,837,845                   |

**VIEW SYSTEMS, INC.**

**FORM 10-Q**

**FOR THE PERIOD ENDED JUNE 30, 2013**

**INDEX**

|  | <b>Page</b> |
|--|-------------|
| <b><u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u></b>                                      | 3           |
| <b><u>PART I. FINANCIAL INFORMATION</u></b>  | 4           |
| Item 1. <u>Financial Statements</u>  | 4           |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 17          |
| Item 3. <u>Qualitative and Quantitative Disclosures About Market Risk</u>                            | 24          |
| Item 4. <u>Controls and Procedures</u>   | 24          |
| <b><u>PART II. OTHER INFORMATION</u></b>   | 26          |
| Item 1. <u>Legal Proceedings</u>   | 26          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 26          |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 27          |
| Item 4. <u>Mine Safety Disclosure</u>  | 27          |
| Item 5. <u>Other information</u>   | 27          |
| Item 6. <u>Exhibits</u>  | 28          |
| <b><u>SIGNATURES</u></b>   | 28          |

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

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

## PART I – OTHER INFORMATION

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

|  | June 30,<br>2013 | December 31,<br>2012 |
|--|------------------|----------------------|
| <b><u>ASSETS</u></b>   |                  |                      |
| Current Assets   |                  |                      |
| Cash   | \$ 180,807       | \$ 107,181           |
| Accounts receivable  | 12,948           | 41,675               |
| Inventory  | 19,194           | 142,065              |
| Prepaid expenses   | 98,671           | 109,062              |
| Total current assets   | 311,620          | 399,983              |
| Property and Equipment (Net)   | 14,976           | 16,150               |
| Other Assets   |                  |                      |
| Prepaid expenses (non-current portion)   | —                | 27,266               |
| Deposits   | 2,872            | 2,872                |
| Total other assets   | 2,872            | 30,138               |
| Total assets   | \$ 329,468       | \$ 446,271           |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>   |                  |                      |
| Current Liabilities  |                  |                      |
| Accounts payable   | \$ 572,498       | \$ 681,197           |
| Deferred compensation  | 73,396           | 28,102               |
| Accrued and withheld payroll taxes payable   | 160,103          | 155,886              |
| Accrued interest payable   | 76,845           | 54,885               |
| Accrued royalties payable  | 225,000          | 225,000              |
| Loans from stockholders  | 215,361          | 199,173              |
| Notes payable  | 262,689          | 197,058              |
| Stock settlement payable   | —                | 124,578              |
| Deferred revenue   | 140,752          | 215,976              |
| Total current liabilities  | 1,726,644        | 1,881,855            |
| Non-current Liabilities  |                  |                      |
| Notes payable (non-current portion)  | 70,574           | 76,231               |
| Total liabilities  | 1,797,218        | 1,958,086            |
| Stockholders' Deficit  |                  |                      |
| Convertible preferred stock, authorized 10,000,000 shares, \$.01 par value, Issued and outstanding 2,989,647 | 29,896           | 29,896               |
| Common stock, authorized 950,000,000 shares, \$.001 par value,   |                  |                      |
| Issued and outstanding 196,087,845   | 196,088          | —                    |
| Issued and outstanding 170,421,178   | —                | 170,421              |
| Common stock issuable (1,883,333 shares)   | 56,500           | 267,000              |
| Stock settlement in process  | —                | (124,578 )           |
| Additional paid in capital   | 24,703,336       | 23,748,391           |
| Accumulated deficit  | (26,453,570)     | (25,602,945)         |

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

|  |              |              |
|--|--------------|--------------|
| Total stockholders' deficit                                | (1,467,750 ) | (1,511,815 ) |
| Total liabilities and stockholders' deficit                | \$329,468    | \$446,271    |
| See Notes to Consolidated Financial Statements (Unaudited) |              |              |

-4-

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

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

|  | For the Three Months Ended<br>June 30, |              | For the Six Months Ended<br>June 30, |              |
|--|--|--------------|--------------------------------------|--------------|
|  | 2013                                   | 2012         | 2013                                 | 2012         |
| <b>Revenues</b>  |  |              |                                      |              |
| Product sales and Installation                             | \$38,258                               | \$211,838    | \$358,999                            | \$294,147    |
| Extended warranties  | 29,124                                 | 31,613       | 46,613                               | 60,834       |
| Total revenue  | 67,382                                 | 243,451      | 405,612                              | 354,981      |
| Cost of sales  | 27,098                                 | 104,351      | 224,588                              | 159,649      |
| Gross profit   | 40,284                                 | 139,100      | 181,024                              | 195,332      |
| <b>Operating expenses</b>                                  |  |              |                                      |              |
| General and administrative                                 | 85,573                                 | 115,019      | 143,970                              | 231,027      |
| Professional fees  | 169,048                                | 161,573      | 258,434                              | 217,593      |
| Salaries and benefits                                      | 72,522                                 | 63,843       | 137,468                              | 113,669      |
| Total operating expenses                                   | 327,143                                | 340,435      | 539,872                              | 562,289      |
| Loss from operations                                       | (286,859 )                             | (201,335 )   | (358,848 )                           | (366,957 )   |
| <b>Other Income (expense)</b>                              |  |              |                                      |              |
| Stock based compensation                                   | —                                      | —            | (450,000 )                           | —            |
| Interest expense   | (28,883 )                              | (15,658 )    | (41,777 )                            | (31,270 )    |
| Total other income (expense)                               | (28,883 )                              | (15,658 )    | (491,777 )                           | (31,270 )    |
| Net loss   | \$(315,742 )                           | \$(216,948 ) | \$(850,625 )                         | \$(398,227 ) |
| Net loss per share (basic and diluted)                     | \$(0.00 )                              | \$(0.00 )    | \$(0.00 )                            | \$(0.00 )    |
| Weighted average shares outstanding<br>(basic and diluted) | 188,604,329                            | 141,559,641  | 181,154,143                          | 138,079,742  |

