VIEW SYSTEMS INC
Form 10KSB
April 17, 2006

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

FORM 10-KSB

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

[ ] TRANSITION REPORT PURSUANT TO 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)	(Zip code)

Issuer's telephone number: (410) 242-8439

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

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 [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB [ ]

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

Issuer's revenues for its most recent fiscal year: $1,172,163.

As of March 29, 2006 the issuer had 90,702,422 outstanding shares of common stock. The aggregate market value of the registrant's voting stock held by non-affiliates on that date was approximately $12,820,571.

Documents incorporated by reference: None

Transitional Small Business Disclosure Format: Yes [ ] No [X]

TABLE OF CONTENTS

PART I

PART II

PART III

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

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

The Securities and Exchange Commission ("SEC") encourages companies to disclose forward-looking information so that investors can better understand future prospects and make informed investment decisions. This report contains these types of statements. Words such as "may," "will," "expect," "believe," "anticipate," "estimate," "project," or "continue" or comparable terminology used in connection with any discussion of future operating results or financial performance identify forward-looking statements. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. All forward-looking statements reflect our present expectation of future events and are subject to a number of important factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

HISTORICAL DEVELOPMENT

View Systems was incorporated in Florida on January 25, 1989, as Beneficial Investment Group, Inc. and became active in September 1998 when we began development of our digital video product line and changed the company's name to View Systems, Inc. Starting in 1999 we expanded our business operations through a series of acquisitions of technologies we use in our digital video recorder technology products and in our concealed weapons technology.

On July 25, 2003, View Systems incorporated View Systems, Inc. as a wholly-owned Nevada corporation for the sole purpose of changing the domicile of the company from Florida to Nevada. On July 31, 2003, articles of merger were filed with the state of Nevada to complete the domicile merger.

OUR BUSINESS

View Systems, Inc. develops, produces and markets computer software and hardware systems for security and surveillance applications. In 1998 digital video recorder technology was our first developed product and we enhanced this product line by developing interfaces with other various technologies, such as facial recognition, access control cards and control devices such as magnetic locks, alarms and other common security devices. In 2003 we sold this product to places like the Ronald McDonald house and the University of Maryland Medical Center. Other installations included schools, restaurants, night clubs, car washers and car dealers (license plate recognition was incorporated into these types of installations), ranches and gas stations. In these installations we integrated the digital video recorded technology with other electronic devices and we gained knowledge of the security needs of a wide range of businesses.

We expanded our product line in 2002 to include a concealed weapons detection system we call SecureScan. We have penetrated four major market segments for this product: correctional facilities, courts, probation offices and federal facilities in the Mid-Atlantic states, the West Coast and the South. In 2003 we added a hazardous material first response wireless video transmitting system to our product line we refer to as Visual First Responder. The markets for these units are first responder units such as the National Guard, Coast Guard, Army, state law enforcement agencies and fire departments.

Until 2005 we assembled all of our products in-house, but we currently contract with third party manufacturers to manufacture the SecureScan and Visual First Responder products.

Products and Services

SecureScan Concealed Weapons Detection System

We acquired exclusive licenses to manufacture, use, sub-license and distribute technology and processes for the concealed weapons detection technology and the first response wireless video transmitting system from Bechtel BWXT Idaho, LLC. Bechtel BWXT Idaho, LLC manages and operates the U.S. Department of Energy's Idaho National Engineering and Environmental Laboratory ("Idaho Engineering Lab"). The development of the concealed weapons detection technology was funded by the National Institute of Justice and development was performed by the Idaho Engineering Lab. The SecureScan concealed weapons detection technology was patented by the Department of Energy and approved by the Federal Aviation Administration. View Systems owns the exclusive worldwide rights to the SecureScan technology and ongoing improvements currently being funded by the National Institute of Justice.

This product is a walk-through concealed weapons detector which uses sensing technology and artificial intelligence algorithms to accurately pinpoint the location, size and number of concealed weapons. The control unit for this walk-through portal is a personal computer based unit which receives magnetic and video information and combines

3

it in a manner that allows the suspected location of the weapon to be stored electronically and referenced. SecureScan products are distributed in two basic configurations; stand-alone units and integrated door systems.

