VIEW SYSTEMS INC
Form 10KSB/A
March 13, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB/A

Amendment No. 2

[X]

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE

ACT OF 1934

For the fiscal year ended December 31, 2005

[ ]

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

EXCHANGE ACT OF 1934

Commission File Number 0-30178

VIEW SYSTEMS, INC.

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

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

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

(Address of principal executive offices)

(410) 242-8439

(Issuer's telephone number)

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

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

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B not 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 [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Issuer s revenues for its most recent fiscal year: $1,172,163.

As of March 5, 2007 View Systems, Inc. had 92,647,422 outstanding shares of common stock. The aggregate market value of the registrant's voting stock held by non-affiliates on that date was approximately $8,679,950.

Documents incorporated by reference: None

Transitional Small Business Disclosure Format: Yes [ ] No [X]

EXPLANATORY NOTE

Due to a regulatory review by the SEC, we have restated our financial statements for the years ended December 31, 2004 and 2003. See Note 13 to the financial statements included in this report for an explanation of the restatement. The non-financial disclosures in this report are as of the original filing date of April 17, 2006 and do not include subsequent events.

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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 ABOUT FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission (SEC) encourages companies to disclose forward-looking information so that investors can better understand future prospects and make informed investment decisions. This report contains these types of statements. Words such as may, will, expect, believe, anticipate, estimate, project, or cont 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.

PART II

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

EXECUTIVE OVERVIEW

Our product lines are related to visual surveillance, intrusion detection and physical security. Management believes that heightened attention to personal threats, potential large scale destruction and theft of property in the United States and spending by the United States government on Homeland Security will continue to drive growth in the market for security products.

During 2004 we increased our product lines to include our Visual First Responder and during 2005 we had engineering design changes made to the sensor boards for the SecureScan product to allow lower costs and to accommodate the price points required by competitive pressures. Also, in 2005 we redesigned and outsourced the assembly and manufacture of the Visual First Responder and SecureScan products.

During 2005 we continued 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. These developments have led to increased sales while at the same time decreasing the cost of products. We intend to develop these sales and distribution channels to a level that will result in increased revenues and continued profitability. We have completed sales in the correctional facility market, some Homeland Security departments and some sports venues.

For the next twelve months our primary challenge will be to add new products and develop our sales and distribution network into additional regions and markets in the United States and abroad. 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 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.

In 2006 we will add three additional products which relate to sensing enriched nuclear material which may be used to build nuclear based explosive devices or for creating radiological disasters. These sensing devices will be integrated into our current products in addition to being used as stand alone handheld portable detectors. These products are based on existing patents owned by the United States government and are licensed exclusively to View Systems for the purpose of commercializing them for the public good.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred losses for the past two fiscal years and had a net loss of $2,473,934 at December 31, 2005. Approximately $1.5 million of this loss is due to compensation expense recognized for shares issued for services. Our revenues from product sales have been increasing but are not sufficient to cover our operating expenses. Our auditors have expressed substantial doubt that we can continue as a going concern. Management intends to finance operations primarily through increased sales of our products and with additional equity financing, if available. We have some financing commitments in place, but not enough to meet our expected cash requirements for 2006.

Management intends to finance our 2006 operations with the revenue from product sales and any cash short falls will be addressed through equity financing. In December 2005 we completed a subscription agreement, discussed below in Commitments and Contingent Liabilities , that management anticipates will provide for the purchase of convertible promissory notes through $100,000 installments over a five month period. We will use this cash for marketing, working capital, and to enhance our presence in other geographical regions.

Historically, we have relied on private financing and revenues to satisfy our cash requirements for working capital. For the year ended December 31, 2005 we received cash from revenues of $1,172,163, proceeds of $312,534 from sales of our common stock and relied on advances of $64,000 from Gunther Than, our CEO. For the year ended December 31, 2004, we recorded revenues of $476,319, received proceeds of $933,800 from debt financing, proceeds of $157,900 from sales of common stock, and received advances from Mr. Than totaling $132,000. Due to the increase in revenues in 2005 we were less reliant on financing. Net cash provided by financing decreased in 2005 to $338,034 from $1,003,700 in 2004.

We also rely on the issuance of our common stock to pay for services and to convert debt when cash is unavailable. For the year ended December 31, 2005 we issued 2,907,000 shares, valued at $294,540, to officers and employees for services, and we issued 8,472,870 shares, valued at $1,562,376 to independent contractors and consultants for services. For the year ended December 31, 2004 we issued 702,000 shares, valued at $144,480, to officers and employees and 1,502,850 shares, valued at $209,124 to independent contractors and consultants. Management anticipates that we will continue to issue shares for services in the short term. In 2004 we issued 8,472,870 shares to convert notes payable with accrued interest valued at $747,287. As of April 17, 2006 we had approximately 9,000,000 authorized common shares remaining and management believes we will need to take the necessary steps to increase our authorized common stock during 2006.

