VIEW SYSTEMS INC
Form 10KSB/A
February 03, 2006

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

FORM 10-KSB/A
Amendment No. 1

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

[ ] 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)

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

Securities Registered Pursuant to Section 12(b) of the Act: None

Securities Registered Pursuant to Section 12(g) of the 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: $476,319

As of March 8, 2005 the issuer had 76,812,922 outstanding shares of common stock. The aggregate market value of the registrant's voting stock held by non-affiliates on that date was approximately $7,253,438.

Documents incorporated by reference: None

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

Explanatory Note

On October 12, 2005, we filed a registration statement on Form SB-2, and the Securities and Exchange Commission ("SEC") conducted a full review of the Form SB-2. The SEC requested that we expand the disclosures in this Form 10-KSB to comply with its comments. As a result of this review we have restated our financial statements for the year ended December 31, 2004. See Note 12 to the financial statements for the explanation of the restatement. The disclosures in this report are as of the initial filing date of March 30, 2005 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 SEC encourages companies to disclose forward-looking information so that investors can better understand future prospects and make informed investment decisions. This report contains these types of statements. Words such as "may," "will," "expect," "believe," "anticipate," "estimate," "project," or "continue" or comparable terminology used in connection with any discussion of future operating results or financial performance identify forward-looking statements. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. All forward-looking statements reflect our present expectation of future events and are subject to a number of important factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

HISTORICAL DEVELOPMENT

View Systems was incorporated in Florida on January 25, 1989, as Beneficial Investment Group, Inc. and became active in September 1998 when we began development of our digital video product line and changed the company's name to View Systems, Inc. Starting in 1999 we expanded our business operations through a series of acquisitions. In February 1999 we acquired Xyros Systems, Inc., a Maryland corporation, which owned hardware technology with remote video monitoring capability and digital video storage and retrieval software. In May 1999 we acquired Eastern Tech Manufacturing Corp, a Maryland corporation, which is a contract manufacturer of board level electronic hardware and cable assemblies.

In December 2001 we acquired a 6% interest in Milestone Technology, Inc. and shortly thereafter entered into a joint venture agreement with Milestone Technology to develop and enhance its concealed weapons technology. Milestone Technology's primary product was a walk-through detector that used passive magnetic detection technology to accurately pinpoint the location, size and number of concealed weapons. On March 25, 2002 we acquired the remaining 94% interest of Milestone Technology.

On July 25, 2003 View Systems incorporated View Systems, Inc. as a wholly-owned Nevada corporation for the sole purpose of changing the domicile of the company from Florida to Nevada. On July 31, 2003 articles of merger were filed with the state of Nevada to complete the domicile merger.

OUR BUSINESS

View Systems, Inc. develops, produces and markets computer software and hardware systems for security and surveillance applications. Digital video recorder technology was our first developed product. We enhanced this product line by developing interfaces with other various technologies, such as facial recognition, access control cards and control devices such as magnetic locks, alarms and other common security devices.

During the past two years we have expanded our product line to include a concealed weapons detection system and a hazardous material first response wireless video transmitting system. We acquired exclusive licenses to manufacture, use, sub-license and distribute technology and processes for the concealed weapons detection technology and the first response wireless video transmitting system from Bechtel BWXT Idaho, LLC. Bechtel BWXT Idaho, LLC manages and operates the U.S. Department of Energy's Idaho National Engineering and Environmental Laboratory ("Idaho Engineering Lab"). The development of the concealed weapons detection technology was funded by the National Institute of Justice and development was performed by the Idaho Engineering Lab. The hazardous materials first response video transmitting system was developed at the Idaho Engineering Lab through cooperative research and development agreements at the request of various military organizations.

We will focus our marketing efforts for the concealed weapons detection products on schools, municipal buildings, court houses, and correctional facilities. We intend to market the first responder units to the National

Guard, police departments and fire departments.

Products and Services

ViewMaxx Digital Video System

ViewMaxx is a high-resolution, digital video recording and real-time monitoring system. This system can be scaled to meet a specific customer's needs by using anywhere from one camera up to 16 surveillance cameras per each ViewMaxx unit. The system uses a video capture card recording which translates closed-circuit television analog video data (a format normally used by broadcasters for national television programs) to a computer readable digital format to be stored on direct access digital disk devices rather than the conventional television format of video tape.

VideoMaxx offers programmable recording features that can eliminate the unnecessary storage of non-critical image data. This ability allows the user to utilize the digital disk storage more efficiently. The ViewMaxx system can be programmed to satisfy each customer's special requirements, be it coverage which is continuous, or only when events are detected. For example, it can be programmed to begin recording when motion is detected in a surveillance area, or a smaller field of interest within the surveillance area, and can be programmed to notify the user with an alarm or message.

Viewing of the stored digital images can be performed locally on the computer's video display unit or remotely through the customer's existing telecom systems or data network. It also uses a multi-mode search tool to quickly play back files with simple point and click operations. The search mode parameters can be set according to a specific monitoring need, such as: certain times of day, selected areas of interest in the field of view or breaches of limit areas. These features and abilities avoid the need to review an entire, or many, VCR tapes for a critical event.

Our ViewMaxx products include the following features:

.. Use any and all forms of telecommunications, such as standard telephone lines;
.. Video can be monitored 24 hours a day by a security monitoring center;
.. Local and remote recording, storage and playback for up to 28 days, with optional additional storage capability;
.. The system may be set to automatically review an area in a desired camera sequence;
.. Stores the video image according to time or a criteria specified by the customer and retrieves the visual data selectively in a manner that the customer considers valuable or desirable;
.. The system may trigger programmed responses to events detected in a surveillance area, such as break-ins or other unauthorized breaches of the secured area.
.. Cameras can be concealed in ordinary home devices such as smoke detectors;
.. The system monitors itself to insure system functionality with alert messages in the event of covert or natural interruption; and
.. Modular expansion system configuration allows the user to purchase add-on components at a later date.

SecureScan Concealed Weapons Detection System

This product is a walk-through concealed weapons detector which uses sensing technology and artificial intelligence algorithms to accurately pinpoint the location, size and number of concealed weapons. The control unit for this walk-through portal is a personal computer based unit which receives magnetic and video information and combines it in a manner that allows the suspected location of the weapon to be stored electronically and referenced. SecureScan products are distributed in two basic configurations; stand-alone units and integrated door systems.

Concealed weapons detection systems are used in a wide range of situations in order to provide added security against violent crimes. In addition to the well-known use of concealed weapons detection systems in public airports, such weapons detection systems are increasingly being used in court houses, schools and other public/governmental facilities that may be subject to threats or attacks by various members of the public.

One commonly used concealed weapons detection system is the electromagnetic induction system. Essentially an electromagnetic induction system operates by periodically broadcasting an electromagnetic pulse or series of pulses, usually in the kilohertz range. The transmitted electromagnetic pulse induces an electrical current, or currents, in electrically conductive objects contained within the sensing area. The induced electrical current or currents create their own electromagnetic signals which are then detected by a suitable detector associated with this type of weapons detection system.

