

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

VIEW SYSTEMS INC
Form 10QSB
November 15, 2002

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 September 30, 2002

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)

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

7717 West 6th Avenue, Suite A & B
Lakewood, Colorado 80205
(Address of principal executive offices)

(303) 237-8439
(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 October 29, 2002, the issuer had 41,610,620 shares of common stock
outstanding.

Transitional Small Business Disclosure Format (check one): Yes No

TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION

| | |
|---|----|
| Item 1: Financial Statements..... | 3 |
| Item 2: Management's Discussion and Analysis..... | 13 |
| Item 3: Controls and Procedures..... | 17 |

PART II: OTHER INFORMATION

| | |
|--|----|
| Item 6: Exhibits and Reports on Form 8-K | 18 |
|--|----|

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

Signatures and Certifications.....19

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 nine month periods ended September 30, 2002 and 2001 are 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 nine months ended September 30, 2002, are not necessarily indicative of results to be expected for any subsequent period.

2

VIEW SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS

ASSETS

| | September 30, 2002 | December 31, 2001 |
|---|-----------------------|----------------------|
| | ----- | |
| | (Unaudited) | |
| CURRENT ASSETS: | | |
| Cash | \$ - | \$ 73,344 |
| Accounts receivable (Net of allowance for uncollectible accounts of \$1,141,779 and \$279,149 at September 30, 2002 and December 31, 2001 respectively.) | 259,151 | 938,230 |
| Inventory | 443,900 | 55,644 |
| | ----- | |
| Total current assets | 703,051 | 1,067,218 |
| | ----- | |
| PROPERTY AND EQUIPMENT: | | |
| Equipment | 348,385 | 332,967 |
| Leasehold improvements | 18,683 | 3,000 |
| Software tools | 34,571 | 34,571 |
| Vehicles | 46,832 | 46,832 |
| | ----- | |

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

| | | |
|--------------------------------------|--------------|--------------|
| | 448,471 | 417,370 |
| Less accumulated depreciation | 186,933 | 138,307 |
| | ----- | ----- |
| Net value of property and equipment | 261,538 | 279,063 |
| | ----- | ----- |
| OTHER ASSETS: | | |
| Goodwill and other intangible assets | 2,371,195 | 781,248 |
| Investments | - | 275,000 |
| Due from affiliated entitles | 121,146 | 105,552 |
| Due from officers | - | 88,099 |
| Deposits | 3,102 | 2,532 |
| | ----- | ----- |
| Total other assets | 2,495,443 | 1,252,431 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 3,460,032 | \$ 2,598,712 |
| | ===== | ===== |

See Accompanying Notes

3

VIEW SYSTEMS, INC.
CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

| | September 30, 2002 | December 31, 2001 |
|---------------------------|-----------------------|----------------------|
| | ----- | ----- |
| | (Unaudited) | |
| CURRENT LIABILITIES: | | |
| Cash overdraft | \$ 8,783 | \$ - |
| Accounts payable | 369,837 | 345,657 |
| Note payable | - | 6,052 |
| Accrued interest | 70,093 | 33,000 |
| Note payable | 110,000 | 110,000 |
| Due to shareholders | 416,517 | - |
| | ----- | ----- |
| Total current liabilities | 975,230 | 494,709 |
| | ----- | ----- |
| LONG-TERM DEBT: | | |
| Notes payable | - | - |
| | ----- | ----- |
| Total liabilities | 975,230 | 494,709 |

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

STOCKHOLDERS' EQUITY:

| | | |
|---|--------------|--------------|
| Common stock-par value \$0.001 | | |
| 50,000,000 shares authorized, | | |
| 40,985,620 shares issued and outstanding | 40,985 | - |
| 20,193,031 shares issued and outstanding | - | 20,193 |
| Additional paid-in capital | 13,422,191 | 10,119,024 |
| Accumulated deficit | (10,978,374) | (8,035,214) |
| | ----- | |
| Total stockholders' equity | 2,484,802 | 2,104,003 |
| | ----- | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 3,460,032 | \$ 2,598,712 |
| | ===== | |

