

Edgar Filing: VIEW SYSTEMS INC - Form 10KSB

VIEW SYSTEMS INC  
Form 10KSB  
April 29, 2002

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
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FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the fiscal year ended DECEMBER 31, 2001

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: \_\_\_\_\_

View Systems, Inc.  
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(Name of Small Business Issuer in Its Charter)

Florida

59-2928366

-----  
(State or Other Jurisdiction  
of Incorporation or Organization)

-----  
(I.R.S. Employer Identification No)

3100 Wilso Drive, Baltimore, MD

21223

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

-----  
(Zip Code)

(410) 646-3000

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(Issuer's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.001 par value.

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(Title of class)

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 the filing requirements for the past 90 days.

Yes  No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

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The Registrant's revenue for the fiscal year ended December 31, 2001 was \$1,391,929.

As of April 2, 2002, 28,439,620 shares of the registrant's Common Stock were outstanding and the aggregate market value of such Common Stock held by non-affiliates was approximately \$10,522,659 based on the closing price of \$.37 per share on that date.

### PART I

#### ITEM 1. DESCRIPTION OF OUR BUSINESS

##### History

We incorporated in Florida in January, 1989 but did not become active until September, 1998 when Gunther Than joined us as our president and we began development of our product line. In October 1998, we acquired Real View Systems, Inc. a company controlled by Gunther Than by which we acquired compression technology and computer equipment. In February 1999, we acquired Xyros Systems, Inc. by which we acquired remote monitoring and storage engineering, a highly qualified employee staff and computer hardware and software. In May, 1999, we acquired ETMC, a contract manufacturer of electronic hardware and assemblies with 15 years of manufacturing experience which business we have continued to date and whose facilities we use to manufacture our products. In March, 1999, we made our first sales of our security and surveillance products. The potential market for security and surveillance products and services throughout the world is huge and has been enhanced by digital technology. In December of 2001 we entered into a joint venture agreement with Milestone Technology to further develop and enhance their Concealed Weapons Detection technology. This joint venture enhances our product line and gives both companies a more comprehensive product.

##### Overview

Surveillance devices are common today and are used as a proven method for protection and risk management. We develop, produce and market digital security and surveillance systems and products utilizing video based cameras and microphones. Our security systems, which are marketed under the trade name SecureView, record video images digitally and permit their viewing remotely over the customer's existing CCTV systems together with audio output over ordinary telephone lines. Digital recording connects data to a computer readable format rather than on a conventional video tape. We store the video output on computer hard disks rather than VCR tapes which significantly improves access to stored data. In addition, our systems are programmable and are capable of being customized to satisfy each customer's special requirements, be it coverage which is continuous or when events are detected. Our digital systems also employ digital video data compression which saves space and time for transmissions.

In addition to SecureView, our products include the following:

- o ViewStorage which is a competitively priced programmable VCR replacement device that records video output digitally for use with existing CCTV systems and which will not degrade as tapes do;
- o PlateView which is a license plate recognition system that uses optical character recognition technology to provide an additional means of identifying individuals in a surveillance area for commercial or law enforcement use;
- o FaceView which is a system for recognizing faces and comparing them to known individuals such as employees or wanted individuals which are being sought for;

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- o WebView which is a low-priced retail product that allows a user to capture and view remotely camera output from a limited number of cameras via a connection to a server which in turn is connected to the world-wide web for use by a customer desiring a low cost way to monitor remote assets such as a home or boat;
- o SecureScan is a single, stand-alone, Concealed Weapons Detection Systems (CWD);
- o CWD systems that integrate into existing facilities with security systems;

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- o CWD systems that form the framework of a new security system;
- o Services:
  - Calibration services using the FAA approved method,
  - On site consulting/planning with customer architect and engineer,
  - Installation and technical support,
  - Training and "Train the Trainer" programs, and
  - Extended service agreements.

We currently market our products principally to commercial users for monitoring facilities for the protection of employees, customers and assets which leads to both the curtailment of crime and loss prevention. We also market our products to residential users and law enforcement agencies. We currently distribute and support our products through a network of value-added domestic and international resellers which we intend to expand.

### Industry Background

The increased functionality that digital technology brings to CCTV systems has made this a dynamic and rapidly growing market. According to a report by J. P. Freeman & Co., a privately held market research and consulting services company that focuses on the security and surveillance industries, the market size for CCTV systems was \$1.3 billion for production and services revenues in 1998, which market was estimated to grow at a rate of 11-13% per year. The report forecast this double-digit growth in the total market between now and 2004, with a possibility of further growth acceleration as the residential and non-security commercial markets expand. According to the J. P. Freeman report, an estimated \$556 million of the total market in 1998 was derived from services, such as installation and maintenance, which we do not provide. However, the report predicted that service revenues in this market would grow at a slower pace than the revenue growth of the product sector primarily because of the ability to integrate digital systems with other commercial and residential electronic systems.

Video transmission is just beginning to transform from what was "closed-circuit" to a mix of methods that will widen into hard-wired, phone line, TV cable and wireless link systems. It is expected that this will expand user demand, create new product opportunities and channels of distribution and expand the way in which other communication services are used.

### Business Strategy

We distribute our SecureView line of products, with add-on features, to the market through a network of value-added resellers. We are also in discussions with security companies and law enforcement agencies with respect to distribution agreements.

We have ongoing reseller arrangements with small and medium sized domestic and international resellers. Our reseller agreements grant a non-exclusive right

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to sell our products. The reseller purchases from us at a discount from list price and on other terms and conditions in effect at the time of order. The agreements are generally for a term of one year and automatically renew for successive one year terms unless terminated by notice or in the event of breach.

Our core strategy is to continue to build products and deliver services that are marketable while at the same time developing new products and applications to anticipate and meet the expanding needs of our customers. We are also attempting to create alliances with various specialty markets which require the use of security systems.

SecureScan products will be distributed in two basic configurations, stand-alone units and integrated door systems. Stand-alone systems will be

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distributed by security industry leaders. Cross marketing arrangements are under discussion with InVision for distribution of SecureScan to the airline industry. Extensive participation at leading trade shows is planned. Marketing will be based upon education and technology pull. Technical presentations and meeting participation will also underscore priority-marketing strategies for SecureScan.

Wide use of GSA contracting will help define public sector product deployment. DOE National Laboratories are a natural first launch. Extensive adoption in Washington D.C. buildings and Cabinet offices as well as the Executive Branch are also early planned targets.

### Our Products

We manufacture several of the hardware components in our systems. We assemble our systems by combining additional commercially available hardware and software together with our proprietary software. We license software components that are integrated into our proprietary software and installed in our systems. We believe that we can continue to obtain components for our systems at reasonable prices from a variety of sources. Although we have developed certain proprietary hardware components for use in our products and purchased some components from single source suppliers, we believe similar components can be obtained from alternative suppliers without significant delay.

We have software licensing agreements for (i) compression software components, (ii) for facial recognition to possibly integrate into our proprietary software, and (iii) integration of commercially available operating systems software into our proprietary software for installation into our products.

### SecureView

SecureView is a line of digital CCTV recording and remote monitoring systems. Our digital CCTV SecureView system:

- o takes video images captured by cameras;
- o digitizes the video;
- o stores the video according to times or criteria specified by the customer;
- o retrieves the visual data selectively in a manner that the customer considers valuable or desirable;
- o transmits the video across computer networks or ordinary phone lines;
- o has two way audio ability that can use real-time to communicate to the location being monitored; and
- o triggers programmed responses to events detected in surveillance area

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such as break-ins or other unauthorized breaches of the secured area.

