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VIEW SYSTEMS INC  
Form 10QSB/A  
April 28, 2006

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

FORM 10-QSB/A  
Amendment No. 2

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

For the quarterly period ended September 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.)

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

-----  
(Address of principal executive offices)

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

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

Yes  No

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

As of October 25, 2005, View Systems, Inc. had 86,382,422 shares of common  
stock outstanding.

Transitional small business disclosure format: Yes  No

Explanatory Note

On October 12, 2005 we filed a registration statement on Form SB-2 and the  
Securities and Exchange Commission ("SEC") conducted a full review of the Form  
SB-2. As a result of this review we have restated our financial statements  
for the year ended December 31, 2004. See the "Restatement" note to the  
financial statements for an explanation of the restatement. The SEC further  
requested that we include Part I, Item 3 in this amendment No. 2. The  
disclosures in this amended report are as of the initial filing date of

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November 10, 2005 and do not include subsequent events.

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#### PART I: FINANCIAL INFORMATION

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#### 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, 2005 and 2004 is unaudited and has been restated. This financial information, in the opinion of management, includes all adjustments consisting of normal recurring entries necessary for the fair presentation of such data. The results of operations for the nine month period ended September 30, 2005 are not necessarily indicative of results to be expected for any subsequent period.

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#### View Systems, Inc. and Subsidiaries Consolidated Balance Sheets

| ASSETS<br>-----  | September 30,<br>2005 | December 31,<br>2004 |
|--|-----------------------|----------------------|
|  | (Restated)            | (Restated)           |
| Current Assets   |                       |                      |
| Cash   | \$ 4,109              | \$ 173,486           |
| Accounts Receivable (Net of allowance of<br>\$20,054 at December 31, 2004) | 146,973               | 108,342              |
| Inventory  | 26,197                | 61,197               |
|  | -----                 | -----                |
| Total current assets   | 177,279               | 343,025              |
|  | -----                 | -----                |
| Property & Equipment (Net)   | 20,521                | 14,803               |

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|                     |              |              |
|---------------------|--------------|--------------|
| Other Assets        |              |              |
| Licenses            | 1,626,854    | 1,626,854    |
| Due from Affiliates | 107,575      | 98,457       |
| Deposits            | 5,191        | 2,319        |
|                     |              |              |
| Total Other Assets  | 1,739,620    | 1,727,630    |
|                     |              |              |
| Total Assets        | \$ 1,937,420 | \$ 2,085,458 |

LIABILITIES AND STOCKHOLDERS' EQUITY

|  |              |              |
|--|--------------|--------------|
| Current Liabilities  |              |              |
| Accounts Payable   | \$ 73,047    | \$ 265,776   |
| Accrued Expenses   | 15,238       | 100,548      |
| Accrued Interest   | 74,100       | 66,000       |
| Notes Payable  | 148,500      | 148,500      |
|  |              |              |
| Total Current Liabilities  | 310,885      | 580,824      |
|  |              |              |
| Stockholders' Equity   |              |              |
| Preferred Stock, Authorized 10,000,000 Shares,<br>\$.01 Par Value, Issued and Outstanding 7,171,725    | 71,717       | -            |
| Common Stock, Authorized 100,000,000 Shares,<br>\$.001 Par Value, Issued and Outstanding<br>85,100,422 | 85,101       | -            |
| Issued and Outstanding 76,533,922  | -            | 76,534       |
| Additional Paid in Capital   | 17,615,863   | 17,119,596   |
| Retained Earnings (Deficit)  | (16,146,146) | (15,691,496) |
|  |              |              |
| Total Stockholders' Equity   | 1,626,535    | 1,504,634    |
|  |              |              |
| Total Liabilities and Stockholders' Equity   | \$ 1,937,420 | \$ 2,085,458 |

