CRITICAL THERAPEUTICS INC
Form 8-K
March 27, 2008

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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15 (D) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **March 27, 2008**

Critical Therapeutics, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**000-50767**	**04-3523569**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

60 Westview Street, Lexington, Massachusetts	**02421**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: **(781) 402-5700**

Not applicable
(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On March 27, 2008, Critical Therapeutics, Inc. (the "Company") announced its financial results for the three and twelve months ended December 31, 2007. The full text of the press release issued in connection with the announcement is attached as Exhibit 99.1 to this Current Report on Form 8-K.

The information in this Form 8-K, including Exhibit 99.1 attached hereto, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing by the Company under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

See Exhibit Index attached hereto.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: March 27, 2008 CRITICAL THERAPEUTICS, INC.

By: /s/ Thomas P. Kelly
Thomas P. Kelly
Chief Financial Officer and Senior
Vice President of Finance and
Corporate Development

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press release dated March 27, 2008.

oducts. During the first quarter of 2004 we increased our product lines when we entered into a cooperative research and development agreement with the Idaho Engineering Lab for our Visual First Responder. During the second quarter of 2004 we set up a complete manufacturing line in our Baltimore, Maryland facility for building, testing and further development of the Visual First Responder product. In August 2005 we contracted with Inter-Connect Electronics, Inc. to manufacture and assemble our Visual First Responder units. In 2004 we worked diligently to make engineering design changes to the SecureScan product to accommodate the price points required by competitive pressures. In 2005 we contracted with the University of Northern Florida to design new sensor boards for the SecureScan product which allowed us to reduce the installed sensor cost by a factor of four. The new lower costs allow us to offer price points to the market which compete directly with traditional metal detectors. We believe the new reduced price points and the enhanced interface abilities of our products will allow us to be more competitive. We also contracted with Sports Field Specialties, LLC, an experienced manufacturer, to build the SecureScan product line. These manufacturing agreements allowed us to reduce our backlog for our product lines and decreased our labor cost. During 2005 we have continued to provide live demonstrations of our SecureScan product at sporting and entertainment venues, expos, and at state corrections facilities. We also have provided demonstrations of our Visual First Responder for police and civil support teams. These demonstrations have raised interest in our products and resulted in increased orders of our products. During 2005 we continue to establish new partnerships, add active resellers and dealers and we hired four sales representatives to build a United States domestic network for the sale and distribution of our products within the 48 states. However, we cannot assure you that we will be able to develop these sales and distribution channels to a level 8 which will result in increased revenues or continued profitability. For the next twelve months our primary challenge will be to more fully develop our sales and distribution network for the United States. We intend to increase sales by offering demonstrations of our products in specific geographical areas to potential customers or at region specific trade shows, such as sheriff's conventions, court administrators' meetings, civil support team, state police shows and dealers shows. When a demonstration results in a sale of one of our products, then we will attempt to expand that market by contacting other potential customers in the area, such as, correctional facilities, courthouses and other municipal buildings. After several sales in a particular geographic area management will decide whether it is appropriate to open a sales and service office. LIQUIDITY AND CAPITAL RESOURCES We have incurred losses for the past two fiscal years and had a net loss of $1,186,478 at December 31, 2004, and a net loss of $454,650 for the nine month period ended September 30, 2005. At December 31, 2004, we were in default on our debt obligations and did not have financing commitments in place to meet our expected cash requirements. Our auditors have expressed substantial doubt that we can continue as a going concern based on these operating losses. Management intends to focus our efforts on development of our sales and marketing channels in order to increase our revenues. However, management also believes we will incur operating losses for the near future and will need to rely on private financing to satisfy our cash requirements. While our revenues are increasing, we are unable to satisfy our operating expenses. Net cash used by operating activities was $335,863 for the nine month period ended September 30, 2005 (the "2005 nine month period") compared to $592,205 for the nine month period ended September 30, 2004 (the "2004 nine month period"). For the long term, management expects that the development of our sales and marketing channels will increase our revenues; however, we will need to continue to raise additional funds. Historically, private financing has covered our cash shortfalls. Net cash provided by financing activities for the 2004 nine month period was $672,185, with $591,685 of that amount related to funds advanced by stockholders and $80,500 proceeds from the sale of our common stock. Net cash provided by financing activities for the 2005 nine month period was $188,700 in proceeds from sales of our common stock. We estimate that we will require additional financing of approximately $500,000 to meet our needs for the next twelve months. Management believes that it will be essential to continue to raise additional capital, both internally and externally, to compete in our markets. We cannot assure you that we will be able to obtain financing on favorable terms and we may be required to further reduce expenses and scale back our operations. COMMITMENTS AND CONTINGENT LIABILITIES Our base rent for operating leases related to our principal office and manufacturing facility is approximately $2,870 per month, with an annual rent escalator of 3%. At December 31, 2004, future minimum payments for operating leases related to our office and manufacturing facility were $19,964 through 2006. Our total current liabilities of $310,885 at September 30, 2005 included accounts payable of $73,047, accrued expenses of $15,238, accrued interest of $74,100 and notes payable of $148,500. In September 2005, we negotiated the payment of notes payable of $237,357 that we owed to Niki Group, LLC and Compass Equity Partners LLC. Three accredited investors each paid a portion of the total debt and received shares of our common stock in consideration. Our board of directors authorized the issuance of an aggregate of 2,390,000 shares to the