

VIEW SYSTEMS INC  
Form 10QSB  
May 14, 2007

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

**FORM 10-QSB**

QUARTERLY REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2007

TRANSITION REPORT UNDER 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

(State of incorporation)

59-2928366

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

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

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(Address of principal executive offices)

(410) 242-8439

(Issuer's telephone number)

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  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 10, 2007 View Systems, Inc. had 97,173,422 shares of common stock outstanding.

Transitional small business disclosure format: Yes  No

VIEW SYSTEMS, INC.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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

*In this report references to View Systems, we, us, and our refer to View Systems, Inc. and its subsidiaries.*

**PART I: FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

The financial information set forth below with respect to our statements of operations for the three month period ended March 31, 2007 and the year ended December 31, 2006 is unaudited. This financial information, in the opinion of management, includes all adjustments consisting of normal recurring entries necessary for the fair presentation of such data. The results of operations for the three month period ended March 31, 2006 are not necessarily indicative of results to be expected for any subsequent period.

**VIEW SYSTEMS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEET****AS OF MARCH 31, 2007 AND DECEMBER 31, 2006 (UNAUDITED)**

	<b><u>ASSETS</u></b>	
	March 31, 2007	December 31, 2006
Current Assets		
Cash	\$ 7,302	\$ 48,233
Accounts Receivable(Net of Allowance of \$1,000)	223,393	306,247
Inventory	64,467	23,865
Total Current Assets	295,163	378,345
Property & Equipment (Net)	30,692	30,742
Other Assets		
Licenses	1,180,782	1,207,022
Due from Affiliates	125,476	122,476
Deposits	7,528	7,328
Total Other Assets	1,313,786	1,336,826

Total Assets	\$ 1,639,641	\$ 1,745,913
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**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current Liabilities		
Accounts Payable	\$ 490,653	\$ 421,908
Accrued Expenses	40,960	35,452
Accrued Interest	115,036	100,860
Accrued Royalties	93,750	75,000
Loans from Shareholder	287,530	113,175
Notes Payable	587,996	592,296
Total Current Liabilities	1,615,925	1,338,691
Long-term Debt		
Accounts payable	30,000	90,000
Total Liabilities	1,645,925	1,428,691
Stockholders' Equity (Deficit):		
Preferred Stock, Authorized 10,000,000 Shares, \$.01 Par Value, Issued and outstanding 7,171,725	71,717	71,717
Common Stock, Authorized 100,000,000 Shares, \$.001 Par Value, Issued and Outstanding 98,398,422	98,399	98,399
Additional Paid in Capital	19,662,903	19,662,903
Retained Earnings (Deficit)	(19,839,303)	(19,515,797)
Total Stockholders' Equity (Deficit)	(6,284)	317,222
Total Liabilities and Stockholders' Equity	\$ 1,639,641	\$ 1,745,913

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





## VIEW SYSTEMS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

AS OF MARCH 31, 2007 (UNAUDITED)

	For the Three Months Ended March 31,	
	2007	2006
Revenues, Net	\$ 250,706	\$ 402,575
Cost of Sales	141,509	207,282
Gross Profit (Loss)	109,197	195,293
Operating Expenses		
Business Development	26,502	39,677
General & Administrative	140,121	139,152
Professional Fees	72,037	51,295
Salaries & Benefits	178,276	205,206
Total Operating Expenses	416,936	435,330
Net Operating Income (Loss)	(307,739)	(240,037)
Other Income(Expense)		
Interest Expense	(15,767)	(5,346)
Total Other Income(Expense)	(15,767)	(5,346)
Net Income (Loss)	\$ (323,506)	\$ (245,383)
Net Income (Loss) Per Share	\$ (0.00)	\$ (0.00)
Weighted Average Shares Outstanding	98,398,422	90,875,752

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

## VIEW SYSTEMS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT)

AS OF MARCH 31, 2007 (UNAUDITED)

