VIEW SYSTEMS INC
Form 10QSB
August 14, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

[X]

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

For the quarterly period ended June 30, 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	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 August 9, 2007 View Systems, Inc. had 98,965,138 shares of common stock outstanding.

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

VIEW SYSTEMS, INC.

INDEX

		Page
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS		3
PART I. FINANCIAL INFORMATION		4
Item 1.	Financial Statements (Unaudited)	4
	Condensed Consolidated Balance Sheet as of March 31, 2007 and December 31, 2007	5
	Consolidated Statements of Operations for three months ended March 31, 2007	6
	Consolidated Statements of Stockholders Equity (Deficit) for the three months ended March 31, 2007	7
	Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2007	8
	Notes to the Consolidated Financial Statements as of March 31, 2007	10
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3.	Controls and Procedures	24
PART II. OTHER INFORMATION		24
Item 6.	Exhibits	24
SIGNATURES		25

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.

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 June 30, 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 June 30, 2006 are not necessarily indicative of results to be expected for any subsequent period.

View Systems, Inc. and Subsidiaries

Consolidated Balance Sheets

ASSETS

	June 30, 2007 (Unaudted)	December 31, 2006
Current Assets		
Cash	$ 52,154	$ 48,233
Accounts Receivable (Net of Allowance of $1,000)	370,184	306,247
Inventory	86,764	23,865
Total Current Assets	509,102	378,345
Property & Equipment (Net)	28,542	30,742
Other Assets		
Licenses	1,154,542	1,207,022
Due from Affiliates	135,507	122,476
Deposits	4,087	7,328
Total Other Assets	1,294,136	1,336,826
Total Assets	$ 1,831,780	$ 1,745,913

LIABILITIES AND STOCKHOLDERS' EQUITY

	June 30, 2007 (Unaudted)	December 31, 2006
Current Liabilities		
Accounts Payable	$ 465,570	$ 421,908
Accrued Expenses	20,279	35,452
Accrued Interest	129,212	100,860
Accrued Royalties	112,500	75,000
Loans from Shareholder	450,233	113,175
Notes Payable	587,996	592,296
Total Current Liabilities	1,765,790	1,338,691
Long-term Debt		
Accounts payable	30,000	90,000
Total Liabilities	1,795,790	1,428,691

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 98,498,422	98,499	-
Issued and Outstanding 98,398,422	-	98,399
Additional Paid in Capital	19,667,803	19,662,903
Retained Earnings (Deficit)	(19,802,029)	(19,515,797)
Total Stockholders' Equity	35,990	317,222
Total Liabilities and Stockholders' Equity	$ 1,831,780	$ 1,745,913

The accompany notes are an integral part of these consolidated financial statements

5

View Systems, Inc. and Subsidiaries

Consolidated Statements of Operations (Unaudited)

	For the Three Months Ended June 30, 2007	For the Three Months Ended June 30, 2006	For the Six Months Ended June 30, 2007	For the Six Months Ended June 30, 2006
Revenues, Net	$ 711,063	$ 222,403	$ 961,769	$ 624,978
Cost of Sales	237,272	111,457	378,781	318,739
Gross Profit	473,791	110,946	582,988	306,239
Operating Expenses				
Business Development	27,445	73,700	53,947	113,377
General & Administrative	197,904	108,075	338,025	247,227
Professional Fees	57,272	52,137	129,309	103,432
Salaries & Benefits	139,583	211,665	317,859	416,871
Total Operating Expenses	422,204	445,577	839,140	880,907
Net Operating Income (Loss)	51,587	(334,631)	(256,152)	(574,668)
Other Income(Expense)				
Interest Expense	(14,313)	(8,669)	(30,080)	(14,015)
Total Other Income(Expense)	(14,313)	(8,669)	(30,080)	(14,015)
Net Income (Loss)	$ 37,274	$ (343,300)	$ (286,232)	$ (588,683)
Net Income (Loss) Per Share	$ 0.00	$ (0.00)	$ (0.00)	$ (0.01)

Weighted Average Shares Outstanding	98,398,422	91,106,170	98,398,422	91,106,170

The accompany notes are an integral part of these consolidated financial statements

View Systems, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) AS OF JUNE 30, 2007
(Unaudited)

