

VIEW SYSTEMS INC  
Form 10-Q  
November 19, 2014  
**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, 2014**

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)

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

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

Class	Outstanding at November 14, 2014
Common Stock, \$.001 par value per share	<b>280,605,526</b>

**VIEW SYSTEMS, INC.**

**FORM 10-Q**

**FOR THE PERIOD ENDED SEPTEMBER 30, 2014**

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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.

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

	September 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current Assets		
Cash	\$7,955	\$53,078
Accounts receivable	86,679	46,424
Inventory	1,088	24,109
Prepaid expenses	92,500	32,889
Total current assets	188,222	156,500
Property and Equipment (Net)	5,592	10,392
Other Assets		
Deposits	2,872	2,872
Total other assets	2,872	2,872
Total assets	\$196,686	\$169,764
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current Liabilities		
Accounts payable	\$401,209	\$357,803
Deferred compensation	5,514	124,190
Accrued and withheld payroll taxes payable	168,979	170,509
Accrued interest payable	65,625	43,125
Accrued royalties payable	225,000	225,000
Loans from stockholders	404,886	251,054
Notes payable	78,475	126,116
Deferred revenue	90,611	121,975
Total current liabilities	1,440,299	1,419,772
Non-current Liabilities		
Notes payable (non-current portion)	24,883	46,098
Total liabilities	1,465,182	1,465,870
Stockholders' Deficit		
Convertible preferred stock, authorized 10,000,000 shares, \$.001 par value, Issued and outstanding 5,489,647 at September 30, 2014 and Issued and outstanding 3,489,647 at December 31, 2013	5,490	3,490
Common stock, authorized 950,000,000 shares, \$.001 par value, Issued and outstanding 273,605,526 at September 30, 2014 and Issued and outstanding 222,399,749 at December 31, 2013	273,605	222,399
Common stock issuable	16,000	538,720
Additional paid in capital	27,071,774	25,550,331
Accumulated deficit	(28,635,365)	(27,611,046)
Total stockholders' deficit	(1,268,496 )	(1,296,106 )
Total liabilities and stockholders' deficit	\$196,686	\$169,764

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues				
Product sales and Installation	\$77,305	\$70,470	\$204,357	\$429,469
Extended warranties	23,417	32,086	87,415	78,699
Total revenue	100,722	102,556	291,772	508,168
Cost of sales	21,544	35,318	59,097	259,906
Gross profit	79,178	67,238	232,675	248,262
Operating expenses				
General and administrative	64,658	100,346	204,128	244,316
Professional fees	71,508	410,698	641,674	669,132
Salaries and benefits	127,240	96,812	384,688	234,280
Total operating expenses	263,406	607,856	1,230,490	1,147,728
Loss from operations	(184,228 )	(540,618 )	(997,815 )	(899,466 )
Other Income (expense)				
Stock option compensation	—	—	—	(450,000 )
Interest expense	(8,581 )	(9,146 )	(26,504 )	(50,923 )
Total other income (expense)	(8,581 )	(9,146 )	(26,504 )	(500,923 )
Net loss	\$(192,809 )	\$(549,764 )	\$(1,024,319 )	\$(1,400,389 )
Net loss per share (basic and diluted)	\$(0.00 )	\$(0.00 )	\$(0.00 )	\$(0.01 )
Weighted average shares outstanding (basic and diluted)	269,013,367	198,397,265	256,298,599	186,965,012

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

	For the Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net loss	\$(1,024,319)	\$(1,400,389)
Adjustments to reconcile net loss to Net cash used in operations:		
Depreciation and amortization	4,800	8,642
Common stock issued in payment of services	363,407	240,547
Preferred stock issued in payment of services	65,000	225,000
Stock option expense	—	450,000
Interest expense paid with debt	3,597	
Change in operating assets and liabilities:		
(Increase) decrease in cash from:		
Accounts receivable	(40,255 )	1,098
Inventories	23,021	116,618
Prepaid expenses	125,389	—
Increase (decrease) in cash from:		
Accounts payable	211,927	(115,529 )
Deferred compensation	111,324	49,435
Accrued interest	22,500	45,573
Payroll taxes accrued and withheld	(1,530 )	5,818
Deferred revenue	(31,364 )	(105,109 )
Net cash used in operating activities	(166,503 )	(478,296 )
Cash flows from investing activities:		
Purchases of equipment	—	(6,905 )
Net cash used in investing activities	—	(6,905 )
Cash flows from financing activities:		
Proceeds from issuable common stock		100,000
Proceeds from sale of common stock	25,000	385,000
Principal payments on notes payable	(29,169 )	(15,000 )
Loans from stockholders	125,548	21,210
Net cash provided by financing activities	121,379	491,210
(Decrease) Increase in cash	(45,124 )	6,009
Cash at beginning of period	53,079	107,181
Cash at end of period	\$7,955	\$113,190

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

For the Nine Months  
 Ended  
 September 30,  
 2014      2013

Non cash investing and financing activities:

Note payable paid with issuable common stock	\$—	\$111,000
Accrued interest paid with common stock	\$—	\$48,720
Stock settlement payable (resolution)	\$—	\$124,578
Prepaid expenses paid with preferred stock	\$185,000	\$—
Loans from stockholders repaid with common stock	\$10,000	\$17,500
Deferred compensation paid with common stock	\$230,000	\$—
Accounts payable paid with common stock	\$165,821	\$90,900
Common stock issuable in prepayment of services	\$—	\$22,500
Notes payable paid by shareholders	\$39,687	\$32,740
Issuance of common stock issuable	\$522,720	\$267,000

Cash paid for:

Interest	\$—	\$40
Income taxes	\$—	\$—

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

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.