While electromagnetic induction systems of the type described above have been used for decades as concealed weapons detection systems, they are not without their problems. For example, such electromagnetic induction systems are generally sensitive to the overall size, i.e., surface area of the object, not its mass. Consequently, small, compact, but massive objects, such as a small pistol, may not produce a "signature" that is significantly larger than the signature produced by a light weight object of the same size, such as keys or pocket change. Another problem associated with electromagnetic induction systems is related to the fact that electromagnetic systems are sensitive to

electrically conductive objects, regardless of whether they are magnetic or non-magnetic. That is, electromagnetic systems tend to detect non-magnetic objects, such as pocket change, just as easily as magnetic objects, such as weapons. Consequently, electromagnetic systems tend to be prone to false alarms. In many circumstances, such false alarms need to be resolved by scanning the suspect with a hand-held detector in order to confirm or deny the presence of a dangerous weapon.

Our SecureScan system differs from electromagnetic induction systems because the SecureScan system uses passive magnetic technology. When an object of a specific ferro-magnetic mass passes by the magnetic sensors the surrounding magnetic field is altered. The software calculates the difference between the magnetic field strength with the object in the magnetic field inside the sensors' range and the normal magnetic field strength. Then the system displays the results in graph format on a video display unit. Since the SecureScan technology does not use transmitters to produce electromagnetic induction, stray energy that can cause false alarms does not exist.

The SecureScan portal uses an array of advanced magnetic sensors, each with internal digital signal processors. The sensors communicate with the control unit's software which spatially places identified magnetic anomalies and visually places the location of the potential threat object with a red dot that is superimposed over a real time snapshot image of the person walking through the portal. Along with the snapshot, a graph displays the sensor data which automatically scales the signal strength of the individual sensors and cross-references them to the video image. All of this information is brought together on a video screen that displays the image of the person, the location of the weapon(s) and the size of the weapon(s), depending on the intensity of the magnetic signature.

The SecureScan technology discriminates weapons from non-weapons by assuming that possible threat objects will have ferromagnetic composition. The SecureScan system promotes smooth traffic flow because it only detects the types of ferrous metals commonly found in guns and knives, rather than personal possessions such as coins, keys or belt buckles. This capability reduces false alarms and eliminates the need to use hand wands or resort to a personal search. In addition, the sensor settings can be adjusted to allow the detection of high composite pistols, titanium and stainless steel guns, and box cutters. Body cavity object identification is also available, as well as locating objects that have been covered or masked with aluminum foil or other materials. The SecureScan system operates faster than ordinary metal detectors and can scan as high as 1,500 persons per hour.

The SecureScan weapons detection system can be controlled via a central monitoring station using a Windows(TM) operating system and Pentium(TM) hardware. This can include additional closed-circuit television, two-way voice communication, door interlock, card-key and other biometric identification or access control components. The functionality of the SecureScan portal is increased by access control, database recording, video capture and archiving of images.

The SecureScan concealed weapons detection technology was patented by the Department of Energy and approved by the Federal Aviation Administration. View Systems owns the exclusive worldwide rights to the SecureScan technology and ongoing improvements currently being funded by the National Institute of Justice.

In the third quarter of 2003 we brought the manufacturing of the SecureScan product in house and made various modifications to prepare it for mass market distribution. During 2004 we have been expending monies to achieve sensor cost reductions and to make the system more robust. We strived to reduce costs of the sensor boards in the portal uprights to facilitate a price point reduction. A price point reduction is necessary to make the SecureScan more competitive in its markets. In the fall of 2004 we contracted with outside scientists to assist in sensor cost reduction. The scientists have had positive results and we are in the process of integrating the new sensors into our current SecureScan products.

In 2004 we introduced the SecureScan product to the venue and stadium market. In February 2005 we tested the SecureScan at the pre-game venues of the Super Bowl football game in Jacksonville, Florida. Our product was well received for throughput and ease of use. During that installation, the portal scanned up to 3,000 to 4,000 people and at various times throughput ranged from approximately 600 to 1,200 persons per hour. There were 384 alarms triggered by the sensitivity threshold, which is a small number compared to the number of people scanned.

Visual First Responder

In December 2003 View Systems obtained exclusive licensing and marketing rights for the HAZMAT CAM technology from the U.S. Department of Energy's Idaho National Engineering and Environmental Laboratory. We initially marketed this product as FirstView Wireless Camera System, then changed the name to Visual First Responder.

Visual First Responder is a lightweight, wireless camera system housed in a tough, waterproof flashlight body. The camera system sends back real-time images to a computer or video monitor at the command post located outside the exclusion zone or containment area. Visual First Responder is able to transmit high quality video in the most difficult environments. It uses a patented triple-diversity antenna system that minimizes signal distortion in urban environments. Traditional wireless videos use one antenna and a single receiver. The problem with this configuration is that signals multi-path, which means they bounce off other structures, like buildings, file cabinets, etc., on the way to the receiver. This multi-pathing causes interference and seriously degrades the video images. The Visual First Responder receiver seeks the strongest signal from each of the three antennas and locks in that signal, resulting in a more reliable and clearer image.

The image received from the Visual First Responder monitor or on the Visual First Responder color LCD monitor, and can be easily recorded using a common camcorder or VCR with video input. The camera can be completely submerged for fast and easy decontamination. We also offer a unit with 360 degree coverage of a target area.

Visual First Responder also uses Extension Link which is a separate transmitter and receiving system that increases the operating range of the Visual First Responder environmental factors. The Extension Link has field-selectable channels to avoid interference at longer distances. We have also incorporated a video encryption feature that allows first responders to transmit on-scene video to the command post without the data being intercepted by unwanted parties.

The complete Visual First Responder fully deployed by one person in a stand alone configuration in less than 10 minutes. The system is battery operated and can operate for eight continuous hours using one set of spare camera batteries.

We have entered into a cooperative research and development agreement with the Idaho Engineering Lab. This agreement allows us to use the research and development resources of the Idaho Engineering Lab to further develop the technology as driven by customer need. The cooperative research and development agreement provides a means for View Systems to efficiently continue to offer state of the art technology, yet concentrate on its marketing and manufacturing operations.

Additional Products

We also offer integration of other products with SecureScan or ViewMaxx. Biometric verification is a system for recognizing faces and comparing them to known individuals, such as employees or individuals wanted by law enforcement agencies. This product can be interfaced with SecureScan and/or ViewMaxx to limit individual access to an area. SecureScan and/or ViewMaxx can be coupled with magnetic door locks to restrict access to a particular area. We also offer a central monitoring or video command center for SecureScan or ViewMaxx products.

In addition, we offer support services for our products which include:

- On site consulting/planning with customer architect and engineers,
- Installation and technical support,

- Training and "Train the Trainer" programs, and
- Extended service agreements.

