VIEW SYSTEMS INC
Form 10QSB
August 15, 2005

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

FORM 10-QSB

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

For the quarterly period ended June 30, 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 [X] No [ ]

As of July 27, 2005, View Systems, Inc. had 81,530,422 shares of common stock outstanding.

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

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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 and six month periods ended June 30, 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 six month period ended June 30, 2005 are not necessarily indicative of results to be expected for any subsequent period.

View Systems, Inc. and Subsidiaries
Consolidated Balance Sheets

ASSETS

	June 30, 2005	December 31, 2004
	(unaudited)	
Current Assets		
Cash	$ 93,269	$ 173,486
Accounts Receivable (Net of allowance of $20,054 at December 31, 2004)	13,972	108,342
Inventory	26,197	61,197
Total current assets	133,438	343,025
Property & Equipment (Net)	9,518	14,803
Other Assets		
Licenses	1,626,854	1,626,854
Loans to Shareholder	62,000	66,500
Due from Affiliates	103,358	98,457
Deposits	2,319	2,319
Total Other Assets	1,794,531	1,794,130

Total Assets	$ 1,937,487	$ 2,151,958

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts Payable	$ 143,377	$ 331,776
Accrued Expenses	30,802	100,548
Accrued Interest	71,400	66,000
Notes Payable	149,000	149,000
Total Current Liabilities	394,579	647,324
Stockholers' Equity		
Preferred Stock, Authorized 10,000,000 Shares, $.01 Par Value, Issued and Outstanding -0-	-	-
Common Stock, Authorized 100,000,000 Shares, $0.001 Par Value, Issued and Outstanding 81,509,422	81,510	-
Issued and Outstanding 76,533,922	-	76,534
Additional Paid in Capital	17,337,271	17,119,596
Retained Earnings (Deficit)	(15,875,873)	(15,691,496)
Total Stockholders' Equity	1,542,908	1,504,634
Total Liabilities and Stockholders' Equity	$ 1,937,487	$ 2,151,958

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
Revenues, Net	$ 195,914	$ 158,041	$ 481,556	$ 192,394
Cost of Sales	125,180	73,872	229,508	106,198
Gross Profit (Loss)	70,734	84,169	252,048	86,196
Operating Expenses				

Business development	17,617	-	32,646	-
General & Administrative	25,238	325,100	94,020	380,678
Professional Fees	31,341	57,955	69,856	82,174
Salaries and Benefits	148,812	106,639	234,365	240,210
Total operating expenses	223,008	489,694	430,887	703,062
Net Operating Income (Loss)	(152,274)	(405,525)	(178,839)	(616,866)
Other Income (Expense)				
Interest Expense	(5,538)	(25,297)	(5,538)	(28,311)
Total Other Income (Expense)	(5,538)	(25,297)	(5,538)	(28,311)
Net Income (Loss)	$ (157,812)	$ (430,822)	$ (184,377)	$ (645,177)
Net Income (Loss) Per Share	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.01)
Weighted Average Shares Outstanding	76,866,047	64,523,490	76,866,047	63,671,982

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

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View Systems, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity (Deficit)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)
	Shares	Amount	Shares	Amount		
Balance, December 31, 2004	-	$ -	76,533,922	$ 76,534	$ 17,119,596	$(15,691,4
January - March 2005 - shares issued for cash	-	-	155,000	155	15,345	
January - March 2005 - shares issued in payment of accounts payable	-	-	128,000	128	18,872	
April - June 2005 - shares issued for cash	-	-	2,287,500	2,288	114,712	
April - June 2005 - shares						

issued for services	-	-	2,405,000	2,405	68,745	
Net loss for the period ended June 30, 2005	-	-	-	-	-	(184,3
Balance, June 30, 2005 (unaudited)	-	$ -	81,509,422	$ 81,510	$ 17,337,270	$(15,875,8