	Shares	Amount	Common Shares	Common Amount	Additional Paid-in Capital	Retained Earnings (Deficit)
Balance, December 31, 2005	7,171,725	\$71,717	90,775,752	\$90,776	\$19,293,804	\$(18,375,345)
January - March 2006 -shares issued for cash	-	-	100,000	100	9,900	-
January - March 2006 - shares issued for services	-	-	160,000	160	15,840	-
April - June 2006 - shares issued for cash	-	-	60,000	60	5,940	-
April - June 2006 - shares issued for services	-	-	1,075,000	1,075	121,125	-
Reclassification of a receipt of proceeds from a loan which was previously reflected as a payment for stock	-	-	(333,330)	(333)	(33,000)	-
July - September 2006 - shares issued for cash	-	-	500,000	500	24,500	-
October - December 2006 - shares issued for cash	-	-	5,611,000	5,611	266,189	-
October - December 2006 - shares issued for services	-	-	120,000	120	5,880	-
October - December 2006 - shares issued						

as payment a note payable including accrued interest	-	-	330,000	330	35,107	-
Costs associated with raising capital	-	-	-	-	(82,382)	-
Net loss for the year ended December 31, 2006	-	-	-	-	-	(1,140,452)
Balance, December 31, 2006	7,171,725	\$71,717	98,398,422	\$98,399	\$19,662,903	\$(19,515,797)
Net loss for the period ended March 31, 2007	-	-	-	-	-	(323,506)
Balance, March 31, 2007	7,171,725	\$71,717	98,398,422	\$98,399	\$19,662,903	\$(19,839,303)

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

## VIEW SYSTEMS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

AS OF MARCH 31, 2007 (UNAUDITED)

	For the Three Months Ended March 31,	
	2007	2006
<b>Cash Flows from Operating Activities:</b>		
Net Income (Loss)	\$ (323,506)	\$ (245,383)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operations:		
Depreciation & Amortization	28,390	29,240
Stock issued for services	-	16,000
Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	82,854	251,878
Inventories	(40,602)	(124,919)
Deposits	(200)	(2,355)
Increase (Decrease) in:		
Accounts Payable	8,744	96,830
Accrued Expenses	5,508	(13,220)
Accrued Interest	14,176	5,083
Accrued Royalties	18,750	(18,750)
Net Cash Provided (Used) by Operating Activities	(205,886)	(5,596)
<b>Cash Flows from Investing Activities:</b>		
Purchases of equipment	(2,100)	(11,391)
Net Cash Used In Investing Activities	(2,100)	(11,391)
<b>Cash Flows from Financing Activities:</b>		
Funds advanced (to) from affiliate	(3,000)	(8,300)
Funds provided by issuance of notes payable	-	200,000
Principal payments on notes payable	(4,300)	-

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Loans from Shareholders	174,355	-
Proceeds from stock issuance	-	10,000
Net Cash Provided by Financing Activities	167,055	201,700
Increase (Decrease) in Cash	(40,931)	184,713
Cash and Cash Equivalents at Beginning of Period	48,233	8,708

Cash and Cash Equivalents at End of Period	\$	7,302	\$	193,421
Cash Paid For:				
Interest	\$	-	\$	-
Income Taxes	\$	-	\$	-
Non-Cash Investing and Financing Activities:				
Stock issued in payment of accounts payable	\$	-	\$	-

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

**VIEW SYSTEMS, INC. AND SUBSIDIARIES**

**NOTES TO THE CONDENSED FINANCIAL STATEMENTS**

**AS OF MARCH 31, 2007 (UNAUDITED)**

GENERAL

View Systems, Inc. (the Company) has elected to omit substantially all footnotes to the financial statements for the three months ended March 31, 2007 since there have been no material changes (other than indicated in other footnotes) to the information previously reported by the Company in their Annual Report filed on the Form 10-KSB for the twelve months ended December 31, 2006.

UNAUDITED INFORMATION

The information furnished herein was taken from the books and records of the Company without audit. However, such information reflects all adjustments which are, in the opinion of management, necessary to properly reflect the results of the interim period presented. The information presented is not necessarily indicative of the results from operations expected for the full fiscal year.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

### EXECUTIVE OVERVIEW

Our product lines are related to visual surveillance, intrusion detection and physical security. Our principal products include:

SecureScan Concealed Weapons Detection System a walk-through concealed weapons detector which uses passive magnetic sensing technology and location algorithms to suggest the location of certain kinds of threat objects or other undesirable objects such as cell phones or digital cameras. The control unit for this patented product combines the magnetic and video information in a manner that allows it to be stored and displayed for easy recognition and auditory warning. The software system's architecture allows for remote monitoring, networking and integration of biometrics and access control devices.

