VIEW SYSTEMS INC
Form 10-Q
August 14, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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QUARTERLY REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2008

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TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

Commission File Number 0-30178

VIEW SYSTEMS, INC.

(Exact name of small business issuer as specified in its charter)

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

1550 Caton Center Drive, Suite E, Baltimore, Maryland 21227

(Address of principal executive offices)

(410) 242-8439

(Issuer's telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer,   accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer o Smaller reporting company þ
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at June 30, 2008
Common Stock, $.001 par value per share	99,772,995

VIEW SYSTEMS, INC.

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Special Note Regarding Forward-Looking Statements

Information included in this Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). This information may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of View Systems, Inc. (the Company), to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words may, will, should, expect, anticipate, estimate, believe, intend, or project or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that these projections included in these forward-looking statements will come to pass. Actual results of the Company could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, the Company has no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

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

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 and six month period ended June 30, 2008 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 June 30, 2008 are not necessarily indicative of results to be expected for any subsequent period.

View Systems, Inc. and Subsidiaries
Consolidated Balance Sheets

		June 30, 2008	December 31, 2007
ASSETS			
Current Assets			
Cash	$	23,303	$ 7,201
Accounts Receivable (Net of Allowance of $1,000)		296,574	132,244
Inventory		20,668	86,184
Total Current Assets		340,545	225,629
Property & Equipment (Net)		20,026	24,326
Other Assets			
Licenses		1,049,584	1,102,064
Due from Affiliates		147,507	147,507
Deposits		7,528	7,528
Total Other Assets		1,204,619	1,257,099
Total Assets	$	1,565,190	$ 1,507,054
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable	$	455,103	$ 505,168
Accrued Expenses		92,538	80,878
Accrued Interest		203,118	171,078
Accrued Royalties		150,000	150,000
Loans from Shareholder		313,599	299,298
Notes Payable		958,996	958,996
Total Current Liabilities		2,173,354	2,165,418

Stockholders' Equity (Deficit):			
Preferred Stock, Authorized 10,000,000 Shares, $.01 Par Value,			
Issued and outstanding 7,171,725		71,717	71,717
Common Stock, Authorized 100,000,000 Shares, $.001 Par Value,			
Issued and Outstanding 99,772,995		99,773	-
Issued and Outstanding 99,382,995		-	99,383
Additional Paid in Capital		19,769,035	19,761,419
Retained Earnings (Deficit)		(20,548,689)	(20,590,883)
Total Stockholders' Equity (Deficit)		(608,164)	(658,364)
Total Liabilities and Stockholders' Equity	$	1,565,190	$ 1,507,054

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

View Systems, Inc. and Subsidiaries
Consolidated Statements of Operations

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2008	2007	2008	2007
Revenues, Net	$ 464,141	$ 711,063	$ 754,572	$ 961,769
Cost of Sales	131,981	237,272	239,211	378,781
Gross Profit (Loss)	332,160	473,791	515,361	582,988
Operating Expenses				
Business Development	12,037	27,445	35,654	53,947
General & Administrative	84,739	197,904	187,238	338,025
Professional Fees	13,824	57,272	51,227	129,309
Salaries & Benefits	93,160	139,583	158,130	317,859
Total Operating Expenses	203,760	422,204	432,249	839,140
Net Operating Income (Loss)	128,400	51,587	83,112	(256,152)
Other Income(Expense)				
Interest Expense	(20,264)	(14,313)	(40,918)	(30,080)
Total Other Income(Expense)	(20,264)	(14,313)	(40,918)	(30,080)
Net Income (Loss)	$ 108,136	$ 37,274	$ 42,194	$ (286,232)
Net Income (Loss) Per Share	$ 0.00	$ 0.00	$ 0.00	$ (0.00)
Weighted Average Shares Outstanding	99,772,995	98,398,422	99,579,495	98,398,422

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

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

	Preferred Shares	Preferred Amount	Common Shares	Common Amount	Additional Paid-in Capital	Retained Earnings (Deficit)
Balance, December 31, 2006	7,171,725	$ 71,717	98,398,422	$ 98,399	$ 19,662,903	$ (19,515,797)
April - June 2007- shares issued for cash			100,000	100	4,900	
July - September 2007- shares issued for cash			6,000	6	494	
July - September 2007 - shares issued as payment of notes payable			603,573	603	76,897	
October - December 2007 - shares issued for cash			275,000	275	16,225	
Net loss for the year ended December 31, 2007						(1,075,086)
Balance, December 31, 2007	7,171,725	71,717	99,382,995	99,383	19,761,419	(20,590,883)
April June 2008 shares issued in payment of accounts payable			390,000	390	7,616	42,194
Net income for the period ended June 30, 2008						
	7,171,725		99,772,995			$ (20,548,689)