The Company recognized bad debt expense of \$0 and \$0 for the three and nine months ended September 30, 2014 and 2013, respectively. Management's determination is that the remaining balance is collectible and therefore no allowance for possible uncollectible accounts receivable has been recorded for the period ended September 30, 2014 and for the year ended December 31, 2013.

### 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.

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in-first-out method (FIFO). As of September 30, 2014 and December 31, 2013 the Company's 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:

Equipment M-7 years

Software tools K years

Depreciation expense for the periods ended September 30, 2014 and 2013 amounted to \$4,800 and \$8,642, respectively.

Stock-Based Compensation

We account for share-based compensation at fair value. Share-based compensation cost for stock options granted to employees, board members and service providers is determined at the grant date using an option pricing model that uses level 3 unobservable inputs. The value of the award that is ultimately expected to vest is recognized as expense on a straight-line basis over the requisite service 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.

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 September 30, 2014 and 2013 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 nine months ended September 30, 2014 and 2013, the Company incurred net losses of \$1,024,319 and \$1,400,389, respectively. In addition, certain notes payable have come due and the Company is in default.

Management is actively working to cure these situations and has implemented major plans 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 2014 and 2013, 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. It is management's intention to finance operations during the remainder of 2014 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 discussed in Note 4, the Company is currently in default on a \$50,000 note payable to a stockholder.

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.

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

**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.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 Revenue from Contracts with Customers (Topic 606). This guidance is intended to improve and converge with international standards the financial requirements for revenue from contracts with customers. It will be effective for our first quarter 2017 and early adoption is not permitted. We are currently evaluating the impact of adoption of this new accounting pronouncement on our financial statements.

**4. NOTES PAYABLE**

Notes payable as of September 30, 2014 and December 31, 2013 consists of the following:

	September 30, 2014	December 31, 2013
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.	52,910	72,596
	50,000	50,000

**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



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at which time the debt became due and payable and therefore the loan is currently in default.

Investor

An unsecured loan from an investor, payable in monthly installments of \$5,000 commencing July 1, 2013 until paid in full. The loan bears no interest and is the amount due as a result of a settlement of the stock settlement payable mentioned below. — 45,000

Chase

A secured loan to finance the purchase of a truck, payable monthly in installments of \$533, which includes interest at 5.34% per annum. 448 4,618

TOTAL \$103,358 \$172,214

Less current portion 78,475 126,116

Non-current portion \$24,883 \$46,098

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**VIEW SYSTEMS, INC.**

## NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

## 4. NOTES PAYABLE (continued)

Principal payments for the next five years ending September 30:

2015	\$78,475
2016	24,883
Thereafter	—
<b>TOTAL</b>	<b>\$103,358</b>

## 5. INCOME TAXES

For income tax purposes the Company has net operating loss carry forwards of approximately \$25,472,000 as of December 31, 2013 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. IRS regulations also provide that significant changes in ownership (greater than 50%) could result in the expiration of some of the net operating loss carry forwards. As of the date of this report the Company has not made an analysis of the changes in ownership to determine if any of these losses have expired. 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 \$0.001 per share before any payment or distribution is made to the holders of common stock.

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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.

During 2013 the Board of Directors authorized the issuance of an additional 500,000 shares of Series A Preferred Stock in payment of services of \$225,000.

During 2014 the Board of Directors authorized the issuance of an additional 2,000,000 shares of Series A Preferred Stock in payment of deferred, current and future compensation of \$480,000.

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 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 2014. 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 \$30,811 and \$34,780 for the periods ended September 30, 2014 and 2013, respectively.

8. STOCK BASED COMPENSATION

During the periods ended September 30, 2014 and 2013 the Company issued stock in payment of services and debts as follows:

For the nine month period ended September 30, 2014 the Board authorized the issuance of 25,471,666 shares of common stock in payment of services amounting to \$523,408. In addition, 23,631,111 shares were issued during 2014 for stock shown as issuable as of December 31, 2013.

For the nine month period ended September 30, 2013 the Board authorized the issuance of 7,833,333 shares of common stock in payment of services amounting to \$140,000. In addition 5,000,000 shares were authorized to be issued in payment of loans in the amount of \$128,500, 4,500,000 shares were issued in payment of accounts payable amounting to \$90,900 and 1,500,000 shares were authorized to be issued in payment of a patent in the amount of \$30,000. Although authorized prior to September 30, 2013 6,600,000 of these shares were not issued until after September 30, 2013.

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 period ended June 30, 2013 to a member of the board of directors as compensation for services performed. Stock option expense was \$0 and \$450,000 for the nine month periods ended September 30, 2014 and 2013, respectively.

	Weighted Number of Options	Weighted Average Exercise Price	Aggregate Remaining Contractual Life	Intrinsic Value
Outstanding at January 1, 2014	10,000,000	\$ 0.03	4.14	\$ —
Granted	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Outstanding at September 30, 2014	10,000,000	\$ 0.03	3.05	\$ —
Exercisable at September 30, 2014	10,000,000	\$ 0.03	3.05	\$ —

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

8. STOCK BASED COMPENSATION (continued)

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

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 net proceeds from stockholders with unstructured payment plans amounted to \$125,548 and \$21,210 for the period ended September 30, 2014 and 2013, respectively. The total balance due on unstructured loans from shareholders amounted to \$404,886 and \$251,054 at September 30, 2014 and December 31, 2013, respectively. Loans from stockholders made with repayment terms are described in Note 4 above.

Also, please see Note 12 regarding a contingent liability payable to the Company's CEO in the case of an occurrence of certain events relating to a significant change of control.