See Accompanying Notes

4

VIEW SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|---------------|-------------------|---------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2002 | 2001 | 2002 | 2001 |
| | ----- | | | |
| REVENUE: | | | | |
| Sales of security systems | \$ 175,061 | \$ 312,353 | \$ 306,657 | \$ 744,844 |
| Sales of weapons detection portals | 92,480 | - | 92,480 | - |
| Sales of assembled electronic components | - | - | - | 9,511 |
| | ----- | | | |
| Total sales | 267,541 | 312,353 | 399,137 | 754,355 |
| Cost of goods sold | 149,747 | 161,675 | 221,861 | 360,577 |
| | ----- | | | |
| GROSS PROFIT ON SALES | 117,794 | 150,678 | 177,276 | 393,778 |
| | ----- | | | |
| OPERATING EXPENSES: | | | | |
| Advertising and promotion | 22,915 | 31,168 | 32,025 | 32,290 |
| Amortization | - | 28,284 | - | 84,850 |
| Bad debts | 627,821 | - | 862,630 | - |
| Business development | 23,888 | 11,618 | 94,145 | 35,720 |
| Depreciation | 15,189 | 11,191 | 45,567 | 33,570 |
| Dues and subscriptions | - | 885 | - | 2,790 |
| Insurance | 8,768 | 11,443 | 25,263 | 28,130 |
| Interest | 4,192 | 3,202 | 15,846 | 11,800 |

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

| | | | | |
|-------------------------------------|----------------|--------------|----------------|--------------|
| Investor relations | 4,035 | 22,525 | 55,864 | 73,577 |
| Miscellaneous expense | 973 | 249 | 10,908 | 9,744 |
| Office expense | 27,266 | 18,751 | 122,806 | 82,200 |
| Professional fees | 571,517 | 75,362 | 892,708 | 302,933 |
| Rent | 11,566 | 7,779 | 37,834 | 88,755 |
| Repairs and maintenance | 3,369 | 820 | 7,433 | 8,566 |
| Research and development | 26,843 | - | 101,729 | - |
| Salaries and benefits | 471,445 | 116,961 | 766,471 | 422,177 |
| Taxes-other | - | - | 2,150 | 9,150 |
| Travel | 3,037 | 11,618 | 33,816 | 35,720 |
| Utilities | 4,596 | 2,348 | 13,241 | 14,070 |
| | ----- | ----- | ----- | ----- |
| Total operating expenses | 1,827,420 | 354,204 | 3,120,436 | 1,276,070 |
| | ----- | ----- | ----- | ----- |
| NET LOSS FOR THE PERIODS | \$ (1,709,626) | \$ (203,526) | \$ (2,943,160) | \$ (882,294) |
| | ===== | ===== | ===== | ===== |
| LOSS PER SHARE: | | | | |
| Basic | \$ (0.05) | \$ (0.01) | \$ (0.09) | \$ (0.05) |
| | ===== | ===== | ===== | ===== |
| Diluted | \$ (0.05) | \$ (0.01) | \$ (0.09) | \$ (0.05) |
| | ===== | ===== | ===== | ===== |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 34,439,000 | 13,985,500 | 31,370,334 | 13,337,333 |
| | ===== | ===== | ===== | ===== |

See Accompanying Notes

5

VIEW SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED

| | September 30, 2002 | September 30, 2001 |
|--|-----------------------|-----------------------|
| | ----- (Unaudited) | ----- (Unaudited) |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (2,943,160) | \$ (882,294) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation and amortization | 45,567 | 118,425 |
| Bad debt expense | 862,630 | - |
| Employee and other compensation paid with stock | 1,068,259 | 25,000 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (155,419) | (407,471) |
| Inventory | (28,609) | (78,103) |
| Deposits and other assets | (570) | (2,500) |
| Accounts payable | 17,710 | (8,077) |
| Accrued interest | 8,250 | 8,250 |
| Other accrued liabilities | - | (30,461) |