Our system stores video output on computer hard discs, rather than VCR tapes. Storage on computer hard discs allows selective access to stored data. With a VCR, a user must search an entire tape to review a critical event, often fast forwarding and rewinding. With computer hard disc, a user can gain immediate access to stored data by doing a controlled search for the desired data. Our systems come standard with up to 28 days storage.

Our systems are programmable -- they can be pre-set to take actions when events are detected in the surveillance area. For example, they can be programmed to begin recording when motion is detected in a surveillance area or to notify the user if the system is not functioning properly. Because of the programmable recording features, our systems can eliminate the unnecessary storage of non-critical image and audio data. This capacity allows the user to utilize the hard disk storage more efficiently.

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Our digital systems employ video data compression. This saves space for storage and time for transmission especially on low bandwidth channels such as plain telephone wiring.

Our SecureView line of products include the following features:

- o users can remotely monitor multiple locations from a remote PC;
- o connects to existing CCTV systems allowing retrofit enhancements using our systems;
- o uses any and all forms of telecommunications, such as standard telephone lines;
- o video can be monitored 24 hours a day by a security monitoring center;
- o allows uninterrupted "2-way" audio transmission while switching, controlling and monitoring up to 16 cameras per unit;
- o local and remote recording, storage and playback for up to 28 days, with optional additional storage capability;
- o cameras can be concealed in ordinary home devices such as in smoke detectors;
- o monitors itself to insure system functionality with alert messages in the event of covert or natural interruption;
- o modular expansion system configuration allows user to purchase add on components at a later date; and
- o allows the user to set the system to automatically review an area in desired camera sequence.

### SecureScan

The SecureScan CWD technology involves sensing technology and data acquisition/analysis software subsystems. These technologies have patents pending or issued. Since the intellectual property was developed by the federal government under a grant from the NIJ, the patents belong to the government as well. This is advantageous because the government has prosecution and stewardship responsibilities for the life of the patents. This is also true for continuations and improvements to the CWD technology under the ongoing contract between DOE and NIJ. Milestone, as the licensee has rights to these improvements as well.

SecureScan incorporates several important measurements to determine if there is a weapon, (A) where the weapon is located, (B) what kind of weapon it is, and (C) the identity of the person with the weapon. First, flux-gate

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magnetometers qualify the measurement of the weapon. Second, spatial analysis software calculates the exact location of the specific sensors involved in the measurement. Third, software calculated magnetic disturbance against the density of the material discovered. And fourth, high-resolution video grabs a frame of the spatial data with the picture of the actual person in the portal. All of this information is brought together on a video screen that displays the image of the person, the location of the weapon and variable-sized target, depending on the intensity of the magnetic signature. On the same display screen next to the video window is a graph that can depict the precise signal strength of the right and left sensor arrays. This is the only product capable of these integrated functions.

### PlateView

PlateView is a license plate recognition system that uses optical character recognition technology to provide an additional means of identifying individuals in a surveillance area. The system can be integrated into an access control mechanism that can open gates or call an attendant to compare an identification made from other data, such as a driver's license, with the identification made with the license plate. Law enforcement personnel can use this system in traffic enforcement. In addition to plate identification, officers can receive early warnings as to a number of items, including whether the owner of a car being stopped has outstanding arrest warrants or whether the license plate matches the vehicle's registration. PlateView was brought to market in the first quarter of 2000.

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### CareView & WebView

Parents' rising concerns about the safety of their children at home with a baby sitter or nanny or in a day care center - as well as the treatment of a loved one in a nursing home - have created the need for a way of monitoring activities in these facilities. We are developing the CareView system as an option for the care facility. Users of the WebView system access the Internet to scan the day care center's web site and immediately view the video output produced by cameras installed at the care facility.

For nursing and hospice care facilities, the CareView system allows family and friends to view loved ones when they are not able to be at the care facility -- just by accessing the facilities' web sites.

### Markets

Our family of products offers government and law enforcement agencies, commercial security professionals, private businesses and residential consumers a dramatically enhanced surveillance capacity. It also offers a more efficient and economical method to store, search and retrieve historically stored data.

#### Residential

The residential home security user will purchase our products from either commercial companies installing either self-contained or centrally monitored systems, or directly from retail distribution centers.

Utilizing our technology, individuals can run their own perimeter and interior surveillance systems from their own home computer. Real time action can be monitored remotely at homes through a modem and the Internet. There is also the capability to make real-time monitors wireless. In turn, this reduces the expense and time of the home installation and makes installation affordable for a majority of homeowners.

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An additional advantage of our technology is that it allows for the storage of information on the home computer and does not require a VCR.

### Commercial

Commercial business users represent the greatest potential users of our surveillance products. Commercial businesses have already realized the need for using surveillance devices for protection. Our products provide observation of facilities for protection of employees, customers, and assets. This can result in the curtailment of crime and loss prevention by employees and others. The market for this technology is the same as the current market for analog CCTV systems, including hospitals, schools, museums, and retail, manufacturing and warehousing facilities.

Our system reduces the requirements for a guard force. In addition, lesser number of security personnel are needed to monitor, verify and respond to tripped alarms.

Our products and technology can be used where there is a temporary requirement for real-time surveillance in areas where an analog CCTV system is impractical or impossible. Examples of this are special events, concerts, and conventions. Our systems reduce the need for a large guard force and provide unobtrusive monitoring of these events.

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### Law Enforcement

The gathering of video and data images is commonplace in law enforcement. The data is used to protect both the law enforcement officer and the suspect. It is also used as a historical record for prosecution and event verification.

Because our technology can be used for stakeouts and remote monitoring of areas, we believe there is a market potential with law enforcement agencies. We have been asked to submit proposals for license plate recognition systems that help law enforcement identify people entering a surveillance area.

Law enforcement agencies are also frequently using robotic systems to investigate and disarm explosive devices. The robotic systems are severely limited in flexibility by the need to utilize CCTV systems with a VCR, which can be overcome by the use of our digital technology.

### Competition

Metal detectors that are widely used to detect weapons use active electromagnetic induction (EMI) to artificially create or transmit an ionizing field for metal objects to act upon. This energy is similar in nature to the controversial radiation surrounding the use of cellular phones, high-tension power lines, etc. Many of these systems create enough stray EMI to interact with medical implants and heart pacemaker devices. While the real effects of EMI are still being evaluated, many consumers are taking a conservative approach when EMI is concerned.

SecureScan 2000 uses novel passive magnetic technology. This means special sensors are used to measure the earth's naturally occurring magnetic field. When an object of a specific mass passes through the sensors within the magnetic field, software calculates the difference between the magnetic field strength with the object inside the magnetic field and determines if the object is a

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weapon or not. Since the system uses no transmitters to produce EMI, stray energy that can cause false alarms does not exist.

It is this absence of EMI energy that enables the SecureScan to safely integrate with other electrical and electronic systems. SecureScan is the only CWD system that can be placed directly next to or embedded into an automatic door for access control.

The competitors of the SecureScan product are Ranger and Garrett, in the U.S. And the Italian Company, CEIA, who has the most sophisticated EMI product that, is priced approximately \$8,000. Ranger has just recently provided detectors to some Los Angeles schools under a special contract for around \$2,000 each. However, with the amount of body jewelry and body piercings on students, a metal detector is of little value when security personnel are looking for knives and, in particular, concealed razor blades. It is for this reason that the NIJ has purchased SecureScan systems to be installed in New York schools this year.

The markets for our products are extremely competitive. Competitors include a broad range of companies that develop and market products for the identification and video surveillance markets. Competitors in the market for our identification product, PlateView, include Polaroid Corporation, Loronix Information Systems, Data Card Corporation, Dactek International, Inc. Competitors in the video surveillance market include numerous VCR suppliers and digital recording suppliers including, Loronix Information Systems, Inc., Sensormatic Corporation and NICE Systems, Ltd.

