

VIEW SYSTEMS INC  
Form 10-Q  
November 14, 2012

---

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 September 30, 2012

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)

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

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

(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 November 6, 2012 |
|--|---------------------------------|
| Common Stock, \$.001 par value per share | 170,421,178                     |

---

---

---

VIEW SYSTEMS, INC.  
FORM 10-Q  
FOR THE PERIOD ENDED SEPTEMBER 30, 2012 (UNAUDITED)

INDEX

|   | Page |
|---|------|
| SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS   |      |
| PART I. FINANCIAL INFORMATION   | 4    |
| Item 1. Financial Statements  | 4    |
| Consolidated Balance Sheets (Unaudited) as of September 30, 2012 and December 31, 2011  | 4    |
| Consolidated Statements of Operations (Unaudited) for the three and nine months ended September 30, 2012 and September 30, 2011 | 5    |
| Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2012 and September 30, 2011           | 6    |
| Notes to the Consolidated Financial Statements (Unaudited)  | 8    |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations                                   | 16   |
| Item 3. Qualitative and Quantitative Disclosures About Market Risk  | 31   |
| Item 4. Controls and Procedures   | 31   |
| PART II. OTHER INFORMATION  | 32   |
| Item 1. Legal Proceedings   | 32   |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds   | 32   |
| Item 3. Defaults Upon Senior Securities   | 33   |
| Item 4. Mine Safety Disclosures   | 33   |
| Item 5. Other Information   | 33   |
| Item 6. Exhibits  | 33   |
| SIGNATURES  | 34   |

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. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

| ASSETS  | September<br>30,<br>2012 | December<br>31,<br>2011 |
|---|--------------------------|-------------------------|
| Current Assets  |                          |                         |
| Cash  | \$3,027                  | \$29,041                |
| Accounts Receivable (Net of Allowance of Doubtful Accounts of \$0 at September 30, 2012 and \$5,450 at December 31, 2011) | 114,154                  | 78,222                  |
| Inventory   | 167,165                  | 161,349                 |
| Prepaid Expenses  | 243,843                  | 29,100                  |
| <b>Total Current Assets</b>   | <b>528,189</b>           | <b>297,712</b>          |
| Property and Equipment (Net)  | 18,674                   | 31,126                  |
| Other Assets  |                          |                         |
| Deposits  | 2,872                    | 2,872                   |
| <b>Total Other Assets</b>   | <b>2,872</b>             | <b>2,872</b>            |
| <b>Total Assets</b>   | <b>\$549,735</b>         | <b>\$331,710</b>        |
| LIABILITIES AND STOCKHOLDERS' DEFICIT   |                          |                         |
| Current Liabilities   |                          |                         |
| Accounts Payable and Accrued Expenses   | \$595,983                | \$548,999               |
| Deferred Compensation   | 122,971                  | 227,353                 |
| Accrued and Withheld Payroll Taxes Payable  | 142,659                  | 137,396                 |
| Accrued Interest Payable  | 42,746                   | 87,840                  |
| Accrued Royalties Payable   | 225,000                  | 225,000                 |
| Loans from Stockholders   | 181,249                  | 165,167                 |
| Notes Payable - Current Portion   | 199,443                  | 200,628                 |
| Stock Settlement Payable  | 124,578                  | 124,578                 |
| Deferred Revenue  | 318,416                  | 398,078                 |
| <b>Total Current Liabilities</b>  | <b>1,953,045</b>         | <b>2,115,039</b>        |
| Long-term Debt  |                          |                         |
| Notes Payable, net of Current Portion   | 83,499                   | 103,428                 |
| <b>Total Liabilities</b>  | <b>2,036,544</b>         | <b>2,218,467</b>        |

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

Stockholders' Deficit

|   |                     |                     |
|---|---------------------|---------------------|
| Convertible Preferred Stock, Authorized 10,000,000 Shares, \$.01 Par Value, |                     |                     |
| Issued and outstanding 2,989,647  | 29,896              | -                   |
| Issued and outstanding 1,489,647  | -                   | 14,896              |
| Common Stock, Authorized 950,000,000 Shares, \$.001 Par Value,              | -                   |                     |
| Issued and Outstanding 170,421,178  | 170,421             | -                   |
| Issued and Outstanding 131,179,400  | -                   | 131,179             |
| Stock Settlement in Process   | (124,578 )          | (124,578 )          |
| Additional Paid in Capital  | 23,748,391          | 22,806,669          |
| Accumulated Deficit   | (25,310,939)        | (24,714,923)        |
| <b>Total Stockholders' Deficit</b>  | <b>(1,486,809 )</b> | <b>(1,886,757 )</b> |
| <b>Total Liabilities and Stockholders' Deficit</b>                          | <b>\$549,735</b>    | <b>\$331,710</b>    |

See Notes to Consolidated Financial Statements (Unaudited)

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

|  | For the Three Months Ended<br>September 30, |                    | For the Nine Months Ended<br>September 30, |                     |
|--|---|--------------------|--|---------------------|
|  | 2012  | 2011<br>"RESTATED" | 2012                                       | 2011<br>"RESTATED"  |
| <b>Revenues</b>  |   |                    |  |                     |
| Product Sales and Installation                                     | \$ 187,514                                  | \$ 157,184         | \$ 481,661                                 | \$ 182,351          |
| Extended Warranties  | 22,261                                      | 30,509             | 83,095                                     | 99,174              |
| <b>Total Revenue</b>   | <b>209,775</b>                              | <b>187,693</b>     | <b>564,756</b>                             | <b>281,525</b>      |
| <b>Cost of Sales</b>   | <b>50,567</b>                               | <b>103,400</b>     | <b>210,216</b>                             | <b>114,254</b>      |
| <b>Gross Profit</b>  | <b>159,208</b>                              | <b>84,293</b>      | <b>354,540</b>                             | <b>167,271</b>      |
| <b>Operating Expenses</b>  |   |                    |  |                     |
| Business Development   | 110,137                                     | 8,954              | 276,553                                    | 39,797              |
| General and Administrative   | 72,241                                      | 82,383             | 245,276                                    | 228,443             |
| Professional Fees  | 110,764                                     | 22,490             | 219,933                                    | 105,010             |
| Salaries and Benefits  | 58,205                                      | 43,309             | 171,874                                    | 204,577             |
| <b>Total Operating Expenses</b>                                    | <b>351,347</b>                              | <b>157,136</b>     | <b>913,636</b>                             | <b>577,827</b>      |
| <b>Loss from Operations</b>  | <b>(192,139 )</b>                           | <b>(72,843 )</b>   | <b>(559,096 )</b>                          | <b>(410,556 )</b>   |
| <b>Other Income (Expense)</b>                                      |   |                    |  |                     |
| Gain from Renegotiated Debt  | -   | 19,247             | -  | 19,247              |
| Loss on Equity Transactions  | -   | (12,865 )          | -  | (48,106 )           |
| Interest Expense   | (5,650 )                                    | (23,327 )          | (36,920 )                                  | (52,832 )           |
| <b>Total Other Income (Expense)</b>                                | <b>(5,650 )</b>                             | <b>(16,945 )</b>   | <b>(36,920 )</b>                           | <b>(81,691 )</b>    |
| <b>Net Loss</b>  | <b>\$(197,789 )</b>                         | <b>\$(89,788 )</b> | <b>\$(596,016 )</b>                        | <b>\$(492,247 )</b> |
| <b>Net Loss Per Share (Basic and Diluted)</b>                      | <b>\$(0.00 )</b>                            | <b>\$(0.00 )</b>   | <b>\$(0.00 )</b>                           | <b>\$(0.00 )</b>    |
| <b>Weighted Average Shares Outstanding<br/>(Basic and Diluted)</b> | <b>169,836,399</b>                          | <b>130,583,246</b> | <b>153,144,452</b>                         | <b>110,144,642</b>  |