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

| | | |
|--|-------------|-------------|
| Net cash used in operating activities | (1,125,342) | (1,257,231) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (27,854) | (34,255) |
| Funds advanced to affiliated entities | (15,594) | |
| Cash element in Milestone Acquisition | 58,849 | |
| Net cash provided by (used in) investing activities | 15,401 | (34,255) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Funds advanced to shareholders | (4,834) | (61,189) |
| Repayment of note payable-bank | (6,052) | (35,363) |
| Proceeds from sales of stock | 1,038,700 | 1,489,000 |
| Net cash provided by financing activities | 1,027,814 | 1,392,448 |
| NET (DECREASE) INCREASE IN CASH | (82,127) | 100,962 |
| CASH AT BEGINNING OF PERIOD | 73,344 | 265,245 |
| CASH AT END OF PERIOD | \$ (8,783) | \$ 366,207 |
| SIGNIFICANT NON-CASH INVESTING ACTIVITIES: | | |
| Common stock issued in exchange for net assets of Milestone Technology, Inc. as follows: | | |
| Accounts receivable | 28,132 | |
| Inventory | 359,647 | |
| Fixed assets | 188 | |
| Patents | 1,317,467 | |
| Accounts payable | (6,470) | |
| Notes payable | (703,449) | |
| Accrued interest | (28,843) | |
| SIGNIFICANT NON-CASH FINANCING ACTIVITIES: | | |
| Common stock issued in payment of note payable | 194,000 | |

See Accompanying Notes

6

VIEW SYSTEMS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Common Stock | Additional Paid-In Capital | Accumulated Deficit | Total Stockholder Equity |
|-----------------------------|-----------------|----------------------------------|------------------------|--------------------------------|
| Balances at January 1, 2001 | \$ 11,481 | \$ 7,364,502 | \$ (6,097,930) | \$ 1,278,0 |

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

| | | | | |
|---|-----------|---------------|-----------------|------------|
| Sales of common stock | 2,764 | 1,486,236 | - | 1,489,0 |
| Issuance of common stock as compensation to employees and others | 60 | 24,940 | - | 25,0 |
| Net loss for the nine months ended September 30, 2001 | - | - | (882,294) | (882,2 |
| <hr/> | | | | |
| Balances at September 30, 2001 (Unaudited) | 14,305 | 8,875,678 | (6,980,224) | 1,909,7 |
| Sales of common stock | 2,736 | 273,264 | - | 276,0 |
| Issuance of common stock as compensation to employees and others | 2,652 | 695,582 | - | 698,2 |
| Issuance of common stock in exchange for interest In Milestone Technology, Inc. | 500 | 274,500 | - | 275,0 |
| Net loss for the three months ended December 31, 2001 | - | - | (1,054,990) | (1,054,9 |
| <hr/> | | | | |
| Balances at December 31, 2001 | 20,193 | 10,119,024 | (8,035,214) | 2,104,0 |
| Sales of common stock | 6,075 | 1,032,625 | - | 1,038,7 |
| Issuance of common stock in exchange for interest in Milestone Technology, Inc. | 3,300 | 1,019,700 | - | 1,023,0 |
| Issuance of common stock as compensation to employees and others | 10,682 | 1,057,577 | - | 1,068,2 |
| Issuance of common stock in payment of a note payable | 735 | 193,265 | - | 194,0 |
| Net loss for the nine months ended September 30, 2002 | - | - | (2,943,160) | (2,943,1 |
| <hr/> | | | | |
| Balances at September 30, 2002 (Unaudited) | \$ 40,985 | \$ 13,422,191 | \$ (10,978,374) | \$ 2,484,8 |
| <hr/> | | | | |

See Accompanying Notes

7

VIEW SYSTEMS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

View Systems, Inc. (the "Company") designs and develops computer software

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

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.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information and footnotes necessary for a comprehensive presentation of financial position and results of operations. It is management's opinion, however, that all adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statement presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Milestone Technology, Inc. ("Milestone"), Real View Systems, Inc. ("Real View"), Xyros Systems, Inc. ("Xyros") and Eastern Tech Manufacturing, Inc. ("ETMC"). 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.

Revenue Recognition

The Company and its subsidiaries recognize revenue and the related cost of goods sold upon shipment of the product.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in-first-out method (LIFO). The inventory at September 30, 2002 includes the costs associated with the development and production of the weapons detection portals, which are the principal product of Milestone Technology, Inc. The costs also include amounts spent to document the designs of the systems.