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

View Systems, Inc. and Subsidiaries  
Consolidated Statements of Operations

Three Months Ended September 30, Nine Months Ended Sep  
2005 2004 2005 20

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|                                     |    |            |    |            |    |            |    |
|-------------------------------------|----|------------|----|------------|----|------------|----|
| Revenues, Net                       | \$ | 338,941    | \$ | 188,029    | \$ | 820,497    | \$ |
| Cost of Sales                       |    | 109,541    |    | 32,765     |    | 339,049    |    |
| Gross Profit (Loss)                 |    | 229,400    |    | 155,264    |    | 481,448    |    |
| Operating Expenses                  |    |            |    |            |    |            |    |
| Business development                |    | 28,218     |    | -          |    | 60,864     |    |
| General & Administrative            |    | 57,724     |    | 184,259    |    | 151,744    |    |
| Professional Fees                   |    | 323,466    |    | 11,972     |    | 393,322    |    |
| Salaries and Benefits               |    | 87,304     |    | 98,806     |    | 321,669    |    |
| Total operating expenses            |    | 496,712    |    | 295,037    |    | 927,599    |    |
| Net Operating Income (Loss)         |    | (267,312)  |    | (139,773)  |    | (446,151)  |    |
| Other Income (Expense)              |    |            |    |            |    |            |    |
| Interest Expense                    |    | (2,961)    |    | (2,958)    |    | (8,499)    |    |
| Total Other Income (Expense)        |    | (2,961)    |    | (2,958)    |    | (8,499)    |    |
| Net Income (Loss)                   | \$ | (270,273)  | \$ | (142,731)  | \$ | (454,650)  | \$ |
| Net Income (Loss) Per Share         | \$ | (0.00)     | \$ | 0.00       | \$ | (0.01)     | \$ |
| Weighted Average Shares Outstanding |    | 83,304,922 |    | 70,341,359 |    | 79,990,172 | 6  |

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<br>Shares | Preferred<br>Amount | Common<br>Shares | Common<br>Amount | Additional<br>Paid-in<br>Capital | Retained<br>Earnings<br>(Deficit) |
|----------------------------|---------------------|---------------------|------------------|------------------|----------------------------------|-----------------------------------|
| Balance, December 31, 2003 | -                   | \$ -                | 62,730,619       | \$62,730         | \$15,604,609                     | \$(14,505,017)                    |
| Cancellation of shares     | -                   | -                   | (100,000)        | (100)            | (4,900)                          | -                                 |
| January - March 2004 -     |                     |                     |                  |                  |                                  |                                   |

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|   |           |        |            |        |            |              |
|---|-----------|--------|------------|--------|------------|--------------|
| shares issued for cash  | -         | -      | 244,500    | 245    | 34,755     | -            |
| January - March 2004 -<br>shares issued for services                                  | -         | -      | 932,000    | 932    | 203,048    | -            |
| April - June 2004 -<br>shares issued for cash   | -         | -      | 84,333     | 84     | 11,916     | -            |
| April - June 2004 -<br>shares issued for services                                     | -         | -      | 221,250    | 221    | 39,979     | -            |
| June 2004 - shares issued for<br>payment of notes payable and<br>accrued interest     | -         | -      | 5,221,050  | 5,221  | 516,884    | -            |
| July - September 2004 -<br>shares issued for cash                                     | -         | -      | 100,000    | 100    | 19,900     | -            |
| July - September 2004 -<br>shares issued for services                                 | -         | -      | 781,600    | 782    | 108,642    | -            |
| September 2004 - shares issued<br>in settlement of litigation                         | -         | -      | 2,000,000  | 2,000  | 178,000    | -            |
| October - December 2004 -<br>shares issued for cash                                   | -         | -      | 1,066,750  | 1,067  | 89,833     | -            |
| December 2004 - shares issued<br>for payment of notes payable<br>and accrued interest | -         | -      | 3,251,820  | 3,252  | 321,930    | -            |
| Cost of issuance of common stock  | -         | -      | -          | -      | (5,000)    | -            |
| Net loss for the year ended<br>December 31, 2004                                      | -         | -      | -          | -      | -          | (1,186,479)  |
| <hr/>   |           |        |            |        |            |              |
| Balance, December 31, 2004  | -         | -      | 76,533,922 | 76,534 | 17,119,596 | (15,691,496) |
| January - March 2005 -<br>shares issued for cash                                      | -         | -      | 155,000    | 155    | 15,345     | -            |
| January - March 2005 -<br>shares issued in payment of<br>accounts payable             | -         | -      | 128,000    | 128    | 18,872     | -            |
| April - June 2005 -<br>shares issued for cash   | -         | -      | 2,287,500  | 2,288  | 114,713    | -            |
| April - June 2005 -<br>shares issued for services                                     | -         | -      | 2,405,000  | 2,405  | 68,745     | -            |
| July - September 2005 -<br>shares issued for cash                                     | -         | -      | 612,000    | 612    | 55,588     | -            |
| July - September 2005 -<br>shares issued for services                                 | -         | -      | 2,979,000  | 2,979  | 294,721    | -            |
| July - September 2005 -<br>shares issued  | 7,171,725 | 71,717 | -          | -      | (71,717)   | -            |
| Net loss for the period   |           |        |            |        |            |              |