See Notes to Consolidated Financial Statements (Unaudited).

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

For the Nine Months Ended  
September 30,  
2012                      2011  
"RESTATED"

## Cash Flows from Operating Activities:

|  |              |               |
|--|--------------|---------------|
| Net Loss   | \$(596,016 ) | \$ (492,247 ) |
| Adjustments to Reconcile Net Loss to             |              |               |
| Net Cash Used in Operations:                     |              |               |
| Depreciation & Amortization                      | 14,400       | 96,373        |
| Common Stock Issued in Payment of Services       | 146,250      | 103,350       |
| Preferred Stock Issued in Payment of Services    | 29,532       | 15,000        |
| Gain from Renegotiated Debt                      | -            | (19,247 )     |
| Loss from Equity Transactions                    | -            | 48,106        |
| Change in Operating Assets and Liabilities:      |              |               |
| (Increase) Decrease in Cash from:                |              |               |
| Accounts Receivable                              | (35,932 )    | (133,827 )    |
| Inventory  | (5,816 )     | (173,992 )    |
| Prepaid Expenses                                 | 12,600       | -             |
| Deposits   | -            | (26,691 )     |
| Increase (Decrease) in Cash from:                |              |               |
| Accounts Payable and Accrued Expenses            | 75,484       | 343,976       |
| Deferred Compensation                            | 47,457       | 69,098        |
| Accrued and Withheld Payroll Taxes Payable       | 5,263        | -             |
| Accrued Interest                                 | 29,906       | 38,335        |
| Deferred Revenue                                 | (79,662 )    | 83,495        |
| Net Cash Used in Operating Activities            | (356,534 )   | (48,271 )     |
| Cash Flows from Investing Activities:            |              |               |
| Purchases of equipment                           | (1,948 )     | -             |
| Net Cash Used in Investing Activities            | (1,948 )     | -             |
| Cash Flows from Financing Activities:            |              |               |
| Proceeds from sale of common stock               | 322,500      | -             |
| Principal payments on notes payable              | (21,114 )    | (16,725 )     |
| Proceeds from Stockholders Loans                 | 31,082       | 56,781        |
| Net Cash Provided by Financing Activities        | 332,468      | 40,056        |
| Decrease in Cash                                 | (26,014 )    | (8,215 )      |
| Cash and Cash Equivalents at Beginning of Period | 29,041       | 8,334         |



|  |         |        |
|--|---------|--------|
| Cash and Cash Equivalents at End of Period | \$3,027 | \$ 119 |
|--|---------|--------|

See Notes to Consolidated Financial Statements (Unaudited)

6

---

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

|  | For the Nine Months Ended<br>September 30, |                    |
|--|--|--------------------|
|  | 2012                                       | 2011<br>"RESTATED" |
| Non Cash Investing and Financing Activities:               |  |                    |
| Notes payable paid down with common stock                  | \$ 15,000                                  | \$ 36,500          |
| Accrued interest paid with common stock                    | \$75,000                                   | -                  |
| Loans from stockholders repaid with common stock           | \$-  | \$ 6,500           |
| Accounts payables paid with common stock                   | \$28,500                                   | \$ 20,660          |
| Deferred compensation paid with common and preferred stock | \$151,839                                  | -                  |
| Prepaid services paid with common stock                    | \$285,000                                  |                    |
| Prepaid services paid with preferred stock                 | \$118,125                                  |                    |
|  |  |                    |
| Cash Paid For:   |  |                    |
| Interest   | \$247                                      | \$ 3,625           |
| Income Taxes   | \$-  | \$ -               |

See Notes to Consolidated Financial Statements (Unaudited)

VIEW SYSTEMS, INC. AND SUBSIDIARIES  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Basis of Consolidation

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

Use of Estimates

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

Accounts Receivable

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

Revenue Recognition

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

when collectability is reasonably assured.

#### Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in-first-out method (LIFO). As of September 30, 2012 and December 31, 2011, the Company's inventory consisted of a number of assembled units as well as unassembled parts of product.

#### Property and Equipment

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

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

Depreciation expense for the periods ended September 30, 2012 and 2011 amounted to \$14,400 and \$17,100, respectively.

VIEW SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes

Income taxes are recorded under the assets and liability 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 jurisdiction, 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'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.

Financial Instruments

For most financial instruments, including cash, accounts receivable, accounts payable and accruals, management believes that the carrying amount approximates fair value, as the majority of these instruments are short-term in nature.

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. The calculation of the net loss per share available to common stockholders for the periods ended September 30, 2012 and 2011 does not include potential shares of common stock equivalents, as their impact would be anti-dilutive.

2. GOING CONCERN

The Company has incurred and continues to incur, losses from operations. For the periods ended September 30, 2012 and 2011, the Company incurred net losses of \$596,016 and \$492,247, respectively. In addition, certain notes payable have come due and the note holders are demanding payment. As a result of these conditions, there is substantial doubt about the Company's ability to continue as a going concern.

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 2012 and 2011, the Company implemented marketing and information strategies to increase public awareness of its products and thereby sales. It has established new international markets which it believes will

be the source for sales growth in the very near future. It also was able to reduce the per-unit cost of manufacturing its products. Additionally, the Company has increased the efficiency of its processes and focused its development efforts on products that appear to have greater sales potential.