three investors. Starr Consulting, Inc. received 597,500 shares for $60,000 paid on the debt; Power Network, Inc. received 597,500 shares for $60,000 paid on the debt; and YT2K, Inc. received 1,195,000 shares for $120,000 paid on the debt. 9 OFF-BALANCE SHEET ARRANGEMENTS None. CRITICAL ACCOUNTING POLICIES The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates of particular significance in our financial statements include annual tests for impairment of our licenses. These estimates could likely be materially different if events beyond our control, such as changes in government regulations that affect the usefulness of our licenses or the introduction of new technologies that compete directly with our licensed technologies affect the value of our licenses. We first determine the value of the license using a projected cash-flow analysis to determine the present value of cash flows. The test is done using assumptions as to various scenarios of increases and decreases in the revenue stream and applying a discount rate of 6%. If the value achieved under these various methods is less than the carrying value of the assets then it is considered that an impairment has occurred and the asset's carrying value is adjusted to reflect the impairment. Management also makes estimates on the useful life of our licenses based on the following criteria: .. Whether other assets or group of assets are related to the useful life of the licenses, .. Whether any legal, regulatory or contractual provisions will limit the use of the assets, .. We evaluate the cost of maintaining the license, .. We consider the possible effects of obsolescence, and .. Whether there is maintenance or any other costs associated with the license. RESULTS OF OPERATIONS The following discussions are based on the unaudited consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the three and nine month periods ended September 30, 2005 and 2004 and should be read in conjunction with the financial statements, and notes thereto, included in this report at Part I, Item I, above. Summary Comparison of Three and Nine Month Period Operations -- Three month Three month Nine month Nine month period ended period ended period ended period ended Sept. 30, 2005 Sept. 30, 2004 Sept. 30, 2005 Sept. 30, 2004 -------------- -------------- -------------- -------------- Revenues, net $ 338,941 $ 188,029 $ 820,497 $ 380,423 Cost of sales 109,541 32,765 339,049 138,963 Gross profit 229,400 155,264 481,448 241,460 Total operating expenses 496,712 295,037 927,599 998,099 Total other income (expense) (2,961) (2,958) (8,499) (31,269) Net income (loss) (270,273) (142,731) (454,650) (787,908) Net earnings (loss) per share $ (0.00) $ (0.00) $ (0.01) $ (0.01) 10 Revenue is considered earned when the product is shipped to the customer. The concealed weapons system and the digital video system each require installation and training. Training is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training. Our marketing efforts have increased sales of our SecureScan and Visual First Responder and resulted in revenues for the three month period ended September 30, 2005 (the "2005 third quarter") increasing 180.1% compared to the three month period ended September 30, 2004 (the "2004 third quarter"). Revenues for the nine month period ended September 30, 2005 ("2005 nine month period") increased 115.7% compared to the nine month period ended September 30, 2004 ("2004 nine month period"). Management anticipates that increases in revenues will continue as we develop our sales and marketing channels and establish local sales and service offices in geographic areas that we have already completed sales. The breakdown of revenues by product line follows: Nine month period Nine month period Sept. 30, 2005 Sept. 30, 2004 ---------------- ---------------- Secure Scan $ 413,149 $ 54,499 ViewMaxx 41,520 128,906 Visual First Responder 360,940 192,320 Service 4,888 4,698 Our backlog at December 31, 2005, was $200,000, down from $700,000 at September 30, 2005. The reduction in backlog is primarily a result of outsourcing our manufacturing. Our back log is more manageable and is in part carried by the third party manufacturers because purchase orders are placed with the manufacturers and they receive payment when we receive payment from the customer. However, the delay between the time of the purchase order and shipping of the product results in a delay of recognition of the revenue from the sale. This delay in recognition of revenues will continue as part of our results of operations. While revenues increased in the 2005 periods, cost of sales also increased 234.3% for the 2005 third quarter compared to the 2004 third quarter and they increased 144.0% for the 2005 nine month period compared to the 2004 nine month period. Cost of sales increased in the 2005 periods as a result of the expenses related to expanding our sales and distribution channels including the cost of products for demonstrations, travel to shows and increased dealer relations, and promotional materials. Management anticipates that cost of sales will increase as our marketing efforts continue but that the relative margins of each product line should remain relatively the same. Despite the increase in cost of sales, the increased revenues resulted in a gross profit increase of 47.7% for the 2005 third quarter compared to the 2004 third quarter and an increase of 99.4% for the 2005 nine month period compared to the 2004 nine month period. For the 2005 third quarter total operating expense increased 68.4% compared to the 2004 third quarter. The increase in the 2005 third quarter was primarily a result of additional business development expenses related to expanding our markets and increased professional fees related to contracts with four engineers. For the 2005 nine month period total operating expense decreased 7.1% compared to the 2004 nine month period. This decrease was primarily the result of a 73.1%, decrease in general and administrative expenses and management expects these expenses to remain relatively the same, but as we continue to develop our marketing channels expenses related to business development may increase. Total other expense for the 2005 and 2004 comparable periods was related to interest on loans. Management anticipates interest expense to increase as a result of the subscription agreement with the Subscribers, described above, and our need to seek further private financing in the future. As a result of the above, our net loss increased 89.4% for the 2005 third quarter compared to the 2004 third quarter, but decreased 42.3% for the 2005 nine month period compared to the 2004 nine month period. 