Biometric analysis such as fingerprint verification or facial recognition can be and have been incorporated into SecureScan. The control unit can be programmed to automatically search against most wanted or outstanding warrant databases. Access control methods such as magnetic door locks can and have been incorporated

Central monitoring or video command centers which have and can be combined with the SecureScan product.

Passport and driver's license verification for positive identification in correctional facilities, large government and commercial office buildings have been and are currently being combined with the SecureScan portal.

A patented integrated and networkable neutron and gamma-ray radiation sub-system which is being integrated into other detection systems.

ViewMaxx Digital Video products a high-resolution, digital video recording and real-time monitoring system.

Visual First Responder a lightweight, wireless camera system housed in a tough, waterproof flashlight body. The camera systems sends real-time images back to a video monitor at a command post located outside the exclusion zone or contaminated area. The Visual First Responder is able to transmit high quality video in the most difficult environments. It uses a triple-diversity antenna system that minimizes signal distortion in difficult environments. A multitude of these systems have been deployed by the Department of Defense in combat areas.

Management believes that heightened attention to personal threats, potential large scale destruction and theft of property in the United States along with spending by the United States government on Homeland Security will continue to drive growth in the market for security products.

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

During 2005 we continued to establish new partnerships, add active resellers and dealers and we hired four sales representatives to build a United States domestic network for the sale and distribution of our products within the 48 states. These developments have led to increased sales while at the same time decreasing the cost of products. We intend to develop these sales and distribution channels to a level that will result in increased revenues and continued profitability. We have completed sales in the correctional facility market, some Homeland Security departments and some sports venues.

During 2006 we previewed our Biometric SecureScan III which includes positive identification and biometric verification capabilities, expanded our dealers and resellers in the Mid-West and Southwest region of the United States, introduced two new products. The SecureScan III includes a fingerprint identification and verification system, state-issued identification scanning device for driver's licenses and passports, and a visitor badge printing system. The new products introduced in 2006 include a product offering marketed as the LAW, which is a handheld metal detector designed to improve police officer safety and a new wireless network detection system that senses cell phones and recognizes their identity, can intercept their transmissions and/or pass the signal on or return network busy signals. We do not manufacture the LAW product but use it as an adjunct to the SecureScan and sell it separately. The wireless network detection system is currently a military product and we are intending to deploy it exclusively in the correctional facilities market. Response to and interest in this technology has been from high security situations. In addition, we developed a MMV (Multi-mission Mobile Video) product in response to market requests for miniaturization of the video product VFR. This product will be released in the second or third quarter of 2007. Our research indicates that the market potential of the MMV is ten-fold that of the VFR. We expect to deliver more than 50 units of the MMV before the end of 2007.

We have also continued to explore international markets in the Mid-East and Thailand and have to establish some international relationships such as distributors and dealers. We are continuing to develop the integration of nuclear sensor technology into our SecureScan and our Visual First Responder products to sense enriched low and high grade nuclear material. This technology will allow our products to detect enriched nuclear material that may be used to build nuclear based explosive devices or for creating radiological disasters, such as dirty bombs. In addition, this technology will be used in stand alone handheld portable detectors or network environments where smoke detectors or motion sensing including intelligent video systems have been deployed. This technology is based on existing patents owned by the United States government and is licensed exclusively to View Systems for the purpose of commercializing it.

For the next twelve months our primary challenge will be to continue to develop our sales and distribution network into additional regions and markets in the United States and abroad. We have been and plan to continue to increase sales by offering demonstrations of our products in specific geographical areas to potential customers or at region specific trade shows, such as



sheriff s conventions, court administrators meetings, civil support team, state police shows and dealers shows. When a demonstration results in a sale of one of our products, then we attempt to expand that market by contacting other potential customers in the area, such as, correctional facilities, courthouses and other municipal buildings. After several sales in a particular geographic area management will decide whether it is appropriate to open a sales and service office.

In the short term, management plans to raise funding through sales of our common stock for fulfillment (manufacturing, packaging and shipment), which will set the stage for future orders becoming self funding. Then the next phase of our business plan is to raise additional funds through common stock offerings to provide working capital to finance several acquisitions and the integration of new technologies and businesses.

