VIEW SYSTEMS INC
Form 10QSB/A
March 26, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB/A

Amendment No. 1

[X]

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

For the quarterly period ended September 30, 2006

[ ]

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	59-2928366
(State of incorporation)	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)

(410) 242-8439

(Issuer's telephone number)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

As of October 26, 2006 View Systems, Inc. had 92,217,422 shares of common stock outstanding.

Transitional small business disclosure format: Yes [ ] No [X]

EXPLANATORY NOTE

Due to a regulatory review by the SEC, we have restated our financial statements for the quarterly period ended September 30, 2006 and 2005. See the Restatement note to the financial statements included in this report for an explanation of the restatement. The non-financial disclosures in this report are as of the original filing date of November 14, 2006 and do not include subsequent events.

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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 and nine month periods ended September 30, 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 nine month period ended September 30, 2006 are not necessarily indicative of results to be expected for any subsequent period.

View Systems, Inc.

Consolidated Financial Statements

September 30, 2006

View Systems, Inc. and Subsidiaries
Consolidated Balance Sheets

ASSETS

		September 30, 2006 (Unaudited-Restated)		December 31, 2005 (Restated)
Current Assets				
Cash	$	16,723	$	8,708
Accounts Receivable (Net of Allowance of $16,675 and $64,486 as of September 30, 2006 and December 31, 2005)		159,446		280,001
Inventory		155,715		72,012
Total Current Assets		331,884		360,721
Property & Equipment (Net)		27,966		18,043
Other Assets				
Licenses		1,283,261		1,311,980
Due from Affiliates		117,341		95,575
Deposits		9,646		7,291
Total Other Assets		1,410,248		1,414,846
Total Assets	$	1,770,098	$	1,793,610

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities				
Accounts Payable	$	504,786	$	343,429
Accrued Expenses		58,135		43,229
Accrued Interest		98,502		77,000

Accrued Royalties	56,250	75,000
Loans from Shareholder	103,300	64,000
Notes Payable	536,426	110,000
Total Current Liabilities	1,357,399	712,658
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 92,337,422	92,338	-
Issued and Outstanding 90,775,752	-	90,776
Additional Paid in Capital	19,438,109	19,293,804
Retained Earnings (Deficit)	(19,189,465)	(18,375,345)
Total Stockholders' Equity	412,699	1,080,952
Total Liabilities and Stockholders' Equity	$ 1,770,098	$ 1,793,610

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

View Systems, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	For the Three Months Ended September 30, 2006 (Restated)	For the Three Months Ended September 30, 2005 (Restated)	For the Nine Months Ended September 30, 2006 (Restated)	For the Nine Months Ended September 30, 2005 (Restated)
Revenues, Net	$ 177,950	$ 338,941	$ 802,928	$ 820,497
Cost of Sales	90,754	109,541	409,493	339,049
Gross Profit (Loss)	87,196	229,400	393,435	481,448
Operating Expenses				
Business Development	34,330	28,218	147,707	60,864
General & Administrative	92,097	83,963	339,324	230,463
Professional Fees	19,375	323,466	122,807	393,322
Salaries & Benefits	156,106	87,304	572,977	321,669
Total Operating Expenses	301,908	522,951	1,182,815	1,006,318
Net Operating Income (Loss)	(214,712)	(293,551)	(789,380)	(524,870)
Other Income(Expense)				
Interest Expense	(10,725)	(2,961)	(24,740)	(8,499)
Total Other Income(Expense)	(10,725)	(2,961)	(24,740)	(8,499)
Net Income (Loss)				

	$ (225,437)	$ (296,512)	$ (814,120)	$ (533,369)
Net Income (Loss) Per Share	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)
Weighted Average Shares Outstanding	92,004,089	83,304,922	91,271,864	79,990,172

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

View Systems, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity (Deficit)

