VIEW SYSTEMS INC
Form 10-Q
August 04, 2017
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, 2016

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)

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

6 Park Center Court, Owings Mills, Baltimore, Maryland 21117
(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 R 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 R

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

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

Class	Outstanding at August 3, 2017
Common Stock, $.001 par value per share	326,705,526

VIEW SYSTEMS, INC.
FORM 10-Q
FOR THE PERIOD ENDED SEPTEMBER 30, 2016

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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)

ASSETS

	September 30, 2016	December 31, 2015
Current Assets		
Cash	$104	$2,617
Accounts receivable	6,109	7,075
Inventory	1,088	1,088
Prepaid expenses	-	-
Total current assets	7,301	10,780
Property and Equipment (Net)	2,397	2,997
Other Assets		
Deposits	1,595	1,595
Total other assets	1,595	1,595
Total assets	$11,293	$15,372
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts payable	$431,358	$405,327
Deferred compensation	123,048	37,835
Accrued and withheld payroll taxes payable	183,781	175,184
Accrued interest payable	118,125	95,625
Accrued royalties payable	225,000	225,000
Loans from stockholders	591,208	564,703
Notes payable	50,000	61,095
Deferred revenue	69,523	94,973
Total current liabilities	1,792,043	1,659,742
Non-current Liabilities		
Notes payable (non-current portion)	-	-
Total liabilities	1,792,043	1,659,742
Stockholders' Deficit		
Convertible preferred stock, authorized 10,000,000 shares, $.001 par value,		
Issued and outstanding 5,589,647	5,590	
Issued and outstanding 6,089,647	-	6,090
Common stock, authorized 950,000,000 shares, $.001 par value,		
Issued and outstanding 326,705,526	326,705	-
Issued and outstanding 312,205,526	-	312,205

Common stock issuable	16,000	16,000
Additional paid in capital	27,392,125	27,389,325
Accumulated deficit	(29,521,170)	(29,367,990)
Total stockholders' deficit	(1,780,750)	(1,644,370)
Total liabilities and stockholders' deficit	$11,293	$15,372

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenues				
Product sales and Installation	$2,005	$593	$7,570	$92,480
Extended warranties	5,175	21,214	43,750	53,916
Total revenue	7,180	21,807	51,320	146,396
Cost of sales	(21)	3,996	713	46,984
Gross profit	7,201	17,811	50,607	99,412
Operating expenses				
General and administrative	18,036	11,286	40,891	105,268
Professional fees	-	38,194	5,000	179,820
Salaries and benefits	29,261	62,549	113,296	171,931
Total operating expenses	47,297	112,029	159,187	457,019
Loss from operations	(40,096)	(94,218)	(108,580)	(357,607)
Other Income (expense)				
Interest expense	(10,812)	(7,897)	(44,600)	(23,682)
Total other income (expense)	(10,812)	(7,897)	(44,600)	(23,682)
Net loss	$(50,908)	$(102,115)	$(153,180)	$(381,289)
Net loss per share (basic and diluted)	$(0.00)	$(0.00)	$(0.00)	$(0.00)
Weighted average shares outstanding (basic and diluted)	326,705,526	312,305,526	322,574,464	301,736,478

The accompanying notes are an integral part of these consolidated financial statements
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View Systems, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

	For the Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	$(153,180)	$(381,289)
Adjustments to reconcile net loss to		
Net cash used in operations:		
Depreciation and amortization	600	750
Common stock issued in payment of interest expense	16,800	-
Common stock issued in payment of services	-	26,750
Preferred stock issued in payment of services	-	75,000
Interest expense paid with debt	-	1,176
Change in operating assets and liabilities:		
(Increase) decrease in cash from:		
Accounts receivable	966	(8,518)
Deposits	-	1,277
Increase (decrease) in cash from:		
Accounts payable	26,031	24,011
Deferred compensation	85,213	87,552
Accrued interest	22,500	22,500
Payroll taxes accrued and withheld	8,598	2,183
Deferred revenue	(25,450)	34,585
Net cash used in operating activities	(17,922)	(114,023)
Cash flows from financing activities:		
Principal payments on notes payable	(11,095)	-
Loans to/from stockholders	26,505	104,166
Net cash provided by financing activities	15,410	104,166
Decrease in cash	(2,512)	(9,857)
Cash at beginning of period	2,617	13,077
Cash at end of period	$105	$3,220