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

Property and Equipment

Property and equipment is recorded at cost and depreciated over their estimated 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 nine months ended September 30, 2002 and 2001 amounted to \$45,567 and \$33,573 respectively.

Income Taxes

Deferred income taxes are recorded under the asset and liability 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 carryforwards. 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.

Research and Development

Research and development costs are expensed as incurred. Equipment and facilities acquired for research and development activities that have alternative future uses are capitalized and charged to expense over the estimated useful lives.

Advertising

Advertising costs are charged to operations as incurred. Advertising costs for the nine months ended September 30, 2002 and 2001 were \$32,025, and \$32,294 respectively.

Nonmonetary Transactions

Nonmonetary transactions are accounted for in accordance with Accounting Principles Board Opinion No. 29 Accounting for 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

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

approximates fair value, as the majority of these instruments are short-term in nature.

9

VIEW SYSTEMS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002

Net Loss Per Common Share -----

Basic net loss per common share ("Basic EPS") is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted net loss per common share ("Diluted EPS") 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. The calculation of the net loss per share available to common stockholders for the nine months ended September 30, 2002 does not include potential shares of common stock equivalents, as their impact would be antidilutive.

Segment Reporting -----

The company has determined that it does not have any separately reportable operating segments as of September 30, 2002.

New Accounting Pronouncements -----

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001, as well as all purchase method business combinations completed after June 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill. SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment.

The provisions of SFAS No. 142 were adopted by the Company as required effective January 1, 2002. The adoption of SFAS Nos. 141 and 142 had no effect on the Company's financial condition or results of operations.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets", which supercedes both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of" and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequent Occurring Events and Transactions" for the disposal of a segment of a business (as previously defined in that Opinion). SFAS No. 144 retains the

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

fundamental provisions in SFAS No. 121 for recognizing and measuring impairment losses in long-lived assets held for use and long-lived assets to be disposed of by sale, while also resolving significant implementation issues associated with SFAS No. 121. The provisions of SFAS No. 144 are effective for years beginning after December 15, 2001. This Statement did not have a material impact on the Company's financial statements.

2. FINANCIAL CONDITION

Since its inception, the Company has incurred significant losses and as of September 30, 2002 had an accumulated deficit of \$11 million. The Company believes that it will incur operating losses for the foreseeable future. There can be no assurance that the Company will be able to generate sufficient revenues to achieve or sustain profitability in the future. However, the Company believes that its projected sales revenue and anticipated equity infusions will be sufficient to sustain operations through September 30, 2003.

10

VIEW SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002

3. BUSINESS COMBINATION

The Company purchased 100% of the common stock of Milestone Technology, Inc. effective March 25, 2002. The purchase was accomplished in two transactions. The Company acquired 6% of Milestone in December 2001 in exchange for 500,000 shares of the Company's common stock. In March 2002 the Company acquired the remaining 94% of Milestone for 3,300,000 shares of the Company's common stock. Based on the then market value of the Company's common stock (\$0.55 per share in December and \$0.31 per share in March) the total cost of the acquisition was \$1,298,000.

Milestone Technology, Inc. is a developer of concealed weapons detections systems. Its primary product is a walk-through detector that uses advanced magnetic technology to accurately pinpoint the location, size and numbers of concealed weapons. Prior to its acquisition, Milestone Technology, Inc. was considered to be a development stage enterprise.

Summarized unaudited financial statements for Milestone Technology, Inc. as of and for the year ended December 31, 2001 are as follows:

Milestone Technology, Inc.
Balance Sheet (Unaudited)
As of December 31, 2001

| Assets | |
|----------------------|------------|
| Current Assets | \$ 200,043 |
| Fixed Assets | 188 |
| Other assets | 177,127 |
| Licenses and patents | 264,000 |
| | ----- |
| Total assets | \$ 641,358 |
| | ===== |

Liabilities and Stockholders' Equity

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

| | | |
|--|----|-----------|
| Notes payable-current | \$ | 84,000 |
| Other current liabilities | | 300,768 |
| Notes payable to shareholders | | 277,750 |
| Notes payable-long term | | 160,000 |
| | | ----- |
| Total liabilities | | 822,518 |
| Stockholders equity | | (181,160) |
| | | ----- |
| Total liabilities and stockholders' Equity | \$ | 641,358 |
| | | ===== |