During the period ended September 30, 2014 a Board member accrued fees for professional services to the Company in the amount of \$95,000.

During the year ended December 31, 2013 a Board member provided professional services to the Company for which he was paid \$25,000 in cash and awarded 7,113,333 shares of common stock with a value of \$173,500. Of the total shares 1,680,000 were issued subsequent to December 31, 2013 and are reflected on the financial statements as issuable common stock.

10. STOCK SETTLEMENT IN PROCESS

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

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

Subsequent to June 30, 2013, the note holder reported that he had sold all of the 3,500,000 shares of the common stock noted above. After giving effect to those proceeds, and the note holder and the Company agreed to settle the remaining debt for \$75,000. As a result, the Company has agreed to make monthly payments of \$5,000, commencing in July 2013, until the debt is paid in full. The agreement provides that there is no interest due on this debt. As of September 30, 2014 the obligation was paid in full.

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**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013

11. CHANGE TO PRIOR FINANCIAL STATEMENT

During 2013 it was noticed that the par value of preferred stock had been incorrectly reported as \$0.01 per share while the correct par value was \$0.001 per share. Accordingly, an adjustment was made to decrease the total par value of preferred stock issued and increase additional paid in capital in the amount of \$26,907. This adjustment had no effect on previously reported results of operations and also had no effect on the carrying value or historical costs of any assets or liabilities.

12. CONTINGENT LIABILITY

Effective January 1, 2014 the Board of Directors authorized a new employment contract with Gunther Than, CEO of View Systems, Inc. That employment contract provides that in the event of a change in control of the Board of Directors or a buyout or a takeover or substantial change of management structure Mr. Than will receive a minimum of three year's salary plus 4.8 million shares of unrestricted stock or the equivalent in cash at Mr. Than's direction. Mr. Than's current base salary \$240,000 per annum.

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

### **EXECUTIVE OVERVIEW**

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

Our strategy for 2013/2014 for ViewScan is to extend our sales and service provisions. To increase sales we offer demonstrations of our products to potential customers in specific geographical areas and at region - specific trade shows, such as sheriff's conventions, court administrators' meetings, civil support team, state police and dealer shows.

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

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

### **LETTER OF INTENT**

On October 9, 2014, our Board of Directors approved the execution of a non-binding proposal for the merger of all of the stock and operating assets of the Potomac River Group LLC ("Potomac") in the form of a term sheet (the "Term Sheet") pursuant to which the transaction would be structured as a merger with the Company entity as the survivor (the

"Merger"). In connection with the Merger, we intend to acquire all stock and operating assets of Potomac by newly issued shares to the three shareholders of Potomac and the amounts and price of the shares shall be determined based upon further analysis during due diligence. In further accordance with the proposed terms of the Merger, our Board of Directors will consist of two members from our Company and at least three members designated by Potomac. The Term Sheet also provides that after consummation of the Merger, we will enter into employment agreements with our President/Chief Executive Officer, Gunther Than.

Conditions to closing the Merger include negotiating and drafting of definitive agreements, obtaining all necessary Board of Director and shareholder approval, if required, and third party consents, and satisfactory completion of our due diligence as well as Potomac. As of the date of this Quarterly Report, management believes that we are close to finalizing the structure of the proposed merger and will consummate a definitive merger agreement within the next four weeks.

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Readers of this Quarterly Report on Form 10-Q are cautioned of the following regarding the foregoing description of the Term Sheet: (a) the Term Sheet is a “non-binding indication of interest” and is not binding upon any of the parties and such proposed terms in the Term Sheet will not be binding upon any of the parties until they are incorporated into a final binding merger agreement that is executed by all parties to such agreement; (b) although our Board of Directors has approved of the proposed Merger and has full intention of proceeding with the Merger, there are no assurances that such Merger will ever be completed and if it does that the operations of Potomac will be successful; and (c) the Merger will be subject to regulatory review by the SEC, including the filing of a “Super 8-K” filing with the SEC, corporate filings with the State of Nevada and written notice requirements to FINRA.

## **CURRENT PRODUCTS AND SERVICES**

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

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

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

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

On August 9, 2012, we entered into a partnership with Animetrics Inc. ("Animetrics"), a leading developer of advanced 3D facial recognition and identify management solutions (the "Animetrics Agreement"). In accordance with the terms and provisions of the Animetrics Agreement, we will integrate Animetrics' next-generation 3D facial recognition technology into its concealed weapons detection systems used for security screening at correctional

facilities, stadiums, courthouses, schools and other public facilities. Our ViewScan Concealed Weapons Detector is a walk-through portal which uses advanced magnetics technology to accurately pinpoint threat objects on a visual image of the subject. The system is sensitive enough to locate items such as hidden razor blades and cellular phones but will ignore common objects such as coins, keys and belt buckles. The initial objective is to integrate Animetrics' facial identify management software, the FaceR identity management solution (FIMS) onto our ViewScan, incorporating next generation facial recognition and investigative face biometric capabilities into the weapons detection and identification system. We also plan to utilize Animetrics' cloud-based FaceR FIMS and its suite of FaceR facial biometric identify and screening applications, including FaceR Mobile ID, FaceR Credential Me and ForensicaGPS across its entire portfolio of security and surveillance systems and applications.

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

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### **National Security Resources**

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

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

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

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

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

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

### **ViewMaxx Digital Video System**

ViewMaxx is a high-resolution, digital video recording and real-time monitoring system. This system can be scaled to meet a specific customer's needs by using anywhere from one camera up to 32 surveillance cameras per each

ViewMaxx unit. The system uses a video capture card recording which translates closed-circuit television analog video data (a format normally used by broadcasters for national television programs) to a computer readable digital format to be stored on direct access digital disk devices rather than the conventional television format of video tape.

