VIEW SYSTEMS INC
Form 10QSB/A
February 03, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB/A
Amendment No.1

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2005

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

Commission File Number 0-30178

VIEW SYSTEMS, INC.
(Exact name of small business issuer as specified in its charter)

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

1550 Caton Center Drive, Suite E, Baltimore, Maryland 21227
(Address of principal executive offices)

Issuer's telephone number: (410) 242-8439

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

As of May 9, 2005 View Systems, Inc. had 79,330,422 shares of common stock outstanding.

Transitional small business disclosure format: Yes [ ] No [X]

Explanatory Note

On October 12, 2005 we filed a registration statement on Form SB-2, and the Securities and Exchange Commission ("SEC") conducted a full review of the Form SB-2. The SEC requested that we expand the disclosures in this Form 10-QSB to comply with its comments. As a result of this review we have restated our financial statements for the year ended December 31, 2004. See the "Restatement" note to the financial statements for the explanation of the restatement. The disclosures in this report are as of the initial filing date of May16, 2005 and do not include subsequent events.

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The financial information set forth below with respect to our statements of operations for the three month periods ended March 31, 2005 and 2004 is unaudited and has been restated. This financial information, in the opinion of management, includes all adjustments consisting of normal recurring entries necessary for the fair presentation of such data. The results of operations for the three month period ended March 31, 2005 are not necessarily indicative of results to be expected for any subsequent period.

View Systems, Inc. and Subsidiaries
Consolidated Balance Sheets

ASSETS

	March 31, 2005 (Restated)	December 31, 2004 (Restated)
Current Assets		
Cash	$ 147	$ 173,486
Accounts Receivable(Net of Allowance of $20,054)	179,453	108,342
Inventory	26,197	61,197
Total Current Assets	205,797	343,025

Property & Equipment (Net)	9,400	14,803
Other Assets		
Licenses	1,626,854	1,626,854
Due from Affiliates	98,457	98,457
Deposits	2,319	2,319
Total Other Assets	1,727,630	1,727,630
Total Assets	$ 1,942,827	$ 2,085,458

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts Payable	$ 115,225	$ 265,776
Accrued Expenses	100,533	100,548
Accrued Interest	66,000	66,000
Notes Payable	148,500	148,500
Total Current Liabilities	430,258	580,824
Stockholders' Equity		
Preferred Stock, Authorized 10,000,000 Shares, $.01 Par Value, Issued and outstanding 0	-	-
Common Stock, Authorized 100,000,000 Shares, $.001 Par Value, Issued and Outstanding 76,816,922	76,817	-
Issued and Outstanding 76,533,922	-	76,534
Additional Paid in Capital	17,153,813	17,119,596
Retained Earnings (Deficit)	(15,718,061)	(15,691,496)
Total Stockholders' Equity	1,512,569	1,504,634
Total Liabilities and Stockholders' Equity	$ 1,942,827	$ 2,085,458

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

View Systems, Inc. and Subsidiaries
Consolidated Statements of Operations

	For the Three Months Ended March 31,	
	2005	2004

Revenues, Net	$ 285,643	$ 34,353
Cost of Sales	104,328	32,326
Gross Profit (Loss)	181,315	2,027
Operating Expenses		
Business Development	15,530	-
General & Administrative	67,591	55,578
Professional Fees	38,515	24,219
Salaries & Benefits	86,244	133,571
Total Operating Expenses	207,880	213,368
Net Operating Income (Loss)	(26,565)	(211,341)
Other Income(Expense)		
Interest Expense	-	(3,014)
Total Other Income(Expense)	-	(3,014)
Net Income (Loss)	$ (26,565)	$ (214,355)
Net Income (Loss) Per Share	$ (0.00)	$ (0.00)
Weighted Average Shares Outstanding	76,675,422	63,376,036

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

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

	For the Three Months Ended March 31,	
	2005	2004
	(Restated)	
Cash Flows from Operating Activities:		
Net Income (Loss)	$ (26,565)	$ (214,355)
Adjustments to Reconcile Net Loss to Net Cash		