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

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

	For the Six Months Ended June 30,	
	2005	2004
Cash Flows from Operating Activities:		
Net Income (Loss)	$ (184,377)	$ (645,177)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operations:		
Depreciation and Amortization	6,400	17,490
Stock Issued for Services	71,150	239,380
Changes in Operating Assets and Liabilities:		
Accounts Receivable	94,370	(14,764)
Inventory	35,000	-
Increase (Decrease) in:		
Accounts Payable	(169,398)	(168,514)
Accrued Expenses	(64,346)	32,507
Net Cash Used by Operating Activities	(211,201)	(539,078)
Cash Flows from Investing Activities:		
Purchases of Equipment	(1,115)	-
Funds Advanced (to) from Affiliated Entities	(4,901)	-
Net Cash Used in Investing Activities	(6,016)	-
Cash Flows from Financing Activities:		
Funds Advanced (to) from Stockholders	4,500	491,685
Proceeds from Stock Issuance	132,500	47,000

Net Cash Provided by Financing Activities	137,000	538,685
Increase (Decrease) in Cash	(80,217)	(393)
Cash and Cash Equivalents at Beginning of Period	173,486	19,899
Cash and Cash Equivalents at End of Period	$ 93,269	$ 19,506
Cash Paid For:		
Interest	$ 138	$ -
Income Taxes	$ -	$ -
Non-Cash Activites:		
Stock Issued in Payment of Accounts Payable	$ 19,000	$ -
Stock Issued for Notes Payable and Accrued Interest	$ -	$ 522,105
Stock Issued for Services	$ -	$ 239,380

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

View Systems, Inc.
Notes to the Consolidated Financial Statements
June 30, 2005

GENERAL

View Systems, Inc. (the Company) has elected to omit substantially all footnotes to the financial statements for the six months ended June 30, 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.

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

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, develops and markets 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 Digitial 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. Management believes that heightened attention to terrorism and other security threats, and spending by the United States government on Homeland Security will continue to drive growth in the market for security products.

During 2005 we have continued to provide live demonstrations of our SecureScan product at sporting and entertainment venues, expos, and at state corrections facilities. We also have provided demonstrations of our Visual First Responder for police and civil support teams. These demonstrations have raised interest in our products and resulted in increased orders of our products.

During the last nine months we have contracted with the University of Northern Florida to design new sensor boards for the SecureScan product which has allowed us to reduce the installed sensor cost by a factor of four. The new lower costs allow us to offer price points to the market which compete directly with traditional metal detectors. We feel the new reduced price points and enhanced interface abilities will allow us to be more competitive, along with the advantages of three to four times the throughput rate, non-contact imaging and permanent visual storage, and a log of all individuals scanned.

In August 2005 we contracted with Inter-Connect Electronics, Inc. to manufacture and assemble our Visual First Responder units. We have also contracted with Sports Field Specialties, LLC, an experienced manufacturer, to build the SecureScan line. These manufacturing agreements will allow us to clear our current backlog for our product lines and reduce our labor cost. Our backlog as of the end of July is in excess of $500,000 in orders and contracts.

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 had a net loss of $184,377 for the six month period ended June 30, 2005. Our auditors have expressed doubt that we can continue as a going concern based on these operating losses. 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 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 $211,201 for the six month period ended June 30, 2005 (the "2005 six month period") compared to $539,078 for the six month period ended June 30, 2004 (the "2004 six month period"). However, operating expenses for the 2005 periods were less than half of the 2004 comparable periods. However, operating expenses for the 2005 three month period were less than half of the 2004 comparable period.

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.

FINANCING

We have financed our operations primarily through revenues and private financing. Net cash provided by financing activities for the 2005 six month period was $137,000, primarily from proceeds from sales of common stock. Net cash provided by financing activities for the 2004 six month period was $538,685, with $491,685 of that amount related to funds advanced by stockholders. We estimate that we will require additional financing of approximately $500,000 to meet our needs for the next six months. We intend to use this financing to increase ongoing operations to self-sustaining levels and increase profits.

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 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.