Markets

Our family of products offers government and law enforcement agencies, commercial security professionals, private businesses and residential consumers an enhanced surveillance and detection capacity. Management has chosen to avoid the air passenger traffic and civilian airport market for metal detection because we believe that a larger market exists in venues, such as sporting events, concerts, and race tracks, and schools, courthouses and municipal buildings, and law enforcement agencies.

Commercial business users represent the greatest potential users of our surveillance and weapons detection products. Commercial businesses have already realized the need for surveillance and using access control devices for protection of employees, customers, and assets. Our products can curtail crime and prevent loss caused by employees and others. The market for surveillance technology includes many types of commercial buildings; including, hospitals, schools, museums, retail, manufacturing and warehousing facilities.

Our SecureScan products and technology can be used where there is a temporary requirement for real-time weapons detection devices in areas where a permanent installation is cost prohibitive or impractical. For example, our SecureScan portal could be set up for special events, concerts, and conventions. Our systems may reduce the need for a large guard force and can provide improved pedestrian traffic flow into an event because individuals can be scanned quickly and false alarms are reduced.

Schools have been very receptive and enthusiastic about the SecureScan portal and its integration with School Technology Management's Comprehensive Attendance/Security System. In early October 2003 we announced an alliance with School Technology Management, Inc. to integrate and market its products with ours. School Technology Management developed the Comprehensive Attendance, Administration and Security System ("Comprehensive Attendance/Security System"), which is designed to use a magnetic card swipe system to monitor identification of students entering a school and to verify each student's attendance. School Technology Management combined our SecureScan portal with its card swipe system.

With the combined technology a student enters the portal and is scanned for any threat objects and his or her identity is concurrently confirmed to school security officers. During the spring semester of 2004, a subcontractor of the National Institute of Justice conducted a study of the effectiveness of the SecureScan portal in a school environment and the results were positive. The combined technology has been tested in schools in New York and Philadelphia and we have received very positive responses from those tests and have experienced increased inquiries about our products and increased purchase orders as a result of these tests. Management estimates that there are over 120,000 schools in the United States that may have problems with violence, truancy and other safety considerations, which may be addressed by the combined technology.

The gathering of video and data images and weapons detection is commonplace in law enforcement. Because our technology can be used for stakeouts and remote monitoring of areas, we believe there is a market potential with law enforcement agencies. A primary market for our SecureScan portal is federal and state government courthouses, and county and municipal buildings. We have installed our SecureScan weapons detection products in a variety of court house situations. The Visual First Responder product's market includes state National Guard units and first response agencies, such as; firemen, police swat and homeland security response teams.

The residential home security user may purchase our products from either commercial companies installing self-contained or centrally monitored systems, or directly from retail distribution centers. However, at this time we do not have retail agreements in place. Using our technology, individuals may run their own perimeter and interior surveillance systems from their own home computer. Real-time action at home can be monitored remotely through a modem and the Internet. There is also the capability to make real-time monitors wireless. An additional advantage of our technology is that it allows for the storage of information on the home computer and does not require a VCR. This capability may reduce the expense and time of the home installation and may make installation affordable for a majority of homeowners.

Manufacturing

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

The SecureScan portal consists of two components; the work station contains the software and display imagery, and the archway holds the sensors which detect threat objects. Both components are assembled and manufactured internally at our facilities in Baltimore, Maryland. Once complete, the portal is tested and shipped to its final destination. We also manufacture the Visual First Responder in our Baltimore facility

Sales and Distribution

We have ongoing reseller arrangements with small- and medium-sized domestic and international resellers. Our reseller agreements grant a non-exclusive right to the reseller to purchase our products at a discount from the list price and then sell them to others. These agreements are generally for a term of one year and automatically renew for successive one-year terms unless terminated by notice or in the event of breach.

We are in the process of building a United States domestic network of manufacturing representatives and dealers for the sale and distribution of our products. We are seeking security consultants, specifiers and distributors of security and surveillance equipment that sell directly to schools, courthouses, government and commercial buildings. We plan to initially hire four in-house regional sales persons, then we expect to develop a national sales channel model and a distributor development program.

We also have experienced international interest from security related resellers and system integrators. However, sales and shipments to overseas are regulated by federal guidelines for export. We have chosen not to pursue international markets, but intend to focus on domestic markets which are less expensive to support and maintain.

Backlog

As of March 15, 2005 we had a backlog of seven Visual First Responders. We measure backlog as orders for which a purchase order or contract has been signed or a verbal commitment for order or delivery has been made, but which has not yet been shipped and for which revenues have not been recognized. We typically ship our products months after receiving an order. However, we are attempting to shorten this lead time to several weeks. Also, product shipments may require more lead-time and may be delayed for a variety of reasons beyond our control, including:

- additional time necessary to conduct product inspections prior to shipping,
- design or specification changes by the customer,
- the customer's need to prepare the site, and
- delays caused by other contractors on the project.

Competition

We believe the introduction of digital technology to video surveillance and security systems is our market opportunity. We believe that many of the established closed-circuit television companies have approached the design of their digital closed-circuit television products from the standpoint of integrating their digital products to existing security and surveillance product offerings. These systems are closed, not easily integrated with other equipment and not capable of upgrades as technology improves. We have designed our systems such that they are open, compatible with other digital and analog systems, and adaptable to technological advances that will inevitably occur with digital technology. In addition, we have evaluated price point competition and to ease the financial burden for schools and other customers with budget constraints, we accept a down payment with remaining payments due monthly for an agreed upon term.

The markets for our products are extremely competitive. Competitors include a broad range of companies that develop and market products for the identification and video surveillance markets. In the weapons detection market, we compete with Ranger Security Scanners, Inc. and Garrett Electronics, Inc. in the United States, and an Italian company, CEIA SpA, which has the most sophisticated electromagnetic induction product. In the video surveillance market we compete with numerous VCR suppliers and digital recording suppliers, including, Sensormatic Corporation and NICE Systems, Ltd. and Integral Systems.

Trademark, Licenses and Intellectual Property

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

The SecureScan concealed weapons detection technology involves sensing technology and data acquisition/analysis software subsystems that have patents pending or issued to the U. S. Department of Energy. We hold an exclusive license, D.O.E. License No. 03-LA-18, to commercialize, manufacture and market the concealed weapons detection technology. However, since the intellectual property was developed by the federal government under a grant from the National Institute of Justice, the patents belong to the government and we pay royalties of 2% of the net sale price per SecureScan unit sold. We also hold the exclusive license, D.O.E. License No. 03-LA-20, for the Visual First Responder technology and will pay royalties of 4% of the net sale price per each Visual First Responder unit sold.

Governmental ownership of the patents is advantageous because the government has prosecution and stewardship responsibilities for the life of the patents. We benefit from any continuations and improvements to the concealed weapons detection technology under the ongoing contract between the Department of Energy and National Institute of Justice.