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

As previously noted the Company is currently in default on a \$50,000 loan to a stockholder and on a \$116,000 loan from another stockholder and it is also in default under the terms of its arrangement with CRA, Inc. in the amount of \$36,588.

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.

### 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 which are applicable to the Company.

VIEW SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

## 4. NOTES PAYABLE

Notes payable as of September 30, 2012 and December 31, 2011 consists of the following:

|   | September 30,<br>2012 | December<br>31, 2011 |
|---|-----------------------|----------------------|
| <b>Stockholder</b>  |                       |                      |
| An unsecured loan from a stockholder which is payable on demand with interest at 12%. The note payable was dated November 1, 2007 and the note matures and the principal is payable upon the demand from the lender.  | \$ 116,000            | 116,000              |
| <b>Lafayette Community Bank</b>   |                       |                      |
| A term loan guaranteed 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.  | 102,075               | 119,079              |
| <b>Stockholder</b>  |                       |                      |
| Demand loan dated September 18, 2009 and payable with interest at 5% per month. As of July 1, 2012 the loan was amended to reduce interest to 0%. The loan is secured by the Company's accounts receivable. The note payable was due and payable in full on December 17, 2009 so this debt is currently in default. | 50,000                | 50,000               |
| <b>Chase</b>  |                       |                      |
| Equipment loans to finance the purchases of a truck, payable monthly in installments of \$533, which include interest at 5.34% per annum. During 2011 one truck was disposed of and the debt was reduced accordingly.   | 14,867                | 18,977               |
| <b>TOTAL</b>  | <b>282,942</b>        | <b>304,056</b>       |
| <b>Less current portion</b>   | <b>199,443</b>        | <b>200,628</b>       |
| <b>Non-current portion</b>  | <b>\$ 83,499</b>      | <b>\$ 103,428</b>    |

Principal payments for the next five years ending September 30:

|              |                   |
|--------------|-------------------|
| 2013         | \$ 199,443        |
| 2014         | 31,736            |
| 2015         | 28,120            |
| 2016         | 23,643            |
| Thereafter   |                   |
| <b>TOTAL</b> | <b>\$ 282,942</b> |





VIEW SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

5. INCOME TAXES

For income tax purposes the Company has net operating loss carry forwards of approximately 24 million as of December 31, 2011 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 continuing 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. During 2012 the Board of Directors authorized an issuance of 1,000,000 shares of Series A Preferred Stock as payment for deferred compensation due to an officer in the amount of \$43,338 and an additional 500,000 shares in payment of services in the amount of \$118,125. These additional shares can be converted to common stock in 2014. 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.

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 one-year non-cancellable operating lease which expires in December 2012. The rent is \$3,077 per month. Rent expense, which includes the Caton Center property as well as some other short-term leases, was \$35,159 and \$36,823 for the periods ended September 30, 2012 and 2011, respectively.

8. STOCK BASED COMPENSATION

During the periods ended September 30, 2012 and 2011 the Company issued stock in payment of services and debts as follows:

For the nine month period ended September 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. Three million shares of common stock were issued in payments of accounts payable amounting to \$28,500. 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.

VIEW SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

Independent contractors and consultants' expense was based on the estimated 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.

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 \$181,249 at September 30, 2012 and \$165,167 at December 31, 2011. Loans from stockholders made with repayment terms are described in Note 4 above.

During the nine month period ended September 30, 2012 the Company issued 1,839,000 shares of common stock and 1,000,000 shares of convertible preferred stock to its CEO in payment of \$151,839 of accrued compensation.

10. STOCK SETTLEMENT IN PROCESS

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

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

VIEW SYSTEMS, INC.  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

### 11. JOINT VENTURE PROFIT SHARING

During 2011 the Company entered into an agreement with CRA, Inc. regarding a sale of 60 scanners to a municipal school system. Under the terms of the arrangement, 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 December 31, 2011 the Company owed \$106,366 to CRA, Inc. During the nine months ended September 30, 2012 the Company paid \$80,412 to CRA. After including current year additions of \$10,634 the Company owes CRA \$36,588 as of the date of this report. The Company is technically in default under the terms of the agreement because of late payments.

### 12. RESTATEMENT

Due to an accounting error, the Company has restated its consolidated financial statements as of and for the nine months ended September 30, 2011 to reflect a correction to an understatement of deferred income that results from allocating the revenue received under extended warranty arrangements over the life of the warranty. Also, in the original filing revenue was overstated due to recognition of sales prior to the installation of the products. In addition the Company is restating the September 30, 2011 consolidated financial statements due to the reclassification of common stock that was issued to a holder of a note payable. The Company had originally recorded the issuance of the stock as a payment in full for the note and related costs however after a further review of the legal documents it was determined that the debt was not satisfied but instead the ultimate resolution of the debt was contingent on events that were still unfolding. The Company's summarized consolidated financial statement elements comparing the restated financial statement elements to those originally filed are as follows:

Consolidated Financial Statement Elements as of and for the nine months ended September 30, 2011

|  | Original     | Restated     | Change     |
|--|--------------|--------------|------------|
| <b>Consolidated Balance Sheet:</b>           |              |              |            |
| Accounts receivable                          | 374,028      | 212,276      | (161,752 ) |
| Inventory                                    | 108,267      | 176,716      | 68,449     |
| Total assets                                 | 1,483,571    | 1,390,268    | ( 93,303 ) |
| Accounts payable                             | 782,797      | 687,764      | ( 95,033 ) |
| Stock settlement payable                     | 0            | 163,366      | 163,366    |
| Deferred revenue                             | 0            | 241,765      | 241,765    |
| Current liabilities                          | 1,793,144    | 2,103,242    | 310,098    |
| Total liabilities                            | 1,822,865    | 2,132,963    | 310,098    |
| Stock settlement in process                  | 0            | 163,366      | 163,366    |
| <b>Accumulated Deficit</b>                   |              |              |            |
| Beginning of period                          | (22,837,787) | (22,953,904) | (116,117 ) |
| End of period                                | (23,206,116) | (23,446,151) | (240,035 ) |
| Total stockholders' deficit                  | ( 339,294 )  | (742,695 )   | (403,401 ) |
| <b>Consolidated Statement of Operations:</b> |              |              |            |
| Revenue                                      | 576,735      | 281,525      | (295,210 ) |
| Cost of sales                                | 198,023      | 114,254      | (83,769 )  |
| Gross profit                                 | 378,712      | 167,271      | (211,441 ) |

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

|                             |            |            |            |
|-----------------------------|------------|------------|------------|
| Operating expenses          | 575,968    | 577,827    | 1,859      |
| Net Operating income (loss) | (197,256 ) | (410,556 ) | (213,300 ) |
| Revenue sharing             | (70,135 )  | 0          | 70,135     |
| Gain from renegotiated debt | 0          | 19,247     | 19,247     |
| Loss on equity transactions | 0          | (48,106 )  | (48,106 )  |
| Interest Expense            | (100,938 ) | (52,832 )  | 48,106     |
| Net loss                    | (368,329 ) | (492,247 ) | (123,918 ) |

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

### EXECUTIVE OVERVIEW

The following analysis of our consolidated financial condition and results of operations for the nine months ended September 30, 2012 should be read in conjunction with the Consolidated Financial Statements and other information presented elsewhere in this quarterly report.