Concealed weapons detection systems are used in a wide range of situations in order to provide added security against violent crimes. In addition to the well-known use of concealed weapons detection systems in public airports, such weapons detection systems are increasingly being used in court houses, schools and other public/governmental facilities that may be subject to threats or attacks by various members of the public. Our marketing efforts and sales have been to courthouses, schools, correction facilities, and other public/governmental facilities, rather than public airports.

One commonly used concealed weapons detection system is the electromagnetic induction system. Essentially an electromagnetic induction system operates by periodically broadcasting an electromagnetic pulse or series of pulses, usually in the kilohertz range. The transmitted electromagnetic pulse induces an electrical current, or currents, in electrically conductive objects contained within the sensing area. The induced electrical current or currents create their own electromagnetic signals which are then detected by a suitable detector associated with this type of weapons detection system.

While electromagnetic induction systems of the type described above have been used for decades as concealed weapons detection systems, they are not without their problems. For example, such electromagnetic induction systems are generally sensitive to the overall size, i.e., surface area of the object, including its mass. Consequently, small, compact, but massive objects, such as a small pistol, may not produce a "signature" that is significantly larger than the signature produced by a light weight object of the same or greater size, such as a cell phone or compact camera. Another problem associated with electromagnetic induction systems is related to the fact that electromagnetic systems are sensitive to electrically conductive objects, regardless of whether they are magnetic or non-magnetic. That is, electromagnetic systems tend to detect non-magnetic objects, such as pocket change, just as easily as magnetic objects, such as weapons. Consequently, electromagnetic systems tend to be prone to false alarms. In many circumstances, such false alarms need to be resolved by scanning the suspect with a hand-held detector in order to confirm or deny the presence of a dangerous weapon.

Our SecureScan system differs from electromagnetic induction systems because the SecureScan system uses passive magnetic technology. When an object of a specific ferro-magnetic mass passes by the magnetic sensors the surrounding magnetic field is altered. The software calculates the difference between the magnetic field strength with the object in the magnetic field inside the sensors' range and the normal magnetic field strength. Then the system displays the results in graph format on a video display unit. Since the SecureScan technology does not use transmitters to produce electromagnetic induction, it does not pose a problem for pacemakers.

The SecureScan portal uses an array of advanced magnetic sensors, each with internal digital signal processors. The sensors communicate with the control unit's software which spatially places identified magnetic anomalies and visually places the location of the potential threat object with a red dot that is superimposed over a real time snapshot image of the person walking through the portal. Along with the snapshot, a graph displays the sensor data which automatically scales the signal strength of the individual sensors and cross-references them to the video image. All of this information is brought together on a video screen that displays the image of the person, the location of the weapon(s) and the size of the weapon(s), depending on the intensity of the magnetic signature. The visual image allows the operator to determine what the object is without the need to conduct a personal search to locate the object and look at it.

The SecureScan technology discriminates weapons from non-weapons by assuming that possible threat objects will have ferromagnetic composition. The SecureScan system promotes rapid, smooth traffic flow because it only detects the types of ferrous metals commonly found in guns and knives, rather than personal possessions such as coins, keys or belt buckles. This capability reduces false alarms and eliminates the need to use hand wands or resort to a personal search. Body cavity object identification is also a feature, as well as locating objects that have been covered or masked with aluminum foil or other materials. The SecureScan system operates faster than ordinary metal detectors and can scan as high as 1,200 persons per hour.

The SecureScan weapons detection system can be controlled via a central monitoring station using a Windows operating system and Pentium hardware. This can include additional closed-circuit television, two-way voice communication, door interlock, card-key and other biometric identification or access control components. The functionality of the SecureScan portal is increased by access control, database recording, video capture and archiving of images.

In 2004 we introduced the SecureScan product to the venue and stadium market. In February 2005 we tested the SecureScan at the pre-game venues of the Super Bowl football game in Jacksonville, Florida. During that installation, the portal scanned up to 3,000 to 4,000 people and at various times throughput ranged from approximately 600 to 1,200 persons per hour.