See Notes to Consolidated Financial Statements (Unaudited)

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

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

|   | For the Six Months<br>Ended<br>June 30, |             |
|---|---|-------------|
|   | 2013                                    | 2012        |
| Cash flows from operating activities:               |   |             |
| Net loss  | \$(850,625)                             | \$(398,227) |
| Adjustments to reconcile net loss to                |   |             |
| Net cash used in operations:                        |   |             |
| Depreciation and amortization                       | 5,762                                   | 9,600       |
| Common stock issued/issuable in payment of services | 124,157                                 | —           |
| Stock based compensation                            | 450,000                                 | —           |
| Change in operating assets and liabilities:         |   |             |
| (Increase) decrease in cash from:                   |   |             |
| Accounts receivable                                 | 28,727                                  | (28,106 )   |
| Inventory   | 122,871                                 | 11,525      |
| Prepaid expenses                                    | —                                       | 90,166      |
| Accounts payable                                    | (108,699)                               | (14,651 )   |
| Accrued expenses                                    | 48,456                                  | 43,598      |
| Accrued interest                                    | 38,073                                  | 26,426      |
| Payroll taxes payable                               | 4,217                                   | —           |
| Deferred revenue                                    | (75,224 )                               | (37,554 )   |
| Net cash used in operating activities               | (212,285)                               | (297,223)   |
| Cash flows from investing activities:               |   |             |
| Purchases of equipment                              | (4,589 )                                | (1,198 )    |
| Net cash used in investing activities               | (4,589 )                                | (1,198 )    |
| Cash flows from financing activities:               |   |             |
| Proceeds from issuable common stock                 | —                                       | 10,000      |
| Proceeds from sale of common stock                  | 285,000                                 | 312,500     |
| Principal payments on notes payable                 | —                                       | (13,954 )   |
| Loans to/from stockholders                          | 5,500                                   | 16,722      |
| Net cash provided by financing activities           | 290,500                                 | 325,268     |
| Increase in cash                                    | 73,626                                  | 26,847      |
| Cash and cash equivalents at beginning of period    | 107,181                                 | 29,041      |



Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

|  |            |           |
|--|------------|-----------|
| Cash and cash equivalents at end of period | \$ 180,807 | \$ 55,888 |
|--|------------|-----------|

See Notes to Consolidated Financial Statements (Unaudited)

-6-

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

For the Six Months  
 Ended  
 June 30,  
 2013          2012

Non cash investing and financing activities:

|  |           |           |
|--|-----------|-----------|
| Notes payable paid down with common stock          | \$—       | \$15,000  |
| Stock settlement payable (resolution)              | \$124,578 | \$—       |
| Loans from stockholders repaid with common stock   | \$7,500   | \$—       |
| Accounts payables paid with common stock           | \$—       | \$28,500  |
| Accrued expenses paid with common stock            | \$—       | \$151,839 |
| Common stock issuable in prepayment of services    | \$22,500  | \$285,000 |
| Preferred stock issuable in prepayment of services | \$—       | \$118,125 |
| Issuance of common stock issuable                  | \$72,500  | \$—       |

Cash paid for:

|          |      |       |
|----------|------|-------|
| Interest | \$40 | \$247 |
|----------|------|-------|

|              |     |     |
|--------------|-----|-----|
| Income taxes | \$— | \$— |
|--------------|-----|-----|

See Notes to Consolidated Financial Statements (Unaudited)

**VIEW SYSTEMS, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, FiberXpress, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation. In management’s opinion, the accompanying consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to present fairly our financial position, results of operations and cash flows.

Use of Estimates

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

Accounts Receivable

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

**VIEW SYSTEMS, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

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

Inventory

Inventory is stated at the lower of cost or market. Cost is determined by the last-in-first-out method (LIFO). As of June 30, 2013 the Company's inventory consisted of unassembled parts of products. As of December 31, 2012 the inventory consisted of assembled units as well as unassembled parts of products.

Property and Equipment

## Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

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

|                |           |
|----------------|-----------|
| Equipment      | 5-7 years |
| Software tools | 3 years   |

Depreciation expense for the periods ended June 30, 2013 and 2012 amounted to \$5,762 and \$9,600, respectively.

### Stock Options

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

-9-



**VIEW SYSTEMS, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes

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

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

Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss available to common stockholder by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares and dilutive potential common share equivalents then outstanding. Potential common shares consist of shares issuable upon the exercise of stock options and warrants in addition to shares that may be issued in the event that convertible debt is exchanged for shares of common stock. The calculation of the net loss per share available to common stockholders for the periods ended June 30, 2013 and 2012 does not include potential shares of common stock equivalents, as their impact would be antidilutive.



## 2. GOING CONCERN

The Company has incurred and continues to incur, losses from operations. For the periods ended June 30, 2013 and 2012, the Company incurred net losses of \$850,625 and \$398,227, respectively. In addition, certain notes payable have come due and the Company is in default.