The accompanying notes are an integral part of these consolidated financial statements
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View Systems, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited) (Continued)

	For the Nine Months Ended September 30,	
	2016	2015
Non cash investing and financing activities:		
Interest expense paid with common stock	$16,800	$-
Loans from stockholders repaid with common stock	$-	$10,000
Deferred compensation paid with preferred stock	$-	$75,000
Accounts payable paid with common stock	$-	$100,000
Notes payable paid by shareholders	$11,095	$22,445
Issuance of common stock issuable	$-	$-
Cash paid for:		
Interest	$-	$-
Income taxes	$-	$-

The accompanying notes are an integral part of these consolidated financial statements
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VIEW SYSTEMS, INC.and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

View Systems, Inc. and Subsidiaries (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 FibreXpress, 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 subsidiaries, Milestone Technology, Inc. and FibreXpress, 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.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less
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 periods ended September 30, 2016 and 2015, 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 periods ended September 30, 2016 and 2015, respectively.

VIEW SYSTEMS, INC. and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company has three main products, namely the concealed weapons detection system, the visual first responder system and the Viewmaxx digital video system. In all cases revenue is considered earned when the product is shipped to the customer, installed (if necessary) and accepted by the customer as a completed sale. The concealed weapons detection system and the digital video system each require installation and training. The customer can engage us for installation and training, which is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training and acceptance by the customer. However, the customer can also self-install or can engage another firm to provide installation and training. Each product has an unconditional 30 day warranty, during which time the product can be returned for a complete refund. Customers can purchase extended warranties, which provide for replacement or repair of the unit beyond the period provided by the unconditional warranty. Warranties can be purchased for various periods but generally they are for one year period that begins after any other warranties expire. The revenue from warranties is recognized on a straight line basis 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 stated at the lower of cost or market. Cost is determined by the first-in-first-out method (FIFO). As of September 30, 2016 and December 31, 2015 the Company's inventory consisted of unassembled parts of the product.

Property and Equipment

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

Equipment 5-10 years
Software tools 5 years

Repairs and maintenance charges which do not increase the useful lives of assets are charged to operations as incurred. Depreciation expense for the periods ended September 30, 2016 and 2015 amounted to $600 and $750, respectively.

VIEW SYSTEMS, INC. and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Taxes

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

The Company files income tax returns in the U.S. federal jurisdictions, and in various state jurisdictions. The Company is no longer subject to U.S. federal, state and local examinations by tax authorities for years prior to 2010. TheCompany 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.

Research and Development

Research and development costs are expensed as incurred.

Nonmonetary Transactions

Nonmonetary transactions are accounted for in accordance with ASC 845 " Nonmonetary Transactions" which requires the transfer or distribution of a nonmonetary asset or liability to be based generally, on the fair value of the asset or liability that is received or surrendered, whichever is more clearly evident.

Financial Instruments

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

Stock-Based Compensation

The Company accounts 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.

VIEW SYSTEMS, INC. and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2016 and 2015 does not include potential shares of common stock equivalents, as their impact would be antidilutive. The following reconciles amounts reported in the financial statements:

	(Loss) (Numerator)	Weighted Avg Shares (Denominator)	Per-share Amount
Period ended September 30, 2016			
Loss from operations which is the amount that is available to common stockholders	$ (153,180)	322,757,464	$ (0.00)
Period ended September 30, 2015			
Loss from operations which is the amount that is available to common stockholders	$ (381,289)	291,762,120	$ (0.00)

VIEW SYSTEMS, INC. and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. GOING CONCERN

The Company has incurred and continues to incur, losses from operations. For the periods ended September 30, 2016 and 2015, the Company incurred net losses of $153,180 and $381,289, respectively, and has a working capital deficiency of $1,784,742 at September 30, 2016.. In addition, certain notes payable have come due and the note holders are demanding payment.