We use our cash for working capital and at our current revenue levels we will require an additional $500,000 during the last half of 2006 to cover our operating costs of approximately $100,000 per month. These operating costs include cost of sales, general and administrative expenses, salaries and benefits and professional fees related to contracting engineers. The engineering efforts were mainly applied to unit cost reduction of the SecureScan product which has been reduced in cost by more than 50% from $8,450 to $4,200 per unit.

Management believes revenues will continue to increase but not to the point of profitability in the short term. We will need to continue to raise additional capital, both internally and externally, to cover cash shortfalls and 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 reduce our 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%. Operating leases for our offices in Florida and California total approximately $2,350 per month. Rent expense was $81,216 for 2005 compared to $61,047 for 2004. At December 31, 2005, future minimum payments for operating leases related to our office and manufacturing facilities were $97,646 through December 31, 2008.

Our total current liabilities at December 31, 2005 included accounts payable of $343,430, accrued expenses of $43,229, accrued interest of $77,000, accrued royalties of $75,000, loans to an officer of $64,000 and a note payable to a former stockholder of Xyros Technology of $110,000. At December 31, 2004, we are in default on the $110,000 note payable which was due in 1999. We negotiated to repay the loan as cash flows permit and this debt remains outstanding. We are in doubt about the intentions, will or ability of the note holder to attempt collection of this debt. At this time, the entity is no longer in existence and we have been unable to locate the principals of that company.

Subscription Agreement

We entered into a Subscription Agreement, dated December 23, 2005, with three accredited investors; Starr Consulting, Inc., Active Stealth, LLC, and KCS Referral Service LLC (the Subscribers). We agreed to sale and the Subscribers agreed to purchase convertible promissory notes and warrants. However, on January 6, 2006, the Subscribers consented to the removal of the warrants from the subscription agreement, with the understanding that the warrants would be reinstated after we increased our authorized common stock and the shares underlying the warrants would be registered at a later date. The Subscribers did not receive any other additional consideration for the removal of the warrants. The Subscribers agreed to purchase up to an aggregate of $500,000 of 8% promissory notes convertible into shares of our common stock at a per share conversion price of $0.10. The notes are due and payable by December 31, 2006. The Subscribers agreed to purchase the promissory notes over a 5 month period in $100,000 per month installment; however, other than the contractual agreement there is no guarantee that the Subscribers will purchase the promissory notes.

Starr Consulting, Inc. agreed to purchase convertible promissory notes in the aggregate amount of $166,667, which may be converted into 1,666,667 shares of our common stock. Active Stealth, LLC and KCS Referral Service LLC each agreed to purchase convertible promissory notes in the aggregate amount of $166,666, convertible into 1,666,666 common shares. On January 3, 2006, we closed the first $100,000 installment under this agreement and Starr Consulting purchased promissory notes valued at $33,334, Active Stealth purchased promissory notes of $33,333 and KCS Referral Service purchased promissory notes valued at $33,333. In March 2006 we terminated this agreement with KCS Referral Service LLC, which reduced the amount we could receive under this agreement to $366,668.

The agreement provides for piggy back registration rights for the shares underlying the convertible promissory notes. The agreement provides that we must file a registration statement within 60 days of a request by any Subscriber and cause the registration statement to become effective within 120 days of that request. We are obligated to maintain the effectiveness of the registration statement until all the underlying shares have been sold by the Subscribers. If we fail to obtain or maintain effectiveness of the registration statement, then we are required to pay liquidated damages in an amount equal to 2% of the purchase price of the convertible promissory notes remaining unconverted and the purchase price of the shares issued upon conversion of the notes owned of record by the holder of the notes for each 30 day period that the registration statement is not effective. We filed a registration statement on Form SB-2 on October 12, 2005, as amended, to register the underlying shares, but as of April 17, 2006, the registration statement had not been declared effective.

If we fail to issue shares within 10 business days after a request by a Subscriber, then the Subscriber is entitled to a sum of money, whichever is greater of either (i) multiplying the outstanding principal amount of the note designated by the Subscriber by 130%, or (ii) multiplying the number of shares deliverable upon conversion of the amount of the note s principal and/or interest at the conversion price that would be in effect on the deemed conversion date by the highest closing price of the common stock on the principal market for the period commencing on the deemed conversion date until the day prior to the receipt of the payment.

OFF-BALANCE SHEET ARRANGEMENTS

None.

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RESULTS OF OPERATIONS

The following discussions are based on the consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the years ended December 31, 2005 and 2004 and should be read in conjunction with the financial statements, and notes thereto, included with this report at Part II, Item 7, below.