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|                             |           |          |            |          |              |                |
|-----------------------------|-----------|----------|------------|----------|--------------|----------------|
| ended September 30, 2005    | -         | -        | -          | -        | -            | (454,650)      |
| Balance, September 30, 2005 | 7,171,725 | \$71,717 | 85,100,422 | \$85,101 | \$17,615,863 | \$(16,146,146) |

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

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

|  | For the Nine Months Ended<br>September 30, |              |
|--|--|--------------|
|  | 2005                                       | 2004         |
|  | (Restated)                                 |              |
| Cash Flows from Operating Activities:                                    |  |              |
| Net Income (Loss)  | \$ (454,650)                               | \$ (787,908) |
| Adjustments to Reconcile Net Loss to Net Cash<br>Provided by Operations: |  |              |
| Depreciation and Amortization  | 7,379                                      | 23,690       |
| Stock Issued for Services  | 368,850                                    | 348,804      |
| Loss on Settlement of Debt   | -  | 3,750        |
| Changes in Operating Assets and Liabilities:                             |  |              |
| (Increase) Decrease in:  |  |              |
| Accounts Receivable  | (38,631)                                   | (34,197)     |
| Inventory  | 35,000                                     | -            |
| Deposits   | (2,872)                                    | -            |
| Increase (Decrease) in:  |  |              |
| Accounts Payable   | (173,729)                                  | (106,373)    |
| Accrued Expenses   | (77,210)                                   | (39,971)     |
| Net Cash Used by Operating Activities                                    | (335,863)                                  | (592,205)    |
| Cash Flows from Investing Activities:                                    |  |              |
| Purchases of Equipment   | (13,096)                                   | -            |
| Funds Advanced (to) from Affiliated Entities                             | (9,118)                                    | -            |
| Net Cash Used in Investing Activities                                    | (22,214)                                   | -            |
| Cash Flows from Financing Activities:                                    |  |              |
| Funds Advanced (to) from Stockholders                                    | -  | 591,685      |
| Proceeds from Stock Issuance   | 188,700                                    | 80,500       |
| Net Cash Provided by Financing Activities                                | 188,700                                    | 672,185      |
| Increase (Decrease) in Cash  | (169,377)                                  | 79,980       |
| Cash and Cash Equivalents at Beginning of Period                         | 173,486                                    | 19,899       |

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|   |           |            |
|---|-----------|------------|
|   | -----     |            |
| Cash and Cash Equivalents at End of Period          | \$ 4,109  | \$ 99,879  |
|   | =====     | =====      |
| Cash Paid For:                                      |           |            |
| Interest  | \$ 399    | \$ -       |
| Income Taxes  | \$ -      | \$ -       |
| Non-Cash Activites:                                 |           |            |
| Stock Issued in Payment of Accounts Payable         | \$ 19,000 | \$ 180,000 |
| Stock Issued for Notes Payable and Accrued Interest | \$ -      | \$ 522,105 |

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

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

GENERAL

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

PREFERRED STOCK

In July 2005 the Company issued 7,171,725 shares of Series A Preferred Stock in payment of notes payable and for services. The issuance had been previously authorized by the Board of Directors. Each share of Series A Preferred Stock has a liquidation preference, in the event of liquidation of the corporation, of \$0.01 per share before any payment or distribution is made to the holders of common stock. The Series A Preferred has no conversion rights into common stock. Each share of Series A Preferred is entitled to fifteen votes and shall be entitled to vote on any matters brought to a vote on the common stock shareholders.

UNAUDITED INFORMATION

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

RESTATEMENT

Pursuant to a regulatory review, the financial statements for the year ended December 31, 2004 have been changed. During 2004, the Company's President loaned funds to the Company to meet its financial needs, however, a payment

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back to Mr. Than was incorrectly recorded as a loan receivable to Mr. Than, leaving a receivable and payable in the same amount. This officer receivable has been offset against accounts payable and notes payable and when combined, Mr. Than had an identical balance. The restatement caused a decrease in loans to shareholder of \$66,500, leaving a \$0 balance, and caused a decrease in accounts payable of \$66,000 and a decrease in notes payable of \$500. This change carried forward to 2005 and as a result the loans to shareholder decreased \$62,000, once again leaving a \$0 balance, and caused a decrease in accounts payable of \$61,500 and a decrease in notes payable of \$500. The restatement also required a change to the 2005 cashflow statement by removing funds received from a shareholder and including it in the accounts payable section.