We believe the introduction of digital technology to video surveillance and security systems is our market opportunity. We believe that many of the established CCTV companies have approached the design of their digital CCTV products from the standpoint of integrating their digital products to existing security and surveillance product offerings. These systems are closed, not easily integratable with other equipment and not capable of upgrades as

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technology improves. We have designed our systems so that they are open, compatible with other digital and analog systems, and easily adaptable to technological advances that will inevitably occur with digital technology.

### Intellectual Property

Certain features of our products and documentation are proprietary and we rely on a combination of patent, contract, copyright, trademark and trade secret laws and other measures to protect our proprietary information. As part of our confidentiality procedures, we generally enter into confidentiality and invention assignment agreements with our employees and mutual non-disclosure agreements with our manufacturing representatives, dealers and systems integrators. Notwithstanding such actions, a court considering these provisions may determine not to enforce such provisions or only partially enforce such provisions. We also limit access to and distribution of our software, documentation and other proprietary information.

Because the software and firmware (software imbedded in hardware) are in a state of continuous development, we have not filed applications to register the copyrights in these items. However, under law, copyright vests upon creation of our software and firmware, and registration is not a prerequisite for the acquisition of copyright rights. We take steps to insure that notices are placed on these items to indicate that they are copyright protected. The copyright protection for our software extends for the statutory period from the date of first "publication" (distribution of copies to the general public) or from the



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date of creation, whichever expires first.

We provide software to end-users under non-exclusive "shrink-wrap" licenses (or automatic license executed once the package is opened) which generally are nontransferable and have a perpetual term. Although we do not generally make source code available to end-users, we may, from time to time, enter into source code escrow agreements with certain customers. We have also licensed certain software from third parties for incorporation into our products.

### Government Regulation

We are not subject to Government regulation in the manufacture and sale of our products, and the components in our products. However, our resellers and end users will be subject to numerous regulations that stem from proposed activities in surveillance. Security and surveillance systems, including cameras, raise privacy issues. Our products involve both video and audio, and added features for facial identification. The regulations regarding the recordation and storage of this data are uncertain and evolving. For example, under the Federal wiretapping statute, the audio portion of our surveillance systems may not record people's conversations without their consent. Further, there are state and federal laws associated with recording video in non-public places. Shipments of our products internationally may be regulated as to certain countries that raise national security concerns. These laws are evolving.

Alliances exist with Lockheed Martin, through their Offset Program, as Lockheed developed the CWD technology while they were prime contractor with the Department of Energy. Milestone also has a Cooperative Research arrangement with DOE to receive technical assistance and further enhancements of the CWD technology through contractual relationships between DOE and NIJ. Discussions for inserting SecureScan into foreign markets for "Offset Debt" retirement include the remodeling of the Athens airport and products for the Athens Olympic games in 2004. Lockheed and Milestone are also actively exploring Russia and security for their "Nuclear City" where their nuclear weapons were built and are being dismantled.

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### Employees

We employ 23 persons including three persons in part-time positions. We also employ four independent contractors who devote a majority of their work to a variety of our projects. Our employees are not presently covered by any collective bargaining agreement. Our relations with our employees are good, and we have not experienced any work stoppages.

### ITEM 2. DESCRIPTION OF PROPERTY

We lease 5,800 square feet of space used for engineering design and manufacturing in Baltimore, Maryland. The lease term commenced on April 1, 2001 and ends on April 30, 2006. During the term of the lease, the rent is \$2,300 per month and we are not responsible for the property taxes.

### ITEM 3. LEGAL PROCEEDINGS

We are not a party to any pending legal proceedings that would have a material effect on our operations.

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

Not applicable.

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## PART II

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our shares are traded on the Over-The-Counter Bulletin Board under the symbol "VYST." The high and low bids for the periods indicated, according to information from the National Quotation Bureau, were:

2001	High	Low
	----	---
Quarter as of March 31, 2001	1.09	.47
Quarter as of June 30, 2001	.73	.41
Quarter as of September 30, 2001	.90	.14
Quarter as of December 31, 2001	1.21	.40
2000	High	Low
	----	---
Quarter ended March 31, 2000	4.19	2.06
Quarter ended June 30, 2000	3.19	1.13
Quarter ended September 30, 2000	1.63	.44
Quarter ended December 31, 2000	.87	.37

As of April 12, 2002 we had 252 stockholders of record.

These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions. On April 23, 2002 the company was received the conditional symbol "E" on the end of its trading symbol because of lateness in filing its Form 10-KSB for the fiscal year ending December 31, 2001. Upon filing of this report, the company expects to be reinstated.

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#### Dividend Policy

We have not declared or paid cash dividends or made distributions in the past, and we do not anticipate that we will pay cash dividends or make distributions in the foreseeable future. We intend to retain and invest future earnings to finance our operations.

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#### Penny Stock Rules

As long as the price of our shares remains below \$5.00 and we are unable to obtain a listing of our stock on the NASDAQ System or other national stock exchange, we will be subject to the "penny stock" rules. In general, the penny stock rules impose requirements on securities brokers who sell such securities to persons other than established customers and accredited investors (generally those with assets in excess of \$1,000,000, or annual incomes exceeding \$200,000 or \$300,000 together with their spouse), which tend to reduce the level of trading activity in a stock. Among other things, these rules require that securities brokers:

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- o make a special suitability determination before recommending a penny stock;
- o deliver a risk disclosure document prior to purchase;
- o disclose the commissions payable to both the broker-dealer and the registered representative, current quotations for the securities and, if the broker-dealer is the sole market-maker, the broker-dealer must disclose this fact and the broker-dealer's presumed control over the market; and
- o provide customers with monthly statements containing recent price information.

Consequently, the "penny stock" rules may restrict the ability of broker-dealers to sell our common stock and may affect our ability to sell our common stock in the secondary market.

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF PLAN OF OPERATION

The following discussion and analysis should be read in conjunction with our financial statements and the accompanying notes.

Since start-up of operations in September 1998, 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. Until we more fully develop our product line and our sales and distribution network, we expect our operating losses to continue. We have provided contract manufacturing services since May, 1999, when we acquired ETMC. ETMC had provided such services for more than 15 years and had an established customer base. We have continued the contract manufacturing business line, while increasing ETMC's manufacturing capacity to permit production of our products. In December of 2001, we entered into a joint venture agreement with Milestone Technology to co-develop their Concealed Weapons Detection portal. As part of the agreement we traded 500,000 of View Systems common stock for 6% of Milestone and rights to the concealed weapons detection technology.

#### Results Of Operations

Year Ended December 31, 2001, Compared To Year Ended December 31, 2000

#### Revenue

In 2000, our revenues totaled \$661,789 of which \$319,376 were derived from sales of security systems and \$342,413 from sales of contract manufacturing and test services. In 2001, our revenues totaled \$1,391,929, or an increase of 112% over the prior year. The vast majority of our 2001 sales were international in nature.

In 2001, we derived the preponderance of our revenues from sales of security systems and only an immaterial amount from sales of contract manufacturing and test services. This represents a major change from the prior

year in which 52% of revenue derived from contract manufacturing and only 48% of revenue was derived from sales of security systems.

#### Gross Profit And Operating Expenses

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Gross profit on sales for the year ended December 31, 2000, was \$225,479 compared to \$819,572 for the year ended December 31, 2001, a 265% increase. Gross profit margin was 34% in 2000 and 59% in 2001.