SUMMARY COMPARISON OF OPERATING RESULTS

	Year ended December 31,	
	2005	2004
Revenues, net	$ 1,172,163	$ 476,319
Cost of sales	629,319	257,179
Gross profit (loss)	542,844	219,140
Total operating expenses	3,005,094	1,474,432
Loss from operations	(2,462,250)	(1,255,292)
Total other income (expense)	(11,684)	(36,144)
Net income (loss)	(2,473,934)	(1,291,436)
Net income (loss) per share	$ (0.03)	$ (0.02)

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 increased revenues for 2005 compared to 2004. 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 where we have already completed sales. The increased net revenues for 2005 resulted in an increased gross profit for 2005 compared to 2004.

The following chart provides a breakdown of our sales in 2004 and 2005.

	Dec. 31, 2004	Dec. 31, 2004
Secure Scan	$ 24,800	$ 727,895
ViewMaxx	153,271	50,412
Visual First Responder	296,100	362,340
Service	2,148	31,516

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.

Cost of sales include costs of products sold and shipping costs and were approximately 54% of net revenues for both 2004 and 2005. Management anticipates that the relative margins of each product line should remain relatively the same during 2006.

For 2005 total operating expense increased in 2005 compared to 2004. The increase in 2005 was primarily a result of $1,774,696 of professional fees expense recognized in 2005 related to agreements and consulting contracts with third parties. During 2005 our business was growing and we contracted with independent contractors and consultants to assist with our growth and business development. The fair value of the shares issued for these services and agreements was recognized as professional fees expense. Professional fees of approximately $1,562,376 were related to services provided by independent contractors and consultants for business development consulting, engineering consulting, and accounting services. For the short term, we intend to rely primarily on our employees for our basic operations, but we may engage outside consultants and independent contractors for our special needs. As our revenues increase and become stable, we anticipate that we will hire additional employees to provide some of these types of services.

Management anticipates that our professional fees expense will decrease in 2006 because we do not anticipate entering into the types of agreements that will result in the recognition of a significant amount of professional fees.

We did enter into one agreement in February 2006 with Elite Equity Marketing to provide consulting services for a term of three months in relation to interactions between broker/dealers, shareholders and members of the public and other matters related to investor/public relations, business modeling and development and release of press articles. We agreed to pay Elite Equity 500,000 common shares along with 1,500,000 warrants exercisable in 500,000 increments. As of April 17, 2006 we had not issued any shares under this agreement.

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 to cover cash shortfalls.

Management believes net losses will continue in the short term as we expand our sales channels.

FACTORS AFFECTING FUTURE PERFORMANCE

Our independent auditors have expressed substantial doubt 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. Our net loss for the year ended December 31, 2005 was $2,462,250 and our net loss for the year ended December 31, 2004 was $1,255,292. Our retained deficit was $18,375,345 at December 31, 2005. We are unable to fund our day-to-day operations through revenues alone and management believes we will incur operating losses for the near future while we 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. As a result we rely on private financing to cover cash shortfalls.

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 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 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.

Our directors and officers are able to exercise significant influence over matters requiring stockholder approval.

Currently, our directors and executive officers collectively hold approximately 58.8% of the voting power of our common and preferred stock entitled to vote on any matter brought to a vote of the stockholders. Specifically, Gunther Than, our CEO, holds approximately 57.0 % of the total voting power as of April 17, 2006. Pursuant to Nevada law and our bylaws, the holders of a majority of our voting stock may authorize or take corporate action with only a notice provided to our stockholders. A stockholder vote may not be made available to our minority stockholders, and in any event, a stockholder vote would be controlled by the majority stockholders. As a result, our minority stockholders may not have the opportunity to approve or consent to corporate actions or other transactions. This concentration of ownership may also have the effect of delaying or preventing a change in control.

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.

ITEM 7. FINANCIAL STATEMENTS

VIEW SYSTEMS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

C O N T E N T S

CHISHOLM, BIERWOLF & NILSON

Certified Public Accountants

A Limited Liability	*533 W. 2600 S., Suite 250*	*Office 801) 292-8756*
Partnership	*Bountiful, Utah 84010*	*Fax (801) 292-8809*

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of 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, 2005, and the related consolidated statements of operations, changes in stockholders equity and cash flows for the years ended December 31, 2005 and 2004. These consolidated financial statements are the responsibility of Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the PCAOB (United States). Those standards require that we plan and perform the audits 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, 2005 and the related consolidated statements of operations, changes in stockholders equity and cash flows for the years ended December 31, 2005 and 2004 present fairly, in all material respects, the financial position of the Company as of December 31, 2005, and the results of operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred ongoing operating losses and does not currently have financing commitments in place to meet expected cash requirements through 2006. Additionally, the Company is in default on its debt obligations. These conditions raise substantial doubt about the Company s ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty.

As discussed in Note 13 to the financial statements, the financial statements have been changed to reflect amortization of the licenses over a determined life. Prior to the restatement the company considered the licenses to have an indefinite life with no amortization of the costs. Accordingly, the financial statements have been restated to correct these errors and disclosures.