We have obtained software licensing agreements for
.. software operating systems components,
.. for facial recognition to possibly integrate into our proprietary software, and
.. integration of commercially available operating systems software into our proprietary software for installation into our products.

Because the software and firmware (software imbedded in hardware) are in a state of continuous development, we have not filed applications to register the copyrights for these items. However, under law, copyright vests upon creation of our software and firmware. Registration is not a prerequisite for the acquisition of copyright rights. We take steps to insure that notices are placed on these items to indicate that they are copyright protected. The copyright protection for our software extends for the 20-year statutory period from the date of first "publication," distribution of copies to the general public, or from the date of creation, whichever occurs first.

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

Government Regulation

We are not subject to government regulation in the manufacture of our products or the components in our products. However, we are subject to certain restrictions in the sale of our products to "unfriendly" countries and countries designated as adversarial, which may limit our marketing to foreign countries. In addition, our resellers and end users may be subject to numerous regulations that stem from surveillance activities. We also benefit from the recent "made in America" trade laws where non-United States manufactures must secure waivers in order to sell security and surveillance products to United States domestic end-users.

Security and surveillance systems, including cameras, raise privacy issues and our products involve both video and audio, and added features for facial identification. The regulations regarding the recording and storage of this data are uncertain and evolving. For example, under the Federal wiretapping statute, the audio portion of our surveillance systems may not record people's conversations without their consent. Further, there are state and federal laws associated with recording video in non-public places.

Research and Development

For the year ended December 31, 2004 and 2003, we did not record research and development expense. We have cooperative research arrangements with the Department of Energy to receive technical assistance and further enhancements of the concealed weapons detection technology and Visual First Responder technology that are performed by the Department of Energy and the National Institute of Justice. We also contract with engineers and other third parties to develop or vary the design of our products and we record these expenses under professional fees.

Employees

We employ 5 persons, including two persons in part-time positions. We also employ two independent contractors who devote a majority of their work to a variety of our projects. Our employees are not presently covered by any collective bargaining agreement. Our relations with our employees are good, and we have not experienced any work stoppages.

PART II

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS

EXECUTIVE OVERVIEW

Our revenues for the years ended December 31, 2003 and 2004 were primarily from sales of our products. Management believes that heightened attention to terrorism and other security threats will continue to drive growth in the market for security products. We have incurred net losses for the past two years, but have implemented strategies to reduce cash used in operating activities. Also, we have increased the efficiency of our processes and focused our development efforts on products with greater sales potential.

Our ViewMaxx Digitial Video products have been the primary source of revenues since 1998. In the fourth quarter of 2003 we experienced a revitalization in sales of these products. While sales were down in the first quarter of 2004 for the ViewMaxx Digitial Video products, sales have rebounded during the second quarter of 2004. We have entered into new market segments with this product and are concentrating on local sales and services.

During the 2003 year we completed our single largest manufacturing run of SecureScan Concealed Weapons Detection portals by building 20 portals. We worked diligently to make engineering design changes to the SecureScan product to accommodate the price points required by competitive pressures. We expanded this product line in late 2003 when we combined our SecureScan technology with School Technology Management, Inc.'s student time and attendance program. Second phase testing of the combined technology, conducted in early 2004, produced positive results. These positive results lead the National Institute of Justice to provide $500,000 to the U.S. Department of Energy Idaho National Engineering and Environmental Laboratory to further refine the sensor circuitry and develop new and more sensitive magnetometers at a reduced cost. These changes will result in reduced manufacturing costs, a wider portal opening size and improved object recognition ability.

For the next twelve months our primary challenge will be to more fully develop our product lines and our sales and distribution network. During the first quarter of 2004 we increased our product lines when we entered into a cooperative research and development agreement with the U.S. Department of Energy's Idaho National Engineering and Environmental Laboratory ("Idaho Engineering Lab") for our Visual First Responder. During the second quarter of 2004 we set up a complete manufacturing line in the Baltimore, Maryland facility for building, testing and further development of the Visual First Responder product. We sold and delivered two Visual First Responder units to organizations in Boston, Massachusetts who were involved with security for the Democratic national convention and we have received additional orders for this product. As recent as February 2005 we have received orders for five Visual First Responder units for use by the Department of Defense.

Along with development of our product lines, we must establish a sales and distribution channel program for the United States. Our emphasis will be on marketing and sales programs through dealer channels, plus internal direct sales for our products, where applicable. We intend to build a United States domestic network of manufacturing representatives and dealers for the sale and distribution of our products within the 48 states. Our initial focus will be in the Mid-Atlantic and Northeast regions. In recent months we signed three new dealers for our products; however, we cannot assure you that we will be able to develop these sales and distribution channels to a level which will result in increased revenues or continued profitability. Some of the major distributors of safety products who have become our dealers and manufacturer representatives will be adding our products to their GSA schedules.

Another major emphasis for the next twelve months is to continue our SecureScan manufacturing cost reduction objectives. We reduced manufacturing costs of the SecureScan product by 25% in the first quarter of 2004. We intend to select key expensive components of the SecureScan system and replace them with performance equivalent, less expensive parts. The final phase of the manufacturing cost reductions will be cost reduction per unit in the fabrication of the gradiometer sensors. In addition, we anticipate completing circuitry conversions to fully digital signal processing from digital to analog and back to digital, along with replacing over-engineered housings in the SecureScan portals. We also intend to reduce assembly time and testing times to save additional manufacturing costs. The latest round of cost reductions should decrease the manufacturing cost an additional 50% to the $4,000 to $5,000 cost level with full digital and wireless communications ability.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred losses for the past two fiscal years and had a net loss of

$1,186,478 at December 31, 2004. We rely on private financing, revenues and advances from related parties to fund our operations. At December 31, 2004 we were in default on our debt obligations and did not have financing commitments in place to meet our expected cash requirements. Our auditors have expressed substantial doubt that we can continue as a going concern based on these operating losses. Management intends to focus our efforts on reduction of manufacturing costs and expects revenues to increase as we develop our sales and marketing channels. However, management also believes we will incur operating losses for the near future and will need to rely on private financing to satisfy our cash requirements.

Historically we have relied on private financing to supplement our revenues. For the year ended December 31, 2003 ("2003 year") we recorded revenues of $569,952 and received $817,820 in debt financing and $508,550 in proceeds from sales of our common stock. For the year ended December 31, 2004 ("2004 year"), we recorded revenues of $476,319, received $933,800 from debt financing, $157,900 from sales of common stock and advances of $132,000 from Gunther Than, our CEO.

We estimate that we will require additional financing of approximately $1 million to meet our needs for the next twelve months. Our goal is to use this financing to increase ongoing operations to self-sustaining levels and increase profits to the magnitude management feels is achievable.
We intend to use any available cash to develop our products and expand our sales, marketing and promotional activities. Management believes that it will be essential to continue to raise additional capital, both internally and externally, to compete in our markets. We cannot assure you that we will be able to obtain financing on favorable terms and we may be required to further reduce expenses and scale back our operations. In addition to accessing the

public and private equity markets, we will pursue bank credit lines and equipment leases for certain capital expenditures, if necessary.

