

Edgar Filing: VIEW SYSTEMS INC - Form 10QSB

VIEW SYSTEMS INC  
Form 10QSB  
May 18, 2006

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

FORM 10-QSB

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

For the quarterly period ended March 31, 2006

TRANSITION REPORT PURSUANT 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  
-----

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 1, 2006, View Systems, Inc. had 90,762,422 shares of common stock  
outstanding.

Transitional small business disclosure format: Yes  No

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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 periods ended March 31, 2006 and 2005 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.

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View Systems, Inc. and Subsidiaries  
 Consolidated Balance Sheets

ASSETS			
-----		March 31,	December 31,
		2006	2005
		-----	-----
		(unaudited)	
Current Assets			
Cash	\$	193,421	\$ 8,708
Accounts Receivable (Net of Allowance of \$64,486)		28,123	280,001
Inventory		196,931	72,012
		-----	-----
Total Current Assets		418,475	360,721
		-----	-----
Property & Equipment (Net)		26,434	18,043
		-----	-----
Other Assets			
Licenses		1,626,854	1,626,854
Due from Affiliates		103,875	95,575
Deposits		9,646	7,291
		-----	-----
Total Other Assets		1,740,375	1,729,720
		-----	-----
Total Assets	\$	2,185,284	\$ 2,108,484
		=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

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-----		
Current Liabilities		
Accounts Payable	\$ 440,260	\$ 343,430
Accrued Expenses	30,009	43,229
Accrued Interest	82,083	77,000
Accrued Royalties	56,250	75,000
Loans from Shareholder	64,000	64,000
Notes Payable	310,000	110,000
	-----	-----
Total Current Liabilities	982,602	712,659
	-----	-----
Stockholders' Equity		
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 91,035,752	91,036	-
Issued and Outstanding 90,775,752	-	90,776
Additional Paid in Capital	19,319,544	19,293,804
Retained Earnings (Deficit)	(18,279,615)	(18,060,472)
	-----	-----
Total Stockholders' Equity	1,202,682	1,395,825
	-----	-----
Total Liabilities and Stockholders' Equity	\$ 2,185,284	\$ 2,108,484
	=====	=====

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  
(unaudited)

	For the Three Months Ended March 31,	
	2006	2005
	-----	-----
Revenues, Net	\$ 402,575	\$ 285,643
Cost of Sales	207,282	104,328
	-----	-----
Gross Profit (Loss)	195,293	181,315
	-----	-----
Operating Expenses		
Business Development	39,677	15,530
General & Administrative	112,912	67,591
Professional Fees	51,295	38,515
Salaries & Benefits	205,206	86,244
	-----	-----

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Total Operating Expenses	409,090	207,880
Net Operating Income (Loss)	(213,797)	(26,565)
Other Income(Expense)		
Interest Expense	(5,346)	-
Total Other Income(Expense)	(5,346)	-
Net Income (Loss)	\$ (219,143)	\$ (26,565)
Net Income (Loss) Per Share	\$ (0.00)	\$ (0.00)
Weighted Average Shares Outstanding	90,875,752	76,675,422

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

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

	For the Three Months Ended March 31,	
	2006	2005
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ (219,143)	\$ (26,565)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operations:		
Depreciation & Amortization	3,000	6,388
Stock issued for services	16,000	-
Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	251,878	(71,111)
Inventories	(124,919)	35,000
Deposits	(2,355)	-
Increase (Decrease) in:		
Accounts Payable	96,830	(131,551)
Accrued Expenses	(13,220)	(15)
Accrued Interest	5,083	-
Accrued Royalties	(18,750)	-
Net Cash Provided (Used) by Operating Activities	(5,596)	(187,854)
Cash Flows from Investing Activities:		
Purchases of equipment	(11,391)	(985)

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Net Cash Used In Investing Activities	(11,391)	(985)
Cash Flows from Financing Activities:		
Funds advanced (to) from affiliate	(8,300)	-
Fund provided by issuance of notes payable	200,000	-
Proceeds from stock issuance	10,000	15,500
Net Cash Provided by Financing Activities	201,700	15,500
Increase (Decrease) in Cash	184,713	(173,339)
Cash and Cash Equivalents at Beginning of Period	8,708	173,486
Cash and Cash Equivalents at End of Period	\$ 193,421	\$ 147

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

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View Systems, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows (Continued)  
(unaudited)

	For the Three Months Ended March 31,	
	2006	2005
Cash Paid For:		
Interest	\$ -	\$ -
Income Taxes	\$ -	\$ -
Non-Cash Investing and Financing Activities:		
Stock issued in payment of accounts payable	\$ -	\$ 19,000

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

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March 31, 2006

## GENERAL

View Systems, Inc. (the Company) has elected to omit substantially all footnotes to the financial statements for the three months ended March 31, 2006 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, 2005.