Operating expenses for the year ended December 31, 2000, were \$2,429,761, compared with \$2,756,856 in 2001. Approximately, \$582,000 of our operating expenses in 2000 were attributable to the issuance of shares of our common stock as compensation and incentive, and as a means to attract and retain qualified personnel. As a result cash operating expenses in 2000 were only \$1,847,761. Approximately \$729,483 of our operating expenses in 2001 were attributable to the issuance of shares of our common stock as compensation resulting in cash expenses of \$2,027,373 for that year.

Net loss was \$2,204,282 for 2000, or \$.19 per share, compared to a net loss of \$1,937,284 or \$.12 per share for the year 2001. The reduction in net loss per share is mainly due to the increased number of shares outstanding.

### Costs And Expenses

**Costs Of Goods Sold.** The cost of products and services sold, consisting principally of the costs of hardware components and supplies, was \$572,357 in 2001 as compared to \$436,310 in 2000, and represented 41% of revenue in 2001 and 66% of revenue in 2000, a decrease of approximately 25%. As product sales in the future account for a larger percentage of overall sales, we expect that our costs of goods and services sold will increase as a percentage of total revenue and stabilize in the mid 70% range. Our profit margins on sales of security systems exceeds our profit margins on sales of services. We are currently working on engineering changes in our security products that we expect will further lower component costs for these products.

**Salaries And Benefits.** We spent \$794,166 in salaries and benefits in 2000. We organized and staffed up in 2000, converting many independent contractors to employees. In 2001, we spent \$855,212 for salaries. We incurred expenses associated with issuing shares of our common stock to employees of \$582,552 in 2000 and \$438,044 in 2001. We believe these expenses were necessary in the past and will continue to be necessary in the future in order to attract qualified personnel and conserve cash during our early years of operation.

**Selling, Business Development, Travel And Entertainment.** Selling, business development, travel and entertainment expenses were \$227,175 in 2000 and \$300,591 in 2001.

**Research And Development Expense.** We spent \$132,300 in 2000 on research and development and \$26,734 in 2001. We expect to continue to fund new product development in 2002 at or above the dollar levels expended in 2001.

**Investor Relations Expenses.** Investor relations expenses decreased from \$392,136 in 2000 to \$231,578 in 2001. Included in this expense category is the issuance of shares of our common stock to in 2001 to Columbia Financial Group, LLC in payment of their services in providing investor relations support.

**Professional Fees.** Professional fees increased from to \$359,131 in 2000 to \$402,312 in 2001. These fees include attorneys, accountants, management consultants and programming contractors.

### Net Operating Loss

We have accumulated an aggregate of approximately \$8 million of net

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operating loss carry-forwards as of December 31, 2001, which may be offset against taxable income in future years. The use of these losses to reduce income taxes will depend on the generation of sufficient taxable income prior to their expiration in the year 2019. In the event of certain changes in control, there will be an annual limitation on the amount of net operating loss carry-forwards which can be used. No tax benefit for these carry-forwards has been reported in the financial statements for the years ended December 31, 2000 or 2001.

### 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 \$9,978,497 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 December 31, 2001, we had total assets of \$ 2,598,712, an increase of \$711,288 over last year's \$1,887,424. Total liabilities were \$494,709, resulting in stockholders' equity of \$2,104,003, an increase from last year's \$1,278,053 of \$825,950.

During the year ended December 31, 2001, our cash decreased from \$265,245 at December 31, 2000, to \$73,344 at December 31, 2001. Net cash used in operating activities was \$1,815,920 for the year ended December 31, 2001, including increases in accounts receivable of \$783,213, decreases in inventory of \$39,695, decreases in accounts payable of \$55,590, decreases in payroll liabilities of \$31,951 and increases in accrued interest of \$11,000.

Net cash generated from financing activities during the year ended December 31, 2001 was \$1,658,780, consisting of proceeds received from the sale of stock of \$1,765,000, less \$70,189 advanced to stockholders, less payments made in the amount of \$36,031 on a promissory note.

As a result of the foregoing, as of December 31, 2001 we had positive net working capital of \$572,509, including \$938,230 of trade accounts receivable and \$55,644 in inventory. We have provided and may continue to provide payment term extensions to certain of our customers from time to time. As of December 31, 2001, we have not granted material payment term extensions.

Our inventory balance at December 31, 2001, was \$55,644. We do not take inventory on a quarterly basis, and we made inventory estimates based on annual inventory determinations. However, the inventory at December 31, 2001 is based on a physical count and valuation of materials on hand. With expected increased product sales, we will need to make increased inventory expenditures. 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 in salary and fees during calendar year 2002. If we terminate the employment of Mr. Than because of merger, acquisition or change in control, we will be obligated to pay him approximately \$2,000,000 in severance payments.

We believe that cash from operations and funds available will meet anticipated operating capital expenditure and debt service requirements for the next twelve months but that we will also be raising additional capital through equity sales or debt financing.

We also have 3,850,000 outstanding warrants with various investors with an exercise prices of \$0.20 to \$0.70 per share. If the warrant holders exercise all

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of their warrants, at the stated exercise prices, we will receive \$1,880,000, which we will use for additional working capital. Dependent on market conditions the warrant prices are sometimes renegotiated.

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### Plan Of Operation

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

- o the rate of sales growth and market acceptance of our product lines;
- o the amount and timing of necessary research and development expenditures;
- o the amount and timing of expenditures to sufficiently market and promote our products; and
- o the amount and timing of any accessory product introductions.

We intend to use the cash raised from the private sale of shares and the exercise of warrants held by the Selling Stockholders to the following:

- o bring SecureScan and SecureView products to market;
- o continue our product development efforts;
- o expand our sales, marketing and promotional activities for the SecureView line of products; and
- o 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 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 expenditures. We currently estimate we will need between \$3 million and \$4 million to fully develop all of our products and launch our expanded business operations in accordance with our current business plan.

### ITEM 7. FINANCIAL STATEMENTS

Information called for by this item is set forth in the Company's Financial Statements contained in this report and is incorporated herein by this reference. Specific financial statements can be found at the pages listed in the following index.

#### Index To Financial Statements View Systems, Inc.

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	Page No.
	-----
Report of Independent Auditors	F-1
Consolidated Balance Sheet at December 31, 2001	F-2
Consolidated Statements of Operations for the years ended December 31, 2001 and 2000	F-3

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Consolidated Statements of Stockholders' Equity  
for the years ended December 31, 2001 and 2000 F-4

Consolidated Statements of Cash Flows for the  
years ended December 31, 2001 and 2000 F-5

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Notes to Consolidated Financial Statements F-7

### ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

### PART III

### ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Our directors, executive officers and key employees, their respective ages and positions, and biographical information on them is set forth below.

Name	Age	Position Held
----	---	-----
Gunther Than	53	President, CEO and Director since September 1998
Dr. Martin Maassen	56	Director since May, 1999; Chairman of the Board
Dr. Michael L. Bagnoli	42	Director since May 1999, Secretary since July 2000

All directors hold office until the next annual stockholders meeting or until their death, resignation, retirement or until their successors have been elected and qualified. Vacancies in the existing board are filled by a majority vote of the remaining directors.

Our executive officers are chosen by our Board of Directors and serve at its discretion. There are no existing family relationships between or among any of our directors or executive officers.

Gunther Than, President, Director and CEO

Gunther Than has served as our President and Chief Executive Officer since September 1998. He also served as Chairman of the Board from September 1998 to April 2000, and as a director since April 2000. From 1994 - 1998, Mr. Than was the founder, President and CEO of RealView Systems, Inc. and View Technology, Inc., software developers. Mr. Than continues as President, CEO and director of View Technology, Inc. Prior to founding RealView Systems, Inc., Mr. Than held a variety of executive business management positions. Mr. Than is a graduate of the University of Wisconsin, with a dual degree in engineering physics and applied mathematics.