#### Overview

Our current product lines are related to visual surveillance, intrusion detection and physical security. Management believes that heightened attention to personal threats, potential large scale destruction and theft of property in the United States along with spending by the United States government on Homeland Security will continue to drive growth in the market for security products.

We have been approached by certain entities that would make use of our public structure and/or our net tax loss carry-forward of approximately 24 million subject to certain limitations. However, it is our intention to continue to execute our current business plan until such time, if ever, that we conclude that an acquisition or merger will lead to greater value for our principals and shareholders. We have not entered into definite agreements or decisions about any business combination opportunities. However, we continue to explore potential merger and acquisition options.

Our strategy for the remainder of 2012 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. Thus, we 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.

When possible we have conserved our cash by paying employees, consultants, and independent contractors with our common stock. We have continued to issue restricted stock to consultants and employees when possible. We have not yet tapped the resources of our 2010 Equity Incentive Plan, but we have issued stock for services under our 2010 Service Provider Stock Compensation Plan. Reserved for equity issuances under the Equity Incentive Plan and the Service Provider Stock Compensation Plan are a total of 100,000,000 shares.

## Products and Services

Our current principal products and services include:

### 1. ViewScan Concealed Weapons Detection System

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

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

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

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

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

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

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



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

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

## 2. Multi-Mission Mobil Video

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

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

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

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

## 3. ViewMaxx Digital Video System

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

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

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

Our ViewMaxx products include the following features:

- Use any and all forms of telecommunications, such as standard telephone lines;
- Video can be monitored 24 hours a day by a security monitoring center;
- Local and remote recording, storage and playback for up to 28 days, with optional additional storage capability;
- The system may be set to automatically review an area in a desired camera sequence;
- Stores the video image according to time or a criteria specified by the customer and retrieves the visual data selectively in a manner that the customer considers valuable or desirable;
- The system may trigger programmed responses to events detected in a surveillance area, such as break-ins or other unauthorized breaches of the secured area;
- Cameras can be concealed in ordinary home devices such as smoke detectors;
- The system monitors itself to insure system functionality with alert messages in the event of covert or natural interruption; and
- Modular expansion system configuration allows the user to purchase add-on components at a later date.

Depending on the features of a particular system the retail price including installation can range from approximately \$5,000 up to \$50,000.

#### 4. 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.

#### 5. The MINI

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

We license the MINI from its manufacturer and act as a distributor. The Company established a dedicated e-commerce platform for the direct sale of this innovative product, which went online in February 2010. We are marketing the MINI to large potential users, such as real property managers, as well as retail customers through the [www.minicamsim.com](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.

#### 6. FiberXpress, Inc.

On July 24, 2009 we entered into an asset purchase agreement to acquire FiberXpress, Inc., a company that sells specialist data network related products through its Internet web site. The transaction closed on September 15, 2009 with an exchange of stock and the hiring of William Paul Price. The acquisition has not been material to our financial statements. The FiberXpress acquisition has not resulted in meaningful sales, and we are looking for suitable options.



## 7. Training and Service Programs

We offer support services for our products which include:

On site consulting/planning with customer architect and engineers;  
Installation and technical support;  
Training and "Train the Trainer" programs, and  
Extended service agreements.

## RESULTS OF OPERATIONS

The following discussions are based on the consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the nine months ended September 30, 2012 and 2011 as amended (see note \* below) and should be read in conjunction with the financial statements, and notes thereto, included with our most recent Form 10-K for the year ended December 31, 2011.

## SUMMARY COMPARISON OF OPERATING RESULTS\*

|                              | Nine months ended<br>September 30, |                    |
|------------------------------|------------------------------------|--------------------|
|                              | 2012                               | 2011<br>(Restated) |
| Revenues, net                | \$ 564,756                         | \$ 281,525         |
| Cost of sales                | 210,216                            | 114,254            |
| Gross profit                 | 354,540                            | 167,271            |
| Total operating expenses     | 913,636                            | 577,827            |
| Loss from operations         | (559,096)                          | (410,556)          |
| Total other income (expense) | (36,920)                           | (81,691)           |
| Net loss                     | \$ (596,016)                       | \$ (492,247)       |
| Net loss per share           | \$ (0.00)                          | \$ (0.00)          |

\* We have restated our financial statements for the period ended September 30, 2011. These statements are found in Amendment No. 1 to Form 10-Q for the period ending September 30, 2011. Please see our discussion of the effect of the restatement of our financial statements for the period ending September 30, 2011 in the notes to our financial statements.

Nine Month Period Ended September 30, 2012 Compared to Nine Month Period Ended September 30, 2011.

Our net loss for the nine month period ended September 30, 2012 was (\$596,016) compared to a net loss of (\$492,247) during the nine month period ended September 30, 2011 (an increase in net loss of \$103,769). We generated revenues of \$564,756 during the nine month period ended September 30, 2012 compared to \$281,525 during the nine month period ended September 30, 2011. Revenue is considered earned when the product is shipped to the customer. The concealed weapons system and the digital video system each require installation and training. Training is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training. Revenue recognition may be delayed for other reasons. Product shipments may require more lead-time and may be delayed for a variety of reasons beyond our control, including additional time necessary to conduct product inspections prior to shipping, design or specification changes by the customer, the customer's need to prepare an installation site, and delays caused by other contractors on the project. We have a back log because we do not hold unsold units in inventory. The delay between the time of the purchase order and shipping of the product results in a delay of recognition of the revenue from the sale. This delay in recognition of revenues will continue as part of our results of operations. We measure backlog as orders for which a purchase order or contract has been signed or a verbal commitment for order or delivery has been made, but which has not yet been shipped and for which revenues have not been recognized. We typically ship our products several months after receiving an order. However, we are attempting to shorten this lead time to several weeks.

We have experienced an increase in sales of our products which resulted in increased revenues for the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011. We believe the increased revenue is the result of increased demand for security products in times of potential general unrest and increased awareness of our product.