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

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

**VIEW SYSTEMS, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

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

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

**3. NEW ACCOUNTING PRONOUNCEMENTS**

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

**VIEW SYSTEMS, INC.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

## 4. NOTES PAYABLE

Notes payable as of June 30, 2013 and December 31, 2012 consists of the following:

|  | June 30,<br>2013 | December<br>31, 2012 |
|--|------------------|----------------------|
| <b>Stockholder</b>   |                  |                      |
| An unsecured loan from a stockholder which is payable on demand with interest at 12%. The note was dated November 1, 2007, and the note matures and the principal is payable upon the demand of the lender.  | \$ 116,000       | \$ 116,000           |
| <b>Lafayette Community Bank</b>  |                  |                      |
| A term loan secured by a stockholder, payable in monthly installments of \$2,587 commencing in December 25, 2009 but refinanced in May 2011. The loan is due in full on May 18, 2016. Interest accrues monthly at 7.5% per annum.                        | 85,120           | 97,185               |
| <b>Stockholder</b>   |                  |                      |
| Demand loan payable with interest at 5% per month. The loan is secured by the Company's accounts receivable. The note payable matured on December 17, 2009 at which the debt became due and payable and therefore currently in default.                  | 50,000           | 50,000               |
| <b>Investor</b>  |                  |                      |
| An unsecured loan from an investor, payable in monthly installments of \$5,000 commencing July 1, 2013 until paid in full. The loan bears no interest and is the amount due as a result of a settlement of the stock settlement payable mentioned below. | 75,000           | —                    |
| <b>Chase</b>   |                  |                      |
| A secured loan to finance the purchase of a truck, payable monthly in installments of \$533, which includes interest at 5.34% per annum.   | 7,143            | 10,104               |
| <b>TOTAL</b>   | <b>\$333,263</b> | <b>\$273,289</b>     |

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

|                      |          |          |
|----------------------|----------|----------|
| Less current portion | 262,689  | 197,058  |
| Non-current portion  | \$70,574 | \$76,231 |

-12-

**VIEW SYSTEMS, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Principal payments for the next five years ending June 30:

|              |                  |
|--------------|------------------|
| 2014         | \$262,689        |
| 2015         | 38,486           |
| 2016         | 29,643           |
| 2017         | 2,445            |
| Thereafter   | 0                |
| <b>TOTAL</b> | <b>\$333,263</b> |

## 5. INCOME TAXES

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

## 6. CONVERTIBLE PREFERRED STOCK

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

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

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

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

No shares have been issued in the six months ended June 30, 2013.

7. OPERATING LEASE

The Company leases 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland, under a non-cancellable operating lease which expires in December 2013. The original base rent was \$3,077 per month with a 3% annual rent escalator clause. The current monthly rent is \$3,464. Rent expense, which includes the Caton Center property as well as some other short-term leases, was \$24,825 and \$28,178 for the periods ended June 30, 2013 and 2012, respectively.

-13-

**VIEW SYSTEMS, INC.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

8. STOCK BASED COMPENSATION

During the periods ended June 30, 2013 and 2012 the Company issued stock in payment of services and debts as follows:

For the six month period ended June 30, 2013 the Board authorized the issuance of 2,833,333 shares of common stock in payment of services amounting to \$86,500. In addition 1,500,000 shares were issued in payment of loans in the amount of \$7,500. Although authorized prior to June 30, 2013, 1,833,333 of these shares were not issued until after June 30, 2013.

For the six month period ended June 30, 2012, 14,250,000 shares of common stock and 500,000 shares of preferred stock were issued in payment of services in the amount of \$403,125. In addition, 3,000,000 shares of common stock were issued in payment of accounts payable amounting to \$28,500 and 1,839,000 shares of common stock plus 1,000,000 shares of preferred stock were issued in payment of deferred compensation in the amount of \$151,839. In addition 3,000,000 shares of common stock were issued in payment of loans in the amount of \$15,000 and 1,000,000 shares of common stock were issued in payment of accrued interest in the amount of \$75,000.

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

Stock Options and Warrants

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



Stock Options

Certain nonqualified stock options were issued during the six months ending June 30, 2013 to a member of the board of directors as compensation for services performed.

|                                | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>(in years)<br>Contractual<br>Life | Aggregate<br>Intrinsic<br>Value |
|--------------------------------|----------------------|--|---|---------------------------------|
| Outstanding at January 1, 2013 | —                    | —  | —   |                                 |
| Granted                        | 15,000,000           | \$ 0.03                                  | 4.66  | \$ —                            |
| Exercised                      | —                    | —  | —   |                                 |
| Forfeited                      | —                    | —  | —   |                                 |
| Outstanding at June 30, 2013   | 15,000,000           | \$ 0.03                                  | 4.66  | \$ —                            |
| Exercisable at June 30, 2013   | 15,000,000           | \$ 0.03                                  | 4.66  | \$ —                            |

**VIEW SYSTEMS, INC.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

|                          | Six Months<br>Ended June<br>30, |      |
|--------------------------|---------------------------------|------|
|                          | 2013                            | 2012 |
| Annual Dividend          | -                               | NA   |
| Expected Life (in years) | 5.00                            | NA   |
| Risk Free Interest Rate  | 0.78%                           | NA   |
| Expected Volatility      | 325.25%                         | NA   |

The 15,000,000 options granted for the three months ended June 30, 2013 had a weighted average grant date fair value of \$0.03.

**9. RELATED PARTY TRANSACTIONS**

During the periods reflected on this report certain shareholders made cash advances to the Company to help with short-term working capital needs. The total balance due on unstructured loans from shareholders amount to \$215,361 at June 30, 2013 and \$199,173 at December 31, 2012. Loans from stockholders made with repayment terms are included in Notes Payable and described in Note 4 above.