Martin Maassen, M.D., Chairman of the Board

Dr. Maassen became a Director in May 1999. He became our Chairman of the

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Board in April, 2000. He is board-certified in internal medicine and emergency medicine and has served as a staff physician in the emergency departments of Jackson County, Deaconess, Union and St. Elizabeth hospitals in Indiana since 1977. In addition to practicing medicine, he maintains an expertise in computer technologies and their medical applications.

Michael L. Bagnoli, D.D.S., M.D., Director and Secretary

Dr. Bagnoli became a Director in May 1999. He holds degrees as a medical doctor and a dental specialist. Since 1988 he has practiced dentistry in the specialty area of oral and masiofacial surgery for a physician group in

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Lafayette, Indiana. He introduced in his practice arthroscopy surgery along with the full scope of arthroplastic and total joint reconstruction. Dr. Bagnoli was founder, CEO and president of a successful medical products company, Biotek, Inc., which was sold in 1994.

### Board of Directors Committees

Our board of directors has established an executive compensation committee and an audit committee, the members of both of which are our independent directors.

The audit committee is primarily charged with the review of professional services provided by our independent auditors, the determination of the independence of those auditors, our annual financial statements, and our system of internal accounting controls. The audit committee also reviews such other matters with respect to our accounting, auditing and financial reporting practices and procedures as it finds appropriate or as is brought to its attention, including our selection and retention of independent accountants.

The compensation committee is charged with the responsibility of reviewing executive salaries, administering bonuses, incentive compensation and our stock option plans and approving our other executive officer benefits. The compensation committee also consults with our management regarding pension and other benefit plans, and our compensation policies and practices in general.

### Compensation of Directors

We compensate our independent directors, Messrs. Maassen and Bagnoli, by the issuance of 5,000 shares of our common stock for each month of service. We do not have any arrangement for compensating our directors in cash for the services they provide in their capacity as directors, including services for committee participation or for special assignments.

### SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Company's directors and executive officers, and persons who own more than 10% of the Company's Common Stock, are required to file with the Securities and Exchange Commission initial reports of beneficial ownership and reports of changes in beneficial ownership of any securities of the Company. To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company and written representations that no other reports were required, during the fiscal year ended December 31, 2000, year-end reports on Form 5 for Gunther Than, Martin Maassen and Michael L. Bagnoli, were filed late and reports on Form 4 for each of Gunther Than, Martin Maassen and Michael L. Bagnoli were not filed.



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ITEM 10. EXECUTIVE COMPENSATION

No compensation was payable to any executive officer for any fiscal year until the fiscal year ending December 31, 1999. No officer or director received compensation in any fiscal year in excess of \$100,000 with the exemption of Gunther Than, currently our only executive officer. The following table sets forth certain information concerning compensation for the years ending December 31, 1999 and December 31, 2000.

Name and Principal Position	Year	Annual Compensation			Long- Awards
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Award(s) (\$)
Gunther Than, President and CEO	2000	\$96,000		\$110,400 (1)	
	2001	\$96,000		\$110,400 (1)	

(1) This amount represents 480,000 shares of our common stock valued at \$.23 per share which was market value less a discount based on the trading restrictions on the date of issuance. The shares were granted to Mr. Than pursuant to his employment agreement.

Employment Agreements

Mr. Than has an Executive Employment Agreement with us to serve as our President and Chief Executive Officer, effective June 1, 1999, without a term but terminable by either party on 60 days written notice. If the termination is without cause, Mr. Than would be entitled to a severance of three years base salary plus the bonus, if any, received in the year prior to termination. He is also entitled to compensation in the amount of \$10,000 per month and an annual payment of 480,000 shares of our common stock. Mr. Than has a covenant not to compete with the Company or to solicit any employee or client of the Company for a period of one year after any termination of the Agreement.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table lists as of December 31, 2001, the beneficial ownership of our outstanding common stock by: our executive officer; each of our directors; and executive officer and directors as a group. Except as specified in the table below and in the following text, there is no person who presently owns beneficially 5% or more of our outstanding common stock.

Beneficial ownership is determined in accordance with the rules of the SEC

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and generally depends on voting or investment power with respect to the shares. For purposes of calculating the percentages shown in the chart, each person listed is also deemed to beneficially own any shares that would be issued by contract or upon exercise of warrants or options currently exercisable or exercisable within 60 days of the date of this prospectus. The persons named below have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. The inclusion of any shares as beneficially owned does not constitute an admission of beneficial ownership of those shares. The address of each person named below is the address of our principal executive office.

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Name of Beneficial Owner	Shares	Percent
Gunther Than	2,262,714	11.2%
Martin J. Maassen	191,000	*
Michael Bagnoli	90,000	*
All Executive Officers and Directors as a Group (3 persons)	2,515,940	12.5%

\* Indicates beneficial ownership of less than 1% of the outstanding shares of our common stock.

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following information summarizes certain transactions we engaged in during the past two years, or we propose to engage in, involving our executive officers, directors, 5% stockholders or immediate family members of those persons:

We advanced non-interest bearing loans to Gunther Than, consisting of \$96,2001 cash.

See "Executive Compensation" for a description of options and warrants issued to Gunther Than.

### ITEM 13. EXHIBITS, LISTS AND REPORTS OF FORM 8-K

#### (a) Exhibits

- 2.1 View Systems, Inc. Board of Directors Resolutions approving Acquisition Agreement and Plan of Reorganization With RealView Systems, Inc; Resolution of stockholders and Board of Directors of Real View Systems, Inc. approving Acquisition Agreement and Plan of Reorganization With Real View Systems, Inc. (1)
- 2.2 View Systems, Inc. Board of Directors Resolutions approving Acquisition Agreement and Plan of Reorganization With RealView Systems, Inc; Resolution of stockholders and Board of Directors of Real View Systems, Inc. approving Acquisition Agreement and Plan of Reorganization With Real View Systems, Inc. (1) View Systems, Inc. Acquisition Agreement and Plan of Reorganization with Xyros Systems, Inc. (1)
- 2.3 View Systems, Inc. Acquisition Agreement and Plan of Reorganization with ETMC(1)
- 2.4 Letter of Intent to Form Joint Venture Corporation Between NetServ Caribbean, Ltd. and View Systems, Inc. (1)
- 3.1 Articles of Incorporation and all Articles of Amendment of View Systems, Inc. (1)
- 3.2 By-Laws of View Systems, Inc. (1)
- 5.1 Consent of Counsel Regarding Legality.

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- 10.1 Form of Subscription Agreement For 8/8/99 Rule 505 (Amended to Be Rule 506) Offering and Terms of Offering Pages From Private Placement Memorandum, Dated August 8, 1999, Describing Rights of Subscribers. (1)
- 10.2 Form of Subscription Agreement For 11/11/99 Rule 506 Offering and Terms of Offering Pages From Private Placement Memorandum, Dated November 11, 1999, Describing Rights of Subscribers. (1)
- 10.3 Subscription Agreement Between View Systems, Inc. and Lawrence Seiler for 170,000 Shares, Granting Registration Rights to 100,000 Shares. (1)
- 10.4 Lock-Up Agreement With Lawrence Seiler. (1)
- 10.5 Subscription Agreement Between View Systems, Inc. and Leokadia Than. (1)
- 10.6 Form of Subscription Agreement Between View Systems, Inc. and Jim Price and Tim Rieu. (1)