11 Balance Sheet The following chart summarizes our balance sheet at September 30, 2005 and December 31, 2004 Summary Balance Sheet --------------------- For nine month period ended For the year ended September 30, 2005 December 31, 2004 -------------------- ------------------ Cash and cash equivalents $ 4,109 $ 173,486 Total current assets 177,279 343,025 Total assets 1,937,420 2,085,458 Total current liabilities 310,885 580,824 Retained earnings (Deficit) (16,146,146) (15,691,496) Total stockholders equity $ 1,626,535 $ 1,504,634 Our total assets decreased at September 30, 2005, primarily as a result of decreases in cash and inventory. Total current liabilities decreased primarily due to decreases in accounts payable as a result of the pay-off of notes payable totaling $237,357 by Starr Consulting, Inc., Power Network, Inc. and YT2K, Inc. FACTORS AFFECTING FUTURE PERFORMANCE Our independent auditors have expressed concern whether we can continue as a going concern. We have incurred ongoing operating losses and do not currently have financing commitments in place to meet expected cash requirements for the next twelve months. We are unable to fund our day-to-day operations through revenues alone and management believes we will incur operating losses for the near future while we expand our sales channels. While we have expanded our product line and expect to establish new sales channels, we may be unable to increase revenues to the point that we attain and are able to maintain profitability. We need additional external capital and may be unable to raise it. Based on our current growth plan we believe we may require approximately $500,000 in additional financing within the next twelve months to develop our sales channels. Our success will depend upon our ability to access equity capital markets and borrow on terms that are financially advantageous to us. However, we may not be able to obtain additional funds on acceptable terms. If we fail to obtain funds on acceptable terms, then we might be forced to delay or abandon some or all of our business plans or may not have sufficient working capital to develop products, finance acquisitions, or pursue business opportunities. If we borrow funds, then we could be forced to use a large portion of our cash reserves, if any, to repay principal and interest on those loans. If we issue our securities for capital, then the interests of investors and stockholders will be diluted. We are currently dependent on the efforts of resellers for our continued growth and must expand our sales channels to increase our revenues and further develop our business plans. We are in the process of developing and expanding our sales channels, but we expect overall sales to remain down as we develop these sales channels. We are actively recruiting additional resellers and dealers and have hired in-house sales personnel for regional and national sales. We must continue to find other methods of distribution to 12 increase our sales. If we are unsuccessful in developing sales channels we may have to abandon our business plan. We may not be able to compete successfully in our market because we have a small market share and compete with large national and international companies. We estimate that we have less than a 1% market share of the surveillance and weapons detection market. We compete with many companies that have greater brand name recognition and significantly greater financial, technical, marketing, and managerial resources. The position of these competitors in the market may prevent us from capturing more market share. We intend to remain competitive by increasing our existing business through marketing efforts, selectively acquiring complementary technologies or businesses and services, increasing our efficiency, and reducing costs. Our revenues are dependent in part upon our relationships and alliances with government agencies and partners. While we own exclusive licenses for the SecureScan technology, we are dependent upon the continuation of the ongoing contract between the Department of Energy and National Institute of Justice for continuations and improvements to the concealed weapons detection technology. We are also reliant upon the Department of Energy and National Institute of Justice for continuations and improvements to the Visual First Responder. If either of these entities should discontinue its operations or research and development we may lose our competitive edge in our market. We must successfully introduce new or enhanced products and manage the costs associated with producing several product lines to be successful. Our future success depends on our ability to continue to improve our existing products and to develop new products using the latest technology that can satisfy customer needs. For example, our short term success will depend on the continued acceptance of the Visual First Responder and the SecureScan portal product line. We cannot be certain that we will be successful at producing multiple product lines and we may find that the cost of production of multiple product lines inhibits our ability to maintain or improve our gross profit margins. In addition, the failure of our products to gain or maintain market acceptance or our failure to successfully manage our cost of production could adversely affect our financial condition. Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could lead to loss of investor confidence in our reported financial information. Pursuant to proposals related to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 10-KSB for the fiscal year ending December 31, 2007, we will be required to furnish a report by our management on our internal control over financial reporting. If we cannot provide reliable financial reports or prevent fraud, then our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly. In order to achieve compliance with Section 404 of the Act within the prescribed period, we will need to engage in a process to document and evaluate our internal control over financial reporting, which will be both costly and challenging. In this regard, management will need to dedicate internal resources, engage outside consultants and adopt a detailed work plan. During the course of our testing we may identify deficiencies which we may not be able to remediate in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. 13 ITEM 3. CONTROLS AND PROCEDURES We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC. This information is accumulated and communicated to our executive officers to allow timely decisions regarding required disclosure. Our Chief Executive Officer, who also acts in the capacity of principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. He concluded that our disclosure controls and procedures were effective. However, subsequently, he identified a weakness in our disclosure controls and procedures with respect to accounting entries made in 2004 related to loans receivable and payable to our executive officers which resulted in a restatement of our 2004 financial statements. Also, our Chief Executive Officer determined that there has been no change in our internal control over financial reporting during the third quarter 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. PART II: OTHER INFORMATION -------------------------- ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS The following discussion describes securities sold by View Systems without registration through November 2, 2005 that have not been previously reported. On November 2, 2005, we issued 85,000 shares to Michael Paduano for $12,750 and 175,000 shares to David Hume for $26,250. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act. On October 4, 2005, we issued an aggregate of 2,390,000 common shares to three investors for conversion of debt totaling approximately $240,000. We issued 1,195,000 shares valued at approximately $120,000 to YT2K, Inc. and 597,500 shares valued at $60,000 each to Starr Consulting, Inc. and Power Network, Inc. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section