Provided by Operations:		
Depreciation & Amortization	6,388	11,290
Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(71,111)	67,847
Inventories	35,000	-
Increase (Decrease) in:		
Accounts Payable	(131,551)	(40,827)
Accrued Expenses	(15)	(9,818)
Net Cash Provided(Used) by Operating Activities	(187,854)	(185,863)
Cash Flows from Investing Activities:		
Purchases of equipment	(985)	-
Net Cash Used In Investing Activities	(985)	-
Cash Flows from Financing Activities:		
Funds advanced (to) from stockholders	-	137,886
Proceeds from stock issuance	15,500	35,000
Net Cash Provided (Used) by Financing Activities	15,500	172,886
Increase (Decrease) in Cash	(173,339)	(12,977)
Cash and Cash Equivalents at Beginning of Period	173,486	19,899
Cash and Cash Equivalents at End of Period	$ 147	$ 6,922

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

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

	For the Three Months Ended March 31,	
	2005	2004
	(Restated)	
Cash Paid For:		
Interest	$ -	$ 3,009

Income Taxes	$ -	$ -
Non-Cash Investing and Financing Activities:		
Stock issued in payment of accounts payable	$ 19,000	$ -

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

View Systems, Inc.
Notes to the Consolidated Financial Statements
March 31, 2005

GENERAL

View Systems, Inc. (the Company) has elected to omit substantially all footnotes to the financial statements for the three months ended March 31, 2005 since there have been no material changes (other than indicated in other footnotes) to the information previously reported by the Company in their Annual Report filed on the Form 10-KSB for the twelve months ended December 31, 2004.

UNAUDITED INFORMATION

The information furnished herein was taken from the books and records of the Company without audit. However, such information reflects all adjustments which are, in the opinion of management, necessary to properly reflect the results of the interim period presented. The information presented is not necessarily indicative of the results from operations expected for the full fiscal year.

RESTATEMENT

Pursuant to a regulatory review, the financial statements for the year ended December 31, 2004 have been changed. During 2004, the Company's President loaned funds to the Company to meet its financial needs, however, a payment back to Mr. Than was incorrectly recorded as a loan receivable to Mr. Than, leaving a receivable and payable in the same amount. This officer receivable has been offset against accounts payable and notes payable and when combined, Mr. Than had an identical balance. The restatement caused a decrease in loans to shareholder of $66,500, leaving a $0 balance, and caused a decrease in accounts payable of $66,000 and a decrease in notes payable of $500. This change carried forward to 2005 and as a result the loans to shareholder decreased $62,000, once again leaving a $0 balance, and caused a decrease in accounts payable of $61,500 and a decrease in notes payable of $500. The restatement also required a change to the 2005 cashflow statement by removing funds received from a shareholder and including it in the accounts payable section.

In this report references to "View Systems," "we," "us," and "our" refer to View Systems, Inc.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The SEC encourages companies to disclose forward-looking information so that investors can better understand future prospects and make informed investment decisions. This report contains these types of statements. Words such as "may," "will," "expect," "believe," "anticipate," "estimate," "project," or "continue" or comparable terminology used in connection with any discussion of future operating results or financial performance identify forward-looking statements. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. All forward-looking statements reflect our present expectation of future events and are subject to a number of important factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

EXECUTIVE OVERVIEW

View Systems, Inc. develops, produces and markets computer software and hardware systems for security and surveillance applications. Our principal products include:

- Visual First Responder - a lightweight, wireless camera system housed in a tough, waterproof flashlight body.
- SecureScan Concealed Weapons Detection System - a walk-through concealed weapons detector which uses sensing technology and artificial intelligence algorithms to accurately pinpoint the location, size and number of concealed weapons.
- ViewMaxx Digitial Video products - a high-resolution, digital video recording and real-time monitoring system.
- Biometric verification systems, magnetic door locks and central monitoring or video command centers which can be combined with our principal products.

Our revenues for the past two years have been from sales of our products and our sales continued to increase in the first quarter of 2005 as a result of sales of our Visual First Responder product. Management believes that heightened attention to terrorism and other security threats will continue to drive growth in the market for security products.

We rely primarily on private financing to fund our operations, along with our revenues. We have incurred losses for the past two fiscal years and have an accumulated deficit of $15,718,061 at March 31, 2005. Our auditors have expressed substantial doubt that we can continue as a going concern based on these factors. Management believes we will incur operating losses for the near future while we continue to expand our product line and develop our sales and marketing channels. Management continues to seek additional funding of up to $1 million to continue our business plan development for the next twelve months. However, we can not assure you that we will be successful at obtaining the necessary funding to continue this development.

For the next twelve months our primary challenge will be to more fully develop our sales and distribution network for the United States. We continue to establish new partnerships, add active resellers and dealers. We intend to build a United States domestic network of manufacturing representatives and dealers for the sale and distribution of our products within the 48 states. Our emphasis has been on marketing and sales programs through dealer channels, plus internal marketing support for our products. We train our dealers and support the dealer network by collaborating at customer demonstrations.

