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VIEW SYSTEMS INC
Form 10-Q
May 22, 2018
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 MARCH 31, 2018

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

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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 May 11, 2018
Common Stock, \$.001 par value per share	326,705,526

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VIEW SYSTEMS, INC.
FORM 10-Q
FOR THE PERIOD ENDED March 31, 2018

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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.

Insert financials

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

	March 31 2018	March 31, 2017
<u>ASSETS</u>		
Current Assets		
Cash	\$9,226	\$82
Accounts receivable	31,195	-
Total current assets	40,421	82
Property and Equipment (Net)	1,197	1,397
Total assets	\$41,618	\$1,479
<u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u>		
Current Liabilities		
Accounts payable and accrued expenses	\$451,897	\$436,574
Deferred compensation	319,579	264,744
Accrued and withheld payroll taxes payable	195,310	193,654
Accrued interest payable	164,153	155,625
Accrued royalties payable	225,000	225,000
Loans from stockholders	625,633	637,034
Notes payable	62,813	50,000
Deferred revenue	4,792	59,715
Derivative liability	147,042	-
Total liabilities	2,196,219	2,022,346
Stockholders' Deficit		
Convertible preferred stock, authorized 10,000,000 shares, \$.001 par value, Issued and outstanding 5,589,647	5,590	5,590
Common stock, authorized 950,000,000 shares, \$.001 par value, Issued and outstanding 326,705,526	326,705	326,705
Common stock issuable	16,000	16,000
Additional paid in capital	27,392,125	27,392,125
Accumulated deficit	(29,895,021)	(29,761,287)
Total stockholders' deficit	(2,154,601)	(2,020,867)
Total Liabilities and Stockholders' Deficit	\$41,618	\$1,479

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

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

	For the Three Months Ended	
	March 31,	
	2018	2017
Revenues		
Products sales and installation	\$-	\$589
Revenue from extended warranties	21,275	8,175
Service income	52,353	-
Total revenue	73,628	8,764
Cost of sales	6,176	-
Gross profit	67,452	8,764
Operating expenses		
General and administrative	65,795	311
Professional fees	9,500	-
Salaries and benefits	60,000	30,000
Total operating expenses	135,295	30,311
Loss from operations	(67,843)	(21,547)
Other income (expense)		
Derivative expense	(94,042)	-
Interest expense	(22,997)	(9,156)
Total other income (expense)	(117,039)	(9,156)
Net loss	\$(184,882)	\$(30,703)
Net loss per share (basic and diluted)	\$(0.00)	\$(0.00)
Weighted average shares outstanding (basic and diluted)	326,705,526	326,705,526

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

View Systems, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)For the Three Months
Ended
March 31,
2018 2017

Cash flows from operating activities:		
Net loss	\$(184,882)	\$(30,703)
Adjustments to reconcile net loss to net cash provided by (used in) operations:		
Depreciation	200	200
Accretion of debt discount	12,813	-
Derivative expense related to convertible note payable	94,042	-
Change in operating assets and liabilities:		
Increase (decrease) in cash from:		
Accounts receivable	(31,195)	-
Accounts payable and accrued expenses	15,323	(5)
Deferred compensation	54,835	29,572
Payroll taxes accrued and withheld	1,656	1,656
Accrued interest	8,528	7,500
Deferred revenue	(3,775)	(8,175)
Net cash provided by (used in) operating activities	(32,455)	45
Cash flows from financing activities:		
Net payments for stockholders loans	(11,401)	(60)
Proceeds from notes payable	53,000	-
Net cash provided by (used in) financing activities	41,599	(60)
Increase (decrease) in cash	9,144	(15)
Cash at beginning of period	82	94
Cash at end of period	\$9,226	\$79

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

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

	For the Three Months Ended March 31, 2018 2017
Cash paid for:	
Interest	\$ - \$ -
Income Taxes	\$ - \$ -
Non-Cash Investing and Financing Activities:	
Interest expense paid with common stock	\$ - \$ -
Notes payable paid by shareholder	\$ - \$ -

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

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. During the second quarter of 2017, the Company established a new business line in the Erectile Dysfunction Medical market by opening one clinic within its' Medical Therapeutics subsidiary.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the audited consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Milestone Technology, Inc., FibreXpress, Inc. and Medical Therapeutics. 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.