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- 10.7 Subscription and Investment Representation Agreement between View Systems, Inc. and Rubin Investment Group, dated February 18, 2000. (2)
- 10.8 First Common Stock Purchase Warrant between View Systems, Inc. and Rubin Investment Group, dated February 18, 2000. (2)
- 10.9 Second Common Stock Purchase Warrant between View Systems, Inc. and Rubin Investment Group, dated February 18, 2000. (2)
- 10.10 Registration Rights Agreement between View Systems, Inc. and Rubin Investment Group, dated February 18, 2000. (2)
- 10.11 Non-qualified Stock Option Agreement with Richard W. Gray. (6)
- 10.12 Amendment to First Purchase Common Stock Warrant, Dated February 18, 2000, Second Purchase Common Stock Warrant, Dated February 18, 2000, and Subscription and Investment Agreement, Dated February 18, 2000, Between View Systems and Rubin Investment Group. (7)
- 10.13 View Systems, Inc. 2000 Restricted Share Plan (8)
- 10.14 Second Amendment to First Purchase Common Stock Warrant, Dated February 18, 2000, Second Purchase Common Stock Warrant, Dated February 18, 2000, and Subscription and Investment Agreement, Dated February 18, 2000, Between View Systems and Rubin Investment Group. (9)
- 10.15 View Systems, Inc. Employment Agreement with Gunther Than. (1)
- 10.16 View Systems, Inc. Employment Agreement with Andrew L. Jiraneck. (1)
- 10.17 View Systems, Inc. Engagement Agreement with Bruce Lesniak. (1)
- 10.18 View Systems, Inc. Employment Agreement with David Bruggeman. (1)
- 10.19 Eastern Tech Mfg. Corp. Employment Agreement with John Curran. (1)
- 10.20 Lease Agreement Between View Systems, Inc. and Lawrence Seiler. (1)
- 10.21 Stock Redemption Agreement, dated May 27, 1999, Between View Systems, Inc. and Gunther Than. (1)
- 10.22 Stock Redemption Agreement, dated September 30, 1999, Between View Systems, Inc. and Gunther Than. (1)
- 10.23 View Systems, Inc. 1999 Restricted Share Plan. (1)
- 10.24 Restricted Share Agreement with Bruce Lesniak (Lesniak & Associates). (1)
- 10.25 Restricted Share Agreement with John Curran. (1)
- 10.26 Restricted Share Agreement with David Bruggeman. (1)
- 10.27 Restricted Share Agreement with Gunther Than. (1)
- 10.28 Restricted Share Agreement with Andrew Jiraneck. (1)
- 10.29 Restricted Share Agreement with Linda Than. (1)
- 10.30 View Systems, Inc. 1999 Employee Stock Option Plan. (1)
- 10.31 Non-qualified Stock Option Agreement with Gunther Than. (1)
- 10.32 Non-qualified Stock Option Agreement with Andrew Jiraneck. (1)
- 10.33 Qualified Stock Option Agreement with Gunther Than. (1)
- 10.34 Qualified Stock Option Agreement with Andrew Jiraneck. (1)
- 10.35 Promissory Notes from Xyros Systems, Inc. to Ken Weiss. (1)
- 10.36 Promissory Notes from Xyros Systems, Inc. to Hal Peterson. (1)
- 10.37 Loan Agreement Between Xyros Systems, Inc. and Columbia Bank. (1)
- 10.38 Letter From Columbia Bank Extending Term of Loan. (1)

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- 10.39 License and Distribution Agreement with Visionics Corporation. (5)
- 10.40 License and Distribution Agreement with Lead Technologies, Inc. for Video OCR Software. (3)
- 10.41 License and Distribution Agreement with Anasoft Systems for Microsoft Operating System Software. (3)
- 10.42 License and Distribution Agreement with Aware, Inc. for Compression Software. (3)
- 10.43 Typical Non-Exclusive Reseller Agreement. (5)
- 10.44 Schedule of Contracted Resellers. (5)

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- 10.45 Agreement between View Systems, Inc. and Magnum Financial Services, Inc., dated February 27, 2000. (5)
- 10.46 View Systems, Inc. Employment Agreement with Keith Company. (5)
- 16.1 Letter From Katz, Abosch, Windesheim, Gershman & Freedman, P.A. to View Systems, Inc., dated April 11, 2000. (4)
- 21.1 Subsidiaries of Registrant. (1)
- 23.1 Consent of Davis, Sita & Company. (12)
- 23.2 Consent of Stegman & Company. (12)
- 23.3 Consent of Stegman & Company to incorporation by reference to other filings.\*
- 99.1 Consulting Agreement with Columbia Financial Group, LLC Granting Warrants and Stock and Granting Piggyback Registration Rights. (1)
- 99.2 Consulting Agreement with Tom Cloutier Granting Warrants and Registration Rights. (1)
- 99.3 Consulting Agreement with Guy Parr Granting Warrants and Registration Rights. (1)
- 99.4 Form of Stock Certificate. (1)
- 99.5 Consulting Agreement with Magnum Worldwide Investments, Ltd. (1)
- 99.6 Consulting Agreement with Mid-West First National, Inc. (10)
- 99.7 Consulting Agreement with Pacific First National, Corp. (10)
- 99.8 Consulting Agreement with Columbia Financial Group, LLC (10)
- 99.9 Consulting Agreement with John Clayton (10)
- 99.10 Consulting Agreement with Magnum Financial Group, LLC (10)
- 99.11 Letter to Rubin Investment Group dated March canceling its warrants (11)

- 
- (1) Incorporated By Reference from Registrant's Registration Statement on Form SB-2 Filed With the Commission On January 11, 2000
  - (2) Incorporated By Reference From Registrant's Report on Form 8K, dated February 19, 2000.
  - (3) Incorporated By Reference From Registrant's Report on Form 10KSB, Dated March 30, 2000.
  - (4) Incorporated By Reference From Registrant's Report on Form 8K, Dated April 13, 2000.
  - (5) Incorporated By Reference From Registrant's Statement on Form SB-2/A, Dated April 27, 2000.
  - (6) Incorporated By Reference From Registrant's Form 10 QSB, Dated May 15,2000.
  - (7) Incorporated by Reference to Registrant's Registration Statement on Form SB-2/A, dated June 7, 2000.
  - (8) Incorporated By Reference to Registrant's Definitive Proxy Statement On Schedule 14A, dated May 3, 2000.
  - (9) Incorporated by reference to Registrant's Statement on Form SB 2/A, dated July 20, 2000.
  - (10) Incorporated by reference to Registrant's Statement on Form SB 2, dated February 12, 2001.
  - (11) Incorporated by reference to Registrant's Statement on Form SB 2/A, dated March 28, 2001.

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(12) Incorporated by reference to Registrant's Statement on Form S-8, dated February 6, 2002.

\*attached to Form 10-KSB

(b) Reports On Form 8-K

8-K filed in connection w/late filing

8-k filed in connection with Rubin Investment Group

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

View Systems, Inc.