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

Cost of goods sold increased during the nine month period ended September 30, 2012 to \$210,216 from \$114,254 incurred during the nine month period ended September 30, 2011, resulting in a gross profit of \$354,540 for the nine month period ended September 30, 2012 compared to a gross profit of \$167,271 for the nine month period ended September 30, 2011. During the nine month period ended September 30, 2012, 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, which is a measurement of gross profit as a percent of sales, increased during the nine month period ended September 30, 2012 as compared to the nine month period ended September 30, 2011. This increase is attributable to increases in revenue generated from sources that do not require materials to be purchased. Specifically rental income of \$17,340 and income from repairs of \$24,295 for the nine months ended September 30, 2012 is primarily attributed to the increase in the gross profit percent.

During the nine month period ended September 30, 2012, we incurred operating expenses of \$913,636 compared to \$577,827 incurred during the nine month period ended September 30, 2011 (an increase of \$355,809). These operating expenses incurred during the nine month period ended September 30, 2012 consisted of: (i) business development of \$276,553 (2011: \$39,797); (ii) general and administrative of \$245,276 (2011: \$228,443); (iii) professional fees of \$219,933 (2011: \$105,010); and (iv) salaries and benefits of \$171,874 (2011: \$204,577).

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

Operating expenses incurred during the nine month period ended September 30, 2012 compared to the nine month period ended September 30, 2011 increased primarily due to the increase in business development expenses of \$236,756, the increase in professional fees of \$114,923 and the decrease in salary and benefits of \$32,703. The increase in business development expense was due to an aggressive program to promote the company and the products which was funded through the issuance of common stock for services. The increase in professional fees was due to necessary increases in accounting, auditing and legal fees to improve the quality and timeliness of financial reporting. Decrease in salaries and benefits related primarily to a loss of personnel at a time when we increased our sales efforts.

Our net operating loss during the nine month period ended September 30, 2012 was (\$559,016) compared to a net operating loss of (\$410,556) during the nine month period ended September 30, 2011.

During the nine month period ended September 30, 2012, interest expense in the amount of (\$36,920) (2011: (\$52,832)) was incurred. The decrease in interest expense was due to a decrease in interest bearing notes payable.

After deducting interest expense we realized a net loss of (\$596,016) for the nine month period ended September 30, 2012 compared to a net loss of (\$492,247) for the nine month period ended September 30, 2011; whereas, in the nine months ended September 30, 2011 we also had a gain from renegotiated debt of \$19,247 and a loss from equity transactions of (\$48,106). The weighted average number of shares outstanding was 153,144,452 for the nine month period ended September 30, 2012 compared to 110,144,642 for the nine month period ended September 30, 2011.

Three Month Period Ended September 30, 2012 Compared to Three Month Period Ended September 30, 2011.

Our net loss for the three month period ended September 30, 2012 was (\$197,789) compared to a net loss of (\$89,788) during the three month period ended September 30, 2011 (an increase in net loss of \$108,001). We generated net revenues of \$209,775 during the three month period ended September 30, 2012 compared to \$187,693 during the three month period ended September 30, 2011.

Cost of goods sold decreased during the three month period ended September 30, 2012 to \$50,567 from \$103,400 during the three month period ended September 30, 2011 resulting in a gross profit of \$159,208 for the three month period ended September 30, 2012 compared to a gross profit of \$84,293 for the three month period ended September 30, 2011. The gross profit percentage, which is a measurement of gross profit as a percent of sales, increased during the three month period ended September 30, 2012 as compared to the three month period ended September 30, 2011. This increase is attributable to increases in revenue generated from sources that do not require materials to be purchased. Specifically rental income of \$15,150 and income from repairs of \$22,845 for the three months ended September 30, 2012 is primarily attributed to the increase in the gross profit percent.

During the three month period ended September 30, 2012, we incurred operating expenses of \$351,347 compared to \$157,136, incurred during the three month period ended September 30, 2011. These operating expenses incurred during the three month period ended September 30, 2012 consisted of: (i) business development of \$110,137 (2011: \$8,954); (ii) general and administrative of \$72,241 (2011: \$82,383); (iii) professional fees of \$110,764 (2011: \$22,490); and (iv) salaries and benefits of \$58,205 (2011: \$43,309).

Operating expenses incurred during the three month period ended September 30, 2012 compared to the three month period ended September 30, 2012 increased primarily due to increased business development expenses and increased professional fees.

Our net operating loss during the three month period ended September 30, 2012 was (\$192,139) compared to a net operating loss of (\$72,843) during the three month period ended September 30, 2011.

During the three month period ended September 30, 2012, interest expense in the amount of (\$5,650) (2011: (\$23,327)) in interest expense was incurred. The decrease in interest expense was due to a decrease in interest bearing notes payable.

After deducting interest expense we realized a net loss of (\$197,789) for the three month period ended September 30, 2012 compared to a net loss of (\$89,788) for the three month period ended September 30, 2011; whereas in the three months ended September 30, 2011 we also had a gain of renegotiated debt of \$19,247 and a loss on equity transactions of (\$12,865). The weighted average number of shares outstanding was 169,836,399 for the three month



period ended September 30, 2012 compared to 130,583,246 for the three month period ended September 30, 2011.

## LIQUIDITY AND CAPITAL RESOURCES

We have incurred losses for the past two fiscal years and had a net loss of \$1,761,019 at December 31, 2011. We had insufficient funds to deliver our backlog in the last half of 2011 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.

Historically, we have relied on revenues, debt financing and sales of our common stock to satisfy our cash requirements. For the nine months ended September 30, 2012, we generated cash from revenues of \$449,162, repaid \$21,114 on notes payable, received an additional \$31,082 of stockholder loans and received cash from the sale of common stock of \$322,500. For the nine months ended September 30, 2011, we generated cash from revenues of \$231,193, repaid \$16,725 on notes payable, and received an additional \$56,781 of stockholder loans. Our revenues from several product sales have been increasing and some others decreasing but are not sufficient to cover all of our operating expenses. We will also continue to rely on the issuance of our common stock to pay for services and to debt when cash is unavailable. Management anticipates that we will continue to issue shares for services in the short term.

Our net loss for the nine months ended September 30, 2012, was (\$596,016) as compared with a net loss of (\$492,247) for the nine months ended September 30, 2011. Our net loss was largely offset by adjustments (such as compensation paid with common and preferred stock in the amount of \$175,782, depreciation expenses and net changes in current assets and liabilities) which resulted in \$356,534 net cash used in operating activities for the nine months ended September 30, 2012, as compared with \$48,271 net cash used in operating activities for the nine months ended September 30, 2011. Our net cash used in investing activities for the nine months ended September 30, 2012 was \$1,948, as compared with \$0 net cash used in investing activities for the nine months ended September 30, 2011, which derived exclusively from purchases of equipment. For the nine months ended September 30, 2012, our net cash provided by financing activities was \$332,468, as compared with \$40,056 net cash provided by financing activities for the nine months ended September 30, 2011. For the nine months ended September 30, 2012, we had a net decrease in cash of \$26,014, resulting in \$3,027 cash on hand, as compared with a net decrease in cash of \$8,215, resulting in \$119 cash on hand for the nine months ended September 30, 2011.