Management is very actively working to cure these situations and 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 2016 and 2015, 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 2016 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 described in Note 4, the Company is currently in default on a $50,000 loan from 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.

3. NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued new guidance on the accounting for leases, which supersedes previous lease guidance. Under this guidance, for all leases with terms in excess of one year, including operating leases, the Company will be required to recognize on its balance sheet a lease liability and a right-of-use asset representing its right to use the underlying asset for the lease term. The new guidance retains a distinction between finance leases and operating leases and the classification criteria is substantially similar to previous guidance. Additionally, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed. The Company is currently evaluating the impact of this guidance on its consolidated balance sheets. This guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted.
In May 2014, the FASB issued guidance on the recognition of revenues which provides a single, comprehensive revenue recognition model for all contracts with customers and supersedes most existing revenue recognition

guidance. The main principle under this guidance is that an entity should recognize revenue at the amount it expects to be entitled to in exchange for the transfer of goods or services to customers. The Company is currently evaluating the impact of this guidance on its consolidated balance sheets and statement of operations. This guidance is effective for interim and annual reporting periods beginning after December 15, 2017, with early adoption permitted for interim and annual reporting periods beginning after December 15, 2016.

VIEW SYSTEMS, INC. and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. NOTES PAYABLE

Notes payable as of September 30, 2016 and December 31, 2015 consists of the following:

	2016	2015
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 was due in full on May 18, 2016 and interest accrues monthly at 5.0% per annum.	$-	$11,095
Stockholder Demand loan payable with interest at 5% per month dated September 18, 2009. The loan is secured by the Company's accounts receivable. The note was payable in full on December 17, 2009 and is currently in default	50,000	50,000
TOTAL	$50,000	$61,095
Less current portion	50,000	61,095
Non-current portion	$-	$-

VIEW SYSTEMS, INC. and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. INCOME TAXES

For income tax purposes the Company has net operating loss carry forwards of $27,915,000 as of December 31, 2015 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.
Net income tax benefit is not recognized at this time because there is no reasonable expectation that the benefit will be realized in the future.Due to continuous losses from operations the Company has assigned a full valuation allowance against its deferred tax assets.

6. CONVERTIBLE PREFERRED STOCK

In July 2005 the Company issued 7,171,725 shares of Series A Preferred Stock in payment of services. The issuance had been previously authorized by the Board of Directors. Each share of Series A Preferred Stock has a liquidation preference, in the event of liquidation of the Company, of $0.001 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 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 beginning 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 in the amount 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 professional services in the amount 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 and current compensation in the amount of $480,000.

During 2015 an owner of preferred stock elected to convert 1,400,000 shares of his preferred stock into 21,000,000 shares of the Company's common stock.

During 2015 the Board of Directors authorized the issuance of an additional 2,000,000 shares of Series A Preferred Stock in payment of deferred compensation of $75,000 and current compensation and expenses of $75,000.

During 2016 an owner of preferred stock elected to convert 500,000 shares of preferred stock into 7,500,000 shares of the Company's common stock.

VIEW SYSTEMS, INC. and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. OPERATING LEASE

The Company leased a 3,600 sq. ft. office and warehouse space at 1550 Caton Center Drive, Baltimore, Maryland, under a non-cancellable operating lease which expired in May 2015. The original base rent was $3,077 per month with a 3% annual rent escalator clause. Upon its expiration the Company leased 1,500 sq. ft. under a non-cancellable lease at 1900 Lansdowne Road, Baltimore Maryland at a current monthly rent of $1,595 for a period of 3 years. Minimum annual lease payments over the term of the lease are $19,140 for 2016 and $4,785 for 2017. Rent expense incurred under these leases was $12,485 and $24,078 for the periods ended September 30, 2016 and 2015, respectively.

8. STOCK BASED COMPENSATION

On April 2, 2010 the Company adopted its 2010 Equity Incentive Plan. Reserved for equity issuances under the Equity Incentive Plan are 50,000,000 shares of our common stock. During 2011 14,116,433 shares of common stock were issued under the provisions of the 2010 Equity Incentive Plan for which $92,065 of expenses were recognized.