Balance, June 30, 2008	$ 71,717	$ 99,773	$ 19,769,035

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

View Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

	For the Six Months Ended June 30, 2008	For the Six Months Ended June 30, 2007
Cash Flows from Operating Activities:		
Net Income (Loss)	$ 42,194	$ (286,232)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided (Used) by Operations:		
Depreciation & Amortization	56,780	56,780
Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(164,330)	(63,937)
Inventories	65,516	(62,899)
Deposits	-	3,241
Increase (Decrease) in:		
Accounts Payable	(42,058)	(16,338)
Accrued Expenses	11,660	(15,173)
Accrued Interest	32,040	28,352
Accrued Royalties	-	37,500
Net Cash Provided (Used) by Operating Activities	1,802	(318,706)
Cash Flows from Investing Activities:		
Purchases of equipment	-	(2,100)
Funds advanced (t0) from affiliated entities	-	(13,031)
Net Cash Used In Investing Activities	-	(15,131)
Cash Flows from Financing Activities:		
Principal payments on notes payable	-	(4,300)
Loans from Shareholders	14,300	337,058
Proceeds from stock issuance	-	5,000
Net Cash Provided by Financing Activities	14,300	337,758

Increase in Cash	16,102	3,921
Cash and Cash Equivalents at Beginning of Period	7,201	48,233
Cash and Cash Equivalents at End of Period	$ 23,303	$ 52,154
Cash Paid For:		
Interest	$ 8,480	$ 15,904
Income Taxes	$ -	$ -
Non-Cash Activities:		
Stock issued in payment of accounts payable	$ 8,006	$ -

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

View Systems, Inc.

Notes to the Consolidated Financial Statements

June 30, 2008

GENERAL

View Systems, Inc. (the Company) has elected to omit substantially all footnotes to the financial statements for the six months ended June 30, 2008 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, 2007.

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.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

EXECUTIVE OVERVIEW

The following analysis of our consolidated financial condition and results of operations for the period ended June 30, 2008 should be read in conjunction with the Consolidated Financial Statements and other information presented elsewhere in this quarterly report.

Overview

Our product lines are related to visual surveillance, intrusion detection and physical security. Our principal products include:

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ViewScan Magnetic Detection System a walk-through archway detector which uses passive magnetic sensing technology and unique location algorithms to suggest the location of certain kinds of threat objects and other potentially undesirable objects such as cell phones or digital cameras. The control unit combines the magnetic and video information in a manner that allows it to be displayed for easy recognition and auditory warning. The network architecture allows for remote monitoring, integration of biometrics and access control devices and storage locally on the control unit or remotely on servers.

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Biometric analysis such as fingerprint verification or facial recognition can be and have been incorporated into ViewScan. Access control methods such as magnetic door locks can and have also been incorporated.

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Passport and driver s license verification for positive identification in correctional facilities, large government and commercial office buildings have been and are currently being combined with the ViewScan portal.

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

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Multi-Mission Mobile Video (MMV) a lightweight mobile camera and recording system housed in a tough, waterproof enclosure. The camera systems sends real-time images back to a video monitor at a command post located outside the exclusion zone or contaminated area. The MMV is able to transmit high quality video in the most difficult environments. A multitude of these systems have been deployed and are currently being field-tested.

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A hand held metal scanner we call the LAW (Locate All Weapons) to search the person if a potential threat object is suspected.

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We sell a Liquid Explosives Detector that is manufactured by another company.

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We sell an Individual Explosive Device detector that is manufactured by another company.

Management believes that heightened attention to personal threats, potential large scale destruction and theft of property in the United States along with spending by the United States government on Homeland Security will continue to drive growth in the market for security products.

For the next twelve months we will continue to develop our sales and distribution network into additional regions and markets in the United States and abroad. We have been and plan to continue to increase sales by offering demonstrations of our products in specific geographical areas to potential customers or at region specific trade shows, such as sheriff s conventions, court administrators meetings, civil support team, state police shows and dealer shows. When a demonstration results in a sale of one of our products, then we attempt to expand that market by contacting other potential customers in the area, such as, correctional facilities, courthouses and other municipal buildings.

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We have also continued to develop international markets in the Mid-East and Thailand and have established some international relationships with distributors and dealers. We will be separating our international business from our domestic business to gain efficiency and financial backing.

The next phase of our business plan will be to raise additional funds through common stock offerings to provide working capital to finance several acquisitions and the integration of new technologies and/or businesses. We also intend to strengthen our balance sheet by paying off debt.