We have identified a company for acquisition that has just received a patent for an encryption engine which secures wireless and wired transactions (voice, data and video) from hackers and intruders. The technology is a market disruptive technology which supersedes any other encryption and security methods currently used. Both inventors have been career encryption specialists with the federal government at the highest and most secure levels. We have also identified a second company which is a Department of Defense service provider that is based in the Mid-east.

This company has significant revenues and a cadre of consultants that will be of great benefit during the deployment of our products in that region. We are in the initial stages of negotiations for these acquisitions and we have not entered into a definite agreement with either company.

We have also entered into an agreement with the Bahrain Investment Development Bank , which is providing support for the establishment of a distribution and manufacturing entity. We will be providing security screening for premier events in the gulf countries such as Formula 1 racing and venues ranging from UAE, Saudia Arabia and Bahrain. The agreement gives View Systems access to dealerships and agents worldwide

## 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 three month period ended March 31, 2007 and 2006 and should be read in conjunction with the financial statements, and notes thereto, included with this report at Part I, Item 1, above.



## SUMMARY COMPARISON OF OPERATING RESULTS

Three Month Period Ended March 31,

20072006

Revenues, net	\$ 250,706	\$ 402,575
Cost of sales	141,509	207,282
Gross profit	109,197	195,293
Total operating expenses	416,936	435,330
Loss from operations	(307,739)	(240,037)
Total other expense	(15,767)	(5,346)
Net loss	(323,506)	(245,383)
Net loss per share	\$ (0.00)	\$ (0.00)

Revenue is considered earned when the product is shipped to the customer. The concealed weapons system and the digital video system each require installation and training. Training is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training.

Our marketing efforts have increased sales of our SecureScan and Visual First Responder and resulted in increased revenues for 2006 compared to 2005. Management anticipates that increases in revenues will continue as we develop our sales and marketing channels and establish local sales and service offices in geographic areas where we have already completed sales. The increased net revenues for 2006 resulted in an increased gross profit for 2006 compared to 2005 while decreasing our expenses to consultants.

The following chart provides a breakdown of our sales for the 2007 and 2006 three month periods.

	<u>March 31, 2007</u>	<u>March 31, 2006</u>
SecureScan	\$ 213,716	\$ 139,900
ViewMaxx Digital Video products	5,423	3,980
Visual First Responder	17,887	249,720
Service, installation and training	\$ 13,690	\$ 8,975





Our backlog at March 31, 2007, was \$780,000 up from \$300,000 at March 31, 2006. The delay between the time of the purchase order and shipping of the product results in a delay of recognition of the revenue from the sale. This delay in recognition of revenues will continue as part of our results of operations.

Cost of sales include costs of products sold and shipping costs and were approximately 56% of net revenues for the first three months of 2007, an [increase] from 51% from the same period in 2006. The increase from period to period was primarily the result of [decreased price points for an increased volume of units shipped. Management anticipates that the relative margins of each product line should remain relatively the same during rest of 2007.]

For the first three months of 2007 total operating expense decreased compared to the same period in 2006. The decrease during the first quarter of 2007 was primarily a result of [a reduction in professional fees expense recognized related to agreements and consulting contracts with third parties from \$1,774,696 to \$286,229.]

## LIQUIDITY AND CAPITAL RESOURCES

We have incurred net losses for the past two fiscal years and had a net loss of \$323,506 for the three month period ended March 31, 2007. Our net revenues from product sales are not sufficient to cover our operating expenses. Our auditors have expressed substantial doubt that we can continue as a going concern unless we obtain financing.

Historically, we have relied on revenues, debt financing and sales of our common stock to satisfy our cash requirements. For the three month period ended March 31, 2007 (the 2007 three month period ) we received cash from revenues of \$250,706 and \$174,355 from stockholder advances from Gunther Than, our CEO.