On June 1, 2010 the Company adopted its 2010 Service Provider Stock Compensation Plan. Reserved for equity issuances under the Service Provider Stock Compensation Plan are 50,000,000 shares of our common stock. No equity issuances were made during the reporting period from the 2010 Service Provider Stock Compensation Plan.

During the periods ended September 30, 2016 and 2015 the Company issued the following compensatory shares outside of its existing Stock Option and Restricted Share Plans at the discretion of the Board of Directors:

For the nine month period ended September 30, 2016 the Board authorized the issuance of 7,000,000 shares of common stock in payment of interest expense amounting to $16,800.

For the nine month period ended September 30, 2015 the Board authorized the issuance of 8,350,000 shares of common stock in payment of current services and also for services accrued in prior periods amounting to $114,250.

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

VIEW SYSTEMS, INC. and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

Options	Number of	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at Dec 31, 2015	10,000,000	$0.03	2.69	$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at Sept 30, 2016	10,000,000	$0.03	1.67	$ -
Exercisable at Sept 30, 2016	10,000,000	$0.03	1.67	$ -

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

Annual Dividend	-
Expected Life (in years)	5.00
Risk Free Interest Rate	0.78%
Expected Volatility	325.25%

VIEW SYSTEMS, INC. and SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. RELATED PARTY TRANSACTIONS

Certain stockholders 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 $26,505 and $104,166 for the periods ended September 30, 2016 and 2015, respectively. The total balance due on unstructured loans from stockholders amounted to $591,208 as of September 30, 2016 and $564,703 at December 31, 2015. Loans from stockholders made with repayment terms are described in Note 4 above.

10. ISSUABLE COMMON STOCK

As of September 30, 2016 and December 31, 2015 740,000 shares of the authorized shares of common stock amounting to $16,000, had not been issued.

11. 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 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 of the equivalent in cash at Mr. Than's direction. Mr. Than's current base salary is $120,000 per annum.

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

EXECUTIVE OVERVIEW

The following analysis of our consolidated financial condition and results of operations for the nine-month period ended September 30, 2016 and September 30, 2015 should be read in conjunction with the Consolidated Financial Statements and other information presented elsewhere in this quarterly report.

Overview

View Systems, Inc. has developed, produced and marketed computer software and hardware systems for security and surveillance applications. In 1998 digital video recorder technology was our first developed product and we enhanced this product line 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. In 2003 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. In these installations, we integrated the digital video recorded technology with other electronic devices, and we gained knowledge of the security needs of a wide range of businesses.

We expanded our product line in 2002 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. In 2003 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.

Historically, the Company relied upon exclusive technology licensing agreements with federal departments to license and distribute the ViewScan technology. In anticipation of the expiration of federal licenses, we developed propriety components and made sufficient engineering design changes to the ViewScan product to lower production costs and to accommodate the price points required by competitive pressures. By redesigning the ViewScan, we have offset the impact of the expiration of our license agreements and continued to capitalize on our technological advantages we had in the markets we had entered. Unfortunately, the rising costs of manufacturing equipment and the large quantities required to become cost competitive has forced us to quit manufacturing our own products.

Our continuing strategy for 2016 for the ViewScan is to continue our extended warranty offerings and service provisions to the various installations we have.

In the short term, management continues to raise funds by providing parts and repair service work to our current installations. Then, the next phase of our business plan will be to raise additional funds through common stock offerings to provide working capital to finance new types of 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.

Products and Services

Our current principal products and services have included:

ViewScan Concealed Weapons Detection System

ViewScan, which has also been 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 locations of the concealed weapon(s) to be displayed and stored electronically.

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, 2016 and September 30, 2015 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, 2015.

SUMMARY COMPARISON OF OPERATING RESULTS*

	Nine months ended September 30,	
	2016	2015
Revenues, net	$51,320	$146,396
Cost of sales	713	46,984
Gross profit (loss)	50,607	99,412
Total operating expenses	159,187	457,019
Profit (Loss) from operations	(108,580)	(357,607)
Total other income (expense)	(44,600)	(23,682)
Net income (loss)	(153,180)	(381,289)
Net income (loss) per share	$(0.00)	$(0.00)

Nine Month Period Ended September 30, 2016 Compared to nine Month Period Ended September 30, 2015.