/S/ Chisholm, Bierwolf & Nilson

Chisholm, Bierwolf & Nilson, LLC

Bountiful, Utah

March 1, 2006, except for Note 1 and 13, dated January 20, 2007.

View Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

ASSETS

		December 31, 2005 (Restated)
Current Assets		
Cash	$	8,708
Accounts Receivable (Net of Allowance of $68,539)		280,001
Inventory		72,012
Total Current Assets		360,721
Property & Equipment (Net)		18,043
Other Assets		
Licenses (Net)		1,311,980
Due from Affiliates		95,575
Deposits		7,291
Total Other Assets		1,414,846
Total Assets		$ 1,793,610

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts Payable	$	343,429
Accrued Expenses		43,229
Accrued Interest		77,000
Accrued Royalties		75,000
Loans from Shareholder		64,000
Notes Payable		110,000
Total Current Liabilities		712,658
Stockholders' Equity		

Preferred Stock, Authorized 10,000,000 Shares, $.01 Par Value,		
Issued and Outstanding - 7,171,725		71,717
Common Stock, Authorized 100,000,000 Shares, $.001 Par Value,		
Issued and Outstanding - 90,775,752		90,776
Additional Paid in Capital		19,293,804
Retained Earnings (Deficit)		(18,375,345)
Total Stockholders' Equity		1,080,952
Total Liabilities and Stockholders' Equity	$	1,793,610

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

View Systems, Inc. and Subsidiaries

Consolidated Statements of Operations

	For the Year Ended December 31, 2005 (Restated)		For the Year Ended December 31, 2004 (Restated)	
Revenues, Net	$	1,172,163	$	476,319
Cost of Sales		629,319		257,179
Gross Profit (Loss)		542,844		219,140
Operating Expenses				
General & Administrative		451,974		386,085
Professional Fees		1,774,696		286,323
Bad Debts		48,485		148,928
Salaries & Benefits		729,939		653,096
Total Operating Expenses		3,005,094		1,474,432
Net Operating Income (Loss)		(2,462,250)		(1,255,292)
Other Income (Expense)				
Interest Expense		(11,684)		(36,144)
Total Other Income (Expense)		(11,684)		(36,144)
Net Income (Loss)	$	(2,473,934)	$	(1,291,436)
Net Income (Loss) Per Share	$	(0.03)	$	(0.02)

Weighted Average Shares Outstanding	80,462,924	68,924,152

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

View Systems, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity (Deficit)

	Preferred		Common		Additional Paid-in	Retained Earnings
	Shares	Amount	Shares	Amount	Capital	(Deficit)
Balance, December 31, 2003	-	-	62,730,619	$ 62,730	$ 15,604,609	$(14,609,975)
Cancellation of shares	-	-	(100,000)	(100)	(4,900)	-
January - March 2004 - shares issued for cash	-	-	244,500	245	34,755	-
January - March 2004 - shares issued for services	-	-	932,000	932	203,048	-
April - June 2004 - shares issued for cash	-	-	84,333	84	11,916	-
April - June 2004 - shares issued for services	-	-	221,250	221	39,979	-
June 2004 - shares issued for payment of notes payable and accrued interest	-	-	5,221,050	5,221	516,884	-
July - September 2004 - shares issued for cash	-	-	100,000	100	19,900	-

July - September 2004 - shares issued for services	-	-	781,600	782	108,642	-
September 2004 - shares issued in settlement of litigation	-	-	2,000,000	2,000	178,000	-
October - December 2004 - shares issued for cash	-	-	1,066,750	1,067	89,833	-
December 2004 - shares issued for payment of notes payable and accrued interest	-	-	3,251,820	3,252	321,930	-
Cost of issuance of common stock	-	-	-	-	(5,000)	-
Net loss for the year ended December 31, 2004	-	-	-	-	-	(1,291,436)
Balance, December 31, 2004	-	-	76,533,922	76,534	17,119,596	(15,901,411)
January - March 2005 -shares issued for cash	-	-	155,000	155	15,345	-

January - March 2005 - shares issued in payment of accounts payable	-	-	128,000	128	18,872	-
January - March 2005 - shares issued for services	-	-	1,805,000	1,805	191,335	-
April - June 2005 - shares issued for cash	-	-	2,287,500	2,288	114,713	-
April - June 2005 - shares issued for services	-	-	1,242,000	1,242	77,004	-
July - September 2005 - shares issued for cash	-	-	612,000	612	55,588	-
July - September 2005 - shares issued for services	-	-	150,000	150	37,998	-
July - September 2005 - shares issued	7,171,725	71,717	-	-	-	-
October - December 2005 - shares issued for cash	-	-	953,330	953	122,880	-
October - December 2005 - shares issued for	-	-	6,909,000	6,909	1,540,473	-

services						
Net loss for the year ended December 31, 2005	-	-	-	-	-	(2,473,934)
Balance, December 31, 2005	7,171,725	$71,717	$ 90,775,752	$ 90,776	$ 19,293,804	$ (18,375,345)