Management's determination is that the accounts receivable are collectible and therefore no allowance for possible uncollectible accounts receivable has been recorded for the periods ended March 31, 2018 and 2017, respectively.

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Effective January 1, 2018, the Company adopted ASU No. 2014-9, "Revenue from Contracts with Customers" and the related amendments ("Topic 606") using the modified retrospective method. Topic 606 was applied to all uncompleted contracts by recognizing the cumulative effect of initially applying Topic 606 as an adjustment to the opening balance of equity at January 1, 2018. Therefore, the comparative financial information for the three months ended March 31, 2017 has not been adjusted and continues to be reported under Topic 605, "Revenue Recognition". Due to the cumulative net impact of adopting ASC 606, the January 1, 2018 balance of accumulated deficit was increased by \$51,148, primarily relating to the accelerated recognition of revenue on installation projects.

Under Topic 606, revenue is measured based on consideration specified in the contract with a customer. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in Topic 606. Revenue from all customers is recognized when a performance obligation is satisfied by transferring control of a product or service to a customer. Amounts billed to customers for shipping and handling are included in revenue.

The Company has three main products, namely the concealed weapons detection system, the visual first responder system and the Viewmaxx digital video system. 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 separate performance obligation and apart from the sale of the product. 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.

During 2017 and 2018, the Company did not sell its products or installation and training, but rather only sold extended warranties on its existing installed units. Warranties can be purchased for various periods but generally they are for one year period that begins after any other warranties expire. Under the new guidance, there is no change in our revenue recognition for extended warranty as compared to revenue recognition for these transactions under the prior revenue recognition standards. The Company recognizes revenue from extended warranty ratably over the warranty period.

For our Medical Business, service revenue is considered earned when the service is provided.

Property and Equipment

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

Equipment 5-7 years
Software tools 3 years

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 March 31, 2018 and 2017 amounted to \$200 and \$200,

respectively.

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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. 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.

Research and Development

Research and development costs are expensed as incurred.

Advertising

Advertising costs are charged to operations as incurred. Advertising costs for the periods ended March 31, 2018 and 2017 were \$25 and \$0, respectively.

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 March 31, 2018 and 2017 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
<u>Period ended March 31, 2018</u>			
Loss from operations which is the amount that is available to common stockholders	\$ (184,882)	326,705,526	\$ (0.00)
<u>Period ended March 31, 2017</u>			
Loss from operations which is the amount that is available to common stockholders	\$ (30,703)	326,705,526	\$ (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 periods ended March 31, 2018 and 2017, the Company incurred net losses of \$184,882 and \$30,703, respectively. In addition, certain notes payable have come due and the note holders are demanding payment.

Management is very actively working to cure these situations. It has implemented major plans to for the future growth and development of the Company. Management is in the process of renegotiating more favorable repayment terms on the notes payable and the Company anticipates that these negotiations will result in extended payment plans.

Historically, the Company has financed its operations primarily through private financing. It is management's intention to finance operations during the remainder of 2018 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 revenue 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. The Company adopted this ASU on January 1,

2018. See Note 1 for details of the implementation.

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

4. NOTES PAYABLE

Notes payable as of March 31, 2018 and December 31, 2017 consists of the following:

	2016	2015
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
Auctus Fund, LLC (see Note 13 re: derivative liability)		
Convertible promissory note dated January 12, 2018 with interest at 12% per annum with a nine month maturity date. At any time prior to the complete satisfaction of the Note, the Note shall be convertible into shares of the Company's common stock.	53,000	-
Discount on convertible note	(40,187)	-
TOTAL	\$62.813	\$50,000

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 \$28,308,000 as of December 31, 2017 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 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.