Our net loss for the nine month period ended September 30, 2016 was ($153,180) compared to a net loss of ($381,289) during the nine month period ended September 30, 2015 (a decrease in net loss of $228,109). We generated net revenues of $51,320 during the nine month period ended September 30, 2016 compared to $146,396 during the nine month period ended September 30, 2015 (a decrease in net revenue of $95,076). Revenue is considered earned when the product is shipped to the customer or service is performed. The concealed weapons system each require installation and training. Training and service is a revenue source separate and apart from the sale of the product. Generally, revenue is recognized at the completion of the installation and training. We measure backlog as orders for which a purchase order or contract has been signed or a verbal commitment for order or delivery has been made, but which has not yet been shipped and for which revenues have not been recognized.

We have experienced a decrease in sales of our products which resulted in decreased revenues for the nine month period ended September 30, 2016 compared to the nine month period ended September 30, 2015. The decreased revenue is the result of the cessation of the manufacturing of our product. Please see previous reports and filings for more detailed discussion.

Cost of goods sold decreased during the nine month period ended September 30, 2016 to $713 from $46,984 incurred during the nine month period ended September 30, 2015, resulting in a gross profit of $50,607 for the nine month period ended September 30, 2016 compared to a gross profit of $99,412 for the nine month period ended September 30, 2015. During the nine month period ended September 30, 2016, the declining cost of goods sold was due to our cessation of product manufacturing and reduction of inventory of repair parts as we used them in repairs.

During the nine month period ended September 30, 2016, we incurred operating expenses of $159,187 compared to $457,019 incurred during the nine month period ended September 30, 2015 (a decrease of $297,832). These operating expenses incurred during the nine month period ended September 30, 2016 consisted of: (i) general and administrative of $40,891 (2015: $105,268); (ii) professional fees of $5,000 (2015: $179,820); and (iii) salaries and benefits of $113,296 (2015: $171,931).

Operating expenses incurred during the nine month period ended September 30, 2016 compared to the nine month period ended September 30, 2015 decreased due to the general decrease in all expenses including professional fees, general and administrative expenses and salaries and benefits.

Our net operating loss during the nine month period ended September 30, 2016 was ($153,180) compared to a net operating loss of ($381,289) during the nine month period ended September 30, 2015.

The weighted average number of shares outstanding was 322,574,464 for the nine month period ended September 30, 2016 compared to 301,736,478 for the nine month period ended September 30, 2015.

Three Month Period Ended September 30, 2016 Compared to Three Month Period Ended September 30, 2015.

Our net loss for the three-month period ended September 30, 2016 was ($50,908) compared to a net loss of ($102,115) during the three month period ended September 30, 2015 (a decrease in net loss of $51,207). We generated net revenues of $7,180 during the three month period ended September 30, 2016 compared to $21,807 during the three month period ended September 30, 2015 (a decrease in net revenue of $14,627). During the three month period ended September 30, 2016, revenue consisted of: (i) $2,005 (2015: $593) in View Scan product sales and installation; and (ii) $5,175 (2015: $21,214) 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 decrease in revenue generally from extended warranties and from a decline in the sale of our products, which resulted in decreased revenues for the three month period ended September 30, 2016 compared to the three month period ended September 30, 2015. The decline in decreased revenues was due to a decline in the number of existing warranties associated with a continuing decline in the demand for our security products.

Cost of goods sold decreased during the three month period ended September 30, 2016 to ($21) from $3.996 incurred during the three month period ended September 30, 2015 resulting in a gross profit of $7,201 for the three month period ended September 30, 2016 compared to a gross profit of $17,811 for the three month period ended September 30, 2015. During the three month period ended September 30, 2016, the prevailing trend of decreasing cost of goods sold was due to a decrease in the number of View Scan products sold and associated costs related to the components of our security-related products, which is based on general overall economic factors.

During the three month period ended September 30, 2016, we incurred operating expenses of $47,297 compared to $112,029 incurred during the three month period ended September 30, 2015 (a decrease of $64,732). These operating expenses incurred during the three month period ended September 30, 2016 consisted of: (i) general and administrative of $18,036 (2015: $11,286); (ii) professional fees of $(0) (2015: $38,194); and (iii) salaries and benefits of $29,261 (2015: $62,549).