4(2) of the Securities Act. On October 4, 2005, we issued 1,210,000 shares to MBA Investors, Inc. in consideration for corporate development consulting services valued at approximately $120,000. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act. On September 19, 2005, we issued 60,000 shares to Charles Nelson for services rendered to us. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act. On August 22, 2005, we issued 50,000 shares to Cheryl Stamp for $10,000. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act. ITEM 6. EXHIBITS Part I Exhibits 31.1 Chief Executive Officer Certification 31.2 Principal Financial Officer Certification 32.1 Section 1350 Certification Part II Exhibits 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) 14 3.2 By-Laws of View Systems (Incorporated by reference to exhibit 3.2 to Form 10-QSB filed November 14, 2003) 4.1 View Systems 2005(B) Professional/Consultant Compensation Plan, dated November 7, 2005 (Incorporated by reference to exhibit 4.1 to Form S-8, filed November 8, 2005) 10.1 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) 10.2 Lease agreement between View Systems and MIE Properties, Inc., dated August 3, 2005 (Filed November 10, 2005) 21.1 Subsidiaries (Incorporated by reference to exhibit 21.1 to Form 10-KSB, filed March 31, 2003) SIGNATURES In accordance with the requirements of the Securities 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: April 27, 2006 By: ____ Gunther Than Chief Executive Officer, Treasurer, Director, Principal Financial and Accounting Officer /s/ Michael L. Bagnoli Date: April 27, 2006 By: ____ Michael L. Bagnoli Secretary and Director 15