Date: April 26, 2002

By: /s/ Gunther Than

-----  
Gunther Than,  
President and Chief Executive Offices

SIGNATURES

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Gunther Than

April 26, 2002

-----  
Gunther Than,  
President and Chief Executive Offices

/s/ Martin Maassen

April 26, 2002

-----  
Martin Maassen,  
Chairman of the Board

/s/ Michael Bagnoli

April 26, 2002

-----  
Michael Bagnoli,  
Director and Secretary

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To the Board of Directors  
and Stockholders  
View Systems, Inc.  
Baltimore, Maryland

We have audited the accompanying consolidated balance sheet of View Systems, Inc. and subsidiaries (the Company) as of December 31, 2001, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 2001 and 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated balance sheet as of December 31, 2001 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 2001 and 2000 present fairly, in all material respects, the financial position of the Company as of December 31, 2001, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Stegman & Company

Baltimore, Maryland  
April 5, 2002

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VIEW SYSTEMS, INC.  
CONSOLIDATED BALANCE SHEET  
DECEMBER 31, 2001  
ASSETS

CURRENT ASSETS:

Cash	\$ 73,344
Accounts receivable (net of allowance for uncollectible accounts of \$288,498)	938,230
Inventory	55,644
	-----
Total current assets	1,067,218
	-----

PROPERTY AND EQUIPMENT:

Equipment	332,967
-----------	---------

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Leasehold improvements	3,000
Software tools	34,571
Vehicles	46,832
	-----
Total property and equipment	417,370
Less accumulated depreciation	138,307
	-----
Net value of property and equipment	279,063
	-----
OTHER ASSETS:	
Goodwill	781,248
Investments	275,000
Due from affiliated entity	105,552
Due from stockholders	88,099
Deposits	2,532
	-----
Total other assets	1,252,431
	-----
TOTAL ASSETS	\$ 2,598,712
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	\$ 345,657
Note payable - bank	6,052
Accrued interest	33,000
Note payable - other	110,000
	-----
Total current liabilities	494,709
	-----
STOCKHOLDERS' EQUITY:	
Common stock - par value \$.001, 50,000,000 shares authorized, issued and outstanding - 20,193,031	20,193
Additional paid-in capital	10,119,024
Accumulated deficit	(8,035,214)
	-----
Total stockholders' equity	2,104,003
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,598,712
	=====

See accompanying notes.

F-2

VIEW SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

2001  
-----

REVENUE:

Sales of security systems	\$ 1,391,929
---------------------------	--------------

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Sales of contract assembly services	-
	-----
Total Sales	1,391,929
Cost of goods sold	572,357
	-----
GROSS PROFIT ON SALES	819,572
	-----
OPERATING EXPENSES:	
Advertising and promotion	46,671
Amortization of goodwill	113,135
Bad debts	226,111
Business development expense	269,540
Contributions	-
Depreciation	60,755
Directors' fees	111,316
Dues and subscriptions	5,045
Employee compensation and benefits	855,212
Insurance	29,328
Interest	17,421
Investment loss	28,000
Investor relations	231,578
Loss from abandoned leasehold	17,999
Miscellaneous expense	10,692
Office expenses	96,992
Professional fees	402,312
Rent	102,611
Repairs and maintenance	14,243
Research and development	26,734
Taxes (other than income)	9,151
Telephone	32,953
Travel	31,051
Utilities	18,006
	-----
Total operating expenses	2,756,856
	-----
NET LOSS	\$ (1,937,284)
	=====
LOSS PER SHARE:	
Basic	\$ (0.12)
	=====
Diluted	\$ (0.12)
	=====

See accompanying notes.

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VIEW SYSTEMS, INC.  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY



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FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

	Common Stock	Additional Paid-in Capital	Accumulat Deficit
	-----	-----	-----
Balances at January 1, 2000	\$ 7,167	\$5,334,342	\$(3,893,
Sales of common stock	2,843	1,448,097	-
Stock options exercised	88	894	-
Issuance of common stock (employee and other compensation)	1,383	581,169	-
Net loss for the year ended December 31, 2000	-	-	(2,204,
	-----	-----	-----
Balances at December 31, 2001	11,481	7,364,502	(6,097,
Sales of common stock	5,500	1,759,500	-
Issuance of common stock (employee and other compensation)	2,712	720,522	-
Issuance of common stock in exchange for minority interest in Milestone Technology, Inc.	500	274,500	-
Net loss for the year ended December 31, 2001	-	-	(1,937,
	-----	-----	-----
Balances at December 31, 2001	\$20,193	\$10,119,024	\$(8,035,
	=====	=====	=====

See accompanying notes.

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VIEW SYSTEMS, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

2001

CASH FLOWS FROM OPERATING ACTIVITIES:

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Net loss	(1,937,284)
Adjustments to reconcile net income to net cash provided by operating activities:	
Bad debt expense	226,111
Depreciation and amortization	173,890
Loss from abandoned leasehold	17,999
Investment loss	28,000
Employee and other compensation paid through the issuance of common stock	723,234
Changes in operating assets and liabilities:	
Accounts receivable	(1,009,324)
Inventory	39,695
Other assets (1,700)	6,175
Accounts payable	(55,590)
Accrued interest	11,000
Payroll taxes payable	(31,951)
	-----
Net cash used in operating activities	(1,815,920)
	-----
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(34,761)
Funds advanced to affiliated entities	-
	-----
Net cash used in investing activities	(34,761)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from/(repayment of) loans provided by stockholders	(70,189)
Repayment of note payable - bank	(36,031)
Proceeds from sales of stock	1,765,000
	-----
Net cash provided by financing activities	1,658,780
	-----
NET (DECREASE) INCREASE IN CASH	(191,901)
CASH AT BEGINNING OF YEAR	265,245
	-----
CASH AT END OF YEAR	73,344
	=====

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VIEW SYSTEMS, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

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(Continued)

2001  
-----

Schedule of noncash investing and financing transactions:

Common stock issued to effect purchase of minority interest in Milestone Technology, Inc.	\$275,000 =====
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Cash paid during the period for:

Interest	\$ 6,421 =====
Taxes	\$ - =====

See accompanying notes.

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VIEW SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations  
-----

View Systems, Inc. (the "Company") designs and develops computer software and hardware used in conjunction with surveillance capabilities utilizing the compression and decompression of digital inputs.

Basis of Consolidation  
-----

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, 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

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liabilities, and the reported revenues and expenses. Actual results could differ from the estimates that were used.

### Revenue Recognition

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The Company recognizes revenue when the product has been shipped, the price of the product is fixed or determinable and collectibility is reasonably assured.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101"), Revenue Recognition in Financial Statements. SAB 101 summarizes certain of the SEC's views in applying accounting principles generally accepted in the United States of America to revenue recognition in financial statements. The Company adopted SAB 101 in the fourth quarter for the year ended December 31, 2000. The adoption of SAB 101 had no impact on the Company's financial position or results of operation.

### Inventories

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Inventories are stated at the lower of cost or market. Cost is determined by the last-in-first-out method (LIFO).

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### Property and Equipment

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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 years ended December 31, 2001 and 2000 amounted to \$60,755 and \$44,765, respectively.

### Income Taxes

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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

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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 years ended December 31, 2001 and 2000 were \$46,671 and \$20,931, 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 approximates fair value, as the majority of these instruments are short-term in nature.

### Net Loss Per Common Share

Basic net loss per common share 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 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

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warrants. The calculation of the net loss per share available to common stockholders for the years ended December 31, 2001 and 2000 does not include potential shares of common stock equivalents, as their impact would be antidilutive.

## 2. FINANCIAL CONDITION

Since its inception, the Company has incurred significant losses from operations and as of December 31, 2001 had an accumulated deficit of \$8,035,214. For the year ended December 31, 2001 the Company's net loss from operations was approximately \$1.9 million. The company expects operational losses to continue at least through the year ended December 31, 2002. These losses have been funded through equity transactions consisting of common stock sales and the exercise of warrants.

In order to fund its operations through December 31, 2002 the Company intends to

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- o Call contractually due warrants.
- o Develop increased sales revenue through its existing customer base and through its acquisition of Milestone Technology, Inc.
- o Use temporary funding from executive management and board members.

It is management's belief that cash available through these sources will be sufficient to fund operations through December 31, 2002.

### 3. 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 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 in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. The provisions of SFAS Nos. 141 and 142 were adopted by the Company as required effective July 1, 2001, and January 1, 2001, respectively. The adoption of SFAS No. 141 had no effect on the financial position or results of operations of the company as previously reported. Application of the nonamortization provisions of SFAS No. 142 is expected to reduce non-cash expenses by approximately \$113,000 in 2002 as compared to 2001.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes 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 Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that opinion). SFAS No. 144 retains the 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 sales, 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, and its adoption is not expected to affect the financial position or results of operations of the Company.