Management intends to finance our 2007 operations primarily with the revenue from product sales and any cash short falls will be addressed through equity financing, if available. Management expects revenues will continue to increase but not to the point of profitability in the short term. We will need to continue to raise additional capital, both internally and externally, to cover cash shortfalls and to compete in our markets. At our current revenue levels management believes we will require an additional \$500,000 during the next 12 months to satisfy our cash requirements of approximately \$100,000 per month. These operating costs include cost of sales, general and administrative expenses, salaries and benefits and professional fees related to contracting engineers. We have insufficient financing commitments in place to meet our expected cash requirements for 2007 and we cannot assure you that we will be able to obtain financing on favorable terms. If we cannot obtain financing to fund our operations in 2007, then we may be required to reduce our expenses and scale back our operations.

COMMITMENTS AND CONTINGENT LIABILITIES

The Company leases office and warehouse space in Baltimore, MD under a three-year non-cancellable operating lease, expiring October 2008. Base rent is \$2,872 per month with an annual rent escalator of 3%. The Company also leases warehouse and office space in

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Jacksonville, FL under a two-year non-cancellable operating lease, expiring in January 2008. Base rent is \$1,506 with an annual rent escalator of 4%. The Company also rents additional space in Baltimore, MD and Lomita, CA under leases which are not long term. Rent expense increased 4% over last year. At March 31, 2007, future minimum payments for operating leases related to our office and manufacturing facilities were \$61,350 through December 31, 2008.

Our total current liabilities increased to \$1,615,925 at March 31, 2007 compared to \$1,338,691 at December 31, 2006. Our total current liabilities at March 31, 2007 included accounts payable of \$490,653, accrued expenses of \$40,960, accrued interest of \$115,036, accrued royalties of \$93,750, loans from a shareholder of \$287,530 and notes payable of \$587,996. Our total current liabilities at December 31, 2006 included accounts payable of \$421,908, accrued expenses of \$35,452, accrued interest of \$100,860, accrued royalties of \$75,000, loans from a shareholder of \$113,175 and notes payable of \$592,296.

Our notes payable consists of the following:

.  
A note in the principal amount of \$110,000 payable to the former shareholder of Xyros Technology, Inc. The note is due on demand with interest at 10% per annum. As of December 31, 2004, we are in default on the note which was due in 1999. We negotiated to repay the loan as cash flows permit and this debt remains outstanding. We are in doubt about the intentions, will or ability of the note holder to attempt collection of this debt. At this time, the entity is no longer in existence and we have been unable to locate the principals of that company.

.  
We issued notes in the aggregate amount of \$343,093 pursuant to a Subscription Agreement, dated December 23, 2005, with three accredited investors; Starr Consulting, Inc., Active Stealth, LLC, and KCS Referral Service LLC (the Subscribers). We agreed to sell and the Subscribers agreed to purchase convertible promissory notes and warrants. However, on January 6, 2006, the Subscribers consented to the removal of the warrants from the subscription agreement, with the understanding that the warrants would be reinstated after we increased our authorized common stock and the shares underlying the warrants would be registered at a later date. The Subscribers did not receive any other additional consideration for the removal of the warrants. The Subscribers agreed to purchase up to an aggregate of \$500,000 of 8% promissory notes convertible into shares of our common stock at a per share conversion price of \$0.10. The notes were originally to be due and payable by December 31, 2006. The Subscribers agreed to purchase the promissory notes over a 5 month period in \$100,000 per month installment; however, the investment threshold was never achieved, so the conversion option of the notes was terminated and the loans became due on demand with interest at 8% per annum. As of the date of this report the investors have demanded repayment of these loans. The company is taking steps to negotiate these defaults.

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An unsecured loan from a stockholder in the aggregate amount of \$39,203, which is being paid in monthly installments of \$2,512, which includes interest at 10%.

An unsecured loan from a stockholder in the principal amount of \$100,000 which was due in full on November 1, 2007 with interest at 7%. The note is convertible into

shares of common stock at the option of lender at the rate of \$0.075 per share of common stock. If converted in full this amounts to 1,333,333 shares.

#### OFF-BALANCE SHEET ARRANGEMENTS

Under SEC regulations, we are required to disclose our off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. An off-balance sheet arrangement means a transaction, agreement or contractual arrangement to which any entity that is not consolidated with us is a party, under which we have:

.

Any obligation under certain guarantee contracts;

.

Any retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;

.

Any obligation under a contract that would be accounted for as a derivative instrument, except that it is both indexed to our stock and classified in stockholder's equity in our statement of financial position; and

.