	Preferred Shares	Preferred Amount	Common Shares	Common Amount	Additional Paid-in Capital	Retained Earnings (Deficit)
Balance, December 31, 2004	-	-	76,533,922	$ 76,534	$ 17,119,596	$ (15,901,411)
January - March 2005 -shares issued for cash	-	-	155,000	155	15,345	-
January - March 2005 - shares issued in payment of accounts payable	-	-	128,000	128	18,872	-
January - March 2005 - shares issued for services	-	-	1,805,000	1,805	191,335	-
April - June 2005 - shares issued for cash	-	-	2,287,500	2,288	114,713	-
April - June 2005 - shares issued for services	-	-	1,242,000	1,242	77,004	-
July - September 2005 - shares issued for cash	-	-	612,000	612	55,588	-
	-	-	150,000	150	37,998	-

July - September 2005 - shares issued for services						
July - September 2005 - shares issued	7,171,725	71,717	-	-	-	-
October - December 2005 - shares issued for cash	-	-	953,330	953	122,880	-
October - December 2005 - shares issued for services	-	-	6,909,000	6,909	1,540,473	-
Net loss for the year ended December 31, 2005	-	-	-	-	-	(2,473,934)
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	-	-	(333,330)	(333)	(33,000)	-

which was previously reflected as a payment for stock						
July - September 2006 - shares issued for cash	-	-	500,000	500	24,500	-
Net loss for the period ended September 30, 2006	-	-	-	-	-	(814,120)
Balance, September 30, 2006	7,171,725	$ 71,717	92,337,422	$ 92,338	$ 19,438,109	$ (19,189,465)

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

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

	For the Nine Months Ended September 30,	
	2006 (Restated)	**2005 (Restated)**
Cash Flows from Operating Activities:		
Net Income (Loss)	$ (814,120)	$ (533,369)
Adjustments to Reconcile Net Loss to Net Cash		
Provided by Operations:		
Depreciation & Amortization	87,719	86,098
Adjustment to allowance for doubtful accounts	(47,811)	
Stock issued for services	138,200	368,850
Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	168,367	(38,631)
Inventories	(83,703)	35,000
Deposits	(2,355)	(2,872)
Increase (Decrease) in:		
Accounts Payable	161,357	(173,729)
Accrued Expenses	14,906	(77,210)
Accrued Interest	21,502	-
Accrued Royalties	(18,750)	-
Net Cash Provided (Used) by Operating Activities	(374,688)	(335,863)
Cash Flows from Investing Activities:		
Purchases of equipment	(18,924)	(13,096)
Purchase of licenses	(50,000)	-
Funds advanced (to) from affiliated entities	(21,766)	(9,118)
Net Cash Used In Investing Activities	(90,690)	(22,214)

Cash Flows from Financing Activities:		
Funds provided by issuance of notes payable	393,093	-
Funds advanced from stockholders	39,300	-
Proceeds from stock issuance	41,000	188,700
Net Cash Provided by Financing Activities	473,393	188,700
Increase (Decrease) in Cash	8,015	(169,377)
Cash and Cash Equivalents at Beginning of Period	8,708	173,486
Cash and Cash Equivalents at End of Period	$ 16,723	$ 4,109

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

View Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

(Unaudited)

	For the Nine Months Ended September 30, 2006 (Restated)		2005 (Restated)	
Cash Paid For:				
Interest	$	2,690	$	399
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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View Systems, Inc.

Notes to the Consolidated Financial Statements

September 30, 2006

GENERAL

View Systems, Inc. (the Company) has elected to omit substantially all footnotes to the financial statements for the nine months ended September 30, 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.

RESTATEMENT

Pursuant to a regulatory review, the financial statements for the years ended December 31, 2005 have been changed. During 2005 the Company was not amortizing the cost of certain licenses under the concept that the licenses had an indeterminable life and where not amortizable but were, instead, subject to periodic impairment tests to determine if the carrying value needed adjusting. As a result of the regulatory review it was determined that the licenses did have definite lives since they were linked economically to the underlying patents for which the licenses were awarded. Therefore the cost of the licenses was subject to amortization. Accordingly, the financial statements have been restated to reflect the effects of annual amortization expense of $104,958.

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 cont comparable terminology used in connection with any discussion of future operating results or financial performance identify forward-looking statements. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. All forward-looking statements reflect our present expectation of future events and are subject to a number of important factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

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.

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

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

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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.

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

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ViewMaxx Digitial 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.

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In June 2006 we previewed our Biometric SecureScan III which includes positive identification and biometric verification capabilities. 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.