We have been approached by certain entities that would make use of our public structure and/or our net tax asset of $8,235,583 plus. However, it is our intention to continue to execute our current business plan until such time, if ever, that we conclude that an acquisition or merger will lead to greater value for our principals and shareholders. We have not entered into definite agreements or decisions about any of our opportunities.

We have previously announced our intention to hold an annual meeting in 2008. However, no firm plan or date has been identified because of our uncertainty about which direction the Company is taking, and we wanted to announce a firm business plan at the annual meeting. Thus, we will issue notice of a meeting at an appropriate time

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 months ended June 30, 2008 and 2007 and should be read in conjunction with the financial statements, and notes thereto, included with this report at Part II, Item 7, below.

SUMMARY COMPARISON OF OPERATING RESULTS

		Six months ended June 30,		
		2008		2007
Revenues, net		754,572		961,769
Cost of sales		239,211		378,781
Gross profit (loss)		515,361		582,988
Total operating expenses		432,249		839,140
Profit (loss) from operations		83,112		(256,152)
Total other income (expense)		(40,918)		(30,080)
Net income (loss)		42,918		(286,232)
Net income (loss) per share	$	(0.00)	$	(0.00)

The Gross profit of six months ended June 30, 2008 is 68% of Net revenue as compared to 60% for the same period in 2007. The increase in gross profit is due to a decrease in cost due to continued engineering changes and further reduction due to economies of scale. The positive Net profit for the similar six month time periods, $42,194 compared to ($286,232) is mostly due further decreases of salaries, professional fees and administrative costs.

Loans from shareholders for operating expenses have diminished from $337,058 to $14,300 for the similar six month periods.

Revenue is considered earned when the product is shipped to the customer. The concealed weapons system and the digital video system each require installation and training. Training and extended warranties are a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training.

Our marketing efforts have increased sales of our SecureScan and resulted in increased revenues for the second quarter of 2008 compared to the first quarter of 2008. The YTD sales of 2007 ending in June 30, 2007 include VFR sales that have not been achieved in 2008, since the MMV (replacement product) has not been ready for production even though we have some back orders for the new product. Management anticipates that increases in revenues will continue as the new Multi-mission Video product comes on line more strongly.

Our backlog at June 30, 2008, was $190,000. The delay between the time of the purchase order and shipping of the product results in a delay of recognition of the revenue from the sale. This delay in recognition of revenues will continue as part of our results of operations.

The decrease of costs from year to year is primarily the result more efficient operations and due to additional engineering changes, and a decrease of delay time between order and delivery of product. Management anticipates that the relative margins of each product line will increase even more with an increase of number of units shipped. The quantities per average sale have been increasing steadily.

LIQUIDITY AND CAPITAL RESOURCES

In spite of a decrease in net revenue from product sales our net profits have been increasing and have been enough to pay ongoing cost such as rent, telephone, payroll and materials but are not sufficiently to cover our old payables. Our auditors have expressed substantial doubt that we can continue as a going concern. We are continuing to push sales and control costs.

Historically, we have relied on revenues, debt financing and sales of our common stock to satisfy our cash requirements. For the quarter ended June 30, 2008, we received cash from revenues of $464,141, $0 from issuance of equity and $14,300 from stockholder advances. We intend to rely on the issuance of our common stock to convert debt and raise cash. Management anticipates that we will continue to issue some shares for services in the short term.

Management is taking the necessary steps to reverse split our common stock during the next quarter.

Management intends to finance our 2008 operations primarily with the revenue from product sales and any cash short falls will be addressed through equity or debt financing, if available. Management expects revenues will continue to increase but not guaranteed to the point of profitability in the short term. We will need to continue to raise additional capital, both internally and externally, to cover cash shortfalls and reduce debt built in the last several years to compete in our markets. At our current revenue levels management believes we will require an additional $300,000 during the next 12 months to satisfy our cash requirements of approximately $25,000 per month for operations and revenue expansion. These operating costs include cost of sales, general and administrative expenses, salaries and benefits and professional fees related to sales and marketing and contracting engineers. We have insufficient financing commitments in place to meet our expected cash requirements for 2008 and we cannot assure you that we will be able to obtain financing on favorable terms. If we cannot obtain financing to fund our operations in 2008, then we may be required to reduce our expenses and scale back our operations even further.

COMMITMENTS AND CONTINGENT LIABILITIES

The Company leases office and warehouse space in Baltimore, MD under a three-year non-cancelable operating lease, expiring October 2008. Base rent is $2,872 per month with an annual rent escalator of 3%. At June 30, 2008, future minimum payments for operating leases related to our office and manufacturing facilities were $9,900 through September 30, 2008.