Any obligation arising out of a material variable interest held by us in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to us, or engages in leasing, hedging or research and development services with us.

As of the date of this Report, the Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.



## FACTORS AFFECTING FUTURE PERFORMANCE

You should carefully consider the risks, uncertainties and other factors described below because they could materially and adversely affect our business, financial condition, operating results and prospects and could negatively affect the market price of our Common Stock. Also, you should be aware that the risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we do not yet know of, or that we currently believe are immaterial, may also impair our business operations and financial results. Our business, financial condition or results of operations could be harmed by any of these risks. The trading price of our Common Stock could decline due to any of these risks, and you may lose all or part of your investment.

In assessing these risks you should also refer to the other information contained in or incorporated by reference to this Quarterly Report on Form 10-QSB, including our financial statements and the related notes.

**We have experienced historical losses and a substantial accumulated deficit. If we are unable to reverse this trend, we will likely be forced to cease operations.**

We have incurred losses for the past two fiscal years and had a net loss of \$323,506 at March 31, 2007. In addition, at March 31, 2007, View Systems, Inc. had a retained earnings deficit of \$19,839,303. Our operating results for future periods will include significant expenses, including new product development expenses, potential marketing costs, professional fees and administrative expenses, and will be subject to numerous uncertainties. As a result, we are unable to predict whether we will achieve profitability in the future, or at all.

**We have a working capital deficit and significant capital requirements. Since we will continue to incur losses until we are able to generate sufficient revenues to offset our expenses, investors may be unable to sell our shares at a profit or at all.**

The Company had a net loss of \$323,506 for the three months ended March 31, 2007 and net cash used in operations of \$205, 886 for the three months ended March 31, 2007, and a working capital deficiency of \$1,320,762 at March 31, 2007. Because the Company has not yet achieved or acquired sufficient operating capital and given these financial results along with the Company's expected cash requirements in 2007, additional capital investment will be necessary to develop and sustain the Company's operations.

**Our independent registered public accounting firm has raised doubt over our continued existence as a going concern.**

We have incurred substantial operating and net losses, as well as negative operating cash flow and do not have financing commitments in place to meet expected cash requirements for the next twelve months.

We have incurred losses for the past two fiscal years and had a net loss of \$323,506 at March 31, 2007. In addition, at March 31, 2007, View Systems, Inc. had a retained earnings deficit of \$19,839,303. We are unable to fund our day-to-day operations through revenues alone and management believes we will incur operating losses for the near future while we expand our



sales channels. While we have expanded our product line and expect to establish new sales channels, we may be unable to increase revenues to the point that we attain and are able to maintain profitability. As a result we rely on private financing to cover cash shortfalls.

As a result, we continue to have significant working capital and stockholders' deficits including a substantial accumulated deficit at March 31, 2007 and December 31, 2006. In recognition of such, our independent registered public accounting firm has included an explanatory paragraph in its report on our consolidated financial statements for the fiscal years ended December 31, 2006 and December 31, 2005 that expressed substantial doubt regarding our ability to continue as a going concern.

**We need additional external capital and if we are unable to raise sufficient capital to fund our plans, we may be forced to delay or cease operations.**

Based on our current growth plan we believe we may require approximately \$1,200,000 in additional financing within the next twelve months to develop our sales channels. Our success will depend upon our ability to access equity capital markets and borrow on terms that are financially advantageous to us. However, we may not be able to obtain additional funds on acceptable terms. If we fail to obtain funds on acceptable terms, then we might be forced to

delay or abandon some or all of our business plans or may not have sufficient working capital to develop products, finance acquisitions, or pursue business opportunities. If we borrow funds, then we could be forced to use a large portion of our cash reserves, if any, to repay principal and interest on those loans. If we issue our securities for capital, then the interests of

investors and stockholders will be diluted.

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

We are in the process of developing and expanding our sales channels, but we expect overall sales to remain down as we develop these sales channels. We are actively recruiting additional resellers and dealers and have hired in-house sales personnel for regional and national sales. We must continue to find other methods of distribution to increase our sales. If we are unsuccessful in developing sales channels we may have to abandon our business plan.