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 Year Ended December 31, 2005 (Restated)	2004 (Restated)
Cash Flows from Operating Activities:		
Net Income (Loss)	$ (2,473,934)	$ (1,291,436)
Adjustments to Reconcile Net Loss to Net Cash		
Provided by Operations:		
Depreciation & Amortization	120,819	134,848
Bad Debts	48,485	148,928
Bad Debts recoveries		
Accrued interest paid with stock	-	13,987
Stock Issued for Services	1,928,633	353,604
Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(220,144)	(32,182)
Inventories	(10,815)	32,044
Other Assets	(4,972)	2,500
Increase (Decrease) in:		
Accounts Payable	96,655	(208,439)
Accrued Expenses	28,681	(3,967)
Net Cash Provided (Used) by Operating Activities	(486,592)	(850,113)
Cash Flows from Investing Activities:		
Additions to fixed assets	(19,102)	-
Advances (to)/ receipt from related party	2,882	-
Net Cash Provided (Used) by Investing Activities	(16,220)	-
Cash Flows from Financing Activities:		

Funds advanced (to) from stockholders		64,000	-
Proceeds from debt financing		-	933,800
Proceeds from stock issuance		312,534	157,900
Cost of issuance of common stock		-	(5,000)
Principal Payments on Notes Payable		(38,500)	(83,000)
Net Cash Provided (Used) by Financing Activities		338,034	1,003,700
Increase (Decrease) in Cash		(164,778)	153,587
Cash and Cash Equivalents at Beginning of Period		173,486	19,899
Cash and Cash Equivalents at End of Period	$	8,708	$ 173,486

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

View Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

	For the Year Ended December 31,	
	2005 (Restated)	2004 (Restated)
Cash Paid For:		
Interest	$ 684	$ 25,144
Income Taxes	$ -	$ -
Non-Cash Investing and Financing Activities:		
Stock Issued in payment for Note Payable	$ -	$ 33,300
Stock issued in payment of accounts payable	$ 19,000	$ 200,000

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

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VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

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. The technology utilizes the compression and decompression of digital inputs. In March 2002, the Company acquired Milestone Technology, Inc., which has developed a concealed weapons detection portal.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Milestone Technology, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from the estimates that were used.

Accounts Receivable

Accounts receivable consists of amounts due from customers. Management periodically reviews the open accounts and makes a determination as to the ultimate collectibility of each account. Once it is determined that collection is in doubt the account is written off as a bad debt. In order to provide for accounts that may become uncollectible in the future, the Company has established an allowance for doubtful accounts. The balance of the allowance for doubtful accounts is based on management s judgment and the Company s prior experience with managing accounts receivable.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company has three main products, namely the concealed weapons detection system, the visual first responder system and the Viewmaxx digital video system. In all cases 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. The customer can engage us for installation and training, which 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. However, the customer can also self install or can engage another firm to provide installation and training. Each product has an unconditional 30 day warranty, during which time the product can be returned for a complete refund. Prior to the issuance of financial statements management reviews any returns subsequent to the end of the accounting period which are from sales recognized during the accounting period, and makes appropriate adjustments as necessary. Product prices are fixed or determinable and products are only shipped when collectibility is reasonably assured.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in-first-out method (LIFO). All inventory as of December 31, 2005 consisted of finished goods.

Property and Equipment

Property and equipment is recorded at cost and depreciated over their 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, 2005 and 2004 amounted to $15,861 and $29,890, respectively.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Licenses

In connection with the acquisition on Milestone, the Company received various licenses to products developed by INEEL (Idaho National Engineering and Environmental Laboratory). Milestone transferred the licenses to View Systems, Inc., and in November 2003, two separate licenses were signed in the name of View Systems with Bechtel BWXT Idaho, LLC (BBWI).

BBWI is the management and operating contractor of the INEEL under its Contract No. DE-AC07-99ID13727 (M&O Contract) and has the authorization, right and ability to grant the license of the Agreement. The licenses allow View Systems to commercially develop, manufacture, use, sell and distribute processes and products embodying the U.S. Patent No. 6.150.810 Method for Detecting the Presence of a Ferromagnetic Object Using Maximum and

Minimum Magnetic Field Data , and U.S. Patent Application S/N 10/623,372, Communication Systems, Camera Devices, and Communication Methods .