Statement of Operations (Unaudited)
For the Year Ended December 31,2001

| | | |
|-----------------------|----|-----------|
| Revenue | \$ | 21,667 |
| | | ----- |
| Expenses | | |
| Operating expenses | \$ | 134,608 |
| | | ----- |
| Net loss for the year | \$ | (112,941) |
| | | ===== |

11

VIEW SYSTEMS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002

4. INVENTORIES

Inventories consist of the following components:

| | 2002 | 2001 |
|----------------|------------|-----------|
| | ----- | ----- |
| Materials | \$ 81,709 | \$ 55,644 |
| Finished goods | 362,191 | |
| | ----- | ----- |
| | \$ 443,900 | \$ 55,644 |
| | ===== | ===== |

12

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

FORWARD LOOKING STATEMENTS

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

This Form 10-QSB contains certain forward-looking statements that involve risks and uncertainties, such as statements of the View System's plans and expectations. Any statements contained in this Form 10-QSB that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as "may," "will," "expect," "believe," "anticipate," "estimate" or "continue" or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainties, and actual results may differ materially depending on a variety of factors, many of which are not within View Systems's control. These factors include but are not limited to economic conditions generally and in the market which View Systems may participate; competition within View Systems's chosen market and failure by View Systems to successfully develop business relationships.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Since start-up of operations in September 1998, and until the end of 2001 we have devoted most of our resources to the development, sale and marketing of digital video surveillance and security products. We have generated limited revenues from our security products to date, but are rapidly expanding our sales and distribution network. At the same time we are working on delivering new products to market and enhancing and upgrading our product line. We have had some success in capturing interest and limited sales in overseas markets such as Europe.

In December of 2001 we entered into a joint venture with Milestone Technology to enhance and further develop their Concealed Weapons Detection portal. This relationship was precipitated by our ability to manufacture electronic boards and the fact that we had skills in developing facial recognition systems. In March of 2002, the relationship evolved into a complete merger of the two companies. Milestone had two patents and intellectual property which included licenses and patents pending that become available to be integrated into sellable products. This also resulted in a net increase in assets to over \$4,000,000. We believe that the combination of our products: Digital Video Monitoring Centers, advanced biometric access control, such as facial recognition and Concealed Weapons Detection will help us meet the new heightened awareness demands of security due to the September 11th events.

We have restructured the company and refocused our efforts towards marketing this Concealed Weapons Detection portal as an entrance and adding other capabilities such as explosives detection capability to build a comprehensive entry control device. This direction is requiring us to make changes in personnel, engineering and staff that is experienced in doing business with the federal government and local jurisdictions. A new Chairman of the board has been elected and a new working management advisory group has been formed. With the melded companies, Milestone and View Systems, functional changes have been made to integrate efforts and increase revenues.

Revenues resulting from these changes are starting to be realized with an increase of more than three times sales over the previous quarter. We believe that sales will be even greater the fourth quarter as a result of this new direction. We already received over \$440,000 in purchase orders for delivery in the fourth quarter and we are increasing our capacity to manufacture additional units.

During the last six months we have opened a new sales, inventory stocking and customer support facility in Denver, Colorado, and are opening a sales and service location in the Los Angeles area. We are maintaining the former Milestone Idaho facility for research and development purposes. The federal

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

lab researches use this facility for testing and development. The facility is also consider an "in kind" contribution to NIJ's continuing

13

investigations and refinement.

The need to support our resellers has increased in complexity due to the increased complexity of our systems. We have constructed a new web site to facilitate sales and customer support. Our product information is now accessible via telecommunications and is kept current via cost efficient electronic means.

We have elected a new chairman of the board and are constructing a prestigious senior executive advisory board. A working management consulting group was formed with individuals experienced in the areas of expertise that we need. This highly experienced and successful group of senior executives is taking control and redirecting our efforts. More are being interviewed and we expect will join the board of directors and management consulting advisory board. A sales force is being built and headed by our new president and former president of Milestone, Paul Reep. Our intent is to place units strategically with focus on largest potential first to increase revenue and expand our reach in the government security market. Multiple federal and state courts have tested and purchased units and are ordering more.