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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 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 OR PLAN OF OPERATION

#### EXECUTIVE OVERVIEW

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

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

For the past two years we have recorded revenues from the sale of our products. During the first quarter of 2004 we increased our product lines when we entered into a cooperative research and development agreement with the Idaho Engineering Lab for our Visual First Responder. During the second quarter of 2004 we set up a complete manufacturing line in our Baltimore, Maryland facility for building, testing and further development of the Visual First Responder product. In August 2005 we contracted with Inter-Connect



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Electronics, Inc. to manufacture and assemble our Visual First Responder units.

In 2004 we worked diligently to make engineering design changes to the SecureScan product to accommodate the price points required by competitive pressures. In 2005 we contracted with the University of Northern Florida to design new sensor boards for the SecureScan product which 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 believe the new reduced price points and the enhanced interface abilities of our products will allow us to be more competitive. We also contracted with Sports Field Specialties, LLC, an experienced manufacturer, to build the SecureScan product line. These manufacturing agreements allowed us to reduce our backlog for our product lines and decreased our labor cost.

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 2005 we continue to establish new partnerships, add active resellers and dealers and we hired four sales representatives to build a United States domestic network for the sale and distribution of our products within the 48 states. However, we cannot assure you that we will be able to develop these sales and distribution channels to a level

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which will result in increased revenues or continued profitability.

For the next twelve months our primary challenge will be to more fully develop our sales and distribution network for the United States. We intend 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 dealers shows. When a demonstration results in a sale of one of our products, then we will attempt to expand that market by contacting other potential customers in the area, such as, correctional facilities, courthouses and other municipal buildings. After several sales in a particular geographic area management will decide whether it is appropriate to open a sales and service office.

### LIQUIDITY AND CAPITAL RESOURCES

We have incurred losses for the past two fiscal years and had a net loss of \$1,186,478 at December 31, 2004, and a net loss of \$454,650 for the nine month period ended September 30, 2005. At December 31, 2004, we were in default on our debt obligations and did not have financing commitments in place to meet our expected cash requirements. Our auditors have expressed substantial doubt that we can continue as a going concern based on these operating losses. Management intends to focus our efforts on development of our sales and marketing channels in order to increase our revenues. However, management also believes we will incur operating losses for the near future and will need

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to rely on private financing to satisfy our cash requirements.

While our revenues are increasing, we are unable to satisfy our operating expenses. Net cash used by operating activities was \$335,863 for the nine month period ended September 30, 2005 (the "2005 nine month period") compared to \$592,205 for the nine month period ended September 30, 2004 (the "2004 nine month period"). For the long term, management expects that the development of our sales and marketing channels will increase our revenues; however, we will need to continue to raise additional funds.

Historically, private financing has covered our cash shortfalls. Net cash provided by financing activities for the 2004 nine month period was \$672,185, with \$591,685 of that amount related to funds advanced by stockholders and \$80,500 proceeds from the sale of our common stock. Net cash provided by financing activities for the 2005 nine month period was \$188,700 in proceeds from sales of our common stock.

We estimate that we will require additional financing of approximately \$500,000 to meet our needs for the next twelve months. 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.

### COMMITMENTS AND CONTINGENT LIABILITIES

Our base rent for operating leases related to our principal office and manufacturing facility is approximately \$2,870 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 \$310,885 at September 30, 2005 included accounts payable of \$73,047, accrued expenses of \$15,238, accrued interest of \$74,100 and notes payable of \$148,500.

In September 2005, we negotiated the payment of notes payable of \$237,357 that we owed to Niki Group, LLC and Compass Equity Partners LLC. Three accredited investors each paid a portion of the total debt and received shares of our common stock in consideration. Our board of directors authorized the issuance of an aggregate of 2,390,000 shares to the three investors. Starr Consulting, Inc. received 597,500 shares for \$60,000 paid on the debt; Power Network, Inc. received 597,500 shares for \$60,000 paid on the debt; and YT2K, Inc. received 1,195,000 shares for \$120,000 paid on the debt.

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### OFF-BALANCE SHEET ARRANGEMENTS

None.

### CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates of particular significance in our financial statements include annual tests for

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impairment of our licenses. These estimates could likely be materially different if events beyond our control, such as changes in government regulations that affect the usefulness of our licenses or the introduction of new technologies that compete directly with our licensed technologies affect the value of our licenses.