**10. STOCK SETTLEMENT IN PROCESS**

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

realized from the sales of stock.

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

Subsequent to June 30, 2013 the note holder reported that he had sold all of the 3,500,000 shares of the common stock noted above for \$65,691. After giving effect to those proceeds, the note holder and the Company agreed to settle the remaining debt for \$75,000. As a part of the settlement an additional \$16,113 of interest expense was recognized. The Company has agreed to make monthly payments of \$5,000, commencing in July 2013, until the debt is paid in full. The agreement provides that no additional interest accrues on this debt.

#### 11. JOINT VENTURE PROFIT SHARING

During 2011 the Company entered into an agreement with CRA, Inc. regarding a sale of 50 scanners to a municipal school system. Under the terms of the deal CRA, Inc. purchased all of the materials and paid substantially all of the cost, View Systems, Inc. assembled the products, shipped the scanners for installation and billed the school system. The terms of the agreement provide that each party is to share equally in the profits. As of June 30, 2013 and December 31, 2012 the estimated amount that the Company may ultimately owe to CRA, Inc., if anything, has not been determined. The Company is technically in default under the terms of the agreement because of late payments.

#### 12. CONTINGENT LIABILITIES

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

#### 13. RECLASSIFICATIONS

Certain items presented for the prior period have been reclassified to conform to the current period presentation.

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

### **EXECUTIVE OVERVIEW**

View Systems, Inc. develops, produces and markets computer software and hardware systems for security and surveillance applications. Our digital video recorder was our first product, which we enhanced by developing interfaces with other various technologies, such as facial recognition, access control cards and control devices such as magnetic locks, alarms and other common security devices. We sold this product to various commercial entities including schools, restaurants, night clubs, car washers and car dealers (license plate recognition was incorporated into these types of installations), ranches and gas stations. We expanded our product line to include a concealed weapons detection system we call ViewScan. We have penetrated four major market segments for this product: correctional facilities, judicial facilities, probation offices and federal facilities in the Mid-Atlantic States, the West Coast and the South. We added a hazardous material first response wireless video transmitting system to our product line we refer to as Visual First Responder. The markets for these units are first responder units for agencies such as the National Guard, Coast Guard, Army, state law enforcement agencies, and fire departments. Both of these technologies were licensed from the U.S. Department of Energy's Idaho National Engineering Laboratory ("INEL"). Until 2005 we assembled all of our products in-house, but we currently contract with third party manufacturers to manufacture some components of our products.

Our strategy for 2013 for ViewScan is to extend our sales and service provisions. To increase sales we offer demonstrations of our products to potential customers in specific geographical areas and at region - specific trade shows, such as sheriff's conventions, court administrators' meetings, civil support team, state police and dealer shows.

When a demonstration results in a sale of one of our products, then we attempt to expand that market by contacting other potential customers in the area, such as, correctional facilities, courthouses and other municipal buildings.

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

Current Products and Services

### **ViewScan Concealed Weapons Detection System**

ViewScan, which is also sold under the name "Secure Scan", is a walk-through concealed weapons detector which uses data sensing technology to accurately pinpoint the location, size and number of concealed weapons. This walk-through portal is controlled by a master processing board and a personal computer based unit which receives magnetic and video information and combines it in a manner that allows the suspected location of the weapon to be stored electronically and referenced.

### **3D Facial Recognition Technology - Animetrics Inc**

On August 9, 2012, we entered into a partnership with Animetrics Inc. ("Animetrics"), a leading developer of advanced 3D facial recognition and identify management solutions (the "Animetrics Agreement"). In accordance with the terms and provisions of the Animetrics Agreement, we will integrate Animetrics' next-generation 3D facial recognition technology into our concealed weapons detection systems used for security screening at correctional facilities, stadiums, courthouses, schools and other public facilities. Our ViewScan Concealed Weapons Detector is a walk-through portal which uses advanced magnetics technology to accurately pinpoint threat objects on a visual image of the subject. The system is sensitive enough to locate items such as hidden razor blades and cellular phones but will ignore common objects such as coins, keys and belt buckles.

The initial objective is to integrate Animetrics' facial identify management software, the FaceR identity management solution (FIMS) onto our ViewScan, incorporating next generation facial recognition and investigative face biometric capabilities into the weapons detection and identification system. We also plan to utilize Animetrics' cloud-based FaceR FIMS and its suite of FaceR facial biometric identify and screening applications, including FaceR Mobile ID, FaceR Credential Me and ForensicaGPS across its entire portfolio of security and surveillance systems and applications.

### **Multi-Mission Mobil Video**

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

### **ViewMaxx Digital Video System**

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

### **Additional Applications and Integration of ViewScan and ViewMaxx**

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

### **The MINI**

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

settings can be controlled and changed via SMS commands.

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

-18-



**RESULTS OF OPERATIONS**

The following discussions are based on our consolidated financial statements, including our subsidiaries. These charts and discussions summarize our financial statements for the six months ended June 30, 2013 and June 30, 2012 and should be read in conjunction with the financial statements, and notes thereto, included with our most recent Form 10-K for fiscal year ended December 31, 2012.