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. During the third quarter of 2006 we have expanded our dealers and resellers in the Mid-West and Southwest region of the United States. We have continued to explore international markets in the Mid-East and Thailand and have to establish some international realtionships such as distributors and dealers.

In September we introduced a new product offering marketed as the LAW. This product is a handheld metal detector designed to improve police officer safety. We do not manufacture this product but use it as an adjunct to the SecureScan and sell it separately.

In October we introduced 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. It 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.

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 supercedes 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 an international distribution corporation based in Australia that serves several major sports markets including soccer, cricket, Formula 1 racing and Olympic venues ranging from China to Bahrain. The agreement gives View Systems access to more than forty dealerships worldwide.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred net losses for the past two fiscal years and had a net loss of $814,120 for nine month period ended September 30, 2006. 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 nine month period ended September 30, 2006 (the 2006 nine month period) we received cash from revenues of $802,928, proceeds from debt financing of $393,093, $41,000 from sales of our common stock and $39,300 from stockholder advances. We also paid for services valued at $138,200 with 1,235,000 shares of our common stock.

At our current revenue levels management believes we will require an additional $500,000 during the next six 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. Management anticipates that revenue from product sales and debt financing will fund operations for the next twelve months.

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. 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.

We also lease two additional offices. We lease a 1,299 square foot sales, engineering and manufacturing office in the East Point Business Center in Jacksonville, Florida. This lease has a base rent of approximately $1,500 with a 4%

annual escalator and expires on January 1, 2008. The second sales and engineering office is located in Office World Plaza in Lomita, California, near Los Angeles. We lease this office for $850 per month and this lease expires February 28, 2007. Our total current liabilities increased to $1,357,400 at September 30, 2006 compared to $712,659 at December 31, 2005. The increase was the result of increased accounts payable, loans from stockholders of $103,300 and notes payable of $536,426 related to the subscription agreement discussed below.

At September 30, 2006, we are in default on a $110,000 note payable due in 1999 to a former stockholder of Xyros Technology. We negotiated to repay the loan as cash flows permit and this debt remains outstanding. We are in doubt about the intentions, will or ability of the note holder to attempt collection of this debt. At this time, the entity is no longer in existence and we have been unable to locate the principals of that company.

Subscription Agreement

We entered into a Subscription Agreement, dated December 23, 2005, with three accredited investors; Starr Consulting, Inc., Active Stealth, LLC, and KCS Referral Service LLC (the Subscribers). We agreed to sale and the Subscribers agreed to purchase convertible promissory notes and warrants. However, on January 6, 2006, the Subscribers consented to the removal of the warrants from the subscription agreement, with the understanding that the warrants would be reinstated after we increased our authorized common stock and the shares underlying the warrants would be registered at a later date. The Subscribers did not receive any other additional consideration for the removal of the warrants.

The Subscribers agreed to purchase up to an aggregate of $500,000 of 8% promissory notes convertible into shares of our common stock at a per share conversion price of $0.10. The notes are due and payable by December 31,

2006. The Subscribers agreed to purchase the promissory notes over a 5 month period in $100,000 per month installments; however, other than the contractual agreement there is no guarantee that the Subscribers will purchase the promissory notes. As of September 30, 2006 the Subscribers have purchased promissory notes in the aggregate of $333,331.

The agreement provides for piggy back registration rights for the shares underlying the convertible promissory notes. We agreed to 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.

If we fail to issue registered 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.

We filed a registration statement on Form SB-2 on February 2, 2006 to register the underlying shares for conversion of the promissory notes, but we withdrew that registration statement in August 2006 due to regulatory delays. The subscription agreement has not been fully performed and the note holders have not requested conversion of the promissory notes. We have not received a notice of default from the note holders and no liquidated damages have accrued.

OFF-BALANCE SHEET ARRANGEMENTS

None.

