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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

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

Commission file number 000-30178

VIEW SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices) (Zip Code)

(410) 242-8439

(Registrant's telephone number, including area code)

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

Yes [X] No [ ]

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

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

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

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

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

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

VIEW SYSTEMS, INC.

FORM 10-Q

FOR THE PERIOD ENDED SEPTEMBER 30, 2011

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

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

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

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

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

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

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

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

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Basis of Consolidation

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

Use of Estimates

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

Accounts Receivable

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

Revenue Recognition

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

Inventories

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

Property and Equipment

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

EquipmentM-7 years

Software toolsK years

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

Stock Options

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

Income Taxes

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

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

Net Loss Per Common Share

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

2. GOING CONCERN

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

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

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

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

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

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

3. NEW ACCOUNTING PRONOUNCEMENTS

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

4. NOTES PAYABLE

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

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

Principal payments for the next five years ending March 31:

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

5. INCOME TAXES

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

6. PREFERRED STOCK

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

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

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

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

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

7. OPERATING LEASE

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

8. STOCK BASED COMPENSATION

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

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

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

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

Stock Options and Warrants

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

Stock Options

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

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

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

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

The 15,000,000 options granted for the three months ended March 31, 2013 had a weighted average grant d