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

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

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

### RESULTS OF OPERATIONS

The following discussions are based on the unaudited consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the three and nine month periods ended September 30, 2005 and 2004 and should be read in conjunction with the financial statements, and notes thereto, included in this report at Part I, Item I, above.

#### Summary Comparison of Three and Nine Month Period Operations

|                                  | Three month<br>period ended<br>Sept. 30, 2005 | Three month<br>period ended<br>Sept. 30, 2004 | Nine month<br>period ended<br>Sept. 30, 2005 | Nine month<br>period ended<br>Sept. 30, 2004 |
|----------------------------------|---|---|--|--|
|                                  | -----   | -----   | -----  | -----  |
| Revenues, net                    | \$ 338,941                                    | \$ 188,029                                    | \$ 820,497                                   | \$ 380,423                                   |
| Cost of sales                    | 109,541                                       | 32,765  | 339,049                                      | 138,963                                      |
| Gross profit                     | 229,400                                       | 155,264                                       | 481,448                                      | 241,460                                      |
| Total operating<br>expenses      | 496,712                                       | 295,037                                       | 927,599                                      | 998,099                                      |
| Total other income<br>(expense)  | (2,961)                                       | (2,958)                                       | (8,499)                                      | (31,269)                                     |
| Net income (loss)                | (270,273)                                     | (142,731)                                     | (454,650)                                    | (787,908)                                    |
| Net earnings<br>(loss) per share | \$ (0.00)                                     | \$ (0.00)                                     | \$ (0.01)                                    | \$ (0.01)                                    |

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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 is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training.

Our marketing efforts have increased sales of our SecureScan and Visual First Responder and resulted in revenues for the three month period ended September 30, 2005 (the "2005 third quarter") increasing 180.1% compared to the three month period ended September 30, 2004 (the "2004 third quarter"). Revenues for the nine month period ended September 30, 2005 ("2005 nine month period") increased 115.7% compared to the nine month period ended September 30, 2004 ("2004 nine month period"). Management anticipates that increases in revenues will continue as we develop our sales and marketing channels and establish local sales and service offices in geographic areas that we have already completed sales.

The breakdown of revenues by product line follows:

|                        | Nine month period<br>Sept. 30, 2005<br>----- | Nine month period<br>Sept. 30, 2004<br>----- |
|------------------------|--|--|
| Secure Scan            | \$ 413,149                                   | \$ 54,499                                    |
| ViewMaxx               | 41,520                                       | 128,906                                      |
| Visual First Responder | 360,940                                      | 192,320                                      |
| Service                | 4,888  | 4,698  |

Our backlog at December 31, 2005, was \$200,000, down from \$700,000 at September 30, 2005. The reduction in backlog is primarily a result of outsourcing our manufacturing. Our back log is more manageable and is in part carried by the third party manufacturers because purchase orders are placed with the manufacturers and they receive payment when we receive payment from the customer. However, 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.

While revenues increased in the 2005 periods, cost of sales also increased 234.3% for the 2005 third quarter compared to the 2004 third quarter and they increased 144.0% for the 2005 nine month period compared to the 2004 nine month period. Cost of sales increased in the 2005 periods as a result of the expenses related to expanding our sales and distribution channels including the cost of products for demonstrations, travel to shows and increased dealer relations, and promotional materials. Management anticipates that cost of sales will increase as our marketing efforts continue but that the relative margins of each product line should remain relatively the same.

Despite the increase in cost of sales, the increased revenues resulted in a gross profit increase of 47.7% for the 2005 third quarter compared to the 2004 third quarter and an increase of 99.4% for the 2005 nine month period compared to the 2004 nine month period.

For the 2005 third quarter total operating expense increased 68.4% compared to the 2004 third quarter. The increase in the 2005 third quarter was primarily a result of additional business development expenses related to expanding our markets and increased professional fees related to contracts with four engineers. For the 2005 nine month period total operating expense decreased 7.1% compared to the 2004 nine month period. This decrease was primarily the

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result of a 73.1% decrease in general and administrative expenses and management expects these expenses to remain relatively the same, but as we continue to develop our marketing channels expenses related to business development may increase.

Total other expense for the 2005 and 2004 comparable periods was related to interest on loans. Management anticipates interest expense to increase as a result of the subscription agreement with the Subscribers, described above, and our need to seek further private financing in the future.

As a result of the above, our net loss increased 89.4% for the 2005 third quarter compared to the 2004 third quarter, but decreased 42.3% for the 2005 nine month period compared to the 2004 nine month period.

