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VIEW SYSTEMS INC
Form 10QSB
May 16, 2005

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

FORM 10-QSB

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.)

1100 Wilso Drive
Baltimore, Maryland 21223
(Address of principal executive offices)

(410) 646-3000
(Issuer's telephone number)

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 No

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

Transitional small business disclosure format: Yes No

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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. 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.

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View Systems, Inc.

Consolidated Financial Statements

March 31, 2005

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View Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

ASSETS

	March 31, 2005	December 31, 2004
	-----	-----
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
	-----	-----

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Property & Equipment (Net)	9,400	14,803
	-----	-----
Other Assets		
Licenses	1,626,854	1,626,854
Loans to shareholder	62,000	66,500
Due from Affiliates	98,457	98,457
Deposits	2,319	2,319
	-----	-----
Total Other Assets	1,789,630	1,794,130
	-----	-----
Total Assets	\$ 2,004,827	\$ 2,151,958
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts Payable	\$ 176,725	\$ 331,776
Accrued Expenses	100,533	100,548
Accrued Interest	66,000	66,000
Notes Payable	149,000	149,000
	-----	-----
Total Current Liabilities	492,258	647,324
	-----	-----
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	\$ 2,004,827	\$ 2,151,958
	=====	=====

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

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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.

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

	For the Three Months Ended	
	March 31,	
	2005	2004
	-----	-----
Cash Flows from Operating Activities:		
Net Income (Loss)	\$	(26,565)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operations:		
Depreciation & Amortization		6,388
		11,290

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Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(71,111)	67,847
Inventories	35,000	-
Increase (Decrease) in:		
Accounts Payable	(136,051)	(40,827)
Accrued Expenses	(15)	(9,818)
	-----	-----
Net Cash Provided(Used) by Operating Activities	(192,354)	(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	4,500	137,886
Proceeds from stock issuance	15,500	35,000
	-----	-----
Net Cash Provided (Used) by Financing Activities	20,000	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.

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

	For the Three Months Ended	
	March 31,	
	2005	2004
	-----	-----
Cash Paid For:		
Interest	\$ -	\$ 3,009
Income Taxes	\$ -	\$ -
Non-Cash Investing and Financing Activities:		
Stock issued in payment of accounts payable	\$ 19,000	\$ -

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

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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.

COMMON STOCK

During January 2005, the Company issued 128,000 shares of common stock for services valued at \$19,000.

During January 2005, the Company issued 275,000 shares of common stock for cash of \$27,500.

During February 2005, the Company issued 81,000 shares of common stock for cash of \$8,100

During March 2005, the Company issued 25,000 shares of common stock for cash of \$2,500.

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

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View Systems, Inc.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission ("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 acquires and/or develops technologies related to surveillance, detection and security for the purpose of commercializing them. We offer:

- . 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 Digital Video products - a high-resolution, digital video recording and real-time monitoring system.

Our revenues for the past two years have been from sales of our products and our sales continued to increase for 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 on revenues, private financing and sales of common stock to fund our operations. 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 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 product lines and our sales and distribution network for the United States. Our emphasis has been on marketing and sales programs through dealer channels, plus internal direct sales for our products. 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. 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

For the short term, management believes that revenues, advances and sales of

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our common stock will provide funds for operations and further development of our business plan. For the long term, management expects that the

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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.

While our revenues are increasing, we are unable to satisfy our operating expenses. Net cash used by operating activities was \$192,354 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"). Net cash used for investing activities was \$985 for the 2005 first quarter and was related to the purchase of equipment.

FINANCING

We have financed our operations primarily through revenues and private financing. Net cash provided by financing activities for the 2005 year was \$20,000, primarily from proceeds from sales of common stock. Net cash provided by financing activities for the 2004 first quarter was \$172,886, consisting of debt financing of \$137,886 and proceeds received from sales of common stock of \$35,000.

We estimate that we will require additional financing of approximately \$1 million to meet our needs for the next twelve months. 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. We will likely finance our 2005 operations through additional equity financing. 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 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 \$492,258 include accounts payable of \$176,725, accrued expenses of \$100,533, accrued interest of \$66,000 and notes payable of \$149,000. 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.

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

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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
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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)

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 also increased for the 2005 first quarter compared to the 2004 first quarter. As a result of the increase in revenues 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. The 2005 decrease was primarily the result of decreased salaries and benefits.

Total other expense for the 2004 first quarter was primarily related to interest on loans.

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 concern 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

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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

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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.

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ITEM 3. CONTROLS AND PROCEDURES

Our Chief Executive Officer, who also acts in the capacity of principal financial officer, has concluded that the disclosures related to the effectiveness of our disclosure controls and procedures and our internal control over financial reporting made in our annual report on Form 10-KSB, filed March 30, 2005, remain accurate.

PART II: OTHER INFORMATION

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

Sale of Unregistered Securities

The following discussion describes securities sold by View Systems without registration through a recent date which have not been previously reported.

On March 10, 2005 we issued 25,000 shares of common stock to Calvin McCohm for \$2,500 cash. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act.

On April 7, 2005 we issued 1,200,000 shares of common stock to Gunther Than in consideration for his salary for the 2004 year. These shares were valued at approximately \$120,000. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act.

On April 15, 2005 we issued 600,000 shares of common stock to Gunther Than as required by his employment

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agreement. These shares were valued at approximately \$60,000. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act.

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

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10-KSB, filed March 31, 2003)

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: May 13, 2005

By: _____
Gunther Than
Chief Executive Officer, Treasurer,
Director and Principal Financial Officer