The valuation of these licenses consist of the cost of acquiring Milestone, ie the difference of the cost paid for the entity vs. the value of the underlying assets and liabilities which was determined to be $1,626,854. The cost of the licenses is being amortized on a straight line basis over the remaining useful lives of the underlying patents, which at the date of the purchase was 15.5 years. Amortization expense for the years ended December 31, 2005 and 2004 was $104,958 and $104,958, respectively. Consistent with SFAS No. 142, the license was also analyzed to determine if any impairment existed at December 31, 2005. It was determined to not be impaired.

Income Taxes

Deferred income taxes are recorded under the assets and liability method whereby deferred tax assets and liabilities are recognized for the future tax consequences, measured by enacted tax rates, attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the rate change becomes effective. Valuation allowances are recorded for deferred tax assets when it is more likely than not that such deferred tax assets will not be realized.

Research and Development

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

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Advertising

Advertising costs are charged to operations as incurred. Advertising costs for the years ended December 31, 2005 and 2004 were $26,024 and $10,214.

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 stockholder 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 warrants. The calculation of the net loss per share available to common stockholders for the years ended December 31, 2005 and 2004 does not include potential shares of common stock equivalents, as their impact would be antidilutive. The following reconciles amounts reported in the financial statements:

Income

Shares

Per-share

(Numerator)

(Denominator)

Amount

Year ended December 31, 2005

Income (loss) from continuing operations

which is the amount that is

available to common stockholders

$(2,473,934)

80,462,924

$ (0.03)

Basic and fully diluted earning per share

$ (0.03)

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Loss Per Common Share

Year ended December 31, 2004

Income (loss) from continuing operations

which is the amount that is

available to common stockholders

$(1,291,436)

68,924,152

$ (0.02)

Basic and fully diluted earning per share

$ (0.02)

As of December 31, 2005 and 2004 there were unexercised options for 107,690 shares however due to operating losses in both years these shares are considered to be antidilutive in nature.

2. GOING CONCERN

The Company has incurred and continues to incur, losses from operations. For the years ended December 31, 2005 and 2004, the Company incurred net losses of $2,473,934 and $1,291,436, respectively. During 2005 and 2004, the Company implemented marketing and information strategies to increase public awareness of its products and thereby sales. It also was able to reduce the per unit cost of manufacturing its products. Additionally, the Company has increased the efficiency of its processes and focused its development efforts on products with greater sales potential.

Historically, the Company has financed its operations primarily through private financing however increases in sales revenue during 2005 made a significant contribution to working capital. It is management s intention to finance operations during 2006 primarily through increased sales although there will still be a need for additional equity financing. There can be no assurance, however, that this financing will be successful and the Company may be required to further reduce expenses and scale back operations.

3. NEW ACCOUNTING PRONOUNCEMENTS

In May 2005, the FASB issued statement No. 154, Accounting Changes and Error Corrections , a replacement of APB Opinion No. 20, Accounting Changes and a replacement of FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements . FASB 154 changes the accounting for, and reporting of, a change in accounting principle. The statement requires retrospective application to prior period s financial statements of voluntary changes in accounting principles and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impracticable to do so. The

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

3. NEW ACCOUNTING PRONOUNCEMENTS

statement is effective for accounting changes and corrections of errors in fiscal years beginning

after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors during fiscal years beginning after June 1, 2005.

In December 2004, FASB issued a revision to SFAS 123 "Share-Based Payment".

This Statement is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. This Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." This Statement

does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, Employers' Accounting for Employee Stock Ownership Plans. The Company does not believe adoption of this revision will have a material impact on the Company's consolidated financial statements.

In December 2004, FASB issued SFAS 153 "Exchanges of Nonmonetary Assets-an amendment of APB Opinion No. 29". The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company does not believe adoption of SFAS 153 will have any impact on the Company's consolidated

financial statements.

In December 2004, FASB issued SFAS 152 "Accounting for Real Estate Time-Sharing Transactions-an amendment of FASB Statements No. 66 and 67". This Statement amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

3. NEW ACCOUNTING PRONOUNCEMENTS

This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. The Company does not believe adoption of SFAS 152 will have any impact on the Company's consolidated financial statements.

In November 2004, the FASB issued SFAS 151 "Inventory Costs-an amendment of ARB No. 43". This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe adoption of SFAS 151 will have any impact on the Company's consolidated financial statements.

4. BUSINESS COMBINATION

The Company purchased 100% of the common stock of Milestone Technology, Inc., effective March 25, 2002. The purchase was accomplished in two transactions. The Company acquired 6% of Milestone in December 2001 in exchange for 500,000 shares of the Company s common stock. In March 2002, the Company acquired the remaining 94% of Milestone for 3,300,000 share of the Company s common stock. Based on the 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.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

5. DUE FROM AFFILIATED ENTITIES

The Company has advanced non-interest bearing funds of $95,575 as of December 31, 2005 and $98,478 as of December 31, 2004 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 transactions throughout the year to provide working capital to one another when necessary. Management does not believe the advance to be uncollectible.