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.

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

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

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

### **The MINI**

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

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

## **RESULTS OF OPERATIONS**

The following discussions are based on our consolidated financial statements, including our subsidiaries. These charts and discussions summarize our financial statements for the nine months ended September 30, 2014 and September 30, 2013 and should be read in conjunction with the financial statements, and notes thereto, included with our most recent Form 10-K for fiscal year ended December 31, 2013.

### **SUMMARY COMPARISON OF OPERATING RESULTS\***

Nine Month Period ended September 30	
2014	2013

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Revenues, net	\$291,772	\$508,168
Cost of sales	59,097	259,906
Gross profit	232,675	248,262
Total operating expenses	1,230,490	1,147,728
Loss from operations	(997,815 )	(899,466 )
Total other income (expense)	(26,504 )	(500,923 )
Net loss	(1,024,319)	(1,400,389)
Net loss per share	\$(0.00 )	\$(0.01 )

**Nine Month Period Ended September 30, 2014 Compared to Nine Month Period Ended September 30, 2013.**

Our net loss for the nine month period ended September 30, 2014 was (\$1,024,319) compared to a net loss of (\$1,400,389) during the nine month period ended September 30, 2013 (a decrease in net loss of \$376,070). We generated net revenues of \$291,772 during the nine month period ended September 30, 2014 compared to \$508,168 during the nine month period ended September 30, 2013 (a decrease in net revenue of \$216,396). During the nine month period ended September 30, 2014, revenue consisted of: (i) \$204,357 (2013: \$429,469) in product sales and installation; and (ii) \$87,415 (2013: \$78,699) in extended warranties.

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Revenue is generally considered earned when the product is shipped to the customer. The concealed weapons detection system and the digital video system each require installation and training. Training is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training.

We have experienced a decrease in sales of our products which resulted in decreased revenues for the nine month period ended September 30, 2014 compared to the nine month period ended September 30, 2013. The decline in decreased revenues was due to a decline in the demand for our security products.

Cost of goods sold decreased during the nine month period ended September 30, 2014 to \$59,097 from \$259,906 incurred during the nine month period ended September 30, 2013, resulting in a gross profit of \$232,675 for the nine month period ended September 30, 2014 compared to a gross profit of \$248,262 for the nine month period ended September 30, 2013. During the nine month period ended September 30, 2014, the prevailing trend of decreasing cost of goods sold was due to an decrease in the security-related products ordered by government agencies and due to the decrease in associated costs related to the components of our security-related products, which is based on general overall economic factors. The gross profit percentage on our non-warranty revenue, which is a measurement of gross profit as a percent of sales of products, installations and related revenue, decreased during the nine month period ended September 30, 2014 as compared to the nine month period ended September 30, 2013.

During the nine month period ended September 30, 2014, we incurred operating expenses of \$1,230,490 compared to \$1,147,728 incurred during the nine month period ended September 30, 2013 (an increase of \$82,762). These operating expenses incurred during the nine month period ended September 30, 2014 consisted of: (i) general and administrative of \$204,128 (2013: \$244,316); (ii) professional fees of \$641,674 (2013: \$669,132); and (iii) salaries and benefits of \$384,688 (2013: \$234,280).

During the nine month period ended September 30, 2014, our general and administrative expenses generally consisted of: (i) bank service charges of \$1,803 (2013: \$3,627); (ii) contractual temporary labor of \$35,628 (2013: \$19,219); (iii) filing and service fees of \$14,555 (2013: \$30,915); (iv) insurance of \$7,975 (2013: \$25,365); (v) postage and delivery of \$13,134 (2013: \$7,079); (vi) rent of \$30,811 (2013: \$34,780); (vii) supplies of \$9,196 (2013: \$12,509); (viii) telephone of \$6,358 (2013: \$10,651); (ix) other of \$4,459 (2013: \$8,529); (x) travel \$54,628 (2013: \$65,355); (xi) utilities of \$8,559 (2013: \$7,050); (xii) advertising and promotion \$4,292 (2013: \$8,656); (xiii) depreciation of \$4,800 (2013: \$8,642); (xiv) auto and truck of \$4,305 (2013: \$1,939); and (xv) product development of \$3,626 (2013: \$0-).

During the nine month period ended September 30, 2014, our professional fees consisted of: (i) accounting fees of \$78,579 (2013: \$91,557); (ii) engineering fees of \$135,833 (2013: \$112,500); (iii) legal fees of \$11,525 (2013: \$29,077); (iv) investor relations fees of \$22,500 (2013: \$260,625); (v) management and operations \$181,100 (2013: \$43,200); (vi) marketing and promotion \$210,728 (2013: \$132,173); and (vii) programming of \$1,409 (2013: \$0-).

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Operating expenses incurred during the nine month period ended September 30, 2014 compared to the nine month period ended September 30, 2013 increased primarily due to the increase in salaries and benefits of \$150,408.

Our loss from operations during the nine month period ended September 30, 2014 was (\$997,815) compared to a loss from operations of (\$899,466) during the nine month period ended September 30, 2013.

During the nine month period ended September 30, 2014, we incurred other expenses as follows: (i) stock option compensation based on valuation of options granted of (2014: \$-0-) (2013: \$450,000); and (ii) interest expense in the amount of (\$26,504) (2013: (\$50,923)). The decrease in interest expense was due to a decrease in interest bearing notes payable. During the nine month period ended September 30, 2013, we realized stock compensation based on issuance of shares as compensation for salaries.