RESULTS OF OPERATIONS

The following discussions are based on the consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the three and nine month periods ended September 30, 2006 and 2005 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		Nine month period ended	
	Sept. 30, 2006	Sept. 30, 2005	Sept. 30, 2006	Sept. 30, 2005
Revenues, net	$ 177,950	$ 338,941	$ 802,928	$ 820,497
Cost of sales	90,754	109,541	409,493	339,049
Gross profit (loss)	87,196	229,400	393,435	481,448
Total operating expenses	301,908	522,951	1,182,815	1,006,318
Net operating loss	(214,712)	(293,551)	(789,380)	(524,870)
Total other income (expense)	(10,725)	(2,961)	(24,740)	(8,499)

Net income (loss)	$ (225,437)	$ (296,512)	$ (814,120)	$ (533,369)
Net income (loss) per share	$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)

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 2006 and 2005 nine month periods.

	Sept. 30, 2006	Sept. 30, 2005
SecureScan	$ 453,246	$ 407,342
Digital Video	12,685	50,337
Visual First Responder	308,710	360,940
Service, installation and training	$ 28,287	$ 1,878

We have experienced a decline in net revenues for each quarter of 2006. Our marketing efforts have maintained the sales numbers for our SecureScan and Visual First Responder, while sales of our ViewMaxx digital video decreased in the 2006 nine month period when compared to the 2005 comparable period. We had strong sales of this product in the 2005 nine month period, but that level of sales did not continue in 2006. Service, installation and training revenues increased due to the sales of our SecureScan and Visual First Responder sales.

Management anticipates increases in revenues 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 biometric identification capabilities and new products the have the capability to sense enriched nuclear material may also increase our revenues.

Our backlog at September 30, 2006, was approximately $650,000 compared to $160,000 at March 31, 2006. Our back log is carried in part by our 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 includes costs of products sold and shipping costs. Cost of sales was approximately 51.0 % of net revenues for the 2006 nine month period and the three month period ended September 30, 2006 (the 2006 third quarter). However, cost of sales was 41.3% of net revenues for the nine month period ended September 30, 2005 (the 2005 nine month period) and 32.2% of net revenues for the three month period ended September 30, 2005 (the 2005 third quarter). Cost of sales as a percentage of net revenues were increased in the 2006 periods due to lower economy of scale factors. 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 the remainder of 2006.

Total operating expense decreased in the 2006 third quarter compared to the 2005 third quarter, but these expenses increased in the 2006 nine month period compared to the 2005 nine month period. The decrease for the 2006 third quarter was primarily due to decreased engineering fees and no recognition of compensatory expense from the issuance of shares for services in the 2006 third quarter. We rely on independent contractors to provide services rather than hiring employees and we issued shares of our common stock for services under these contracts rather than deplete our cash. When shares are issued for services we recognize a compensatory expense.

Total operating expense increased in the 2006 nine month period compared to the 2005 nine month period due to increases in business development expense related to our active efforts to increase business. General and administrative expenses increased primarily due to increases in rent from the addition of office space in California and Florida. Salaries and benefits expenses increased due to the addition of three employees to our Florida office. We anticipate total operating expense will continue to increase as we continue business development, expand our sales channels, and possibly open regional sales and engineering offices with employees.

Total other expense for the 2006 periods was related to interest expense on loans. Management anticipates interest expense to increase as we seek further private financing in the future to cover cash shortfalls.

We recorded net losses for the 2006 and 2005 periods and 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 $814,120 for the nine month period ended September 30, 2006 and have negative working capital of $1,025,515. 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.

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 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 SecureScan portal and Visual First Responder 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 56.9% 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 55.9 % 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.

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 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

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, reevaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report and determined that there was a material weakness in our disclosure controls and procedures.

In September 2006 the SEC informed the company that it believed the useful lives of our licenses were not indefinite because development of new technologies may render our technology obsolete. We and our accountants reevaluated the historical treatment of our licenses and the characteristics of our licenses and on December 22, 2006 our principal financial officer concluded that the accounting treatment for the licenses we own required amortization from the date the licenses were acquired rather than annual impairment testing. As a result of this determination we have restated our financial statements for the quarterly period ended September 30, 2006 and 2005.

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 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

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)

21.1

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

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: March 23, 2007

By: *<u>/s/ Gunther Than</u>*_______________________

Gunther Than

Chief Executive Officer, Treasurer, Director

Principal Financial and Accounting Officer

Date: March 23, 2007

By: *<u>/s/ Michael L. Bagnoli</u>*_______

Michael L. Bagnoli

Secretary and Director