The U.S. Tax Reform Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and business. For businesses, the Act reduces the corporate tax rate from a maximum of 35% to a flat 21%. The rate reduction is effective January 1, 2018. As a result of the rate reduction, the Company has reduced the deferred tax asset balance as of December 31, 2017 by \$3,680,000. As a result of the full valuation allowance on the net deferred tax assets, there was a corresponding adjustment to the valuation allowance for this same amount. Therefore, there is no impact on the Company's 2017 earnings for the law change. In accordance with SAB 118, the Company has determined that there is no deferred tax benefit or expense with respect to the re-measurement of certain deferred tax assets and liabilities due to the full valuation allowance against net deferred tax assets. Additional analysis of the law and the impact to the company will be performed and any impact will be recorded in the respective quarter in 2018, if applicable.

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

6. CONVERTIBLE PREFERRED STOCK

At March 31, 2018 and December 31, 2017, the Company has 5,589,647 shares of Series A Preferred Stock outstanding. 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. Each Series A Preferred share can be converted into common stock in the ratio of 15:1.

7. OPERATING LEASE

In 2017, the Company leased office space at 6 Park Center Court, Owings Mills, Baltimore, Maryland for use as its Medical Clinic and Corporate Office. The monthly rent is currently \$2,126, is through September 2018 and is renewable on a month to month basis. Rent expense was \$8,457 and \$0 for the periods ended March 31, 2018 and 2017, 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 2017 and 2016, 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 year ended December 31, 2016 there were 7,000,000 shares of common stock issued as a payment of interest in the amount of \$16,800.

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.

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at Dec 31, 2017	10,000,000	\$ 0.03	50	\$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at Mar 31, 2018	10,000,000	\$ 0.03	25	\$ -
Exercisable at Mar 31, 2018	10,000,000	\$ 0.03	-	\$ -

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

13. DERIVATIVE INSTRUMENT

The Company has a note payable with elements that qualify as a derivative instrument. The note payable had a variable conversion feature that similarly prevented the calculation of the number of shares into which they were convertible. The note bears interest at 12%, has a maturity of October 24, 2018 and convertible at the lowest trading price during the previous 25 days ending on the last trading day prior to notice, or 50% of the Lowest trading price during the previous 25 days ending on the last trading day prior to notice. This variable conversion feature requires bifurcation from the convertible debenture and measurement at fair value.

The derivative liability, as it relates to the instrument, is shown in the following table:

Beginning balance, January 1, 2018	\$-
Additional issuance	53,000
Exercised/converted	-
Reclassification to equity	-
Change in value of derivative liability	94.042
Fair value, March 31, 2018	\$147,042

The derivative liability was valued using the Black-Scholes method with the following inputs:

Expected life	9	months
Stock price volatility	220	%
Annual risk-free interest rate	1.5	%
Expected dividends	None	

ASC 820, "Fair Value Measurements" and ASC 825, Financial Instruments, requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument is categorized within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. It prioritizes the inputs into three levels that may be used to measure fair value:

Level 1

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical

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assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's consolidated balance sheet as at March 31, 2018 as follows:

Description	Fair Value Measurements at March 31, 2018 Using Fair Value Hierarchy			
	Total	Level 1	Level 2	Level 3
Derivative liability	\$ 147,042	\$ -	\$ -	\$ 147,042
Total	\$ 147,042	\$ -	\$ -	\$ 147,042

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 three-month period ended March 31, 2018 and March 31, 2017 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.

We expanded our product line in 2002 to include a concealed weapons detection system we call ViewScan. In 2003 we added a hazardous material first response wireless video transmitting system to our product line we refer to as Visual First Responder. 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 strategy for 2018 for 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 products and services include:

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.

Medical Services Including Men's Health and Physiological Quality of Life

The company has opened and is operating a medical clinic including physical examinations, medical advice and prescriptions. The company has determined that there is a large demand by male consumers to extend their sexual ability and activities into later years. Many maladies including cardiovascular inadequacies, high blood pressure, diabetes, smoking and obesity are inhibiting aging males from enjoying sexual activity with their mates. Early results are stimulating the company to open more clinics, specifically in Pittsburg, Chicago and Philadelphia.