Management intends to finance our 2012 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 2012 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 2012, then we may be required to reduce our expenses and scale back our operations.

### Commitments and Contingent Liabilities

The Company leases 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland. The Company renewed the lease for one year commencing February 1, 2012 and expiring December 31, 2012. 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 \$1,953,045 at September 30, 2012, compared to \$2,115,039 at December 31, 2011. Our current total liabilities at September 30, 2012 included accounts payable and accrued expenses of \$595,983, deferred compensation of \$122,971, accrued and withheld payroll taxes payable of \$142,659, accrued interest of \$42,746, accrued royalties of \$225,000, loans from stockholders of \$181,249, notes payable (short term) of \$199,443, stock settlement payable of \$124,578, and deferred revenue of \$318,416.

As of September 30, 2012, 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, and the loan is in default.

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 \$102,075. 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 \$14,867. 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 the Company's accounts receivable. Effective July 1, 2012 the accrual of interest was halted by agreement with the lender.

#### Off-Balance Sheet Arrangements

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

#### Contractual Obligations

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

#### Critical Accounting Policies

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.

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

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

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

#### Termination of Pending Acquisition

In June 2012 we announced the pendency of an acquisition via asset purchase of Essential Security Group of Toledo, Ohio. In or about September 2012, during our due diligence inquiry, we determined not to go forward with the transaction as proposed.

#### Risk Factors, including 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, 2011, including our financial statements and the related notes thereto.

#### **WE HAVE EXPERIENCED HISTORICAL LOSSES AND A SUBSTANTIAL ACCUMULATED DEFICIT. IF WE ARE UNABLE TO REVERSE THIS TREND, WE WILL LIKELY BE FORCED TO CEASE OPERATIONS.**

We have incurred losses for the past two fiscal years which consists of a net loss of \$1,761,019 for 2011 and had a net loss of \$555,145 at December 31, 2010. We had a net loss of \$596,016 for the nine months ended September 30, 2012. In addition, at September 30, 2012, the Company had an accumulated deficit of \$25,310,939. Our operating results for future periods will include significant expenses, including new product development expenses, potential marketing costs, professional fees and administrative expenses, and will be subject to numerous uncertainties. As a result, we are unable to predict whether we will achieve profitability in the future, or at all.

#### **WE HAVE A WORKING CAPITAL DEFICIT AND SIGNIFICANT CAPITAL REQUIREMENTS. SINCE WE WILL CONTINUE TO INCUR LOSSES UNTIL WE ARE ABLE TO GENERATE SUFFICIENT REVENUES TO OFFSET OUR EXPENSES, INVESTORS MAY BE UNABLE TO SELL OUR SHARES AT A PROFIT OR AT ALL.**

The Company has a net loss of \$555,145 for the nine months ended September 30, 2012 and net cash used in operation activities of \$356,534 for the nine months ended September 30, 2012. Because the Company has not yet achieved or acquired sufficient operating capital and given these financial results along with the Company's expected cash requirements in 2012, additional capital investment will be necessary to develop and sustain the Company's operations.

#### **OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM HAS RAISED DOUBT OVER OUR CONTINUED EXISTENCE AS A GOING CONCERN.**

We have incurred substantial operating and net losses, as well as negative operating cash flow and do not have financing commitments in place to meet expected cash requirements for the next twelve months.

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

Our net loss for the nine months ending September 30, 2012 was \$555,145 and our net loss for the nine months ending September 30, 2011, as restated, was \$492,247. Our accumulated deficit was \$25,310,939 at September 30, 2012. We are unable to fund our day-to-day operations through revenues alone and management believes we will incur operating losses for the near future while we expand our sales channels. While we have expanded our product line and expect to establish new sales channels, we may be unable to increase revenues to the point that we attain and are able to maintain profitability. As a result we rely on private financing and issuances of stock to cover cash shortfalls.

As a result, we continue to have significant working capital and stockholders' deficits including a substantial accumulated deficit at June 30, 2012. In recognition of such, our independent registered public accounting firms have included explanatory paragraphs in their respective reports on our consolidated financial statements for the fiscal years ended December 31, 2011 and December 31, 2010 that expressed substantial doubt regarding our ability to continue as a going concern.

**WE NEED ADDITIONAL EXTERNAL CAPITAL AND IF WE ARE UNABLE TO RAISE SUFFICIENT CAPITAL TO FUND OUR PLANS, WE MAY BE FORCED TO DELAY OR CEASE OPERATIONS.**

Based on our current growth plan we believe we may require approximately \$1,200,000 in additional financing within the next twelve months for operations and to develop our sales channels. Our success will depend upon our ability to access equity capital markets and borrow on terms that are financially advantageous to us. However, we may not be able to obtain additional funds on acceptable terms. If we fail to obtain funds on acceptable terms, then we might be forced to delay or abandon some or all of our business plans or may not have sufficient working capital to develop products, finance acquisitions, or pursue business opportunities. If we borrow funds, then we could be forced to use a large portion of our cash reserves, if any, to repay principal and interest on those loans. If we issue our securities for capital, then the interests of investors and stockholders will be diluted. We are attempting to raise up to \$1 million through a registered offering of securities.

**WE ARE CURRENTLY DEPENDENT ON THE EFFORTS OF RESELLERS FOR OUR CONTINUED GROWTH AND MUST EXPAND OUR SALES CHANNELS TO INCREASE OUR REVENUES AND FURTHER DEVELOP OUR BUSINESS PLANS.**

We are in the process of developing and expanding our sales channels, but we expect overall sales to remain down as we develop these sales channels. We are actively recruiting additional resellers and dealers and have hired in-house sales personnel for regional and national sales. We must continue to find other methods of distribution to increase our sales. If we are unsuccessful in developing sales channels we may have to abandon our business plan.

**WE MAY NOT BE ABLE TO COMPETE SUCCESSFULLY IN OUR MARKET BECAUSE WE HAVE A SMALL MARKET SHARE AND COMPETE WITH LARGE NATIONAL AND INTERNATIONAL COMPANIES.**

We estimate that we have less than a 1% market share of the surveillance and weapons detection market. We compete with many companies that have greater brand name recognition and significantly greater financial, technical, marketing, and managerial resources. The position of these competitors in the market may prevent us from capturing more market share. We intend to remain competitive by increasing our existing business through marketing efforts, selectively acquiring complementary technologies or businesses and services, increasing our efficiency, and reducing costs.