COMMITMENTS AND CONTINGENT LIABILITIES

Our total current liabilities of $580,824 include accounts payable of $265,776, accrued expenses of $100,548, accrued interest of $66,000 and notes payable of $148,500. At December 31, 2004 future minimum payments for operating leases related to our principal office and manufacturing facility were $19,964 through 2006. Rent expense was $61,047 for the 2003 year compared to $52,900 for the 2004 year.

OFF-BALANCE SHEET ARRANGEMENTS

None.

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, 2004 and 2003 and should be read in conjunction with the financial statements, and notes thereto, included in this report at Part II, Item 7, below.

Summary Comparison of 2004 and 2003 Fiscal Year Operations

	2004	2003
Revenues, net	$ 476,319	$ 569,952
Cost of sales	257,179	257,632
Gross profit	219,140	312,320
Total operating expenses	1,369,474	2,832,243
Net operating income (loss)	(1,150,334)	(2,519,923)
Total other income (expense)	(36,144)	(26,411)
Net income (loss)	(1,186,478)	(2,546,334)
Net earnings (loss) per share	$ (0.02)	$ (0.05)

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.

Revenues for the 2004 year decreased 16.4% compared to the 2003 year primarily as a result of the biggest manufacturing run of 20 SecureScan portals occurring in the 2003 year, along with a resurgence of View Maxx product sales in 2003. Sales of the SecureScan product line dropped in 2004 while we focused our sales and marketing efforts on the Visual First Responder product line.

The following chart provides a breakdown of our sales in 2004 and 2003.

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	Dec. 31, 2004	Dec. 31, 2003
Secure Scan	$ 24,800	$ 319,145
ViewMaxx	153,271	243,441
Visual First Responder	296,100	-
Service	2,148	7,366

Costs of sales remained relatively the same in the 2004 year compared to the 2003 year. However, management expects cost of sales to increase as we expand our marketing efforts. As a result of the decrease in revenues our gross profit decreased 29.8% for the 2004 year compared to 2003.

For the 2004 year total operating expense decreased 48.3% compared to the 2003 year. The 2004 decrease was the result of a 6.8% decrease in general and administrative expenses, a 47.2% decrease in professional fees due to reduced contracts with engineers, a 25.2% decrease in salaries and benefits and recording $0 for business development expenses.

In addition, a valuation/impairment loss of $888,658 in the 2003 year compared to no valuation/impairment loss for the 2004 year reduced total operating expense for the 2004 year. The impairment loss for the 2003 year was related to the adoption of Statement of Financial Accounting Standards No 142, "Goodwill and Other Intangible Assets," issued in June 2001, which addressed financial accounting and reporting for acquired goodwill and intangible assets. Goodwill represents the excess of the cost of assets acquired in a business combination accounted for under the purchase method of accounting over the fair value of the net assets acquired at the date of acquisition. Prior to the adoption of SFAS Nos. 141 and 142, the excess purchase price was amortized using the straight-line method over ten years. Effective January 1, 2002, goodwill was no longer amortized but rather tested for impairment under the provision of SFAS No 142. As of December 31, 2003, we determined that goodwill related to the assets we had acquired in business combinations was impaired and we wrote off that goodwill in 2003.

The reductions in these operating expenses resulted in a 45.6% decrease in net operating loss. Management anticipates that business development expenses will increase with the development of our sales and marketing activities, but that the other operating expenses will remain relatively constant.

Total other expense increased in the 2004 year compared to the 2003 year primarily as a result of increased interest expense related to interest on loans. Interest expense may increase as we continue to rely on private financing to fund our operations.

As a result of the above changes, we recorded a 53.4% decrease in net loss for the 2004 year compared to the 2003 year and decreased our loss per share from $0.05 for the 2003 year to $0.02 for the 2004 year.

FACTORS AFFECTING FUTURE PERFORMANCE

Our independent auditors have expressed concern whether we can continue as a going concern.

We have incurred ongoing operating losses and do not currently have financing commitments in place to meet expected cash requirements for the next twelve months. We are unable to fund our day-to-day operations through revenues alone and management believes we will incur operating losses for the near future while we seek financing commitments during the next twelve months to fund further development of our business plan. While we have expanded our product line and expect to establish new sales channels, we may be unable to increase revenues to the point that we attain and are able to maintain profitability.

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

Based on our current growth plan we believe we may require $1 million additional financing within the next twelve months to remain competitive in our market. 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 funds. If we issue our securities for capital, then the interests of investors and shareholders will be diluted.

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

We are in the process of developing and expanding our sales channels, but we expect overall sales to remain down as we develop our marketing activities. If we are unsuccessful in developing sales channels then we may have to abandon our business plan. We are actively recruiting and adding other additional resellers and must continue to recruit additional resellers and find other methods of distribution to increase customers.

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 School Technology Management for the continued integration of our SecureScan technology with its Comprehensive Attendance/Security System for use in educational facilities. 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 VideoMaxx product line and the SecureScan portal product line. We intend to invest a significant amount of our financial resources for the development of the Visual First Responder 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.

We would be harmed if we were unable to use our manufacturing facility.

We assemble and manufacture our products at our facility located in Baltimore, Maryland. If we were unable to continue manufacturing at this location due to fire, prolonged power shortage or other natural disaster, then we would be unable to supply products to our customers.

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ITEM 7. FINANCIAL STATEMENTS

VIEW SYSTEMS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2004 AND 2003

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C O N T E N T S

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Chisholm
Bierwolf &
Nilson, LLC
Certified Public Accountants

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Bountiful, Utah 84010
Phone (801) 292-8756
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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., (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity and comprehensive income, and cash flows for the years then ended. 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of View Systems, Inc. as of December 31, 2004 and 2003 and the result of its operations, and it's 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 2005. 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 12 to the consolidated financial statements, there was an error in reporting a payment on a loan from an officer, resulting in a loan receivable to this officer. This error was discovered by management s a result of a regulatory review. Accordingly, the financial statements have been restated to correct the errors and disclosures.