**SUMMARY COMPARISON OF OPERATING RESULTS\***

|  | Six Month Period<br>ended June 30 |           |
|--|-----------------------------------|-----------|
|  | 2013                              | 2012      |
| Revenues                               | \$405,612                         | \$354,981 |
| Cost of sales                          | 224,588                           | 159,649   |
| Gross profit                           | 181,024                           | 195,332   |
| Total operating expenses               | 539,872                           | 562,289   |
| Loss from operations                   | (358,848)                         | (366,957) |
| Total other income (expense)           | (491,777)                         | (31,270 ) |
| Net loss                               | (850,625)                         | (398,227) |
| Net loss per share (basic and diluted) | \$(0.00 )                         | \$(0.00 ) |

**Six Month Period Ended June 30, 2013 Compared to Six Month Period Ended June 30, 2012.**

Our net loss for the six month period ended June 30, 2013 was (\$850,625) compared to a net loss of (\$398,227) during the six month period ended June 30, 2012 (an increase in net loss of \$452,398). We generated net revenues of \$405,612 during the six month period ended June 30, 2013 compared to \$354,981 during the six month period ended June 30, 2012 (an increase in net revenue of \$50,631). During the six month period ended June 30, 2013, revenue consisted of: (i) \$358,999 (2012: \$294,147) in product sales and installation; and (ii) \$46,613 (2012: \$60,834) in extended warranties. Revenue is considered earned when the product is shipped to the customer. The concealed weapons system and the digital video system each require installation and training. Training is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training.

We have experienced an increase in sales of our products which resulted in increased revenues for the six month period ended June 30, 2013 compared to the six month period ended June 30, 2012. We believe the increased revenue is the result of recognition of deferred revenue and an increased demand for security products in times of potential general unrest and increased awareness of our product. Additionally, the increase is due to the completion of a major contract during the quarter ended March 31, 2013.

Cost of goods sold increased during the six month period ended June 30, 2013 to \$224,588 from \$159,649 incurred during the six month period ended June 30, 2012, resulting in a gross profit of \$181,024 for the six month period ended June 30, 2013 compared to a gross profit of \$195,332 for the six month period ended June 30, 2012. During the six month period ended June 30, 2013, the prevailing trend of increasing cost of goods sold was due to an increase in the security-related products ordered by government agencies and due to the increase in associated costs related to the components of our security-related products, which is based on general overall economic factors. The gross profit percentage on our non-warranty revenue, which is a measurement of gross profit as a percent of sales of products, installations and related revenue, decreased during the six month period ended June 30, 2013 as compared to the six month period ended June 30, 2012.

During the six month period ended June 30, 2013, we incurred operating expenses of \$539,872 compared to \$562,289 incurred during the six month period ended June 30, 2012 (a decrease of \$22,417). These operating expenses incurred during the six month period ended June 30, 2013 consisted of: (i) general and administrative of \$143,970 (2012: \$231,027); (ii) professional fees of \$258,434 (2012: \$217,593); and (iii) salaries and benefits of \$137,468 (2012: \$113,669).

## Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

During the six month period ended June 30, 2013, our general and administrative expenses generally consisted of: (i) bank service charges of \$2,371 (2012: \$5,852); (ii) contractual temporary labor of \$17,159 (2012: \$37,571); (iii) filing and service fees of \$18,072 (2012: \$38,638); (iv) insurance of \$17,076 (2012: \$17,493); (v) postage and delivery of \$3,210 (2012: \$4,945); (vi) rent of \$24,825 (2012: \$28,179); (vii) supplies of \$6,355 (2012: \$5,129); (viii) telephone of \$6,700 (2012: \$9,183); (ix) other of \$(5,687) (2012: \$4,553); (x) travel \$39,402 (2012: \$54,776); (xi) utilities of \$5,010 (2012: \$6,191); (xii) advertising and promotion \$3,720 (2012: \$8,918); and (xiii) depreciation of \$5,762 (2012: \$9,600).

During the six month period ended June 30, 2013, our professional fees consisted of: (i) accounting fees of \$67,307 (2012: \$67,169); (ii) engineering fees of \$52,500 (2012: \$30,000); (iii) legal fees of \$20,470 (2012: \$12,000); (iv) investor relations fees of \$35,625 (2012: \$0); (v) management and operations \$27,000 (2012: \$0); and (vi) marketing and promotion \$55,532 (2012: \$108,424)

Operating expenses incurred during the six month period ended June 30, 2013 compared to the six month period ended June 30, 2012 decreased primarily due to the decrease in general and administrative expenses of \$87,057 offset by increases in professional fees of \$40,841 and salaries of \$23,799..

Our net operating loss during the six month period ended June 30, 2013 was (\$358,848) compared to a net operating loss of (\$366,957) during the six month period ended June 30, 2012.

During the six month period ended June 30, 2013, we incurred other expenses as follows: (i) stock option compensation based on valuation of options granted of \$450,000 (2012: \$-0-); and (ii) interest expense in the amount of (\$41,777) (2012: (\$31,270)). The increase in interest expense was due to the settlement of the stock settlement payable which resulted in a one-time interest charge.

After deducting other expense, we realized a net loss of (\$850,625) or (\$0.00 per share) for the six month period ended June 30, 2013 compared to a net loss of (\$398,227) or (\$0.00 per share) for the six month period ended June 30, 2012. The weighted average number of shares outstanding was 181,154,143 for the six month period ended June 30, 2013 compared to 138,079,742 for the six month period ended June 30, 2012.