**WE MUST SUCCESSFULLY INTRODUCE NEW OR ENHANCED PRODUCTS AND MANAGE THE COSTS ASSOCIATED WITH PRODUCING SEVERAL PRODUCT LINES TO BE SUCCESSFUL.**

Our future success depends on our ability to continue to improve our existing products and to develop new products using the latest technology that can satisfy customer needs. For example, our short term success will depend on the continued acceptance of the Visual First Responder and the ViewScan portal product line. We cannot be certain that we will be successful at producing multiple product lines and we may find that the cost of production of multiple product lines inhibits our ability to maintain or improve our gross profit margins. In addition, the failure of our products to gain or maintain market acceptance or our failure to successfully manage our cost of production could adversely affect our financial condition.



**OUR DIRECTORS AND OFFICERS ARE ABLE TO EXERCISE SIGNIFICANT INFLUENCE OVER MATTERS REQUIRING STOCKHOLDER APPROVAL.**

Currently, our directors and executive officers collectively hold approximately 40.9% of the voting power of our common and 69.9% of the preferred stock entitled to vote on any matter brought to a vote of the stockholders.

Including the effects of Gunther Than's, our CEO's, voting preferred stock, our directors and officers have the power to vote approximately 39.7% of common shares (based on the assumed effects of conversion of all of Mr. Than's preferred stock) as of the date of this report. Pursuant to Nevada law and our bylaws, the holders of a majority of our voting stock may authorize or take corporate action with only a notice provided to our stockholders. A stockholder vote may not be made available to our minority stockholders, and in any event, a stockholder vote would be controlled by the majority stockholders.

WE HAVE IDENTIFIED MATERIAL WEAKNESSES IN OUR INTERNAL CONTROL OVER FINANCIAL REPORTING, AND OUR BUSINESS AND STOCK PRICE MAY BE ADVERSELY AFFECTED IF WE DO NOT ADEQUATELY ADDRESS THOSE WEAKNESSES OR IF WE HAVE OTHER MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES IN OUR INTERNAL CONTROL OVER FINANCIAL REPORTING.

We did not adequately implement certain internal controls, particularly with respect to revenue reporting, and made certain other accounting errors in our financial statements for the year ended December 31, 2010 and for the interim periods of March 31, 2011, June 30, 2011, and September 30, 2011. Due to accounting errors, the Company has restated its financial statements as of and for the periods ended December 31, 2010, March 31, 2011, June 30, 2011, and September 30, 2011 to reflect the correction of: (i) an understatement of deferred income that resulted from incorrectly allocating the revenue received under extended warranty arrangements over the life of the warranty; (ii) an overstatement of revenue due to recognition of sales prior to the installation of the products, and (iii) the classification of common stock that was issued to the holder of a note payable. As a result of reducing sales revenue there was a corresponding reduction in cost of sales and accounts payable. The Company had originally recorded the issuance of the stock as a payment in full for the note and related costs. However, after a further review of the legal documents, it was determined that the debt was not satisfied but instead the ultimate resolution of the debt was contingent on events that were still unfolding. Because of the errors that are being corrected, in our amended reports we restated our belief that our internal controls over financial reporting were effective to conclude that they were not effective.

Although the Company has taken steps to correct its identified material weaknesses in our internal controls and has revised its interim financial disclosures for periods after December 31, 2010, the existence of these or possibly other material weaknesses or significant deficiencies raises concerns that the prevention of future errors could require the allocation of scarce financial resources at times when such resources may not be available to us. If we cannot produce reliable financial reports, investors could lose confidence in our reported financial information; the market price of our stock could decline significantly; we may be unable to obtain additional financing to operate and expand our business, and our business and financial condition could be harmed.

FAILURE TO ACHIEVE AND MAINTAIN EFFECTIVE INTERNAL CONTROLS IN ACCORDANCE WITH SECTION 404 OF THE SARBANES-OXLEY ACT WOULD LEAD TO LOSS OF INVESTOR CONFIDENCE IN OUR REPORTED FINANCIAL INFORMATION.

Pursuant to proposals related to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 10-K for the fiscal year ending December 31, 2008, we will be required to furnish a report by our management on our internal control over financial reporting. If we cannot provide reliable financial reports or prevent fraud, then our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

In order to achieve compliance with Section 404 of the Act within the prescribed period, we will need to engage in a process to document and evaluate our internal control over financial reporting, which will be both costly and challenging. In this regard, management will need to dedicate internal resources, engage outside consultants and adopt a detailed work plan.

During the course of our testing we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act.

Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud.



THERE IS NO SIGNIFICANT ACTIVE TRADING MARKET FOR OUR SHARES, AND IF AN ACTIVE TRADING MARKET DOES NOT DEVELOP, PURCHASERS OF OUR SHARES MAY BE UNABLE TO SELL THEM PUBLICLY.

There is no significant active trading market for our shares and we do not know if an active trading market will develop. An active market will not develop unless broker-dealers develop interest in trading our shares, and we may be unable to generate interest in our shares among broker-dealers until we generate meaningful revenues and profits from operations. Until that time occurs, if it does at all, purchasers of our shares may be unable to sell them publicly. In the absence of an active trading market:

Investors may have difficulty buying and selling our shares or obtaining market quotations;

Market visibility for our common stock may be limited; and

A lack of visibility for our common stock may depress the market price for our shares.

THE SUCCESS OF OUR BUSINESS DEPENDS UPON THE CONTINUING CONTRIBUTION OF OUR KEY PERSONNEL, INCLUDING MR. GUNTHER THAN, OUR CHIEF EXECUTIVE OFFICER, WHOSE KNOWLEDGE OF OUR BUSINESS WOULD BE DIFFICULT TO REPLACE IN THE EVENT WE LOSE HIS SERVICES.

Our operations are dependent on the efforts and relationships of Gunther Than and the senior management of our organization. We will likely be dependent on the senior management of our organization for the foreseeable future. If any of these individuals becomes unable to continue in their role, our business or prospects could be adversely affected. For example, the loss of Mr. Than could damage customer relations and could restrict our ability to raise additional working capital if and when needed. There can be no assurance that Mr. Than will continue in his present capacity for any particular period of time.

OUR COMMON STOCK IS CONSIDERED TO BE "PENNY STOCK."