/s/ Chisholm, Bierwolf & Nilson, LLC

Chisholm, Bierwolf & Nilson, LLC
Bountiful, Utah
March 23, 2005, except for Note 12, 5, 6 and 11

dated January 20, 2006

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View Systems, Inc. and Subsidiaries
Consolidated Balance Sheets

ASSETS

	December 31, 2004 (Restated)
Current Assets	
Cash	$ 173,486
Accounts Receivable(Net of Allowance of $20,054)	108,342
Inventory	61,197
Total Current Assets	343,025
Property & Equipment (Net)	14,803
Other Assets	
Licenses	1,626,854
Due from Affiliates	98,457
Deposits	2,319
Total Other Assets	1,727,630
Total Assets	$ 2,085,458

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	
Accounts Payable	$ 265,776
Accrued Expenses	100,548
Accrued Interest	66,000
Notes Payable	148,500
Total Current Liabilities	580,824
Stockholders' Equity	
Preferred Stock, Authorized 10,000,000 Shares, $.01 Par Value, Issued and outstanding 0	-
Common Stock, Authorized 100,000,000 Shares, $.001 Par Value, Issued and Outstanding 76,533,922	76,534
Additional Paid in Capital	17,119,596
Retained Earnings (Deficit)	(15,691,496)

Total Stockholders' Equity	1,504,634
Total Liabilities and Stockholders' Equity	$ 2,085,458

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

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View Systems, Inc. and Subsidiaries
Consolidated Statements of Operations

	For the Year Ended December 31,	
	2004	2003
		(Restated)
Revenues, Net	$ 476,319	$ 569,952
Cost of Sales	257,179	257,632
Gross Profit (Loss)	219,140	312,320
Operating Expenses		
Business Development	-	155,130
General & Administrative	281,127	301,482
Professional Fees	286,323	542,612
Bad Debt	148,928	71,000
Salaries & Benefits	653,096	873,361
Valuation/Impairment Loss	-	888,658
Total Operating Expenses	1,369,474	2,832,243
Net Operating Income (Loss)	(1,150,334)	(2,519,923)
Other Income(Expense)		
Loss on Sale of Assets	-	(14,839)
Interest Expense	(36,144)	(11,572)
Total Other Income(Expense)	(36,144)	(26,411)
Net Income (Loss)	$ (1,186,478)	$ (2,546,334)

Net Income (Loss) Per Share	$ (0.02)	$ (0.05)
Weighted Average Shares Outstanding	68,924,152	51,529,119

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

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Deficit)
Balance, December 31, 2002	44,598,620	$ 44,598	$ 13,810,878	$(11,958,683)
January - March 2003 - shares issued for cash	676,999	677	85,873	-
January 2003 - shares issued for services	445,000	445	51,755	-
July - September 2003 - shares issued for cash	3,220,000	3,220	318,780	-
September 2003 - shares issued for payment of notes payable	300,000	300	29,700	-
September 2003 - shares issued for services	500,000	500	59,500	-
September 2003 share issued to employees	1,600,000	1,600	190,400	-
September 2003 - shares issued for payment of notes payable	10,800,000	10,800	755,520	-
October 2003 - shares issued for services	190,000	190	9,310	-
Forgiveness of Debt by subsidiary-contribution	-	-	193,293	-
October-December 2003 - shares issued for cash	400,000	400	99,600	-

Net loss for the year ended December 31, 2003	-	-	-	(2,546,334)
Balance, December 31, 2003	62,730,619	62,730	15,604,609	(14,505,017)
Cancellation of shares	(100,000)	(100)	(4,900)	-
January - March 2004 - 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	-	-	-	(1,186,478)
Balance, December 31, 2004	76,533,922	$ 76,534	$ 17,119,596	$(15,691,495)

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

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

	For the Year Ended December 31,	
	2004	2003
	(Restated)	(Restated)
Cash Flows from Operating Activities:		
Net Income (Loss)	$ (1,186,478)	$ (2,546,334)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operations:		
Depreciation & Amortization	29,890	45,160
Impairment of Assets	-	888,658
(Gain) Loss on Disposal of Assets	-	14,839
Bad Debts	148,928	71,000
Accrued interest paid with stock	13,987	-
Stock Issued for Services	353,604	313,700
Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(32,182)	(143,376)
Inventories	32,044	(21,916)
Prepaid expenses	-	(655)
Other Assets	2,500	(2,287)
Increase (Decrease) in:		
Accounts Payable	(208,439)	211,747
Accrued Expenses	(3,967)	157,895
Net Cash Provided(Used) by Operating Activities	(850,113)	(1,011,569)
Cash Flows from Investing Activities:		
Advances (to)/ receipt from related party	-	76,869
Net Cash Provided (Used) by Investing Activities	-	76,869
Cash Flows from Financing Activities:		
Proceeds from debt financing	933,800	817,820
Proceeds from stock issuance	157,900	508,550
Proceeds from related party advances	132,000	1,500
Payments on related party advances	(132,000)	(1,500)
Cost of issuance of common stock	(5,000)	-
Principal Payments on Notes Payable	(83,000)	(375,000)
Net Cash Provided (Used) by Financing Activities	1,003,700	951,370
Increase (Decrease) in Cash	153,587	16,670
Cash and Cash Equivalents at Beginning of Period	19,899	3,229
Cash and Cash Equivalents at End of Period	$ 173,486	$ 19,899

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, 2004	2003
Cash Paid For:		
Interest	$ 25,144	$ 572
Income Taxes	$ -	$ -
Non-Cash Investing and Financing Activities:		
Stock Issued in payment for Note Payable	$ 833,300	$ 796,320
Stock issued in payment of accounts payable	$ 200,000	$ -

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

VIEW SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

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 digital video technology utilizes the compression and decompression of digital inputs. In March 2002, the Company acquired Milestone Technology, Inc., which 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.

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, 2003 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, 2004 and 2003 amounted to $29,890 and $45,160, respectively.

Goodwill

Goodwill represents the excess of the cost of assets acquired in the business combinations accounted for under the purchase method of accounting over the fair value of the net assets acquired at the dates of acquisition. Prior to the adoption of SFAS Nos. 141 and 142, the excess purchase price was being amortized using the straight-line method over ten years. Effective January 1, 2002 goodwill will no longer be amortized but rather tested for impairment under the provision of SFAS No 142. As of December 31, 2003, goodwill was determined to be impaired and was written off.

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).

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 $1,626,866. Consistent with SFAS No. 142, the license was analyzed to determine if any impairment existed at December 31, 2004. It was determined to not be impaired. Pursuant to SFAS No. 142, the license will not be amortized, rather the valuation of this intangible will reviewed periodically.

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.

Advertising

Advertising costs are charged to operations as incurred. Advertising costs for the years ended December 31, 2004 and 2003 were $10,214 and $21,264.

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, 2004 and 2003 does not include potential shares of common stock equivalents, as their impact would be antidilutive.

2. GOING CONCERN

The Company has incurred and continues to incur, losses from operations. For the years ended December 31, 2004 and 2003, the Company incurred net losses of $1,186,478 and $2,546,334, respectively. During 2004 and 2003, the Company implemented a strategy to reduce its cash used in operating activities which included reductions in personnel and facilities expense. Additionally, the Company has increased the efficiency of its processes and focused its development efforts on products with greater sales potential.

To date, the Company has financed its operations primarily through private financing. Additionally, the Company is in default on its debt obligations. It is management's intention to finance 2005 operations through an 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. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

3. NEW ACCOUNTING PRONOUNCEMENTS

Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure-an Amendment of FASB Statement No. 123, effective

3. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

for fiscal years ending after December 15, 2002. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The adoption of SFAS No. 148, did not have a material impact on the Company's financial position or results of operations.