Our total current liabilities of $394,579 at June 30, 2005 included accounts payable of $143,377, accrued expenses of $30,802, accrued interest of $71,400 and notes payable of $149,000

OFF-BALANCE SHEET ARRANGEMENTS

None.

RESULTS OF OPERATIONS

The following discussions are based on the unaudited consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the three and six month periods ended June 30, 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 Three and Six Month Period Operations

	Six month period ended June 30, 2005	Six month period ended June 30, 2004	Three month period ended June 30, 2005	Three month period ended June 30, 2004
Revenues, net	$ 481,556	$ 192,394	$ 195,914	$ 158,041
Cost of sales	229,508	106,198	125,180	73,872
Gross profit	252,048	86,196	70,734	84,169
Total operating expenses	430,887	703,062	223,008	489,694
Total other income (expense)	(5,538)	(28,311)	(5,538)	(25,297)
Net income (loss)	(184,377)	(645,177)	(157,812)	(430,822)
Net earnings (loss)				

per share	$ (0.00)	$ (0.01)	$ (0.00)	$ (0.01)

Revenues for the 2005 six month period increased 150.2% compared to the 2004 six month period due to increased sales of our products. Revenues for the three month period ended June 30, 2005 (the "2005 second quarter") increased 24.0% compared to the three month period ended June 30, 2004 (the "2004 second quarter"). However, costs of sales also increased 65.3% for the 2005 six month period compared to the 2004 six month period and increased 116.0% for the 2005 second quarter compared to the 2004 second quarter. As a result of increased revenues in the 2005 six month period our gross profit increased 192.4% from the 2004 six month period. Due to increased cost of sales, gross profit decreased 16.0% for the 2005 second quarter compared to 2004 second quarter

For the 2005 six month period total operating expense decreased 54.6% compared to the 2004 six month period. For the 2005 second quarter total operating expense decreased 38.7% compared to the 2004 second quarter. The decreases in the 2005 periods was primarily a result of decreases in general and administrative expense and salaries and benefits.

Total other expense for the 2005 and 2004 comparable periods was related to interest on loans.

As a result of the above, our net loss decreased 63.4% for the 2005 six month period compared to the 2004 six month period and decreased 71.4% for the 2005 second quarter compared to the 2004 second quarter.

The following chart summarizes our balance sheet at June 30, 2005 and December 31, 2004

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Summary Balance Sheet

	For six month period ended June 30, 2005	For the year ended December 31, 2004
Cash and cash equivalents	$ 93,269	$ 173,486
Total current assets	133,438	343,025
Total assets	1,937,487	2,151,958
Total current liabilities	394,579	647,324
Retained earnings (Deficit)	(15,875,873)	(15,691,496)
Total stockholders equity	$ 1,542,908	$ 1,504,634

Our total assets decreased at June 30, 2005 primarily as a result of decreases in our total current assets and property and equipment. Total current liabilities decreased primarily due to decreases in accounts payable and accrued expenses.

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 established 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 scale down our business plan. We are actively recruiting and adding other additional resellers and dealer and must continue to 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 further development 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 a portion of 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 significant changes made in our internal controls over financial reporting during the second 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 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 9, 2005, we issued 200,000 shares of common stock to Liem Nguyen in consideration for a final and full release. 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 6, 2005, we issued 87,500 shares of common stock to William H. Zuhone for $7,000. 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 May 3, 2005, we issued 2,000,000 shares of common stock to Clark Companies in consideration for an agreement. 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 May 11, 2005, we issued 200,000 shares of common stock to Jeffrey B. McIntosh for $10,000. 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 June 21, 2005, our board of directors authorized the issuance of 522,000 shares of common stock to Martin J. Maassen for advances to View Systems of $52,000. Our board of directors also authorized the issuance of 230,000 shares of common stock to Michael L. Bagnoli for direct investments to View Systems of $11,000 and services rendered to the company. 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 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: August 15, 2005 By: ______________________________

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