RESULTS OF OPERATIONS

Revenue - For the nine months ended September 30, 2002, revenues from sales of our products decreased \$355,217 or 47%, to \$399,137 from \$754,354 in the same period last year. For the three months ended September 30, 2002, revenues from sales of our products decreased \$44,812 or 14%, to \$267,541 from \$312,353 in the same period last year. This is largely due to our shift in focus from purely digital video storage recorders to the introduction of our award winning SecureScan Concealed Weapons Detection system. The sales cycles in the new market we are addressing are long and require the approval of highly bureaucratic decision makers. In contrast, the price points and margins are many multiples larger.

Gross Profit - Gross profit on sales for the nine months ended September 30, 2002 decreased \$216,503 or 55% to \$177,276 compared with \$393,779 in the same period last year. Gross profit margin for the nine months ended September 30, 2002 was 44% compared with 52% in the same period last year. Gross profit on sales for the three months ended September 30, 2002 decreased \$32,884 or 22% to \$117,794 compared with \$150,678 in the same period last year. Gross profit margin for the three months ended September 30, 2002 was 44% compared with 48% in the same period last year. Because of low net sales we achieved in the period ended September 30, 2002, for reasons explained in the previous paragraph under "Revenue", we do not believe gross profit margin comparisons are meaningful at this state of our operations.

Operating Expenses - Operating expenses for the nine months ended September 30, 2002, increased to \$3,120,436, compared with \$1,276,073 for the comparable period in 2001. The increase is principally due to increasing the allowance for bad debts by \$862,630, increased expenditures in research and development and increased professional fees. Professional fees as of September 30, 2002 included \$757,577 from the issuance of common stock as compensation for management, legal services and marketing services rendered in lieu of cash. The increases have been necessary due to shifts in our product line to the Concealed Weapons Detection units. There is no amortization of the value of the patents and licenses, which were a part of the Milestone acquisition, pending the final determination of the value of those items.

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

Once that value is determined the patents and licenses will be amortized over the respective useful lives. Any goodwill remaining from the acquisition will not be amortized, but will be subject to an annual test for impairment of its value. That test will be conducted at the end of our accounting year, which is December 31, 2002.

Operating expenses for the three months ended September 30, 2002, increased to \$1,827,420, compared with \$354,204 for the comparable period in 2001. The increase is principally due to increasing the allowance for doubtful accounts by \$627,821 and increases in professional fees and salaries and benefits. Professional fees as of the three month period ended September 30, 2002 included \$546,043 from the issuance of common stock as

14

compensation for services rendered in lieu of cash. The increases have been necessary due to shifts in our product line to the Concealed Weapons Detection units.

As a result of the foregoing, net loss was \$2,943,160 for the nine months ended September 30, 2002, compared to a net loss of \$882,294 for the nine months ended September 30, 2001. The net loss was \$1,709,626 for the three months ended September 30, 2002, compared to a net loss of \$203,526 for the three months ended September 30, 2001.

Costs of Products and Services Sold - The cost of products and services sold, was \$221,861 for the nine months ended September 30, 2002 and represented 56% of revenue for the period, compared to \$360,575 for the nine months ended September 30, 2001 which represents 48% of revenues for that period. The cost of products and services sold, was \$149,747 for the three months ended September 30, 2002 and represented 56% of revenue for the period, compared to \$161,675 for the three months ended September 30, 2001 which represents 52% of revenues for that period. Because of our low sales volume during these periods, we do not consider the costs of goods sold in the same period last year to be a good measure of our true costs of goods sold. As our product sales increase and account for a larger percentage of our overall sales, we expect that our costs of goods and services sold will decline and stabilize as a percentage of total revenue. We are continually working on engineering changes in our security products that we expect will lower component costs for these products. We do not determine our inventory on a quarterly basis, instead we do it on an annual basis. Therefore, our cost of goods sold calculations are based on estimates of inventory used in products sold.