## 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.

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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 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 "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.

## 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:

- .. 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 containment 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 urban environments.
- .. SecureScan Concealed Weapons Detection System - a walk-through concealed weapons detector which uses passive magnetic sensing technology and location algorithms to accurately pinpoint the location, size and number of threat objects. The control unit for this patented product combines the magnetic and video information in a manner that allows it to be

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stored and displayed for easy recognition and auditory warning. The software system's architecture allows for easy integration of biometrics and access control devices.

- .. ViewMaxx Digital Video products - a high-resolution, digital video recording and real-time monitoring system.
- .. Biometric verification systems, magnetic door locks and central monitoring or video command centers which can be combined with our principal products.
- .. RADView - a patented integrated neutron and gamma-ray radiation sub-system which can be integrated into other detection systems such as fire, breach, magnetic, explosive, nuclear, biometric or video.

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

In February 2006 we demonstrated a SecureScan II product with a precision optical biometric fingerprint terminal. We had developed this product with Sagem Morpho, a multi-biometric solutions provider. In March 2006 the Georgia Courts placed a purchase order for three Secure Scan II units with fingerprint identification capabilities. We expect the demand for biometric interfaces to increase. In addition to verifying that an individual is likely not carrying guns, knives and sometimes cameras, the units can perform multi-modal double and triple identity checks, including, fingerprint, drivers license and employee identification card verification.

During the next six months we will integrate technology to sense enriched nuclear material into our SecureScan and our Visual First Responder products. 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. In addition, this technology will be used in stand alone handheld portable detectors. These products are based on existing patents owned by the United States government and are licensed exclusively to View Systems for the purpose of commercializing them.

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For the next twelve months our primary challenge will be to add new products and develop our sales and distribution network into additional regions and markets in the United States and abroad. We intend to increase sales by offering demonstrations of our products in specific geographical areas to potential customers or at region specific trade shows, such as sheriff's conventions, court administrators' meetings, civil support team, state police shows and dealers shows. When a demonstration results in a sale of one of our products, then we attempt to expand that market by contacting other potential customers in the area, such as, correctional facilities, courthouses and other municipal buildings. After several sales in a particular geographic area management will decide whether it is appropriate to open a sales and service office.

### LIQUIDITY AND CAPITAL RESOURCES

We have incurred losses for the past two fiscal years and had a net loss of \$219,143 at March 31, 2006. Our revenues from product sales have been increasing but are not sufficient to cover our operating expenses. Our

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auditors have expressed substantial doubt that we can continue as a going concern. We were also in default on some of our debt obligations at March 31, 2006, but continue to make payments. We have some financing commitments in place, but not enough to meet our expected cash requirements for 2006.

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

Historically, we have relied on private financing and revenues to satisfy our cash requirements for working capital. For the three month period ended March 31, 2006 (the "2006 first quarter") we received cash from revenues of \$402,575, proceeds of \$200,000 from debt financing, \$10,000 from sales of our common stock and relied on advances of \$8,300 from Gunther Than, our CEO. For the three month period ended March 31, 2005 (the "2005 first quarter"), we received cash from revenues of \$285,643 and received proceeds of \$15,500 from sales of common stock.

We use our cash for working capital and at our current revenue levels we will require an additional \$500,000 during the next six months to cover our operating costs of approximately \$100,000 per month. These operating costs include cost of sales, general and administrative expenses, salaries and benefits and professional fees related to contracting engineers.

We also rely on the issuance of our common stock to pay for services and to convert debt when cash is unavailable. For the 2005 first quarter we issued 128,000 shares to convert debt valued at \$19,000. As of the date of this filing we have approximately 9,000,000 authorized common shares of common stock remaining and management has started the process to increase our authorized common stock during 2006. (See Part II, Item 4, below, for more details.)

Management believes revenues will continue to increase but not to the point of profitability in the short term. We will need to continue to raise additional capital, both internally and externally, to cover cash shortfalls and to compete in our markets. We cannot assure you that we will be able to obtain financing on favorable terms and if we cannot obtain financing, then we may be required to reduce our expenses and scale back our operations.

### COMMITMENTS AND CONTINGENT LIABILITIES

Our base rent for operating leases related to our principal office and manufacturing facility is approximately \$2,870 per month, with an annual rent escalator of 3%. At December 31, 2005, future minimum payments for operating leases related to our office and manufacturing facility were \$97,646 through December 31, 2008.

Our total current liabilities increased to \$982,602 at March 31, 2006 compared to \$ 712,659 at December 31, 2005.