	Preferred Shares	Preferred 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	-	-	500,000	500	24,500	-

2006 - shares issued for cash						
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)
April - June 2007 - shares issued for cash	-	-	100,000	100	4,900	-
Net loss for the period ended June 30, 2007	-	-	-	-	-	(286,232)
Balance, June 30, 2007	7,171,725	$ 71,717	98,498,422	$ 98,499	$ 19,667,803	$ (19,802,029)

The accompany notes are an integral part of these consolidated financial statements

7

View Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)

	For the Six Months Ended June 30, 2007	For the Six Months Ended June 30, 2006
Cash Flows from Operating Activities:		
Net Income (Loss)	$ (286,232)	$ (588,683)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operations:		
Depreciation & Amortization	56,780	58,480
Adjustment to allowance for doubtful accounts	-	(55,117)
Stock issued for services	-	138,200
Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	(63,937)	250,816
Inventories	(62,899)	(84,831)
Deposits	3,241	(2,355)
Increase (Decrease) in:		
Accounts Payable	(16,338)	139,931
Accrued Expenses	(15,173)	1,450
Accrued Interest	28,352	13,467
Accrued Royalties	37,500	(37,500)
Net Cash Provided (Used) by Operating Activities	(318,706)	(166,142)
Cash Flows from Investing Activities:		
Purchases of equipment	(2,100)	(16,499)
Funds advanced (to) from affiliated entities	(13,031)	(21,300)
Purchase of licenses	-	(50,000)
Net Cash Used In Investing Activities	(15,131)	(87,799)
Cash Flows from Financing Activities:		
Fund provided by issuance of notes payable	-	296,667
Principal payments on notes payable	(4,300)	-
Loans from Shareholders	337,058	-

Proceeds from stock issuance	5,000	16,000
Net Cash Provided by Financing Activities	337,758	312,667
Increase (Decrease) in Cash	3,921	58,726
Cash and Cash Equivalents at Beginning of Period	48,233	8,708
Cash and Cash Equivalents at End of Period	$ 52,154	$ 67,434

The accompany notes are an integral part of these consolidated financial statements

View Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

	For the Six Months Ended June 30,	
	2007	2006
Cash Paid For:		
Interest	$ 15,904	$ -
Income Taxes	$ -	$ -

9

View Systems, Inc.

Notes to the Consolidated Financial Statements

June 30, 2007

GENERAL

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

View Systems manufactures and distributes products in the Security Screening category. View s products also fall under the classification of contraband detectors, which will remain the top government and commercial electronic security buying category for the next 5 years.

View Systems signature product is the SecureScan, an advanced passive concealed metal weapons detection system that will rapidly replace the harmful, inefficient metal detectors used at thousands of security checkpoints worldwide. The current world leader in active metal detection is Ceia, an Italian company, and Garrett, a company based in Texas.

SecureScan does not have any direct technology competition and is competitively priced.

SecureScan is a walkthrough concealed weapons detector (CWD) which uses advanced magnetic technology to visually locate threat objects on its video image. The system is sensitive enough to locate items such as hidden razor blades and cellular phones, but will ignore common objects such as coins, keys and belt buckles. SecureScan promotes smooth traffic flow because false alarms are greatly reduced. It has been tested to process 1200 people per hour. SecureScan s main end user / security market benefits are:

- A completely passive technology which is safe for operators, pregnant women and those with life-sustaining electronic medical implants such as pacemakers.

- Full head to floor detection unlike active metal detectors that cannot recognize threat objects placed below the knees because of the metal construction that the machine detects in the floor.

- Fast Scan: 4 times the amount of humans can be scanned through a SecureScan than an active metal detector.

- Full real-time visual detection highlighting the area of concern on an actual video image of each person who passes through the unit. Image can be transmitted or saved for archiving purposes.

- Upgrades include an easy-to-use visitor / positive identity management system that utilizes barcode, proximity (125) and finger biometric read technologies, then prints a badge.

- Portable: Sets up in 15 minutes with a Phillips screwdriver.