Research and Development Expense - We spent \$101,729 on research and development for the nine months ended September 30, 2002, as compared with \$0 in the same period last year. We did not record any research and development expenses in the three month periods. We are working on changing our production facilities to manufacture the Concealed Weapons Detection portal. The changes in the production facility will allow our margins to double and possibly triple. Currently we purchase the Concealed Weapons Detection portal for about 60% of our selling price. Manufacturing ourselves will allow us to sell at about three times the cost of manufacturing.

Bad Debt Expense - Bad debt expense increased to \$892,708 for the 2002 nine month period and \$627,821 for the 2002 three month period as we continue to attempt to collect receivables for 2001 sales made to an international customer. We are currently in negotiations to collect the amounts but we believe that amounts actually collected will not be the full sales amounts and that the allowance established at this time will be sufficient.

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

Salaries and Benefits - We spent \$766,471 on salaries and benefits for the nine months ended September 30, 2002, as compared with \$422,178 in the same period last year. Salaries and benefits for the nine months ended September 30, 2002 included \$300,000 from the issuance of common stock as compensation for services rendered in lieu of cash. We spent \$471,445 on salaries and benefits for the three months ended September 30, 2002, as compared with \$116,961 in the same period last year. Salaries and benefits for the three months ended September 30, 2002 includes \$300,000 from the issuance of common stock as compensation for services rendered in lieu of cash.

Business Development Expense - We incurred \$94,145 on business development expenses for the nine-month period ended September 30, 2002 as compared with \$35,723 in the same period a year ago. We incurred \$23,888 on business development expenses for the three month period ended September 30, 2002 as compared with \$11,618 in the same period a year ago. We expect the business development expense to increase sharply as we launch the new products into the market

Net Operating Loss - We incurred approximately \$2,943,160 of net operating loss carry forwards for the nine month period ended September 30, 2002, which may be used to offset taxable income and income taxes in future years.

15

The refocusing of our sales and manufacturing to the Concealed Weapons Detection portal is making comparisons for the three month period a year ago not significant. It will most likely take another three months until we get a steady revenue flow to be able to make valid comparisons. Manufacturing, shipping and service is significantly different and requires a longer time to compare.

LIQUIDITY AND CAPITAL RESOURCES

Since the start-up of our operations in 1998, we have funded our cash requirements primarily through equity transactions. We received \$11,702,775 since inception through the issuance of our common stock. We are not currently generating cash from our operations in sufficient amounts to finance our business and will continue to need to raise capital from other sources. We used the proceeds from these sales of equity to fund operating activities, including, product development, sales and marketing, and to invest in the acquisition of technology, assets and business. As of September 30, 2002, we had total assets of \$3,460,032, an increase of \$861,320 over last year's \$2,598,712 at December 31, 2001. This increase is due to the purchase of Milestone and the valuation of its patents at \$1.3 million. Total liabilities were \$975,230, at September 30, 2002, resulting in stockholders' equity of \$2,484,802, an increase of \$380,799 from the December 31, 2001 balance of \$2,104,003.

During the nine months ended September 30, 2002, our cash decreased from \$73,344 at December 31, 2001, to \$0 at September 30, 2002. Net cash used in operating activities was \$1,116,559 for the nine months ended September 30, 2002, including decreases in accounts receivable of \$707,211 (primarily from write downs), increases in inventory of \$28,609, and increases in accounts payable of \$26,493.

Net cash generated from financing activities during the nine months ended September 30, 2002 was \$1,027,814, consisting of proceeds received from sales of stock of \$1,038,700, collections of loans to shareholders of \$31,332, less payments of \$6,052 made on a promissory note to Columbia Bank.

Our inventory balance at September 30, 2002, was estimated to be \$443,900.

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

We do not take inventory on a quarterly basis, and we made inventory estimates based on annual inventory determinations. With expected increased product sales, we will need to make increased inventory expenditures. However, the terms of our product sales requires a twenty five percent (25%) deposit on order. In addition, we endeavor to keep inventory levels low. Therefore, we do not believe that increased product sales, associated materials purchases and inventory increases will adversely affect liquidity.

Under our outstanding employment and consulting agreements, we are obligated to pay Mr. Than \$96,000 per year. If we terminate the employment with Mr. Than without cause or because of merger, acquisition or change in control, we will be obligated to pay him approximately \$350,000 in severance payments on a three-year period.