However, we cannot assure you that we will be able to develop these sales and distribution channels to a level which will result in increased revenues or continued profitability.

LIQUIDITY AND CAPITAL RESOURCES

While our revenues are increasing, we are unable to satisfy our operating expenses. Net cash used by operating activities was $187,854 for the three month period ended March 31, 2005 (the "2005 first quarter") compared to

$185,863 for the three month period ended March 31, 2004 (the "2004 first quarter"). For the 2004 first quarter we relied primarily on net cash provided by financing activities of $172,886, consisting of debt financing of $137,886 and proceeds of $35,000 received from sales of common stock. For the 2005 first quarter we financed our operations primarily with revenues of $285,643 and we augmented the revenues with proceeds of $15,500 from the sale of our common stock.

For the short term, management believes that revenues, advances and sales of our common stock will provide funds for operations and further development of our business plan. For the long term, management expects that the development of our sales and distribution channels will increase our revenues; however, we will need to continue to raise additional funds through loans and sales of our common stock, as needed.

We estimate that we will require additional financing of approximately $1 million to meet our needs for the next twelve months. We will likely finance our 2005 operations through additional private financing. Our goal is to use this financing to increase ongoing operations to self-sustaining levels and increase profits to the magnitude management feels is achievable.

We intend to use any available cash to develop our products and expand our sales, marketing and promotional activities. Management believes that it will be essential to continue to raise additional capital, both internally and externally, to compete in our markets. We cannot assure you that we will be able to obtain financing on favorable terms and, if not, then we may be required to further reduce expenses and scale back our operations. In addition to accessing the public and private equity markets, we will pursue bank credit lines and equipment leases for certain capital expenditures, if necessary.

COMMITMENTS AND CONTINGENT LIABILITIES

Our total current liabilities of $430,258 include accounts payable of $115,225, accrued expenses of $100,533, accrued interest of $66,000 and notes payable of $148,500. Our base rent for operating leases related to our principal office and manufacturing facility is approximately $2,300 per month, with an annual rent escalator of 3%. At December 31, 2004, future minimum payments for operating leases related to our office and manufacturing facility were $19,964 through 2006.

OFF-BALANCE SHEET ARRANGEMENTS

None.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates of particular significance in our financial statements include annual tests for impairment of our licenses. These estimates could be materially different if we used a different set of standards than those described below. Also, events beyond our control, such as changes in government regulations that may affect the usefulness of our licenses or the introduction of new technologies that compete directly with our technologies may affect the value of our licenses.

We first determine the value of the license using a projected cash-flow analysis to determine the present value of cash flows. The test is done using assumptions as to various scenarios of increases and decreases in the revenue stream and applying a discount rate of 6%. If the value achieved under these various methods is less than the carrying value of the assets then it is considered that an impairment has occurred and the asset's carrying value is adjusted to reflect the impairment.

Management also makes estimates on the useful life of our licenses based on the following criteria:

- Whether other assets or group of assets are related to the useful life of the licenses,

- Whether any legal, regulatory or contractual provisions will limit the use of the assets,
- We evaluate the cost of maintaining the license,
- We consider the possible effects of obsolescence, and
- Whether there is maintenance or any other costs associated with the license.

RESULTS OF OPERATIONS

The following discussions are based on the consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the three month periods ended March 31, 2004 and 2005 and should be read in conjunction with the financial statements, and notes thereto, included with this report at Part I, Item 1, above.

Summary Comparison of 2004 and 2005 First Quarter Operations

	First Quarter 2004	First Quarter 2005
Revenues, net	$ 34,353	$ 285,643
Cost of sales	32,326	104,328
Gross profit	2,027	181,315
Total operating expenses	213,368	207,880
Total other income (expense)	(3,014)	-
Net income (loss)	(214,355)	(26,565)

Net earnings (loss) per share	$	(0.00)	$	(0.00)

Revenue is considered earned when the product is shipped to the customer. The SecureScan product and the ViewMaxx product lines 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.

Revenues for the 2005 first quarter increased $251,290 compared to the 2004 first quarter due to increased sales of our Visual First Responder products. However, costs of sales were approximately 94% of sales for the 2004 first quarter due to selling products at reduced prices. Cost of sales dropped to approximately 36% of sales for the 2005 first quarter due to selling an increased amount of units at higher prices. As a result of the increase in units sold at higher prices our gross profit increased $179,288 from the 2004 first quarter compared to 2005 first quarter.