The increase was primarily the result of notes payable related to the subscription agreement discussed below.



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### Subscription Agreement

We entered into a Subscription Agreement, dated December 23, 2005, with three accredited investors; Starr Consulting, Inc., Active Stealth, LLC, and KCS Referral Service LLC (the "Subscribers"). We agreed to sale and the Subscribers agreed to purchase convertible promissory notes and warrants. However, on January 6, 2006, the Subscribers consented to the removal of the warrants from the subscription agreement, with the understanding that the warrants would be reinstated after we increased our authorized common stock and the shares underlying the warrants would be registered at a later date. The Subscribers agreed to purchase up to an aggregate of \$500,000 of 8% promissory notes convertible into shares of our common stock at a per share conversion price of \$0.10. The notes are due and payable by December 31, 2006. The Subscribers agreed to purchase the promissory notes over a 5 month period in \$100,000 per month installments.

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

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

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

### OFF-BALANCE SHEET ARRANGEMENTS

None.

### CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires

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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.

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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 consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the years ended March 31, 2006 and 2005 and should be read in conjunction with the financial statements, and notes thereto, included with this report at Item 1, above.

#### Summary Comparison of 2006 and 2005 First Quarter Operations

	Quarter ended March 31, 2006 -----	Quarter ended March 31, 2005 -----	
Revenues, net	\$ 402,575	\$ 285,643	
Cost of sales	207,282	104,328	
Gross profit (loss)	195,293	181,315	
Total operating expenses	409,090	207,880	
Net operating loss	(213,797)	(26,565)	
Total other income (expense)	(5,346)	-	
Net income (loss)	(219,143)	(26,565)	
Net earnings (loss) per share	\$ (0.00)	\$ (0.00)	

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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. The following chart provides a breakdown of our sales for the 2005 and 2006 first quarters.

	March 31, 2006	March 31, 2005
	-----	-----
Secure Scan	\$ 139,900	\$ 70,970
Digital Video	-	-
Visual First Responder	252,180	184,595
Service	\$ -	\$ 3,830

Our marketing efforts have increased sales of our SecureScan and Visual First Responder and resulted in increased

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revenues for the 2006 first quarter compared to the 2005 first quarter. 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. In addition, the introduction of our new products that have the capability to sense enriched nuclear material may also increase our revenues.

Our backlog at March 31, 2006, was \$160,000 compared to \$200,000 at December 31, 2005. Our back log is more manageable and is in part carried by the third party manufacturers because purchase orders are placed with the manufacturers and they receive payment when we receive payment from the customer. However, the delay between the time of the purchase order and shipping of the product results in a delay of recognition of the revenue from the sale. This delay in recognition of revenues will continue as part of our results of operations.

Cost of sales include costs of products sold and shipping costs and were approximately 51.5% of net revenues for the 2006 first quarter and 36.5% of net revenues for the 2005 first quarter. Cost of goods sold increased for the 2006 first quarter primarily due to mark-ups from vendors to whom we have outsourced sales. Management anticipates that the relative margins for product sales for each product line, assuming similar quantities sold and similar sourcing of components, should remain relatively the same during 2006.

For the 2006 first quarter total operating expense increased compared to the 2005 first quarter. The increase in the 2006 first quarter was primarily a result of increases in business development related to increased marketing. General and administrative expenses increased primarily due to increases in rent from the addition of office space in Baltimore, Jacksonville and New Jersey. Professional fees increased due to an increase in engineering fees of \$15,000 and recognition of \$16,000 related to the issuance of shares for services in February 2006. Salaries and benefits expenses increased due to the addition of three employees to our Florida office.

Total other expense for the 2006 first quarter 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

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seek further private financing in the future to cover cash shortfalls.

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

### FACTORS AFFECTING FUTURE PERFORMANCE

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

We have incurred ongoing operating losses and do not currently have financing commitments in place to meet expected cash requirements for the next twelve months. We recorded a net loss of \$219,143 for the three month period ended March 31, 2006 and our retained deficit was \$18,279.615 at March 31, 2006. We are unable to fund our day-to-day operations through revenues alone and management believes we will incur operating losses for the near future while we expand our sales channels. While we have expanded our product line and expect to establish new sales channels, we may be unable to increase revenues to the point that we attain and are able to maintain profitability. As a result we rely on private financing to cover cash shortfalls.

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

Based on our current growth plan we believe we may require approximately \$500,000 in additional financing within the next twelve months to develop our sales channels. Our success will depend upon our ability to access equity capital markets and borrow on terms that are financially advantageous to us. However, we may not be able to obtain additional funds on acceptable terms. If we fail to obtain funds on acceptable terms, then we might be forced to delay or abandon some or all of our business plans or may not have sufficient working capital to develop products, finance acquisitions, or pursue business opportunities. If we borrow funds, then we could be forced to use a large portion of our cash, 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.