After deducting other expense, we realized a net loss of (\$1,024,319) or (\$0.00) per share for the nine month period ended September 30, 2014 compared to a net loss of (\$1,400,389) or (\$0.01) per share for the nine month period ended September 30, 2013. The weighted average number of shares outstanding was 256,298,599 for the nine month period ended September 30, 2014 compared to 186,965,012 for the nine month period ended September 30, 2013.

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**Three Month Period Ended September 30, 2014 Compared to Three Month Period Ended September 30, 2013.**

Our net loss for the three month period ended September 30, 2014 was (\$192,809) compared to a net loss of (\$549,764) during the three month period ended September 30, 2013 (a decrease in net loss of \$356,955). We generated net revenues of \$100,722 during the three month period ended September 30, 2014 compared to \$102,556 during the nine month period ended September 30, 2013 (a decrease in net revenue of \$1,834). During the three month period ended September 30, 2014, revenue consisted of: (i) \$77,305 (2013: \$70,470) in product sales and installation; and (ii) \$23,417 (2013: \$32,086) in extended warranties.

Revenue is generally considered earned when the product is shipped to the customer. The concealed weapons detection system and the digital video system each require installation and training. Training is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training.

We have experienced a slight increase in sales of our products which resulted in increased revenues for the three month period ended September 30, 2014 compared to the three month period ended September 30, 2013. The increase in revenues was due to an increase in marketing efforts of our security products.

Cost of goods sold decreased during the three month period ended September 30, 2014 to \$21,544 from \$35,318 incurred during the three month period ended September 30, 2013, resulting in a gross profit of \$79,178 for the three month period ended September 30, 2014 compared to a gross profit of \$67,238 for the three month period ended September 30, 2013. During the three month period ended September 30, 2014, the prevailing trend of decreasing cost of goods sold was due to a decrease in associated costs related to the components of our security-related products, which is based on general overall economic factors. The gross profit percentage on our non-warranty revenue, which is a measurement of gross profit as a percent of sales of products, installations and related revenue, increased during the three month period ended September 30, 2014 as compared to the three month period ended September 30, 2013.

During the three month period ended September 30, 2014, we incurred operating expenses of \$263,406 compared to \$607,856 incurred during the three month period ended September 30, 2013 (a decrease of \$344,450). These operating expenses incurred during the three month period ended September 30, 2014 consisted of: (i) general and administrative of \$64,658 (2013: \$100,346); (ii) professional fees of \$71,508 (2013: \$410,698); and (iii) salaries and benefits of \$127,240 (2013: \$96,812).

During the three month period ended September 30, 2014, our general and administrative expenses generally consisted of: (i) bank service charges of \$750 (2013: \$1,255); (ii) contractual temporary labor of \$14,750 (2013: \$3,010); (iii) filing and service fees of \$9,248 (2013: \$12,843); (iv) insurance of \$0 (2013: \$8,289); (v) postage and delivery of \$4,777 (2013: \$3,869); (vi) rent of \$10,248 (2013: \$9,954); (vii) supplies of \$1,820 (2013: \$6,154); (viii) telephone of \$1,728 (2013: \$3,951); (ix) other of \$884 (2013: \$15,207); (x) travel \$13,761 (2013: \$25,955); (xi)

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utilities of \$3,013 (2013: \$2,044); (xi) advertising and promotion \$845 (2013: \$4,935); (xii) and depreciation of \$1,600 (2013: \$2,880); (xiii) and auto and truck of \$1,234 (2013 \$2,307).

During the three month period ended September 30, 2014, our professional fees consisted of: (i) accounting fees of \$15,750 (2013: \$24,250); (ii) engineering fees of \$29,333 (2013: \$60,000); (iii) legal fees of \$5,325 (2013: \$8,607); (iv) investor relations fees of \$0 (2013: \$225,500); (v) management and operations \$1,100 (2013: \$16,200); (vi) marketing and promotion \$20,000 (2013: \$76,641); and (vii) programming of \$-0- (2013: \$-0-).

Operating expenses incurred during the three month period ended September 30, 2014 compared to the three month period ended September 30, 2013 decreased primarily due to the decrease in professional fees of \$339,190.

Our loss from operations during the three month period ended September 30, 2014 was (\$184,228) compared to a loss from operations of (\$540,618) during the three month period ended September 30, 2013.

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During the three month period ended September 30, 2014, we incurred other expense in the form of interest expense in the amount of (\$8,581) (2013: (\$9,146)). The decrease in interest expense was due to a decrease in interest bearing notes payable.

After deducting other expense, we realized a net loss of (\$192,809) or (\$0.00) per share for the three month period ended September 30, 2014 compared to a net loss of (\$549,764) or (\$0.00) per share for the three month period ended September 30, 2013. The weighted average number of shares outstanding was 269,013,367 for the three month period ended September 30, 2014 compared to 198,397,265 for the three month period ended September 30, 2013.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Nine Month Period Ended September 30, 2014**

As of September 30, 2014, our current assets were \$188,222 and our current liabilities were \$1,440,299, which resulted in a working capital deficit of \$1,252,077. As at the nine month period ended September 30, 2014, current assets were comprised of: (i) \$7,955 in cash; (ii) \$86,679 in accounts receivable; (iii) \$1,088 in inventory; and (iv) \$92,500 in prepaid expenses. As at the nine month period ended September 30, 2014, current liabilities were comprised of: (i) \$401,209 in accounts payable; (ii) \$5,514 in deferred compensation; (iii) \$168,979 in accrued and withheld payroll taxes payable; (iv) \$65,625 in accrued interest payable; (v) \$225,000 in accrued royalties payable; (vi) \$404,886 in loans from stockholders; (vii) \$78,475 in notes payable; and (viii) \$90,611 in deferred revenue.