- Technology developed by the US Government and built entirely in the United States.
- Hundreds of installations worldwide in prisons, schools, courthouses, stadiums and banks.
- Biometric analysis such as fingerprint verification has been integrated into the function of the SecureScan. Access control methods such as magnetic door locks can and have been incorporated.
- Central monitoring or video command centers can be and have been combined with the SecureScan product.
- Passport and driver s license verification for positive identification management have been and are currently being combined with the SecureScan portal in correctional facilities, large government buildings and commercial office buildings.

The Positive ID Verification System enrolls and screens personnel and archives the entry time, exit time, information from their government-issued ID card and their fingerprint. The PIVS works in conjunction with the SecureScan or independently. The system comes with a biometric fingerprint reader, an ID scanner and a visitor badge printer. The laptop computer that runs the system can be shared with the SecureScan or purchased separately for an additional fee. Badge label refills can also be purchased from View Systems.

View has addressed the need for recognizing IEDs (Improvised Explosive Devices) by partnering with the premier millimeter wave sensor manufacturer. View markets a stand-off passive Millimeter Wave Imaging System with sensors and imaging technology built by Xytrans, Inc. a partner solutions provider. The imaging system can rapidly see at 15 feet concealed weapons, IEDs, plastics, liquids, concealed contraband such as illegal drugs and even hidden compact disks (CDs).

The Visual First Responder is a lightweight, wireless camera system housed in a tough, waterproof flashlight body. The camera system 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 increased spending by the United States government on Homeland Security will continue to drive growth in the market for security screening products.

During 2004, we increased our product line to include our Visual First Responder.

In 2005, engineering design changes were made to the sensor boards for the SecureScan product to allow lower costs and to accommodate the price points required by competitive pressures. We also redesigned and outsourced the assembly and manufacturing of the Visual First Responder and SecureScan products.

Also during 2005, we continued to establish new partnerships; we added active resellers and dealers and hired four sales representatives to build a domestic network for the sale and distribution of our products within the 48 contiguous United States. These developments have led to increased sales while at the same time have decreased the cost of product. 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. The SecureScan III includes a fingerprint identification and verification system, a state-issued identification scanning device for driver s licenses and passports and a visitor badge printing system.

We expanded our number of dealers and resellers in the mid-west and southwest region of the United States and introduced two new products. The new products introduced in 2006 include the following:

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A sensitive and penetrating handheld metal detector marketed as the LAW which was designed to improve police officer safety. We do not manufacture the LAW product, but sell it separately as an adjunct to the SecureScan.

§

A new wireless network cell phone jamming system. We are also in partnership with an electronics manufacturing company that is building a cell phone jamming device to our specifications which will counter the ignition of IEDs and other RF-triggered bombs. We have adopted several products for resale that are in the IED / Bomb detection arena. These items are manufactured by other companies but fit our distribution model of counter-terrorism and homeland security products.

§

We are also in process of developing a software ability that senses cell phones and recognizes their identity. This system could intercept cell phone transmissions and/or pass the signal on. It can even return network busy signals. There are several companies that market such systems in the European block and in the Mideast countries. The current systems have some inadequacies, such as a limited ability to deal with CDMA types of cell phones and are extremely expensive. View intends to become a leader in this market segment which we believe will grow very rapidly domestically. A wireless network detection system is currently a second-party military product and we are intending to deploy it exclusively in the correctional facilities market. Response and interest in this technology has been from high levels of maximum security situations.

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One of these products is a Liquid Explosives Detector device that detects hazardous liquid materials using a special microwave mechanism. Sampling of the liquid is not required.

§

In 2007, we introduced the SS-P (SecureScan-Portable): a lightweight, completely portable yet durable and rugged battery operated SecureScan unit that folds in half and can be transported in an SKB golf club carrying case. The previous portable SecureScan has been manufactured and tested to be field-deployable. The new portable weighs less than 50 pounds complete and is checkable as luggage for ordinary civilian flights.

We developed an MMV (Multi-mission Mobile Video) product in response to market requests for miniaturization of the current video product, VFR. This product will be released in late 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 MMV units before the end of 2007.