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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 delay further development of 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

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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 in these areas 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 lines. We cannot be certain that we will be successful at producing multiple product lines and we may find that the cost of production of multiple product lines inhibits our ability to maintain or improve our gross profit margins. In addition, the failure of our products to gain or maintain market acceptance or our failure to successfully manage our cost of production could adversely affect our financial condition.

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

Currently, our directors and executive officers collectively hold approximately 58.8% of the voting power of our common and preferred stock entitled to vote on any matter brought to a vote of the stockholders. Specifically, Gunther Than, our CEO, holds approximately 57.0 % of the total voting power as of 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. As a result, our minority stockholders may not have the opportunity to approve or consent to corporate actions or other transactions. This concentration of ownership may also have the effect of delaying or preventing a change in control.

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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

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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 remedy in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. In addition, if we fail to achieve and maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud.

### ITEM 3. 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 third quarter of 2006 that have materially affected, or are 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

On April 28, 2006, we issued 60,000 shares to Carolyn Harrison for marketing services valued at \$6,000. 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 March 20, 2006, we issued 100,000 shares to Mike Luke in consideration for services valued at \$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.

On February 6, 2006, we authorized the issuance of warrants to purchase 1,500,000 shares of common stock to Elite Equity Marketing in consideration for investor relations consulting services for a term of three months. The warrants are exercisable in 500,000 share increments at \$0.10 per share starting in February 2006. 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On the April 24, 2006 (the "Record Date") stockholders holding 114,534,934 voting shares, or 57.8% of our voting

power, authorized by written consent the following matters:

- .. Increase our authorized common stock from 100,000,000 to 250,000,000;
- .. Authorized our management to seek out acquisitions of assets or business opportunities in order to remain competitive in our markets;
- .. Ratified our domicile merger effected on July 31, 2003; and
- .. Ratified the certificate of amendment to our articles of incorporation filed with the Secretary of State of Nevada on July 31, 2003

On April 24, 2006 our board of directors proposed these matters for shareholder approval. The increase of our authorized is necessary to facilitate future equity financings which we will require to satisfy our financial requirements. We will file the necessary certificate of amendment with the Secretary of State of Nevada to effect the increase twenty calendar days from the mailing date of a Definitive 14C Information Statement to our stockholders.

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)
- 3.2 By-Laws of View Systems (Incorporated by reference to exhibit 3.2 to Form 10-QSB, filed November 14, 2003)
- 4.1 View Systems, Inc. 2005(b) Professional/Consultant Compensation Plan, dated November 7, 2005 (Incorporated by reference to exhibit 4.1 to Form S-8 filed November 8, 2005)
- 4.2 Subscription Agreement between View Systems, Inc. and Starr Consulting, Inc., Active Stealth, LLC, and KCS Referral Service LLC, dated December 23, 2005 (Incorporated by reference to exhibit 4.1 of Form 8-K, filed January 6, 2006)
- 10.1 View Systems, Inc. 1999 Stock Option Plan (Incorporated by reference to exhibit 10.16 to Form SB-2 filed January 11, 2000)
- 10.2 Employment agreement between View Systems and Gunther Than, dated January 1, 2003 (Incorporated by reference to exhibit 10.3 for Form 10-KSB, filed April 14, 2004)
- 10.3 Lease agreement between View Systems and MIE Properties, Inc., dated August 3, 2005 (Incorporated by reference to exhibit 10.2 to Form 10-QSB, filed November 10, 2005)
- 10.4 Consulting Agreement between View Systems and Business Development Corporation, dated December 27, 2005 ((Incorporated by reference to exhibit 10.4 to Form SB-2, as amended, filed February 2, 2006)
- 10.5 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)
- 10.6 Consulting Agreement between View Systems and Elite Equity Marketing, dated February 6, 2006 (Incorporated by reference to exhibit 10.6 to

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Form 10-KSB filed April 17, 2006)  
21.1 Subsidiaries (Incorporated by reference to exhibit 21.1 for Form 10-KSB,  
filed March 31, 2003)

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SIGNATURES

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

VIEW SYSTEMS, INC.

Date: May 15, 2006                      /s/ Gunther Than  
By: \_\_\_\_\_  
Gunther Than  
Chief Executive Officer, Treasurer, Director  
Principal Financial and Accounting Officer

Date: May 15, 2006                      /s/ Michael L. Bagnoli  
By: \_\_\_\_\_  
Michael L. Bagnoli  
Secretary and Director

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