Our total current liabilities decreased to $2,173,354 at June 30, 2008 compared to $2,165,418 at December 31, 2007. Our total current liabilities at June 30, 2008 included accounts payable of $455,103 accrued expenses of $92,538 accrued interest of $203,118 accrued royalties of $150,000, loans from shareholder of $313,599 and notes payable of $958,996.

Our notes payable consist of the following:

1.

A note in the principal amount of $110,000 payable to the former shareholder of Xyros Technology, Inc. The note is due on demand with interest at 10% per annum. As of December 31, 2004, we are in default on the note which was due in 1999. We negotiated to repay the loan as cash flows permit and this debt remains outstanding. We are in doubt about the intentions, will or ability of the note holder to attempt collection of this debt. At this time, the entity is no longer in existence and we have been unable to locate the principals of that company.

2.

We issued notes in the aggregate amount of $343,093 pursuant to a Subscription Agreement, dated December 23, 2005, with three accredited investors; Starr Consulting, Inc., Active Stealth, LLC, and KCS Referral Service LLC (the Subscribers). We agreed to sale and the Subscribers agreed to purchase convertible promissory notes and warrants. However, on January 6, 2006, the Subscribers consented to the removal of the warrants from the subscription agreement, with the understanding that the warrants would be reinstated after we increased our authorized common stock and the shares underlying the warrants would be registered at a later date. The Subscribers did not receive any other additional consideration for the removal of the warrants. The Subscribers agreed to purchase up to an aggregate of $500,000 of 8% promissory notes convertible into shares of our common stock at a per share conversion price of $0.10. The notes were originally to be due and payable by December 31, 2006. The Subscribers agreed to purchase the promissory notes over a 5 month period in $100,000 per month installments; however, the investment threshold was never achieved, so the conversion option of the notes was terminated and the loans became due on demand with interest at 8% per annum. As of the date of this report the investors have demanded repayment of these loans. The company is taking steps to negotiate these defaults.

3.

An unsecured loan from a stockholder in the aggregate amount of $39,203, which is being paid in monthly installments of $2,512, which includes interest at 10%.

4.

Unsecured convertible loans from two stockholders in the principal amount of $216,000. $100,000 of the loans was due in full on November 1, 2007 with interest at 7%. The holder of this note has demanded payment and has chosen not to convert to equity.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company s financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Contractual Obligations

As a smaller reporting company as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

Item 3.

Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

Item 4T. Controls and Procedures.

Disclosure Controls and Procedures

Under the supervision and with the participation of our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Exchange Act, as of June 30, 2008 (the "Evaluation Date"). Based on this evaluation, our principal executive officer and principal financial officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective such that the information relating to the Company, including our consolidated subsidiaries, required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) is accumulated and communicated to management, including our principal executive officer/principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate control over financial reporting (as defined in Rule 13a-15(f) promulgated under the Exchange Act. Our management assessed the effectiveness of our internal control over financial reporting as of June 30, 2008. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework*. Our management has concluded that, as of June 30, 2008, our internal control over financial reporting is effective based on these criteria.

Changes in Internal Control over Financial Reporting

Our management has also evaluated our internal control over financial reporting, and there have been no significant changes in our internal controls or in other factors that could significantly affect those controls subsequent to the date of our last evaluation.

The Company is not required by current SEC rules to include, and does not include, an auditor's attestation report. The Company's registered public accounting firm has not attested to Management's reports on the Company's internal control over financial reporting.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We became a party in one material matter during the reporting period.

1.

Sigma International Holdings, Inc. v. View Systems, Inc.

In August 2006 we entered into a consulting agreement with The Riderwood Group, a Maryland limited liability investment banker, for the purpose of assisting in raising private equity financing and finding suitable acquisition targets. The Riderwood Group subsequently introduced the Company to Sigma International Holdings in 2007 which signed a non-binding merger and acquisition agreement and in addition loaned us $250,000. A principal of Riderwood was also a principal of Sigma International Holdings. The proposed merger was cancelled for yet unknown reasons approximately three weeks later. Sigma immediately demanded satisfaction of their note or a control block of the company. The BOD decided not to give them control of View Systems. The plaintiff was awarded a judgment in Montgomery County Maryland, case number 288395-V for re-payment of $296,000 which included interest and legal fees.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

Exhibit No.

Description

31.1

Rule 13a-15(e)/15d-15(e) Certification by the Chief Executive Officer

31.2

Rule 13a-15(e)/15d-15(e) Certification by the Chief Financial Officer

32.1

Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2

Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

VIEW SYSTEMS, INC.

(Registrant)

Date: August 13, 2008

By: */s/ Gunther Than*

Gunther Than

Chief Financial Officer

(Principal Financial and Accounting Officer)