We developed a Positive-ID Biometric-Enabled Guard Tour product specifically for the corrections industry with a company based in Colorado called Flex Systems, Inc. The system is currently deployed and being tested in the District of Columbia Department of Corrections. The system uses a combination of a biometric keying device to identify the guard on rounds and enables data entry via a wireless-enabled PDA device. The verification of the number of inmates, condition of the confinement area and any exceptions are recorded and reported (transmitted) to the appropriate authorities. Emergency alert features are also a part of the very rugged handheld unit.

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.

We have continued to explore international markets in the Mid-East, Africa and Thailand and will have to establish some international agent relationships such as distributors and dealers.

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 directly to potential customers in specific geographical areas as well as at region-specific trade shows such as Sheriffs conventions, court administrators meetings, civil support team events, state police shows and dealers events. When a demonstration results in a sale of one or more of our products, we then 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 are carried out in a particular geographic area, management will decide whether it is appropriate to open a sales and service office there.

We have entered into a definitive agreement to acquire a security service and training company, Sigma International Holdings, Inc. (SIH), which has significant revenues and a cadre of consultants that will be of great benefit to enhance the distribution of View s products. We are currently in the initial stages of this acquisition and are working out details of operation and funding going forward. We have announced the intent of this acquisition / merger to the public on August 7, 2007.

We have also entered into an agreement with the Bahrain Investment Development Bank which is providing some financial support for the establishment of a distribution and manufacturing entity. We intend to provide security screening for premier events in the Gulf countries such as Formula 1 Racing and venues ranging from UAE, Saudi Arabia and Bahrain. This relationship may or may not lead to assembly of product in the Gulf countries. Several other parties have also expressed interest to provide material, labor and monetary support locate in Dubai, UAE.

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 June 30, 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 June 30,	
	2007	2006
Revenues, net	711,063	222,403
Cost of sales	237,272	111,457
Gross profit	473,791	110,946
Total operating expenses	422,204	445,577
Net operations income (loss)	51,587	(334,631)
Total other expense	(14,313)	(8,669)
Net income (loss)	37,274	(343,300)
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.

15

	June 30, 2007	June 30, 2006
SecureScan	758,123	291,721
ViewMaxx Digital Video products	15,635	6,870
Visual First Responder	137,702	302,120
Service, installation and training	50,309	24,264

Our backlog at June 30, 2007, was similar to the backlog at June 30, 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 39.38% of net revenues for the first six months of 2007, a decrease from 51.0% from the same period in 2006. The decrease from period to period was primarily the result of economies of scale achieved through larger quantity purchase at lower unit costs.

For the three months ended June 30, 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.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred net losses for the past two fiscal years and had a net income for the first time of $37,274 for the three month period ended June 30, 2007. Our increase in net revenues is primarily attributed to achieving higher sales and producing revenue in excess of our critical minimum expenses.

Historically, we have relied on revenues, debt financing and sales of our common stock to satisfy our cash requirements. For the six month period ended June 30, 2007 (the 2007 six month period) we received cash from revenues of $961,769and $ 230,000 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 2007and 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 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 June 30, 2007, future minimum payments for operating leases related to our office and manufacturing facilities were approximately $54,000 through December 31, 2008.

Our total current liabilities increased to $1,765,790 at June 30, 2007 compared to $1,338,691 at December 31, 2006. Our total current liabilities at June 30, 2007 included accounts payable of $465,570, accrued expenses of $20,279, accrued interest of $129,212, accrued royalties of $112,500, loans from a shareholder of $450,233 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:

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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.

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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 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 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 has been negotiating the terms 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%.

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An unsecured loan from a stockholder in the principal amount of $100,000 which is 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:

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Any obligation under certain guarantee contracts;

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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;

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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

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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 income for the first time of $37,247 at June 30, 2007. In addition, at June 30, 2007, View Systems, Inc. had a retained earnings deficit of $19,802,029 . 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 $286,232 for the six months ended June 30, 2007 and net cash used in operations of $318,706 for the six months ended June 30, 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 and prepare the needed filings befitting to a public company.

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 $286,232 at June 30, 2007. In addition, at June 30, 2007, View Systems, Inc. had a retained earnings deficit of $19,802,029. 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 June 30, 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 June 30, 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:

<u>Exhibit No.</u>

<u>Description</u>

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: August 14, 2007

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

Gunther Than

Chief Financial Officer

(Principal Financial and Accounting Officer)