**We may not be able to compete successfully in our market because we have a small market share and compete with large national and international companies.**

We estimate that we have less than a 1% market share of the surveillance and weapons detection market. We compete with many companies that have greater brand name recognition and significantly greater financial, technical, marketing, and managerial resources. The position of these competitors in the market may prevent us from capturing more market share. We intend to remain competitive by increasing our existing business through marketing efforts, selectively acquiring complementary technologies or businesses and services, increasing our efficiency, and reducing costs.

**Our revenues are dependent in part upon our relationships and alliances with government 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 for continuations and improvements to the concealed weapons detection technology. We are also reliant upon the Department of Energy for continuations and improvements to the Visual First Responder. If this entities should discontinue its operations or research and development we may lose our competitive edge in our market.

**We must successfully introduce new or enhanced products and manage the costs associated with producing several product lines to be successful.**

Our future success depends on our ability to continue to improve our existing products and to develop new products using the latest technology that can satisfy customer needs. For example, our short term success will depend on the continued acceptance of the Visual First Responder and the SecureScan portal product line. We cannot be certain that we will be successful at producing multiple product lines and we may find that the cost of production of multiple product lines inhibits our ability to maintain or improve our gross profit margins. In addition, the failure of our products to gain or maintain market acceptance or our failure to successfully manage our cost of production could adversely affect our financial condition.

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

Currently, our directors and executive officers collectively hold approximately 6% of the voting power of our common and stock entitled to vote on any matter brought to a vote of the stockholders. Specifically, Gunther Than, our CEO, holds approximately 4 % of the total voting power as of the date of this report. Pursuant to Nevada law and our bylaws, the holders of a majority of our voting stock may authorize or take corporate action with only a notice provided to our stockholders. A stockholder vote may not be made available to our minority stockholders, and in any event, a stockholder vote would be controlled by the majority stockholders.

**Failure to achieve and maintain effective internal controls in accordance with section 404 of the sarbanes-oxley act would 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.

**There is no significant active trading market for our shares, and if an active trading market does not develop, purchasers of our shares may be unable to sell them publicly.**

There is no significant active trading market for our shares and we do not know if an active trading market will develop. An active market will not develop unless broker-dealers develop interest in trading our shares, and we may be unable to generate interest in our shares among broker-dealers until we generate meaningful revenues and profits from operations. Until that time occurs, if it does at all, purchasers of our shares may be unable to sell them publicly. In

the absence of an active trading market:

Investors may have difficulty buying and selling our shares or obtaining market quotations;

Market visibility for our common stock may be limited; and

A lack of visibility for our common stock may depress the market price for our shares.

**The success of our business depends upon the continuing contribution of our key personnel, including Mr. Gunther than, our chief executive officer, whose knowledge of our business would be difficult to replace in the event we lose his services.**

Our operations are dependent on the efforts and relationships of Gunther Than and the senior management of our organization. We will likely be dependent on the senior management of our organization for the foreseeable future. If any of these individuals becomes unable to continue in their role, our business or prospects could be adversely affected. For example, the loss of Mr. Than could damage customer relations and could restrict our ability to raise additional working capital if and when needed. There can be no assurance that Mr. Than will continue in his present capacity for any particular period of time.

**Our common stock could be considered a "penny stock."**

Our common stock is considered to be a "penny stock" because it meets one or more of the definitions in Rules 15g-2 through 15g-6 promulgated under Section 15(g) of the Securities Exchange Act of 1934, as amended. These include but are not limited to, the following: (i) the stock trades at a price less than \$5.00 per share; (ii) it is not traded on a "recognized" national exchange; (iii) it is not quoted on The Nasdaq Stock Market, or even if quoted, has a price less than \$5.00 per share; or (iv) is issued by a company with net tangible assets less than \$2.0 million, if in business more than a continuous three years, or with average revenues of less than

\$6.0 million for the past three years. The principal result or effect of being designated a "penny stock" is that securities broker-dealers cannot recommend the stock but must trade it on an

unsolicited basis.

**Broker-dealer requirements may affect trading and liquidity.**

Section 15(g) of the Securities Exchange Act of 1934, as amended, and Rule 15g-2 promulgated thereunder by the SEC require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in our common stock are urged to obtain and read such

disclosure carefully before purchasing any shares that are deemed to be "penny stocks." Moreover, Rule 15g-9 requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for holders of our common stock to resell their shares to third parties or to otherwise dispose of them in the market or otherwise.