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

3. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

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. 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.

In December 2003, FASB issued a revision to SFAS 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits-an amendment of FASB Statements No. 87, 88, and 106". This Statement revises employers' disclosures about pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans required by FASB Statements No. 87, Employers' Accounting for Pensions, No. 88, Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits, and No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions. This Statement retains the disclosure requirements contained in FASB Statement No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits, which it replaces. It requires additional disclosures to those in the original Statement 132 about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The required information should be provided separately for pension plans and for other postretirement benefit plans. The Company does not believe adoption of this revision will have a material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS 150, "Accounting for Certain Financial Instruments with characteristics of both Liabilities and Equity." This new statement changes the accounting

3. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

for certain financial instruments that, under previous guidance, issuers could account for as equity or classifications between liabilities and equity in a section that has been know as "mezzanine capital." It requires that those certain instruments be classified as liabilities in balance sheets. Most of the guidance in SFAS 150 is effective for all financial instruments entered into or modified after May 31, 2003. The adoption of SFAS 150 did not have any impact on the Company's consolidated financial statements.

In April 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003, with certain exceptions. The adoption of SFAS 149 did not have any effect on the Company's consolidated financial statements.

In January 2003, the FASB issued Interpretation 46, "Consolidation of Variable Interest Entities" (FIN 46), which addresses consolidation by business enterprises of variable interest entities. FIN 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the Characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company has not identified and does not expect to identify any variable interest entities that must be consolidated.

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

4. BUSINESS COMBINATION (Continued)

pinpoint the location, size, and numbers of concealed weapons. Prior to its acquisition, Milestone Technology, Inc., was considered to be a development stage enterprise.

5. DUE FROM AFFILIATED ENTITIES (Restated)

The Company has advanced non-interest bearing funds of $98,458 as of December 31, 2004 and 2003 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.

6. NOTES PAYABLE (Restated)

Notes payable as of December 31, 2004 consist of the following:

Note payable - due to an individual, non-interest bearing due on demand	9,500

Note payable - due to an individual, non-interest bearing due on demand	3,000
Note payable - due to an individual, non-interest bearing due on demand	11,000
Note payable - due to an individual, non-interest bearing, due on demand.	15,000
Notes payable - due former stockholder of Zyros Technology, due on demand, interest at 10% per annum.	110,000
Total Notes Payable	$ 148,500

The notes payable due former stockholders of Xyros Technology, 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.

VIEW SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
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7. INCOME TAXES

The components of the net deferred tax asset and liability as of December 31, 2004 are as follows:

Effect of net operating loss carryforward	$ 6,118,178
Less evaluation allowance	(6,118,178)
Net deferred tax asset (liability)	$ -

8. OPERATING LEASE

The Company leases office and warehouse space in Baltimore, Maryland under a five-year noncancellable operating lease, expiring August 2005. Base rent is $2,260 per month with an annual rent escalator of 3%. Rent expense was $52,900 and $61,047 for the years ended December 31, 2004 and 2003, respectively.

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

Year ending December 31:	
2005	19,964
2006 and Thereafter	-
Total minimum future rental payments	$ 19,964

9. STOCK BASED COMPENSATION

During the years ended December 31, 2004 and 2003 the Company granted restricted stock, incentive stock options, nonqualified stock options, and warrants to employees, officers, and independent contractors and consultants.

Restricted Stock Grants

The Company's Board of Directors and stockholders have approved a restricted share plan under which shares of the Company's common stock will be granted to employees, officers and directors at the discretion of the Board of Directors. During 2004 and 2003, the Company issued the following shares under this Plan and additional shares at the discretion of the Board of Directors:

9. STOCK BASED COMPENSATION(Continued)

Stock Options and Warrants

	2004		2003	
	Number of Shares	Expense Recognized	Number of Shares	Expense Recognized
Officers and employees	702,000	$ 144,480	1,690,000	$ 196,500
Independent contractors and consultants	1,502,850	209,124	1,035,000	117,200
Total	2,204,850	$ 353,604	2,725,000	$ 313,700

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.

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, 2004 and 2003 is as follows:

	2003		
	Common Stock Options	Weighted Average Exercise Price	Range of Exercise Price
Outstanding at beginning of year	107,690	$ 1.63	$ .01 - 2.07
Granted	-	-	-

	Common Stock Options	Weighted Average Exercise Price	Range of Exercise Price
Exercised	-	-	-
Expired/Cancelled	-	-	-
Outstanding at end of year	107,690	$ 1.63	$ .01 - 2.07

2004

	Common Stock Options	Weighted Average Exercise Price	Range of 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
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9. STOCK BASED COMPENSATION (Continued)

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, 2004 and 2003.

10. LITIGATION

On May 8, 2003, the Company filed a complaint against two former officers and shareholders of Milestone Technology, Inc., related to the ownership of the Concealed Weapons Detection System. In July 2003, the complaint was settled and the Company agreed to pay $375,000 including attorney fees of $50,000. The liability is recorded in accounts payable at December 31, 2003. The settlement also called for the cancellation of 1,050,000 shares issued to one of the principals of Milestone. Other legal actions are in the normal course of business.

11. RELATED PARTY TRANSACTIONS

In order for the Company to meet it's financial obligations, the Company's president Gunther Than, loans the Company funds on occasion and is repaid when funds are available. During 2004 and 2003 Mr. Than advanced the Company a total of $132,000 and $1,500, respectively. Amounts paid back to Mr. Than in 2004 and 2003 totaled $132,000 and $1,500, respectively, leaving balances due as of December 31, 2004 and 2003 of $0.

12. RESTATEMENT OF FINANCIAL STATEMENTS

Pursuant to a regulatory review, the financial statements for the year ended December 31, 2004 and 2003 have been restated. During 2004, the Company's President loaned funds to the Company to meet it's financial needs, however, a payment back to Mr. Than was incorrectly recorded as a loan receivable to Mr. Than, leaving a receivable and payable in the same amount. This officer receivable has been offset against accounts payable, and notes payable wherein combined, Mr. Than had an identical balance. The restatement caused a decrease in "Loans to Shareholder" of $66,500, leaving a $0 balance, and caused a decrease in accounts payable of $66,000, and a decrease in Notes payable of $500. The restatement also required a change to the cashflow statement by removing funds paid to a shareholder and applied this change to the accounts payable section. The financing section was also edited to include the gross amounts loaned to the Company an paid back by Mr. Than for the years 2004 and 2003.

The statement of operations for the year ended December 31, 2004 and 2003 was restated for presentation reclassifications. Bad Debt expense in 2004 and 2003 of $148,928 and $71,000, respectively, and Impairment losses in 2003 of $888,658 were moved from other income and

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VIEW SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003

12. RESTATEMENT OF FINANCIAL STATEMENTS (Continued)

expense to operating expenses. The effect was a decrease in operating losses of $148,928 and $959,658 for 2004 and 2003, respectively. There was no change to Net Income for either year.