As of September 30, 2014, our total assets were \$196,686 comprised of: (i) \$188,222 in current assets; (ii) property and equipment (net) of \$5,592; and (iii) \$2,872 in deposits. The increase in total assets during the nine month period ended September 30, 2014 from fiscal year ended December 31, 2013 was primarily due to the increase in prepaid expenses and accounts receivable.

As of September 30, 2014, our total liabilities were \$1,465,182 comprised of: (i) \$1,440,299 in current liabilities; and (ii) \$24,883 in notes payable (non-current portion). The slight decrease in liabilities during the nine month period ended September 30, 2014 from fiscal year ended December 31, 2013 was primarily due to the decrease in deferred compensation, notes payable and deferred revenue offset by an increase to accounts payable and accrued interest payable.

Stockholders' deficit decreased from (\$1,296,106) for fiscal year ended December 31, 2013 to (\$1,268,496) for the nine month period ended September 30, 2014.

## Cash Flows from Operating Activities

We have not generated positive cash flows from operating activities. For the nine month period ended September 30, 2014, net cash flows used in operating activities was (\$166,503) compared to net cash flows used in operating activities of (\$478,296) for the nine month period ended September 30, 2013. Net cash flows used in operating activities consisted primarily of a net loss of \$1,024,319 (2013: \$1,400,389), which was partially adjusted by: (i) \$4,800 (2013: \$8,642) in depreciation and amortization; (ii) \$363,407 (2013: \$240,547) in common stock issued in payment of services; (iii) \$65,000 (2013: \$225,000) in preferred stock issued in payment of services; (iv) \$-0- (2013: \$450,000) in stock option expense; and (v) \$3,597 (2013: \$-0-) in interest expense paid with debt.

Net cash flows used in operating activities was further changed in operating assets and liabilities by: (i) an increase in accounts receivable of (\$40,255) (2013: \$1,098); (ii) a decrease of \$23,021 (2013: \$116,618) in inventories; and (iii) a decrease of \$125,389 (2013: \$-0-) in prepaid expenses.

Net cash flows used in operating activities was further changed in cash by: (i) an increase in accounts payable of \$211,927 (2013: (\$115,529)); (ii) an increase in deferred compensation of \$111,324 (2013: \$49,435); (iii) an increase in accrued interest of \$22,500 (2013: \$45,573); (iv) a decrease in payroll taxes accrued and withheld of (\$1,530) (2013: \$5,818); and (v) a decrease in deferred revenue of (\$31,364) (2013: (\$105,109)).

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

For the nine month period ended September 30, 2014 , net cash flows used in investing activities was \$-0- compared to net cash flows used in operating activities of \$6,905 for the nine month period ended September 30, 2013 relating to purchases of equipment.

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

We have financed our operations primarily from debt or the issuance of equity instruments. For the nine month period ended September 30, 2014, net cash flows provided from financing activities was \$121,379 compared to \$491,210 for the nine month period ended September 30, 2013. Cash flows from financing activities for the nine month period ended September 30, 2014 consisted of: (i) \$25,000 in proceeds from sales of common stock; and (ii) \$125,548 in loans to/from stockholders, which was offset by \$29,169 in principal payments on notes payable.

Cash flows from financing activities for the nine month period ended September 30, 2013 consisted of: (i) 100,000 in proceeds from issuable common stock; (ii) 385,000 in proceeds from sale of common stock; and (ii) \$21,210 in loans to/from stockholders, which was offset by \$15,000 in principal payments on notes payable.

### **PLAN OF OPERATION AND FUNDING**

We have incurred losses for the past two fiscal years and had a net loss of \$1,024,319 at September 30, 2014 and \$1,400,389 at September 30, 2013. Our revenues from several product sales have been decreasing and some others increasing but are not sufficient to cover all of our operating expenses. Our auditors have expressed substantial doubt that we can continue as a going concern. We are continuing to push sales and control costs.

Management intends to finance our 2014 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 2014 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 2014, then we may be required to reduce our expenses and scale back our operations.

### **Going Concern**

If the market price of our common stock falls below the fixed price of our registered stock offering, as in prior years we may again have insufficient financing commitments in place to meet our expected cash requirements for 2014. 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 2014, then we may be required to reduce our expenses and scale back our operations. These factors raise substantial doubt of our ability to continue as a going concern. Footnote 2 to our financial statements provides additional explanation of Management's views on our status as a going concern. The audited financial statements contained in this Annual Report do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result should we be unable to continue as a going concern.

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Our independent registered accounting firm included an explanatory paragraph December 31, 2013, in their report on the accompanying financial statements for December 31, 2013 regarding concerns about our ability to continue as a going concern. Our financial statements contain additional note disclosures describing the circumstances that lead to this disclosure by our independent auditors.

## COMMITMENTS AND CONTINGENT LIABILITIES

We lease 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland. The base rent had been \$3,077 per month with an annual rent escalator of 3%. Under the current renewal the current monthly lease payment is \$3,464. Rent expenses, which includes the Caton property as well as certain other short-term leases, was \$30,811 and \$34,780 for the nine month periods ended September 30, 2014 and September 30, 2013, respectively.

Our total current liabilities decreased to \$1,440,299 at the nine month period ended September 30, 2014 compared to \$1,419,772 at fiscal year ended December 31, 2013. As of September 30, 2014, our short and long term notes payable consist of the following:

We have financed a vehicle in 2009 through Chase Auto Finance with an outstanding balance of \$448. Payments are \$533 per month which includes interest at 5.34%. The loan is for 60 months with the final payment due in July 2014. We are in default of a September 18, 2009 demand loan payable to an investor which was due December 17, 2009 in the amount of \$50,000. Interest has accrued at 5% per month since December 17, 2009. The loan is secured by our accounts receivable. Effective July 1, 2012 the accrual of interest was halted by agreement with the lender. A term loan secured by a shareholder payable in monthly installments of \$2,587 commencing December 25, 2009 but re-financed in May 2011. The loan is due in full on May 18, 2016 and interest accrues monthly at 7.5% per annum.