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 three months ended March 31, 2018 and March 31, 2017 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, 2017.

SUMMARY COMPARISON OF OPERATING RESULTS*

	Three ended March 31,	
	<u>2018</u>	<u>2017</u>
Revenues, net	\$73,628	\$8,764
Cost of sales	6,176	0
Gross profit (loss)	67,452	8,764
Total operating expenses	135,294	30,311
Profit (Loss) from operations	(67,843)	(21,547)
Total other income (expense)	(57,884)	(9,156)
Net income (loss)	(125,727)	(30,703)
Net income (loss) per share	\$(0.00)	\$(0.00)

Three Month Period Ended March 31, 2018 Compared to Three Month Period Ended March 31, 2017.

Our net loss for the three-month period ended March 31, 2018 was (\$125,727) compared to a net loss of (\$30,703) during the three month period ended March 31, 2017 (an increase in net loss of \$95,024). We generated net revenues of \$73,628 during the three month period ended March 31, 2018 compared to \$8,764 during the three month period ended March 31, 2017 (an increase in net revenue of \$64,864). Revenue is considered earned when service is provided and in addition when the product is shipped to the customer.

We have experienced an increase in sales of our services and products which resulted in increase revenues for the three month period ended March 31, 2018 compared to the three month period ended March 31, 2017. We believe the increased revenue is the result of the ramp up of services and the increase of sales of product. We also continue service our install base of security products and we continue to receive purchase orders for the View Scan.

Cost of service provided and the goods sold increased during the three month period ended March 31, 2018 to \$6,176 from \$0 incurred during the three month period ended March 31, 2017, resulting in a gross profit of \$67,452 for the three month period ended March 31, 2018 compared to a gross profit of \$8,764 for the three month period ended March 31, 2017. During the three month period ended March 31, 2018, the increase of cost of goods sold and service provided was due to our growth of the new venture into men's health.

During the three month period ended March 31, 2018, we incurred operating expenses of \$ 135,295 compared to \$30,311 incurred during the three month period ended March 31, 2017 (an increase of \$104,984).

Operating expenses incurred during the three month period ended March 31, 2018 compared to the three month period ended March 31, 2017 increased primarily due to the increase in professional fees and general and administrative expenses.

Our net operating loss during the three-month period ended March 31, 2018 was (\$125,727) compared to a net operating loss of (\$30,703) during the three-month period ended March 31, 2017.

During the three-month period ended March 31, 2018, interest expense in the amount of (\$10,184) (2017: (\$9,156)) was incurred. The increase in interest expense was due to continued interest paid on a loan from stockholder.

During the three-month period ended March 31, 2018, derivative expense in the amount of (\$47,700) (2017: -0-) was incurred. The increase in derivative expense was due to a loan from a lending institution.

After deducting other expense, we realized a net loss of (\$125,727) for the three month period ended March 31, 2018 compared to a net loss of (\$30,703) for the three month period ended March 31, 2017.

The weighted average number of shares outstanding was 326,705,526 for the three month period ended March 31, 2018 compared to 326,705,526 for the three month period ended March 31, 2017.

LIQUIDITY AND CAPITAL RESOURCES

Three Month Period Ended March 31, 2018

As of March 31, 2018, our current assets were \$40,421 and our current liabilities were \$2,188,212, which resulted in a working capital deficit of \$2,100,091. As at the three month period ended March 31, 2018, current assets were comprised of: (i) \$40,421 in cash; (ii) \$31,195 in accounts receivable (net of allowance of \$1,000); and (iii) \$1,197 in inventory.

As of March 31, 2018, current liabilities were comprised of: (i) \$451,897 in accounts payable and accrued expenses; (ii) \$319,579 in deferred compensation; (iii) \$195,310 in accrued and withheld payroll taxes payable; (iv) \$164,153 in accrued interest payable; (v) \$225,000 in accrued royalties payable; (vi) \$625,633 in loans from stockholders; (vii) \$103,000 in notes payable; (viii) deferred revenue of \$55,940; and derivative liability of \$100,700.