We believe that cash from operations and funds available will not be sufficient to meet anticipated operating capital expenditure and debt service requirements for the next twelve months and that we will be dependent on raising additional capital through equity sales or debt financing.

We also had outstanding warrants with various investors with an exercise price of \$.40 per share. These have been renegotiated and the majority were exercised during the third quarter and the proceeds used for working capital.

PLAN OF OPERATION

The amount of capital that we need to raise depends upon many factors primarily including:

- .. the rate of sales growth and market acceptance of our product lines;

16

- .. the amount and time of necessary research and development expenditures;
- .. the amount and time of expenditures to sufficiently market and promote our products;
- .. the amount and timing of any accessory product introductions; and
- .. the amount of after market support will be needed to sustain our product line.

We intend to use the cash raised from the private sale of shares to the following:

- .. continue to bring our SecureScan (concealed weapons detection), ViewMaxx (digital video capture and storage) and FlashView (mobile video capture) products to market;
- .. continue our product development efforts and expand our product lines;
- .. build our manufacturing capability to increase unit production and reduce costs;
- .. expand our sales, marketing and promotional activities for the SecureView line of products; and
- .. increase our engineering, production management, quality control, and customer support staff.

We operate in a very competitive industry that requires continued large amounts of capital to develop and promote our products. We believe that it will be essential to continue to raise additional capital, both internally and externally, to compete and increase market share in this industry.

In addition to accessing the public and private equity markets, we will pursue bank credit lines and equipment lease lines for certain capital

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

expenditures. We currently estimate we will need between \$2 million and \$3 million to launch our expanded business operations in accordance with our current business plan and \$1 million to \$2 million to modify and expand our manufacturing capacity.

ITEM 3: CONTROLS AND PROCEDURES

As a result of new SEC regulations, our board of directors formalized the disclosure controls and procedures we use to ensure that material information regarding our company and its operations is provided to the public in a timely manner. On October 11, 2002, our CEO and principal financial officer evaluated the effectiveness of these disclosure controls and procedures and determined that there were no significant deficiencies in these procedures.

Also, our CEO and principal financial officer did not identify any deficiencies or material weaknesses in our internal controls nor did they identify fraud that involved management or other employees who had a significant role in our internal controls, or other factors which would require changes to be made or corrective actions to be taken related to our internal controls.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On September 12, 2002 our Board of Directors appointed Bruce Bradley as Chairman of our Board of Directors, Paul J.Reep as President, and Michael J. Woodford as a Director. Mr. Bradley has experience in investment banking and investment research. He served as advisor to CEIA-USA and Invision Technologies. He served as Chairman of Lombard Technologies, which he founded. He also served as President of Savoy Group, an NASD investment banking and research firm for institutional investors in the United States and Europe.

Mr. Reep will serve as our President in addition to his duties as our Chief Operating Officer. Mr. Reep founded Milestones Technology, Inc. in 1996. He has held senior management positions with Lockheed Martin and developed a variety of mission areas for the Department of Energy. He holds numerous patents and has directed research sponsored by NASA.

17

In addition to serving as our Director, Mr. Woodford also acts as our corporate counsel. He is a partner in the law firm of Woodford & Martien, P.C.

ITEM 6. EXHIBITS AND REPORT ON FORM 8-K

Part II Exhibits

- 3.1 Articles of Incorporation and all articles of amendment (1)
- 3.2 By-laws (1)

(1) Incorporated by reference from issuer's registration statement on Form SB-2 filed with the Securities and Exchange Commission on January 11, 2000

Reports on Form 8-k

None.

18

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.

Date: 11/13/02 By: /s/ Gunther Than
Gunther Than
C.E.O., Principal Financial Officer and
Director

Date: 11/13/02 By: /s/ Paul Reep
Paul Reep
President

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Gunther Than, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of View Systems, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

19

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: 11/13/02 /S/ Gunther Than
Gunther Than, CEO

PRINCIPAL FINANCIAL OFFICER CERTIFICATION

I, Gunther Than, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of View Systems, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statement made, in light of the circumstances under which statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report.

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