6. NOTE PAYABLE

Notes payable as of December 31, 2005 consist of $110,000 due former stockholder of Xyros Technology. The loan is due on demand, interest at 10% per annum. The note, which was acquired by the Company in 1999, was due December 31, 1999 but the Company has negotiated to repay the loan as cash flow permits.

7. INCOME TAXES

The components of the net deferred tax asset and liability as of December 31, 2005 are as follows:

Effect of net operating loss carryforward	8,468,154
Less evaluation allowance	(8,468,154)
Net deferred tax asset (liability)	$ -

The components of income tax expense (benefit) are as follows:

Year ended December 31,	2005	2004
Net loss per financial statements which approximates net loss per income tax returns	$ (2,473,934)	$ (1,291,436)
Income tax expense (benefit) applying prevailing Federal and state income tax rates	(949,898)	(493,218)
Less valuation allowance	949,898	493,218
Net income tax expense (benefit)	$ -	$ -

Net income tax benefit is not recognized at this time because there is no reasonable expectation that the benefit will be realized in the future.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

8. PREFERRED STOCK

In July 2005 the Company issued 7,171,725 shares of Series A Preferred Stock in payment of 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 is entitled to fifteen votes and shall be entitled to vote on any matters brought to a vote on the common stock shareholder.

9. OPERATING LEASE

The Company leases office and warehouse space in Baltimore, Maryland under a three-year noncancellable operating lease, expiring October 2008. Base rent is $2,872 per month with an annual rent escalator of 3%. Rent expense was $81,216 and $61,047 for the years ended December 31, 2005 and 2004, respectively.

The following is a schedule by year, of approximate future minimum lease payments required under this lease:

Year ending December 31:	
2006	34,464
2007	35,762
2008	27,420

Total minimum future rental payments

$ 7,646

10. STOCK BASED COMPENSATION

During the years ended December 31, 2005 and 2004 the Company granted restricted stock, incentive stock options, nonqualified stock options, and warrants to employees, officers, and independent contractors and consultants.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

10. STOCK BASED COMPENSATION

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 2005 and 2004, the Company issued the following shares under this Plan and additional shares at the discretion of the Board of Directors:

2005

2004

Number

Expense

Number

Expense

of Shares

Recognized

of Shares

Recognized

Officers and employees

2,907,000

$ 294,540

702,000

$ 144,480

Independent contractors and

Consultants

7,199,000

1,562,376

1,502,850

209,124

Total

10,106,000

$1,856,916

2,725,000

$ 353,604

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

A summary of the Company   s common stock option activity and related information for the years ended December 31, 2005 and 2004 is as follows:

2004

Common

Weighted

Stock

Average

Range of

Options

Exercise Price

Exercise Price

Outstanding at beginning of year

107,690

$1.63

$.01 - 2.07

Granted

-

-

-

Exercised

-

-

-

Expired/Cancelled

-

-

-

Outstanding at end of year

107,690

$1.63

$.01 - 2.07

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

10. STOCK BASED COMPENSATION

2005

Common

Weighted

Stock

Average

Range of

Options

Exercise Price

Exercise Price

Outstanding at beginning of year

107,690

$1.63

$.01 - 2.07

Granted

-

-

-

Exercised

-

-

-

Expired/Cancelled

-

-

-

Outstanding at end of year

107,690

$1.63

$.01 - 2.07

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 years ended December 31, 2005 and 2004.

11. RELATED PARTY TRANSACTIONS

In order for the Company to meet its financial obligations, the Company s President, Gunther Than, loans the Company funds on occasion and is repaid when funds are available. During 2005 and 2004 Mr. Than advanced to Company a total of $64,000 and $132,000, respectively. Amounts paid back to Mr. Than in 2005 totaled $0 in 2005 and $132,000 in 2004, leaving balances due as of December 31, 2005 and 2004 of $64,000 and $0, respectively.

12. RECLASSIFICATION

The statement of operations for the year ended December 31, 2004 was adjusted for presentation reclassifications. Bad debt expense in the amount of $148,928 was moved from other income and expenses to operating expenses. The effect was a decrease in the loss from operations of $148,928. There was no change to net income for the year.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

13. RESTATEMENT OF FINANCIAL STATEMENTS

Pursuant to a regulatory review, the financial statements for the years ended December 31, 2005 and 2004 have been restated. During 2005 and 2004 the Company was not amortizing the cost of certain licenses, described in Note 1 to the financial statements, under the concept that the licenses had an indeterminable life and where not amortizable but were, instead, subject to periodic impairment tests to determine if the carrying value needed adjusting. As a result of the regulatory review it was determined that the licenses did have definite lives since they were linked economically to the underlying patents for which the licenses were awarded. Therefore the cost of the licenses was subject to amortization. Accordingly, the financial statements have been restated to reflect the effects of annual amortization expense of $104,958 for the years ended December 31, 2005 and 2004.