### **Three Month Period Ended June 30, 2013 Compared to Three Month Period Ended June 30, 2012.**

#### SUMMARY COMPARISON OF OPERATING RESULTS\*

|               | Three Month Period<br>ended June 30 |           |
|---------------|-------------------------------------|-----------|
|               | 2013                                | 2012      |
| Revenues      | \$67,382                            | \$243,451 |
| Cost of sales | 27,098                              | 104,351   |

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

|  |           |           |
|--|-----------|-----------|
| Gross profit                           | 40,284    | 139,100   |
| Total operating expenses               | 327,139   | 340,435   |
| Loss from operations                   | (286,855) | (201,335) |
| Total other income (expense)           | (28,883 ) | (15,613 ) |
| Net loss                               | (315,738) | (216,948) |
| Net loss per share (basic and diluted) | \$(0.00 ) | \$(0.00 ) |

Our net loss for the three month period ended June 30, 2013 was (\$315,738) compared to a net loss of (\$216,948) during the three month period ended June 30, 2012 (an increase in net loss of \$98,790). We generated net revenues of \$67,382 during the three month period ended June 30, 2013 compared to \$243,451 during the three month period ended June 30, 2012 (a decrease in net revenue of \$176,069). During the three month period ended June 30, 2013, revenue consisted of: (i) \$38,258 (2012: \$211,838) in product sales and installation; and (ii) \$29,124 (2012: \$31,613) in extended warranties. We experienced a decrease in sales of our products which resulted in decreased revenues for the three month period ended June 30, 2013 compared to the three month period ended June 30, 2012 because we had the conclusion of a major sales contract during the quarter ended March 31, 2013.

Cost of goods sold decreased during the three month period ended June 30, 2013 to \$27,098 from \$104,351 incurred during the three month period ended June 30, 2012, resulting in a gross profit of \$40,284 for the three month period ended June 30, 2013 compared to a gross profit of \$139,100 for the three month period ended June 30, 2012.

During the three month period ended June 30, 2013, we incurred operating expenses of \$327,139 compared to \$340,435 incurred during the three month period ended June 30, 2012 (an decrease of \$13,296). These operating expenses incurred during the three month period ended June 30, 2013 consisted of: (i) general and administrative of \$85,573 (2012: \$115,019); (ii) professional fees of \$169,044 (2012: \$161,573); and (iii) salaries and benefits of \$72,522 (2012: \$63,843).

During the three month period ended June 30, 2013, our general and administrative expenses generally consisted of: (i) bank service charges of \$1,494 (2012: \$1,123); (ii) contractual temporary labor of \$14,808 (2012: \$22,389); (iii) filing and service fees of \$11,150 (2012: \$6,167); (iv) insurance of \$13,929 (2012: \$11,492); (v) postage and delivery of \$1,342 (2012: \$3,437); (vi) rent of \$11,680 (2012: \$11,445); (vii) supplies of \$3,926 (2012: \$3,239); (viii) telephone of \$2,790 (2012: \$5,876); (ix) other of \$(6,085) (2012: \$3,595); (x) travel \$21,810 (2012: \$32,190); (xi) utilities of \$2,243 (2012: \$2,674); (xii) advertising and promotion \$2,650 (2012: \$6,593); and (xiii) depreciation of \$2,880 (2012: \$4,800).

During the three month period ended June 30, 2013, our professional fees consisted of: (i) accounting fees of \$57,787 (2012: \$48,149); (ii) engineering fees of \$29,900 (2012: \$10,000); (iii) legal fees of \$20,470 (2012: \$5,000); (iv) investor relations fees of \$5,625 (2012: \$0); (v) management and operations \$27,000 (2012: \$0); and (vi) marketing and promotion \$28,266 (2012: \$98,424).

Operating expenses incurred during the three month period ended June 30, 2013 compared to the three month period ended June 30, 2012 decreased primarily due to the increase in professional fees of \$7,471 offset by decreases in general and administrative expenses of \$29,446 and increases in salaries of \$8,679.

Our net operating loss during the three month period ended June 30, 2013 was (\$286,855) compared to a net operating loss of (\$201,335) during the three month period ended June 30, 2012.

During the three month period ended June 30, 2013, we incurred interest expense in the amount of (\$28,883) (2012: \$15,612). The increase in interest expense was due to a one time interest charge associated with the settlement of the stock settlement payable.

After deducting other expense, we realized a net loss of (\$315,738) or (\$0.00 per share) for the three month period ended June 30, 2013 compared to a net loss of (\$216,948) or (\$0.00 per share) for the three month period ended June 30, 2012. The weighted average number of shares outstanding was 188,604,329 for the three month period ended June 30, 2013 compared to 141,559,641 for the three month period ended June 30, 2012.

## LIQUIDITY AND CAPITAL RESOURCES

**Six Month Period Ended June 30, 2013**

As at the six month period ended June 30, 2013, our current assets were \$311,620 and our current liabilities were \$1,726,644, which resulted in a working capital deficit of \$1,415,024. As at the six month period ended June 30, 2013, current assets were comprised of: (i) \$180,807 in cash; (ii) \$12,948 in accounts receivable; (iii) \$19,194 in inventory; and (iv) \$98,671 in prepaid expenses. As at the six month period ended June 30, 2013, current liabilities were comprised of: (i) \$572,498 in accounts payable and accrued expenses; (ii) \$73,396 in deferred compensation; (iii) \$160,103 in accrued and withheld payroll taxes payable; (iv) \$76,845 in accrued interest payable; (v) \$225,000 in accrued royalties payable; (vi) \$215,361 in loans from stockholders; (vii) \$262,689 in notes payable; and (viii) \$140,752 in deferred revenue.

