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.

TABLE OF CONTENTS

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	