As of March 31, 2018 our total assets were \$41,618 comprised of: (i) \$40,421 in current assets; (ii) property and equipment (net) of \$1,197; and (iii) \$9,226 in deposits. The increase in total assets during the three month period from fiscal year ended December 31, 2017 was primarily due to the increase in accounts receivable.

As of March 31, 2018 our total liabilities were \$2,188,212 comprised of: (i) \$2,087,512 in current liabilities; and (ii) \$100,700 in derivative liability.

Stockholders' deficit increased from (\$2,020,867) for fiscal year ended December 31, 2017 to (\$2,146,594) for the three month period ended March 31, 2018.

Cash Flows from Operating Activities

For the three month period ended March 31, 2018, net cash flows provided by operating activities was \$32,455 compared to net cash flows used in operating activities of (\$45) for the three month period ended March 31, 2017.

Cash Flows from Investing Activities

For the three month periods ended March 31, 2017 and March 31, 2016, net cash flows used in 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 three month period ended March 31, 2018, net cash flows provided from financing activities was \$11,401 compared to \$60 for the three-month period ended March 31, 2017. Cash flows from financing activities for the three month period ended March 31, 2018 consisted of: (i) \$0 in proceeds from sales of common stock; and (ii) \$0 in loans received from stockholders; and (iii) \$53,000 in notes payable which was offset by (\$0) in principal payment on notes payable.

PLAN OF OPERATION AND FUNDING

We have incurred losses for the past two fiscal years and had a net loss of \$125,727 at March 31, 2018 and \$30,703 at March 31, 2017. Our revenues from service and product sales have been insufficient to cover our operating expenses. Our auditors have expressed substantial doubt that we can continue as a going concern. We have continued to push warranty sales, service contracts and control costs but the large overwhelming marketing budgets of our competitors in spite of our superior technology has diminished our ability to compete.

Our Board of Directors has decided to broaden our perspective and add additional business related or 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.

According to Pew Research, 10,000 Baby Boomers turn 65 every day, of which 49% are men. This ensures that we will have an expanding pool of prospective clients, and thus make possible the exponential growth of patients each year until 2030. The current US market estimates for erectile dysfunction therapies is upwards of \$6 Billion.

We have established one working medical clinic and are in process of opening others in selected cities. 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 cause erectile dysfunction such as diabetes, high blood pressure, smoking, obesity prostate issues etc. One particular attractive procedure will be hair rejuvenation and restoration using platelet rich plasma injections.

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 2018. 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 2018, then we may be required to reduce our expenses and scale back our operations. These factors raise substantial doubt of our ability to continue as a going concern. Footnote 2 to our financial statements provides additional explanation of Management's views on our status as a going concern. The audited financial statements contained in this Annual Report do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result should we be unable to continue as a going concern.

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

COMMITMENTS AND CONTINGENT LIABILITIES

Our total current liabilities increased to \$2,188,212 at the three month period ended March 31, 2018 compared to \$2,022,346 at fiscal year ended December 31, 2017. As of March 31, 2018, 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. The lender has not demanded repayment.

We are not in default of a convertible promissory note \$53,000 dated January 12, 2018 with interest at 12% per annum with a nine month maturity date. At any time prior to the complete satisfaction of the Note, the Note shall be convertible into shares of the Company's common stock.

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

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.. 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, 2016, 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 March 31, 2018. Based on such evaluation, we have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer/Principal Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

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

- (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions.
 - 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 the Company's assets that could have a material effect on our financial statements.

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

Our management assessed the effectiveness of our internal control over financial reporting as of March 31, 2018. 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 March 31, 2018, 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 March 31, 2018. In connection with such evaluation, there have been no changes to our internal control over financial reporting that occurred since the beginning of our three month period ended March 31, 2017 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 *

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: May 22, 2018 By: /s/ Gunther Than

Gunther Than

Chief Executive Officer

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