Operating expenses incurred during the three month period ended September 30, 2016 substantially decreased compared to the three month period ended September 30, 2015 primarily due to a decrease in professional fees of $38,194, an increase in general and administrative of $6,750, and an decrease in salaries and benefits of $33,288.

Our loss from operations during the three-month period ended September 30, 2016 was ($40,096) compared to a loss from operations of ($94,218) during the three month period ended September 30, 2015.

During the three month period ended September 30, 2016, we incurred other expense in the form of interest expense of $10,812 (2015: $7,897).

After deducting other expense, we realized a net loss of ($50,908) for the three month period ended September 30, 2016 compared to a net loss of ($102,115) for the three month period ended September 30, 2015. The weighted average number of shares outstanding was 326,705,526 for the three month period ended September 30, 2016 compared to 312,305,526 for the three month period ended September 30, 2015.

LIQUIDITY AND CAPITAL RESOURCES

Nine Month Period Ended September 30, 2016

As at the nine month period ended September 30, 2016, our current assets were $7,301 and our current liabilities were $1,792,043, which resulted in a working capital deficit of $1,784,742. As at the nine month period ended September 30, 2016, current assets were comprised of: (i) $104 in cash; (ii) $6,109 in accounts receivable (net of allowance of $1,000); and (iii) $1,088 in inventory.

As at the nine month period ended September 30, 2016, current liabilities were comprised of: (i) $431,358 in accounts payable and accrued expenses; (ii) $123,048 in deferred compensation; (iii) $183,781 in accrued and withheld payroll taxes payable; (iv) $118,125 in accrued interest payable; (v) $225,000 in accrued royalties payable; (vi) $591,208 in loans from stockholders; (vii) $50,000 in notes payable; and (viii) deferred revenue of $69,523.

As of September 30, 2016, our total assets were $11,293 comprised of: (i) $7,301 in current assets; (ii) property and equipment (net) of $2,397; and (iii) $1,595 in deposits. The decrease in total assets during the nine month period from fiscal year ended December 31, 2015 was primarily due to the decrease in cash and receivables.

As of September 30, 2016, our total liabilities were $1,792,043 comprised of $1,792,043 in current liabilities. Stockholders' deficit increased from ($1,644,370) for fiscal year ended December 31, 2015 to ($1,780,750) for the nine month period ended September 30, 2016.

Cash Flows from Operating Activities

We have not generated positive cash flows from operating activities. For the nine month period ended September 30, 2016, net cash flows used in operating activities was ($17,922) compared to net cash flows used in operating activities of ($114,023) for the nine month period ended September 30, 2015.

Cash Flows from Investing Activities

For the nine month periods ended September 30, 2016 and September 30, 2015, net cash flows provided by investing activities was $-0-.

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, 2016, net cash flows provided from financing activities was $15,410 compared to $104,166 for the nine month period ended September 30, 2015. Cash flows from financing activities for the nine month period ended September 30, 2016 consisted of: (i) $0 in proceeds from sales of common stock; and (ii) $26,505 in loans received from stockholders, which was offset by ($11,095) in principal payment on notes payable.

PLAN OF OPERATION AND FUNDING

We have incurred losses for the past three fiscal years and had a net loss of $153,180 at September 30, 2016 and $381,289 at September 30, 2015. We had insufficient funds to deliver our backlog in the last half of 2015 through the present. Our revenues from service contracts have been insufficient to cover our operating expenses. Our auditors have expressed substantial doubt that we can continue as a going concern. We will continue to push service contracts and control costs.

Our Board of Directors has decided to broaden our business perspective and add medical services and procedures to View System's business unrelated to the current security product market. Two of our directors are physicians and both have investigated the Erectile Dysfunction market. Our Board of Directors has decided to pursue the Erectile Dysfunction Medical market.

We have started a medical services company that is engaged in the acquisition, development and management of medical clinics specializing in boutique procedures such as treatment for erectile dysfunction, hair restoration and a variety of specialized men's health therapeutic procedures. The current US market estimates for erectile dysfunction therapies only is upwards of $6 Billion.