Management intends to finance our 2014 operations primarily with the revenue from product sales and any cash short falls will be addressed through equity or debt financing, if available. Management expects revenues will continue to increase but not to the point of profitability in the short term. We will need to continue to raise additional capital, both internally and externally, to cover cash shortfalls and to compete in our markets. At our current revenue levels management believes we will require an additional \$1,200,000 in equity financing during the next 12 months to satisfy our cash requirements of approximately \$100,000 per month for operations and to facilitate our business plan.

These operating costs include cost of sales, general and administrative expenses, salaries and benefits and professional fees related to contracting engineers. We have insufficient financing commitments in place to meet our expected cash requirements for 2013 and we cannot assure you that we will be able to obtain financing on favorable terms. If we cannot obtain financing to fund our operations in 2014, then we may be required to reduce our expenses and scale back our operations.

## **OFF BALANCE SHEET ARRANGEMENTS**

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

## **CONTRACTUAL OBLIGATIONS**

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

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## **CRITICAL ACCOUNTING POLICIES**

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

## **Going Concern Opinion**

You should carefully consider the risks, uncertainties and other factors identified below because they could materially and adversely affect our business, financial condition, operating results and prospects and could negatively affect the market price of our Common Stock. Also, you should be aware that the risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we do not yet know of, or that we currently believe are immaterial, may also impair our business operations and financial results. Our business, financial condition or results of operations could be harmed by any of these risks. The trading price of our Common Stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks you should also refer to the information contained in or incorporated by reference to our Form 10-K for the year ended December 31, 2013, including our financial statements and the related notes thereto.

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

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

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

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

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer/Principal Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of June 30, 2014. Based on such evaluation, we have concluded that, as of such date, our disclosure controls and procedures were not 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.

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

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

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

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

Our management assessed the effectiveness of our internal control over financial reporting as of September 30, 2014. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSD) in *Internal-Control-Integrated Framework* and implemented a process to monitor and assess both the design and operating effectiveness of our internal controls. Based on this assessment, management believes that as of September 30, 2014, our internal control over financial reporting was not effective.

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

## Changes in Internal Control Over Financial Reporting

Our management has evaluated, with the participation of our Chief Executive Officer/Chief Financial Officer, changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the first quarter of 2014. In connection with such evaluation, there have been no changes to our internal control over financial reporting that occurred since the beginning of our first quarter of 2014 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting. While there have been no changes, we have assessed our internal controls as being deficient and will be taking steps during 2014 to remedy such deficiencies.

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PART II – OTHER INFORMATION

**ITEM 1. LEGAL PROCEEDINGS**

None.

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

**Common Stock - Issued in 2014**

During fiscal year ended December 31, 2013, we authorized the issuance of an aggregate 22,631,111 shares of our restricted common stock (which were issued subsequent to December 31, 2013) as follows: (i) 11,911,111 shares at a per share price of approximately \$0.018 to investors resulting in gross proceeds of \$207,500; (ii) 6,820,000 shares of common stock at a per share price of \$0.018 to consultants in payment of services rendered in the aggregate amount of \$125,000; (iii) 1,400,000 shares of common stock at a per share price of \$0.021 in payment of services of \$30,000; and (iv) 3,000,000 shares of common stock at a per share price of \$0.049 to creditors in payment of notes payable and accrued interest of \$159,720. The 22,631,111 shares were issued in a private transaction to United States residents in reliance on Rule 506 of Regulation D promulgated under the Securities Act. The shares of common stock have not been registered under the Securities Act or under any state securities laws and may not be offered or sold without registration with the United States Securities and Exchange Commission or an applicable exemption from the registration requirements. The consultants acknowledged that the securities to be issued have not been registered under the Securities Act, that they understood the economic risk of an investment in the securities, and that they had the opportunity to ask questions of and receive answers from our management concerning any and all matters related to acquisition of the securities.

During the six month period ended June 30, 2014, we authorized the issuance of an aggregate 16,700,000 shares of our restricted common stock as follows: (i) 1,000,000 shares at a per share price of approximately \$0.025 to investors resulting in gross proceeds of \$25,000; (ii) 500,000 shares of common stock at a per share price of \$0.02 to creditor as settlement of note payable of \$10,000; (iii) 15,200,000 shares of common stock at a per share price of \$0.02 in payment of services of \$309,500. The 16,700,000 shares were issued in a private transaction to United States residents in reliance on Rule 506 of Regulation D promulgated under the Securities Act. The shares of common stock have not been registered under the Securities Act or under any state securities laws and may not be offered or sold without registration with the United States Securities and Exchange Commission or an applicable exemption from the registration requirements. The individuals acknowledged that the securities to be issued have not been registered under the Securities Act, that they understood the economic risk of an investment in the securities, and that they had the opportunity to ask questions of and receive answers from our management concerning any and all matters related to acquisition of the securities.

During the three month period ended September 30, 2014, we authorized the issuance of a further 11,874,666 shares of our restricted common stock as follows: (i) 5,900,000 shares at a per share price of approximately \$0.020 to five contractors for professional services rendered; (ii) 250,000 shares at a per share price of approximately \$0.02 to one creditor for loan; (iii) 1,200,000 shares at a per share price of approximately \$0.02 to four advisory board members; (iv) 950,000 shares at a per share price of approximately \$0.02 to four sales consultants; (v) 1,000,000 shares to two individuals as compensation for salaries; (vi) 1,108,000 shares at a per share price of \$0.01 for legal services rendered; and (vii) 1,466,666 shares at a per share price of \$0.02 for engineering services rendered.