As of June 30, 2013, our total assets were \$329,468 comprised of: (i) \$311,620 in current assets; (ii) property and equipment (net) of \$14,976; and (iii) \$2,872 in deposits. The decrease in total assets during the six month period ended June 30, 2013 from fiscal year ended December 31, 2012 was primarily due to the decrease in inventory.

As of June 30, 2013, our total liabilities were \$1,797,218 comprised of: (i) \$1,726,644 in current liabilities; and (ii) \$70,574 in long term portion of notes payable. The decrease in liabilities during the six month period ended June 30, 2013 from fiscal year ended December 31, 2012 was primarily due to the decrease in accounts payable and deferred revenue.

Stockholders' deficit decreased from (\$1,511,815) for fiscal year ended December 31, 2012 to (\$1,467,750) for the six month period ended June 30, 2013.

### **Cash Flows from Operating Activities**

We have not generated positive cash flows from operating activities. For the six month period ended June 30, 2013, net cash flows used in operating activities was (\$212,285) compared to net cash flows used in operating activities of (\$297,223) for the six month period ended June 30, 2012. Net cash flows used in operating activities consisted primarily of a net loss of \$850,625 (2012: \$398,227), which was partially adjusted by: (i) \$124,157 (2012: \$-0-) in common stock issued/issuable in payment of services; (ii) \$5,762 (2012: \$9,600) in depreciation and amortization; (iii) \$450,000 (2012: \$-0-) in stock option compensation.

Net cash flows used in operating activities was further changed by: (i) \$28,727 (2012: (\$28,106) in accounts receivable; (ii) \$122,871 (2012: (\$11,525) in inventories; (iii) \$-0- (2012: \$90,166) in pre-paid expenses; (iv) (\$108,699) (2012: (\$14,651)) in accounts payable; (v) \$48,456 (2012: \$43,598) in accrued expenses; (vi) \$38,073 (2012: \$26,426 in accrued interest; (vii) \$4,217 (2012: \$-0- in payroll taxes payable; and (viii) (\$75,224) (2012: (\$37,554)) in deferred revenue.

### **Cash Flows from Investing Activities**

For the six month periods ended June 30, 2013 and June 30, 2012, net cash flows used in investing activities was \$4,588 for purchase of equipment compared to \$-0, respectively.

### **Cash Flows from Financing Activities**

We have financed our operations primarily from debt or the issuance of equity instruments. For the six month period ended June 30, 2013, net cash flows provided from financing activities was \$290,500 compared to \$325,268 for the six month period ended June 30, 2012. Cash flows from financing activities for the six month period ended June 30, 2013 consisted of: (i) \$285,000 in proceeds from sales of common stock; and (ii) \$5,500 in loans received from stockholders.

Cash flows from financing activities for the six month period ended June 30, 2012 consisted of: (i) \$312,500 in proceeds from sales of common stock; (ii) \$10,000 in proceeds from issuable common stock; and (iii) \$16,722 in

loans from stockholders, which was offset by (\$13,954) in principal payment on notes payable.

## **PLAN OF OPERATION AND FUNDING**

We have incurred losses for the past two fiscal years and had a net loss of \$850,625 at June 30, 2013 and \$888,022 at December 31, 2012. We had insufficient funds to deliver our backlog in the last half of 2012 through the present. Our revenues from several product sales have been increasing and some others decreasing but are not sufficient to cover all of our operating expenses. Our auditors have expressed substantial doubt that we can continue as a going concern. We are continuing to push sales and control costs.

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

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



## Going Concern

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

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

## COMMITMENTS AND CONTINGENT LIABILITIES

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

Our total current liabilities decreased to \$1,726,644 at the six month period ended June 30, 2013 compared to \$1,881,855 at fiscal year ended December 31, 2012. As of June 30, 2013, our short and long term notes payable consist of the following:

We have an unsecured convertible loan from a former director, William D. Smith, in the principal amount of \$116,000. The holder of the note has been receiving interest payments irregularly in the form of cash and common stock. The amount currently outstanding is \$116,000.

We have a term loan arranged for and secured by our Director Dr. Bagnoli in the amount of \$200,000 of which the outstanding balance is \$85,120. Interest is payable monthly at 7.5% per annum and the loan is due during 2016. The line of credit was used to purchase inventory and equipment for our fiber optics business.

We have financed a vehicle in 2009 through Chase Auto Finance with an outstanding balance of \$7,143. Payments are \$533 per month which includes interest at 5.34%. The loan is for 60 months with the final payment due in July 2014.

We are in default of a September 18, 2009 demand loan payable to an investor which was due December 17, 2009 in the amount of \$50,000. Interest has accrued at 5% per month since December 17, 2009. The loan is secured by our accounts receivable.

An unsecured loan from an investor in the amount of \$75,000, payable in monthly installments of \$5,000 commencing on July 1, 2013 until paid in full. The loan bears no interest.

#### **OFF BALANCE SHEET ARRANGEMENTS**

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

#### **CONTRACTUAL OBLIGATIONS**

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

## **CRITICAL ACCOUNTING POLICIES**

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

## **Going Concern Opinion**

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

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer/Principal Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of June 30, 2013. Based on such evaluation, we have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer/Principal Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

## Management's Report on Internal Control over Financial Reporting

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

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions.
- (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

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

Our management assessed the effectiveness of our internal control over financial reporting as of June 30, 2013. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSD) in *Internal-Control-Integrated*

*Framework* and implemented a process to monitor and assess both the design and operating effectiveness of our internal controls. Based on this assessment, management believes that as of June 30, 2013, our internal control over financial reporting was not effective.