For the 2005 first quarter total operating expense decreased slightly compared to the 2004 first quarter. General and administrative expenses increased 21.6% in the 2005 first quarter. Professional fees increased 59.0% in the 2005 first quarter as a result of contracts with engineers. Business development expenses of $15,530 were also recorded in the 2005 first quarter compared to no business development expenses in the 2004 first quarter. These increases were offset by a 35.4% decrease in salaries and benefits related to reductions in employees. Management anticipates that business development, professional fees and general and administrative expense will remain at the higher levels as we move forward with our business plan.

Total other expense for the 2004 first quarter was related to interest on loans and was reduced to $0 for the 2005 first quarter. Interest expense will likely increase if we obtain debt financing to provide the additional $1 million we will need for operations during the next twelve months.

As a result of the above changes, our net loss decreased $187,790 from the 2004 first quarter to the 2005 first quarter and we recorded $0.0 loss per share for the comparable quarters.

FACTORS AFFECTING FUTURE PERFORMANCE

Our independent auditors have expressed substantial doubt whether we can continue as a going concern.

We have incurred ongoing operating losses and do not currently have financing commitments in place to meet expected cash requirements for the next twelve months. We are unable to fund our day-to-day operations through revenues alone and management believes we will incur operating losses for the near future while we seek financing commitments during the next twelve months to fund further development of our business plan. While we have expanded our product line and expect to establish new sales channels, we may be unable to increase revenues to the point that we attain and are able to maintain profitability.

We are currently dependent on the efforts of our resellers for our continued growth and must expand our sales channels to increase our revenues.

We are in the process of developing and expanding our sales channels, but we expect overall sales to remain down as we develop our marketing activities. If we are unsuccessful in developing sales channels then we may have to abandon our business plan. We are actively recruiting and adding other additional resellers and must continue to recruit additional resellers and find other methods of distribution to increase customers.

We may not be able to compete successfully in our market because we have a small market share and compete with large national and international companies.

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

Our revenues are dependent in part upon our relationships and alliances with government agencies and partners.

While we own exclusive licenses for the SecureScan technology, we are dependent upon the continuation of the ongoing contract between the Department of Energy and National Institute of Justice for continuations and improvements to the concealed weapons detection technology. We are also dependent upon the U.S. Department of Energy's Idaho National Engineering and Environmental Laboratory for developments of the Visual First Responder product. If either of these entities should discontinue its operations or research and development we may lose our competitive edge in our markets.

We must successfully introduce new or enhanced products and manage the costs associated with producing several product lines to be successful.

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

We would be harmed if we were unable to use our manufacturing facility.

We assemble and manufacture our products at our facility located in Baltimore, Maryland. If we were unable to continue manufacturing at this location due to fire, prolonged power shortage or other natural disaster, then we would be unable to supply products to our customers.

ITEM 3. CONTROLS AND PROCEDURES

Our Chief Executive Officer, who also acts in the capacity of principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, he concluded that our disclosure controls and procedures were effective.

Also, our Chief Executive Officer determined that there were no changes made in our internal controls over financial reporting during the first quarter of 2005 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 6. EXHIBITS

Part I Exhibits

31.1	Chief Executive Officer Certification
31.2	Principal Financial Officer Certification
32.1	Section 1350 Certification

Part II Exhibits

3.1	Articles of Incorporation of View Systems, as amended (Incorporated by reference to exhibit 3.1 to Form 10-QSB filed November 14, 2003)
3.2	By-Laws of View Systems (Incorporated by reference to exhibit 3.2 to Form 10-QSB filed November 14, 2003)
10.1	Employment agreement between View Systems and Gunther Than, dated January 1, 2003. (Incorporated by reference to exhibit 10.3 to Form 10-KSB, filed April 14, 2004)
21.1	Subsidiaries (Incorporated by reference to exhibit 21.1 to Form 10-KSB, filed March 31, 2003)

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SIGNATURES

In accordance with the requirements of the Securities Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VIEW SYSTEMS, INC.

/s/ Gunther Than

Date: February 2, 2006 By: ______________________________

Gunther Than
Chief Executive Officer, Treasurer, Director
and Principal Financial Officer

/s/ Michael L. Bagnoli

Date: February 2, 2006 By: ____
Michael L. Bagnoli
Secretary and Director