The effect of the adjustments was to decrease the net carrying value of the licenses from $1,626,854 to $1,311,980 for the year ended December 31, 2005 and $1,416,938 for the year ended December 31, 2004. Since the adjustment was also applicable to 2003 the net carrying value of licenses was adjusted an additional $104,958. That adjustment was reflected in restated financial statements for 2003. In each year operating expenses were increased by $104,958 which resulted in an increase in net losses for the years ended December 31, 2005 and 2004 to $2,473,934 and $1,291,436, respectively.

ITEM 8A. 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 required disclosure. Our Chief Executive Officer, who also acts in the capacity of principal financial officer, reevaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report and determined that there was a material weakness in our disclosure controls and procedures.

In September 2006 the SEC informed the company that it believed the useful lives of our licenses were not indefinite because development of new technologies may render our technology obsolete. We and our accountants reevaluated the historical treatment of our licenses and the characteristics of our licenses and on December 22, 2006 our principal financial officer concluded that the accounting treatment for the licenses we own required amortization from the date the licenses were acquired rather than annual impairment testing. As a result of this determination we have restated our financial statements for the years ended December 31, 2005 and 2004.

Our Chief Executive Officer determined that there were no changes made in our internal controls over financial reporting during the fourth quarter of 2005 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART III

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following information summarizes transactions exceeding $60,000 we have either engaged in during the last two years, or propose to engage in, involving our executive officers, directors, more than 5% stockholders, or immediate family members of these persons. These transactions were negotiated between related parties without "arms length" bargaining and, as a result, the terms of these transactions may be different than transactions negotiated between unrelated persons.

Our CEO, Gunther Than, loans funds to View Systems on occasion in order for us to meet our financial obligations. He is repaid when funds are available. During 2004 Mr. Than advanced a total of $132,000 and that amount was paid back to him in that year. On April 22, 2004 we issued 600,000 shares, valued at $120,000 to Gunther Than, our CEO, in consideration for services provided to use.

As of December 31, 2005 we advanced non-interest bearing funds of $95,575 to View Technologies, Inc., which is controlled by Gunther Than, our Chief Executive Officer and director. View Technologies, Inc., is a private company that develops software. There are no formal repayment terms associated with the advance to View Technologies. View Systems and View Technologies, Inc. had entered into various transactions throughout the year to provide working capital to one another when necessary. Mr. Than devotes approximately 12 hours a week to View Technologies, Inc. Our Board is aware of his position in this company and believes that there are no conflicts of interest resulting from his positions in both companies.

ITEM 13. EXHIBITS

No.

Description

3.1

Articles of Incorporation of View Systems, as amended (Incorporated by reference to exhibit 3.1 to Form 10-QSB, filed November 14, 2003)

3.2

By-Laws of View Systems (Incorporated by reference to exhibit 3.2 to Form 10-QSB, filed November 14, 2003)

4.1

View Systems, Inc. 2005(b) Professional/Consultant Compensation Plan, dated November 7, 2005 (Incorporated by reference to exhibit 4.1 to Form S-8 filed November 8, 2005)

4.2

Subscription Agreement between View Systems, Inc. and Starr Consulting, Inc., Active Stealth, LLC, and KCS Referral Service LLC, dated December 23, 2005 (Incorporated by reference to exhibit 4.1 of Form 8-K, filed January 6, 2006)

10.1

View Systems, Inc. 1999 Stock Option Plan (Incorporated by reference to exhibit 10.16 to Form SB-2 filed January 11, 2000)

10.2

Employment agreement between View Systems and Gunther Than, dated January 1, 2003 (Incorporated by reference to exhibit 10.3 for Form 10-KSB, filed April 14, 2004)

10.3

Lease agreement between View Systems and MIE Properties, Inc., dated August 3, 2005 (Incorporated by reference to exhibit 10.2 to Form 10-QSB, filed November 10, 2005)

10.4

Consulting Agreement between View Systems and Elite Equity Marketing, dated February 6, 2006 (Filed April 17, 2006)

21.1

Subsidiaries (Incorporated by reference to exhibit 21.1 for Form 10-KSB, filed March 31, 2003)

31.1

Chief Executive Officer Certification

31.2

Principal Financial Officer Certification

32.1

Section 1350 Certification

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: March 12, 2007

By: *<u>/s/ Gunther Tan</u>*

Gunther Than, Chief Executive Officer

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.

Date: March 12, 2007

<u>/s/ Gunther Than</u>

Gunther Than, CEO, Principal Financial and

Accounting Officer, Treasurer and Director

Date: March 12, 2007

/s/ Michael L. Bagnoli

Michael L. Bagnoli

Director and Secretary

Date: March 12, 2007

/s/ Martin J. Maassen

Martin J. Maassen

Director