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ITEM 8A. CONTROLS AND PROCEDURES

Our Chief Executive Officer, who also acts in the capacity of principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, he concluded that our disclosure controls and procedures were effective.

Also, our Chief Executive Officer determined that there were no changes made in our internal controls over financial reporting during the fourth quarter of 2004 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART III

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

DIRECTORS AND EXECUTIVE OFFICERS

The name, age, position and biographical information of our executive officers and directors are presented below. Our bylaws provide for a board of directors consisting of at least one director. The term of office of each director is until the next annual meeting of stockholders or until the director's earlier death, resignation, or removal. However, if his term expires, he continues to serve until his successor is elected and qualified. Executive officers are chosen by our board of directors and serve at its discretion. There are no family relationships between or among any of our directors and executive officers.

Name	Age	Position	Director Since
Gunther Than	57	Chief Executive Officer, Treasurer, and Director	September 1998
Michael L. Bagnoli	49	Secretary and Director	May 1999
Martin Maassen	62	Director	May 1999

Gunther Than - Gunther Than was appointed Treasurer in July 2003 and has served as our Chief Executive Officer since September 1998. He served as our President from September 1998 to May 2003 and had served intermittently as Chairman of the Board from September 1998 to September 2003. Mr. Than was the founder, President and CEO of Real View Systems, Inc., a company that developed compression technology and computer equipment. Real View Systems was acquired by View Systems in 1998. Mr. Than is the founder, President and CEO of View Technologies, Inc., a software development company, and he continues in those positions. Mr. Than is a graduate of the University of Wisconsin, with a dual bachelors degree in engineering physics and applied mathematics.

Michael L. Bagnoli - Mr. Bagnoli became a Director in May 1999 and was appointed Secretary in June 2004. He holds degrees as a medical doctor and a dental specialist. Since 1988 he has practiced dentistry in the specialty area of oral and masiofacial surgery for a physician group in Lafayette, Indiana. In his practice he introduced arthroscopy surgery along with the full scope of arthroplastic and total joint reconstruction. Mr. Bagnoli was founder, CEO and president of a successful medical products company, Biotek, Inc., which was sold in 1994.

Martin Maassen - Mr. Maassen became a Director in May 1999, he formerly served as our Chairman of the Board from April 2000 to September 2002. He is board-certified in internal medicine and emergency medicine and has served as a staff physician in the emergency departments of Jackson County, Deaconess, Union and St. Elizabeth hospitals located in Indiana. In addition to practicing medicine, he maintains an expertise in computer technologies and their medical applications.

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AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that we have one audit committee financial expert serving on our audit committee. Ms. Susan Mrzlack serves on our audit committee and is a certified public accountant and, pursuant to NASD Rule 4200(a)(15), we believe Ms. Mrzlack is independent.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and person who own more than ten percent of our common stock to file initial reports of ownership and reports of changes in ownership of our common stock with the SEC. Officers, directors and ten-percent or greater beneficial owners are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. Based upon review of the copies of such forms furnished to us during the fiscal year ended December 31, 2004, and representations from reporting persons that Forms 5 were not required, we believe Mr. Than filed late Forms 4 related to 3 transactions, Mr. Feldman filed late a Form 4 for one transaction, Mr. Smith filed late Forms 4 for two transactions, and Mr. Maassen filed late Forms 4 for one transaction and failed to file a Form 5 for one transaction.

CODE OF ETHICS

We have not adopted a code of ethics for our principal executive and financial officers. However, our management intends to promote honest and ethical conduct, full and fair disclosure in our reports to the SEC, and compliance with applicable governmental laws and regulations.

ITEM 10. EXECUTIVE COMPENSATION

The following table shows the compensation paid to our named executive officers in all capacities during the past three fiscal years.

SUMMARY COMPENSATION TABLE

		Annual Compensation	
Name and Principal Position	Fiscal Year	Salary	Other
Gunther Than	2004	$ 100,000 (1)	$ 120,000 (2)
CEO, Treasurer	2003	100,000 (1)	138,000 (3)
Director	2002	18,000	0

(1) Represents accrued salary.
(2) Represents 600,000 common shares issued as compensation.
(3) Represents 1,150,000 common shares issued as compensation.

COMPENSATION OF DIRECTORS

We compensate our independent directors with 5,000 shares of our common stock for each month of service. Messrs. Maassen and Bagnoli each accrued 60,000 shares for the year ended December 31, 2003 as independent directors as defined by NASD Fule 4200(a)(15). Mr. Maassen accrued 60,000 shares for the year ended December 31, 2004 and Mr. Bagnoli accrued 30,000 shares for the 2004 year. We have not issued the accrued shares to either director. We do not have any arrangement for cash compensation of our directors for the services they provide in their capacity as directors, including services for committee participation or for special assignments.

EMPLOYMENT CONTRACTS

Mr. Than entered into an employment agreement with View Systems and agreed to serve as our Chief Executive Officer, effective January 1, 2003. Mr. Than's employment is "at will" we may terminate him with or without cause. Either party may terminate his employment with a 30-day written notice or we may terminate him immediately and provide Mr. Than with severance pay in an amount equal to 30 days of salary as of the date of termination. Mr. Than will receive an annual salary of $100,000 and 50,000 shares of common stock for each month of service. Mr. Than has agreed to maintain the confidentiality of our trade secrets and not to compete with the company or to solicit any employee or client of the company during his employment and for a period of one year after any termination of his employment.

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 transaction 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 during 2003 he advanced $1,500. These amounts were paid back to him in the respective years and the balance owed him is $0.

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.

During the year ended December 31, 2002, we advanced $98,458 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. Mr. Than devotes approximately 12 hours a week to this company. 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. 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 2002 year to provide working capital to one another when necessary. These transactions between View Systems and View Technologies 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.

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)
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	View Systems, Inc. 2000 Restricted Share Plan (Incorporated by reference to registrant's definitive proxy statement on Schedule 14A, dated May 3, 2000)
10.3	Employment agreement between View Systems and Gunther Than, dated January 1, 2003. (Incorporated by reference to exhibit 10.3 to Form 10-KSB, filed April 14, 2004)

21.1	Subsidiaries (Incorporated by reference to exhibit 21.1 to 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.

/s/ Gunther Than

Date: February 2, 2006 By:____

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.

/s/ Gunther Than

Date: February 2, 2006 ____

Gunther Than, CEO, Principal Financial and Accounting Officer, Treasurer and Director

/s/ Martin J. Maassen

Date: February 2, 2006 ____

Martin J. Maassen
Director

/s/ Michael L. Bagnoli

Date: February 2, 2006 ____

Michael L. Bagnoli
Director and Secretary