Our common stock is considered to be a "penny stock" because it meets one or more of the definitions in Rules 15g-2 through 15g-6 promulgated under Section 15(g) of the Securities Exchange Act of 1934, as amended. These include but are not limited to, the following: (i) the stock trades at a price less than \$5.00 per share; (ii) it is not traded on a "recognized" national exchange; (iii) it is not quoted on The NASDAQ Stock Market, or even if quoted, has a price less than \$5.00 per share; or (iv) is issued by a company with net tangible assets less than \$2.0 million, if in business more than a continuous three years, or with average revenues of less than \$6.0 million for the past three years. The principal result or effect of being designated a "penny stock" is that securities broker-dealers cannot recommend the stock but must trade it on an unsolicited basis.

BROKER-DEALER REQUIREMENTS MAY AFFECT TRADING AND LIQUIDITY.

Section 15(g) of the Securities Exchange Act of 1934, as amended, and Rule 15g-2 promulgated thereunder by the SEC require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in our common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stocks." Moreover, Rule 15g-9 requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii)

reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for holders of our common stock to resell their shares to third parties or to otherwise dispose of them in the market or otherwise.

OUR COMMON STOCK MAY BE VOLATILE, WHICH SUBSTANTIALLY INCREASES THE RISK THAT YOU MAY NOT BE ABLE TO SELL YOUR SHARES AT OR ABOVE THE PRICE THAT YOU MAY PAY FOR THE SHARES.

Because of the limited trading market expected to develop for our common stock, and because of the possible price volatility, you may not be able to sell your shares of common stock when you desire to do so. The inability to sell your shares in a rapidly declining market may substantially increase your risk of loss because of such illiquidity and because the price for our common stock may suffer greater declines because of its price volatility.

The price of our common stock may be higher or lower than the price you may pay. Certain factors, some of which are beyond our control, that may cause our share price to fluctuate significantly include, but are not limited to, the following:

- variations in our quarterly operating results;
- loss of a key relationship or failure to complete significant transactions;
- additions or departures of key personnel; and
- fluctuations in stock market price and volume.

Additionally, in recent years the stock market in general, and the over-the-counter markets in particular, have experienced extreme price and volume fluctuations. In some cases, these fluctuations are unrelated or disproportionate to the operating performance of the underlying company. These market and industry factors may materially and adversely affect our stock price, regardless of our operating performance.

In the past, class action litigation often has been brought against companies following periods of volatility in the market price of those companies' common stock. If we become involved in this type of litigation in the future, it could result in substantial costs and diversion of management attention and resources, which could have a further negative effect on your investment in our stock.

WE HAVE NOT PAID, AND DO NOT INTEND TO PAY, CASH DIVIDENDS IN THE FORESEEABLE FUTURE.

We have not paid any cash dividends on our common stock and do not intend to pay cash dividends in the foreseeable future. We intend to retain future earnings, if any, for reinvestment in the development and expansion of our business.

Dividend payments in the future may also be limited by other loan agreements or covenants contained in other securities which we may issue. Any future determination to pay cash dividends will be at the discretion of our board of directors and depend on our financial condition, results of operations, capital and legal requirements and such other factors as our board of directors deems relevant.

SALES OF OUR COMMON STOCK RELYING UPON RULE 144 MAY DEPRESS PRICES IN THE MARKET FOR OUR COMMON STOCK BY A MATERIAL AMOUNT.

We frequently issue unregistered securities to finance our operations, and a majority of the securities issued are in the form of common stock. The unregistered stock we issue constitute "restricted securities" within the meaning of Rule 144 under the Securities Act of 1933, as amended. As restricted shares, these shares may be resold only pursuant to an effective registration statement or under the requirements of Rule 144 or other applicable exemptions from registration under the Act and as required under applicable state securities laws. Nevertheless, there is no limit on the amount of restricted securities that may be sold by a non-affiliate (i.e., a stockholder who has not been an officer, director or control person for at least 90 consecutive days) after the restricted securities have been held by the owner for a period of at least six months and the other requirements of Rule 144 have been satisfied. Presently shares of restricted

Common Stock held by non-affiliates of the Company may be sold, subject to compliance with Rule 144, six months after issuance. Sales under Rule 144 or under any other exemption from the Act, if available, or pursuant to registration of shares of Common Stock of present stockholders, may have a depressive effect upon the price of our Common Stock in the over-the-counter market.

### 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 September 30, 2012. 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.

#### Changes in Internal Control Over Financial Reporting

Management of the Company has evaluated, with the participation of the Company’s Chief Executive Officer/Chief Financial Officer, changes in the Company’s internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the second quarter of 2012. In connection with such evaluation, there have been no changes to the Company’s internal control over financial reporting that occurred since the beginning of the Company’s third quarter of 2012 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.



PART II. – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

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

On July 6, 2012, we issued an aggregate of 10,750,000 shares of unregistered common stock and 500,000 Series A preferred shares as follows:

Common Shares

We issued:

1,500,000 restricted shares to Elizabeth Holmes, for promotional services, at a price per share of \$0.02;  
3,000,000 restricted shares to Jerry Miller, for marketing services, at a price per share of \$0.02;  
3,125,000 restricted shares to Jerry Robinson, for marketing services, at a price per share of \$0.02;  
1,000,000 restricted shares to Proactive Capital, for promotional services, at a price per share of \$0.02;  
1,000,000 restricted shares to Christian Steffey, in payment of accrued interest, at a price per share of \$0.075;  
625,000 restricted shares to John Piljer, for legal services, at a price per share of \$0.02, and  
500,000 restricted shares to Peter Taylor, for payment in cash, at a price per share of \$0.02, and

Series A Preferred Shares

We issued 500,000 shares to John P. Holmes at \$0.0158 per share in exchange for marketing services.

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 sold in private transactions, and all of the purchasers had an employment, professional, or vendor relationship with the Company such that they 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 purchasers 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 the Company nor any person acting on its behalf offered or sold the securities by any form of general solicitation or general advertising.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION



ITEM 6. EXHIBITS

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

10.1 View Systems, Inc. 2010 Equity Incentive Plan \*

10.2 View Systems, Inc. 2010 Service Provider Stock Compensation Plan \*\*

10.3 Employment agreement between View Systems, Inc. and Gunther Than, dated December 1, 2009 \*\*\*

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

\* Incorporated by reference to exhibit 10.1 to Form 10-Q for the period ended March 31, 2010.

\*\* Incorporated by reference to exhibit 10.4 to Form 10-Q for the period ended June 30, 2010.

\*\*\* Incorporated by reference to exhibit 10.1 to Form 8-K, filed January 11, 2010.

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: November 9, 2012

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