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

**Changes in Internal Control Over Financial Reporting**

Our management has evaluated, with the participation of our Chief Executive Officer/Chief Financial Officer, changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the period ended June 30, 2013. In connection with such evaluation, there have been no changes to our internal control over financial reporting that occurred since the beginning of our six month period ended June 30, 2013 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting. While there have been no changes, we have assessed our internal controls as being deficient and will take steps during 2013 to remedy such deficiencies.

-25-

PART II – OTHER INFORMATION

**ITEM 1. LEGAL PROCEEDINGS**

None.

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

**Private Offering.**

During the six months ended June 30, 2013, we issued 11,166,667 shares to two investors for cash at \$0.025 to \$0.03 per share for a total of \$285,000. The shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended. The shares were issued in private transactions to two investors. Such investors had the opportunity to ask questions of and receive answers from our management concerning any and all matters related to their respective acquisitions of our securities. All of the investors were aware that the shares of common stock offered had not been registered under the Securities Act or under any state securities laws and could not be re-offered or re-sold without registration with the SEC or without an applicable exemption from the registration requirements. All of the purchasers understood the economic risk of an investment in our securities. Neither we nor any person acting on its behalf offered or sold the securities by any form of general solicitation or general advertising.

**Settlement of Stock Settlement Payable**

During 2006, we negotiated a loan from an individual in the amount of \$100,000. Under the terms of the loan it was to be repaid in full within one year together with interest at the rate of 15% per annum. We were unable to pay the loan when due and under the threat of litigation the note holder was given 3,500,000 shares of common stock. The stock was issued on January 28, 2010. At that time the principal, accrued interest and legal fees amounted to \$163,366.

Under the terms of a court ordered stipulation agreement if the note holder was unable to liquidate the stock in full payment of the stipulated amount then we would be obligated to issue more stock to him to make up for the shortage. As a part of the agreement, the note holder is required to account for proceeds realized from the sales of stock.

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

Subsequent to June 30, 2013 the note holder reported that he had sold all of the 3,500,000 shares of the common stock noted above. After giving effect to those proceeds, we agreed with the note holder to settle the remaining debt for \$75,000. As a result, we have agreed to make monthly payments of \$5,000, commencing in July 2013 until the debt is paid in full. The agreement provides that there is no interest due on this debt.

### **Consulting Services**

We issued an aggregate of 2,883,333 shares of our restricted common stock at a per share price of \$0.03 to three consultants for services rendered. The shares were issued in a private transaction to three United States residents in reliance on Regulation D promulgated under the Securities Act. The shares of common stock have not been registered under the Securities Act or under any state securities laws and may not be offered or sold without registration with the United States Securities and Exchange Commission or an applicable exemption from the registration requirements. The consultants acknowledged that the securities to be issued have not been registered under the Securities Act, that they understood the economic risk of an investment in the securities, and that they had the opportunity to ask questions of and receive answers from our management concerning any and all matters related to acquisition of the securities.



### **Issuance of Prior Period Issuable Stock**

We issued an aggregate of 9,000,000 shares of our restricted common stock at a per share price of \$0.02 and 3,000,000 shares of our restricted common stock at a per share price of \$0.029 to three consultants (of which one was our President/Chief Executive Officer) for services rendered during 2012. The shares were issued in a private transaction to three United States residents in reliance on Regulation D promulgated under the Securities Act. The shares of common stock have not been registered under the Securities Act or under any state securities laws and may not be offered or sold without registration with the United States Securities and Exchange Commission or an applicable exemption from the registration requirements. The consultants acknowledged that the securities to be issued have not been registered under the Securities Act, that they understood the economic risk of an investment in the securities, and that they had the opportunity to ask questions of and receive answers from our management concerning any and all matters related to acquisition of the securities.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. MINE SAFETY DISCLOSURES**

None

### **ITEM 5. OTHER INFORMATION**

None.

## ITEM 6. EXHIBITS

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

- 10.1 View Systems, Inc. 2010 Equity Incentive Plan (Incorporated by reference to exhibit 10.1 to Form 10-Q filed May 14, 2010)
- 10.2 View Systems, Inc. 2010 Service Provider Stock Compensation Plan (Incorporated by reference to exhibit 10.4 to Form 10-Q filed August 19, 2010)
- 10.3 Employment agreement between View Systems and Gunther Than, dated December 1, 2009 (Incorporated by reference to exhibit 10.1 to Form 8-K, filed January 11, 2010)
- 10.4 Subcontractor Agreement dated March 9, 2009 between MasTec North America, Inc. and View Systems, Inc. (Incorporated by reference to exhibit 10.3 for Form 10-Q, Amendment No. 1, for the period ended March 31, 2009)
- 10.3 Purchase Agreement, dated June 1, 2012 (Incorporated by reference to exhibit 10.1 to Form 8-K, filed July 3, 2012)
- 10.4 Amendment to Purchase Agreement, dated June 28, 2012 (Incorporated by reference to exhibit 10.2 to Form 8-K, filed July 3, 2012)
- 21.1 List of Subsidiaries
- 31.1 Rule 13a-15(e)/15d-15(e) Certification by the Chief Executive Officer and Chief Financial Officer \*
- 32.1 Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*

## SIGNATURES

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

**VIEW SYSTEMS, INC.**

Date: August 9, 2013 By: /s/ Gunther Than  
Gunther Than

Chief Executive Officer

(Principal executive officer, principal financial officer, and principal accounting officer)