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### 4. INVENTORY

Inventories at December 31, 2001 consisted of the following:

Work in process	\$17,790
Raw materials	37,854
	-----

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\$55,644

### 5. GOODWILL

Goodwill represents the excess of the cost of assets acquired in business combinations accounted for under the purchase method of accounting over the fair value of the net assets acquired at the dates of acquisition. Prior to the adoption of SFAS Nos. 141 and 142, the excess purchase price was being amortized using the straight-line method over ten years. Effective January 1, 2002, goodwill will no longer be amortized but rather tested for impairment under the provisions of SFAS No. 142.

### 6. INVESTMENTS

During 2001 the company purchased a 6% interest in Milestone Technology, Inc. for 500,000 shares of common stock which on the date of the purchase was selling for \$0.55 per share. The investment is reflected on the financial statements at its cost which was \$275,000. Milestone Technology, Inc. is engaged in the business of developing and selling weapons detection systems. Subsequent to December 31, 2001 the Company purchased the remaining 94% of Milestone for an additional 3,300,000 shares of the company's common stock.

The Company also owns approximately 14% of the common stock of a privately held entity known as MediaComm Broadcasting Systems, Inc. As of December 31, 2001 the Company determined that its investment had little or no value. Accordingly, the Company has reflected its original investment of \$28,000 as a loss on the accompanying financial statements.

### 7. DUE FROM AFFILIATED ENTITY

The Company has advanced non-interest bearing funds of \$105,552 as of December 31, 2001 to a related corporation, View Technologies, Inc. which is controlled by the Chief Executive Officer of the Company. There are no formal repayment terms associated with this advance. The two companies enter into various transaction throughout the year to provide working capital to one another when necessary.

### 8. DUE FROM OFFICERS

The Company has advanced non-interest bearing funds to its corporate officers in the amount of \$88,099 as of December 31, 2001. There are no repayment terms associated with this advance.

### 9. NOTE PAYABLE - BANK

One of the Company's subsidiaries has a note payable with a bank having an outstanding balance of \$6,052 as of December 31, 2001. The note bears interest equivalent to the prime rate plus 2% per annum payable monthly and is personally guaranteed by three stockholders and former officers of the Company. The Company is obligated to make monthly principal payments of \$5,000.

### 10. NOTE PAYABLE - OTHERS

In connection with the acquisition of Xyros, the Company assumed liabilities evidenced by notes payable to the stockholders of Xyros. The notes carry an annual interest rate of 10% with interest paid monthly. The notes were due December 31, 1999, but the Company has negotiated to repay the loans as cash flow permits.

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### 11. INCOME TAXES

The components of the net deferred tax asset and liability as of December 31, 2001 are as follows:

Effect of net operating loss carryforward	\$ 2,760,000
Less valuation allowance	(2,760,000)
	-----
Net deferred tax asset (liability)	\$ -
	=====

### 12. OPERATING LEASE

The Company is leasing office and warehouse space under an operating lease for a term of five years beginning in May of 2001. Minimum future rental payments under a non-cancelable operating lease having remaining terms in excess of one year as of December 31, 2001 for each of the next five years and in the aggregate are as follows:

Year ending December 31	
2001	\$ 18,000
2002	27,540
2003	28,366
2004	29,217
2005	30,094
2006	10,130
	-----
Total minimum future rental payments	\$143,347
	=====

### 13. STOCK-BASED COMPENSATION

During the years ended December 31, 2001 the Company granted restricted stock, incentive stock options, non-qualified stock options, and warrants to employees, officers, and independent contractors and consultants.

#### Restricted Stock Grants

-----

The Company's Board of Directors and stockholders have approved a restricted share plan under which shares of the Company's common stock will be granted to employees, officers, and directors at the discretion of the Board of Directors. During 2001 and 2000 the Company issued the following shares under this Plan and additional shares at the direction of the Board of Directors:

	2001		
	Number of Shares	Expense Recognized	Number of Shares
Officers and employees	1,607,500	\$438,044	580,000
Independent contractors and consultants	1,104,500	285,190	803,000
	-----	-----	-----



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2,712,000	\$723,234	1,383,000
=====	=====	=====

Officers' and employees' compensation was based on the fair market value of the common stock issued on the date of the grant less a discount of 10% due to the restricted nature of the grant. Independent contractors and consultants expense of was based on the estimated value of services rendered.

Stock Options and Warrants  
-----

The Company adopted the 1999 Stock Option Plan during the year ended December 31, 1999. The Plan reserves 4,500,000 shares of the Company's unissued common stock for options. Options, which may be tax qualified and

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non-qualified, are exercisable for a period of up to ten years at prices at or above market price as established on the date of grant.

A summary of the Company's stock option activity and related information for the year ended December 31, 2001 is as follows:

	2001		
	Common Stock Options	Weighted Average Exercise Price	Ex
	-----	-----	-----
Outstanding at beginning of year	107,690	\$1.63	\$
Granted	-	-	
Exercised	-	-	
Expired/cancelled	-	-	
	-----		
Outstanding at end of year	107,690	\$1.63	\$
	=====	=====	=
	2000		
	Common Stock Options	Weighted Average Exercise Price	Ex
	-----	-----	-----
Outstanding at beginning of year	504,860	\$1.56	\$
Granted	-	-	
Exercised	(87,250)	.01	
Expired/cancelled	(309,920)	2.00	

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	-----		
Outstanding at end of year	107,690 =====	\$1.56 =====	\$ =

The Company has issued warrants to purchase the Company's stock as follows:

		2001	
	-----	-----	-----
	Common Stock Options	Weighted Average Exercise Price	Ex
	-----	-----	-----
Outstanding at beginning of year	2,989,000	\$1.97	\$
Granted	8,250,000	.48	
Exercised	4,600,000)	.32	
Expired/cancelled	(2,789,000)	-	
	-----		
Outstanding at end of year	3,850,000 =====	\$ .49 =====	

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		2001	
	-----	-----	-----
	Common Stock Options	Weighted Average Exercise Price	Ex
	-----	-----	-----
Outstanding at beginning of year	454,000	\$2.00	
Granted	3,200,000	1.85	\$
Exercised	(665,000)	.50	
Expired/cancelled	-	-	
	-----		
Outstanding at end of year	2,989,000 =====	\$1.97 =====	\$ =

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), but applies Accounting Principle Board Opinion No. 25 and related interpretations. There were no stock options granted during the year ended December 31, 2001.

14. CONCENTRATION OF CREDIT RISK

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The Company maintains a checking account in a commercial bank. Cash in this checking account at times exceeded \$100,000. The checking account is insured by the Federal Deposit Insurance Corporation up to \$100,000.

### 15. SUBSEQUENT EVENT

As discussed in Note 7 to the financial statements, 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.

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

Balance Sheet (Unaudited)  
As of December 31, 2001

Assets	
Current assets	399,232
Fixed assets	3,810
Licenses and patents	1,000,000
	-----
Total assets	\$1,403,042
	=====
Liabilities and Stockholders' Equity	
Notes payable - current	\$ 620,000
Other current liabilities	183,000
Notes payable - long-term	184,000
	-----
Total liabilities	987,000
Stockholders' equity	416,042
	-----
Total liabilities and stockholders' equity	\$1,403,042
	=====

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

Revenue	\$ 24,290
	-----

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Expenses:	
Product development	328,318
Operating expenses	158,775
	-----
Total expenses	487,093
	-----
Net loss for the year	\$ (462,803)
	=====

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