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### Balance Sheet

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

#### Summary Balance Sheet

|                             | For nine month<br>period ended<br>September 30, 2005 | For the year ended<br>December 31, 2004 |
|-----------------------------|--|---|
| Cash and cash equivalents   | \$ 4,109   | \$ 173,486                              |
| Total current assets        | 177,279  | 343,025                                 |
| Total assets                | 1,937,420  | 2,085,458                               |
| Total current liabilities   | 310,885  | 580,824                                 |
| Retained earnings (Deficit) | (16,146,146)   | (15,691,496)                            |
| Total stockholders equity   | \$ 1,626,535   | \$ 1,504,634                            |

Our total assets decreased at September 30, 2005, primarily as a result of decreases in cash and inventory. Total current liabilities decreased primarily due to decreases in accounts payable as a result of the pay-off of notes payable totaling \$237,357 by Starr Consulting, Inc., Power Network, Inc. and YT2K, Inc.

#### 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

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alone and management believes we will incur operating losses for the near future while we expand our sales channels. While we have expanded our product line and expect to establish new sales channels, we may be unable to increase revenues to the point that we attain and are able to maintain profitability.

We need additional external capital and may be unable to raise it.

Based on our current growth plan we believe we may require approximately \$500,000 in additional financing within the next twelve months to develop our sales channels. Our success will depend upon our ability to access equity capital markets and borrow on terms that are financially advantageous to us. However, we may not be able to obtain additional funds on acceptable terms. If we fail to obtain funds on acceptable terms, then we might be forced to delay or abandon some or all of our business plans or may not have sufficient working capital to develop products, finance acquisitions, or pursue business opportunities. If we borrow funds, then we could be forced to use a large portion of our cash reserves, if any, to repay principal and interest on those loans. If we issue our securities for capital, then the interests of investors and stockholders will be diluted.

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

We are in the process of developing and expanding our sales channels, but we expect overall sales to remain down as we develop these sales channels. We are actively recruiting additional resellers and dealers and have hired in-house sales personnel for regional and national sales. We must continue to find other methods of distribution to

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increase our sales. If we are unsuccessful in developing sales channels we may have to abandon our business plan.

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, 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 reliant upon the Department of Energy and National Institute of Justice for continuations and

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improvements to the Visual First Responder. If either of these entities should discontinue its operations or research and development we may lose our competitive edge in our market.

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. For example, our short term success will depend on the continued acceptance of the Visual First Responder and the SecureScan portal product line. 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.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could lead to loss of investor confidence in our reported financial information.

Pursuant to proposals related to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 10-KSB for the fiscal year ending December 31, 2007, we will be required to furnish a report by our management on our internal control over financial reporting. If we cannot provide reliable financial reports or prevent fraud, then our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

In order to achieve compliance with Section 404 of the Act within the prescribed period, we will need to engage in a process to document and evaluate our internal control over financial reporting, which will be both costly and challenging. In this regard, management will need to dedicate internal resources, engage outside consultants and adopt a detailed work plan.

During the course of our testing we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud.

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### ITEM 3. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC. This information is accumulated and communicated to our executive officers to allow timely decisions regarding

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required disclosure.

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. He concluded that our disclosure controls and procedures were effective. However, subsequently, he identified a weakness in our disclosure controls and procedures with respect to accounting entries made in 2004 related to loans receivable and payable to our executive officers which resulted in a restatement of our 2004 financial statements.

Also, our Chief Executive Officer determined that there has been no change in our internal control over financial reporting during the third quarter 2005 that has materially affected, or is 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

The following discussion describes securities sold by View Systems without registration through November 2, 2005 that have not been previously reported.

On November 2, 2005, we issued 85,000 shares to Michael Paduano for \$12,750 and 175,000 shares to David Hume for \$26,250. 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 October 4, 2005, we issued an aggregate of 2,390,000 common shares to three investors for conversion of debt totaling approximately \$240,000. We issued 1,195,000 shares valued at approximately \$120,000 to YT2K, Inc. and 597,500 shares valued at \$60,000 each to Starr Consulting, Inc. and Power Network, Inc. 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 October 4, 2005, we issued 1,210,000 shares to MBA Investors, Inc. in consideration for corporate development consulting services valued at approximately \$120,000. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act.

On September 19, 2005, we issued 60,000 shares to Charles Nelson for services rendered to us. 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 August 22, 2005, we issued 50,000 shares to Cheryl Stamp 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.

#### ITEM 6. EXHIBITS

##### Part I Exhibits

- 31.1 Chief Executive Officer Certification
- 31.2 Principal Financial Officer Certification