The business strategy will be to establish multiple concierge, all-inclusive medical practices, providing a "one-stop shop" for most issues relating to male sexual dysfunction, including erectile dysfunction, testosterone replacement therapy, and premature ejaculation. By establishing or acquiring "men's clinics" in select geographic areas, View's business strategy is to capitalize on two irrefutable trends that are currently at play in the marketplace: an aging population and the rising prevalence of certain medical conditions which cause erectile dysfunction such as diabetes, high blood pressure, smoking, obesity prostate issues etc. In addition, other procedures such as hair restoration using

Platelet Rich Plasma procedures have successfully treated certain kinds of hair loss can be added to our service and product offerings.

We have leased a medical office space and are populating it with the necessary equipment and appropriate furniture for examinations and medical procedures. One of our Board of Directors board members is personally taking the responsibilities of Medical Director and has personally invested time and money to establish this venture. In addition. It is our plan to rejuvenate our registration and raise funds for this new and additional venture through equity offerings.

Going Concern

The market price of our common stock has fallen below the fixed price of our registered stock offering and we will have to resubmit our registration. We cannot assure you that we will be able to obtain financing on favorable terms. 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 Quarterly Report do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result should we be unable to continue as a going concern.

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

COMMITMENTS AND CONTINGENT LIABILITIES

Effective July 31, 2016, the lease at 1900 Lansdowne Road, Baltimore Maryland was terminated by mutual agreement with the landlord.

Our total current liabilities increased to $1,792,043 at the nine month period ended September 30, 2016 compared to $1,659,742 at fiscal year ended December 31, 2015. As of September 30, 2016, our short and long term notes payable consist of the following:

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.

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, the Company is not required to provide this information.

CRITICAL ACCOUNTING POLICIES

Customers can purchase service contracts or extended warranties, which provide for replacement or repair of installed units beyond the period provided by the unconditional warranty. Service contracts 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.

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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, 2015, 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 September 30, 2016. Based on such evaluation, we have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer/Principal Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

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

(1) pertain to the maintenance of records that in reasonable detail accurately and fairy reflect our transactions.

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorization of our management and directors; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error or circumvention through collusion of 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, 2016. 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, 2016, our internal control over financial reporting was effective.

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

Changes in Internal Control Over Financial Reporting

Our management has evaluated, with the participation of our Chief Executive Officer/Chief Financial Officer, changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the period ended September 30, 2016. In connection with such evaluation, there have been no changes to our internal control over financial reporting that occurred since the beginning of our nine month period September 30, 2015 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

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

10.1 View Systems, Inc. 2010 Equity Incentive Plan (Incorporated by reference to exhibit 10.1 to Form 10-Q filed May 14, 2010)

10.2 View Systems, Inc. 2010 Service Provider Stock Compensation Plan (Incorporated by reference to exhibit 10.4 to Form 10-Q filed August 19, 2010)

10.3 Employment agreement between View Systems and Gunther Than, dated December 1, 2009 (Incorporated by reference to exhibit 10.1 to Form 8-K, filed January 11, 2010)

10.4 Subcontractor Agreement dated March 9, 2009 between MasTec North America, Inc. and View Systems, Inc. (Incorporated by reference to exhibit 10.3 for Form 10-Q, Amendment No. 1, for the period ended March 31, 2009)

10.3 Purchase Agreement, dated June 1, 2012 (Incorporated by reference to exhibit 10.1 to Form 8-K, filed July 3, 2012)

10.4 Amendment to Purchase Agreement, dated June 28, 2012 (Incorporated by reference to exhibit 10.2 to Form 8-K, filed July 3, 2012)

21.1 List of Subsidiaries

31.1 Rule 13a-15(e)/15d-15(e) Certification by the Chief Executive Officer and Chief Financial Officer *

32.1 Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

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SIGNATURES

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

VIEW SYSTEMS, INC.

Date: August 3, 2017 By: /s/ Gunther Than
Gunther Than
Chief Executive Officer
(Principal executive officer, principal financial officer, and principal accounting officer)