**Our common stock may be volatile, which substantially increases the risk that you may not be able to sell your shares at or above the price that you may pay for the shares.**

Because of the limited trading market expected to develop for our common stock, and because of the possible price volatility, you may not be able to sell your shares of common stock when you desire to do so. The inability to sell your shares in a rapidly declining market may substantially increase your risk of loss because of such illiquidity and because the price for our common stock may suffer greater declines because of its price volatility.

The price of our common stock may be higher or lower than the price you may pay. Certain factors, some of which are beyond our control, that may cause our share price to fluctuate significantly include, but are not limited to, the following:

variations in our quarterly operating results;

loss of a key relationship or failure to complete significant transactions;

additions or departures of key personnel; and

fluctuations in stock market price and volume.



Additionally, in recent years the stock market in general, and the over-the-counter markets in particular, have experienced extreme price and volume fluctuations. In some cases, these fluctuations are unrelated or disproportionate to the operating performance of the underlying company. These market and industry factors may materially and adversely affect our stock price,

regardless of our operating performance.

In the past, class action litigation often has been brought against companies following periods of volatility in the market price of those companies' common stock. If we become involved in this type of litigation in the future, it could result in substantial costs and diversion of management attention and resources, which could have a further negative effect on your investment in our stock.

**We have not paid, and do not intend to pay, cash dividends in the foreseeable future.**

We have not paid any cash dividends on our common stock and do not intend to pay cash dividends in the foreseeable future. We intend to retain future earnings, if any, for reinvestment in the development and expansion of our business. Dividend payments in the future may also be limited by other loan agreements or covenants contained in other securities which we may issue. Any future determination to pay cash dividends will be at the discretion of our board of directors and depend on our financial condition, results of operations, capital and legal requirements and such other factors as our board of directors deems relevant.

### **ITEM 3. CONTROLS AND PROCEDURES**

As required by Rule 13a-15 under the Exchange Act, as of the end of the period covered by this quarterly report, being March 31, 2007, we have carried out an evaluation of the effectiveness of the design and operation of our company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our company's management, including our company's Chief Executive Officer along with our company's Chief Financial Officer. Based upon that evaluation, our company's Chief Executive Officer along with our company's Chief Financial Officer concluded that our company's disclosure controls and procedures are effective as at the end of the period covered by this report. There have been no significant changes in our company's internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

Disclosure controls and procedures and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

## **PART II: OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

None

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

The following exhibits are filed herewith:

Exhibit No.

Description

3.1

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

3.2

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

4.1

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

4.2

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

10.1

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

10.2

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

10.3

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

10.4

Lease Agreement between View Systems and Commercial Management Associates, Inc., dated February 3, 2006 (Incorporated by reference to exhibit 10.7 to Form 10-QSB, filed November 10, 2005)

10.5

Lease Agreement between View Systems and Office World, dated February 20, 2006 (Incorporated by reference to exhibit 10.2 to Form 10-QSB, filed November 10, 2005)

10.6

Consulting Agreement between View Systems and Business Development Corporation, dated December 27, 2005. (Incorporated by reference to exhibit 10.4 to Form SB-2, as amended, filed February 2, 2006)

10.7

Engagement between View Systems and John F. Alexander, dated October 6, 2005 (Incorporated by reference to exhibit 10.5 to Form SB-2, as amended, filed February 2, 2006)

10.8

Consulting Agreement between View Systems and Elite Equity Marketing, dated February 6, 2006

21.1

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

31.1

Rule 13a-15(e)/15d-15(e) Certification by the Chief Executive Officer \*

31.2

Rule 13a-15(e)/15d-15(e) Certification by the Chief Financial Officer \*

32.1

Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*

32.2

Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 \*

\*

Filed herewith



**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this Report on Form 10-QSB to be signed on its behalf by the undersigned, thereunto duly authorized.

VIEW SYSTEMS, INC.

(Registrant)

Date: May 14, 2007

By:

/s/ Gunther Than

Gunther Than

Chief Financial Officer

(Principal Financial and Accounting Officer)