#### **Preferred Stock - Issued in 2014**

During the six month period ended June 30, 2014, we issued 2,000,000 share of Series A preferred stock in payment of deferred and current compensation of \$480,000. The 2,000,000 shares were issued in a private transaction to United States residents in reliance on Rule 506 of Regulation D promulgated under the Securities Act. The shares of Series A preferred stock have not been registered under the Securities Act or under any state securities laws and may not be offered or sold without registration with the United States Securities and Exchange Commission or an applicable exemption from the registration requirements. The investors acknowledged that the securities to be issued have not been registered under the Securities Act, that they understood the economic risk of an investment in the securities, and that they had the opportunity to ask questions of and receive answers from our management concerning any and all matters related to acquisition of the securities.

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

None.

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

None

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

#### **Executive Employment Agreement**

On January 1, 2014, the Board of Directors authorized the execution of that certain executive employment agreement (the "Executive Agreement") with our President/Chief Executive Officer, Secretary, Treasurer/Chief Financial Officer, Gunther Than (the "Executive"). In accordance with the terms and provisions of the Executive Agreement: (i) the Executive shall provide services and perform all duties typical of the offices held by the Executive; (ii) we shall pay to the Executive a base salary of \$20,000 per month, payable in form of cash or shares of our common stock as agreed upon, (ii) we shall pay to the Executive an incentive bonus to be determined by the Board of Directors based upon our performance and the results achieved by the Executive in his job performance; (iii) we shall issue stock options to purchase shares of our common stock, such stock options to accrue and vest in accordance with a set schedule to be decided by the Board of Directors; (iv) we shall pay to the Executive a per annum payment of at least 1,600,000 shares of common stock and additionally whatever the Board of Directors may give as a bonus at their discretion in exchange for the non-compete provisions contained therein; and (v) in the event of a change in control of the Board of Directors or a buyout or a takeover or substantial change of management, we will pay to the Executive a minimum of three years salary plus 4,800,000 shares of S-8 common stock or the equivalent in cash at the Executive's discretion.

In further accordance with the terms and provisions of the Executive Agreement, in consideration of the payment specified above in subparagraph (iv), and for so long as the Executive is employed by us, and for one calendar year following termination of this Executive Agreement, the Executive shall not directly or indirectly own an interest in, manage, operate, join, control, lend money or render financial or other assistance to or participate in or be connected with as an officer, employee, partner, stockholder, consultant or otherwise, any individual, partnership, firm, corporation or other business entity that materially competes with us.

In further accordance with the terms and provisions of the Executive Agreement, in consideration of the payment specified above in subparagraph (iv), and for so long as the Executive is employed by us, and for one calendar year following termination of this Executive Agreement, the Executive shall not, whether for his own account or for the account of any other individual, partnership, firm, corporation or other business entity, intentionally solicit, endeavor to entice away from us or otherwise interfere with the relationship between us and any person who is employed by or otherwise engaged to perform services for us, including any employees of our venture partners and independent sales representatives or organizations or any person or entity who is or was within the then most recent twelve month period customer or client of ours.

The term of the Executive Agreement shall commence January 1, 2014 and continue in effect unless terminated by either party upon ninety days written notice. However, in the event the Executive's employment is terminated by us at our discretion and is without cause, for a period of three years following such termination, the Executive shall be paid his base salary and a bonus for each of the three years equivalent in value to the bonus received in the year prior to his termination. In the event the Executive terminates his employment, we shall pay the Executive the compensation the Executive has earned to the termination date. Lastly, in the event we are acquired or the non-surviving party in a merger or sell all or substantially all of our assets, this Executive Agreement shall not be deemed terminated as a result thereof.

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## ITEM 6. EXHIBITS

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

- 10.1 View Systems, Inc. 2010 Equity Incentive Plan (Incorporated by reference to exhibit 10.1 to Form 10-Q filed May 14, 2010)
- 10.2 View Systems, Inc. 2010 Service Provider Stock Compensation Plan (Incorporated by reference to exhibit 10.4 to Form 10-Q filed August 19, 2010)
- 10.3 Employment agreement between View Systems and Gunther Than, dated December 1, 2009 (Incorporated by reference to exhibit 10.1 to Form 8-K, filed January 11, 2010)
- 10.4 Subcontractor Agreement dated March 9, 2009 between MasTec North America, Inc. and View Systems, Inc. (Incorporated by reference to exhibit 10.3 for Form 10-Q, Amendment No. 1, for the period ended March 31, 2009)
- 10.5 Purchase Agreement, dated June 1, 2012 (Incorporated by reference to exhibit 10.1 to Form 8-K, filed July 3, 2012)
- 10.6 Amendment to Purchase Agreement, dated June 28, 2012 (Incorporated by reference to exhibit 10.2 to Form 8-K, filed July 3, 2012)
- 10.7 Executive Employment Agreement dated January 1, 2014 between View Systems Inc. and Gunther Than (incorporated by reference to exhibit 10.1 to Form 8-K filed May 14, 2014).
- 21.1 List of Subsidiaries\*
- 31.1 Rule 13a-15(e)/15d-15(e) Certification by the Chief Executive Officer and Chief Financial Officer \*
- 32.1 Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*

## SIGNATURES

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

**VIEW SYSTEMS, INC.**

Date: November 18, 2014 By: /s/ Gunther Than

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Gunther Than  
Chief Executive Officer

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

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