During 2005 we contracted with the University of Northern Florida to design new sensor boards for the SecureScan product which has allowed us to reduce the installed sensor cost by a factor of four. The new lower costs allow us to offer price points to the market which compete directly with traditional metal detectors. We sell these units for an average retail price of approximately $10,000 with a one year extended warranty. We feel the new reduced price points and enhanced interface abilities will allow us to be more competitive, along with the advantages of three to four times the throughput rate, non-contact imaging and permanent visual storage, and a log of all individuals scanned. We are making additional cost reductions through economies of scale and larger scale integration by taking advantage of ongoing computer component improvements.

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

Visual First Responder

In December 2003 View Systems obtained exclusive licensing and marketing rights for the HAZMAT CAM technology from the U.S. Department of Energy's Idaho National Engineering and Environmental Laboratory. We initially marketed this product as FirstView Wireless Camera System, then changed the name to Visual First Responder.

Visual First Responder is a lightweight, wireless camera system housed in a tough, waterproof flashlight body. The camera system sends back real-time images to a computer or video monitor at the command post located outside the exclusion zone or containment area. Visual First Responder is able to transmit high quality video in the most difficult environments. It uses a patented triple-diversity antenna system that minimizes signal distortion in urban environments. Traditional wireless videos use one antenna and a single receiver. The problem with this configuration is that signals multi-path, which means they bounce off other structures, like buildings, file cabinets, etc., on the way to the receiver. This multi-pathing causes interference and seriously degrades the video images. The Visual First Responder receiver seeks the strongest signal from each of the three antennas and locks in that signal, resulting in a more reliable and clearer image.

The image received from the Visual First Responder monitor or on the Visual First Responder color LCD monitor, and can be easily recorded using a common camcorder or VCR with video input. The camera can be completely submerged for fast and easy decontamination. We also offer a unit with 360 degree coverage of a target area.

Visual First Responder also uses Extension Link which is a separate transmitter and receiving system that increases the operating range of the Visual First Responder. The Extension Link has field-selectable channels to avoid interference at longer distances. We have also incorporated a video encryption feature that allows first responders to transmit on-scene video to the command post without the data being intercepted by unwanted parties.

The complete Visual First Responder fully deployed by one person in a stand alone configuration in less than 10 minutes. The system is battery operated and can operate for eight continuous hours using one set of spare camera batteries. We sell this base product for approximately $18,000 retail, but the cost can be as high as $30,500 depending on additional special features such as the extension link and encryption capabilities.

In March 2006 we introduced the Visual First Responder M2. This new product allows "hands-free" operation of the unit because it allows the person to wear the unit as a helmet mounted monocle.

We have entered into a cooperative research and development agreement with the Idaho Engineering Lab for the Visual First Responder. This agreement allows us to use the research and development resources of the Idaho Engineering Lab to further develop the technology as driven by customer need. The cooperative research and development agreement provides a means for View Systems to efficiently continue to offer state of the art technology, yet concentrate on its marketing and manufacturing operations.

ViewMaxx Digital Video System

ViewMaxx is a high-resolution, digital video recording and real-time monitoring system. This system can be scaled to meet a specific customer's needs by using anywhere from one camera up to 16 surveillance cameras per each ViewMaxx unit. The system uses a video capture card recording which translates closed-circuit television analog video data (a format normally used by broadcasters for national television programs) to a computer readable digital format to be stored on direct access digital disk devices rather than the conventional television format of video tape.

ViewMaxx offers programmable recording features that can eliminate the unnecessary storage of non-critical image data. This ability allows the user to utilize the digital disk storage more efficiently. The ViewMaxx system can be programmed to satisfy each customer's special requirements, be it coverage which is continuous, or only when events are detected. For example, it can be programmed to begin recording when motion is detected in a surveillance area, or a smaller field of interest within the surveillance area, and can be programmed to notify the user with an alarm or message.

Viewing of the stored digital images can be performed locally on the computer's video display unit or remotely through the customer's existing telecom systems or data network. It also uses a multi-mode search tool to quickly play back files with simple point and click operations. The search mode parameters can be set according to a specific monitoring need, such as: certain times of day, selected areas of interest in the field of view or breaches of limit areas. These features and abilities avoid the need to review an entire, or many, VCR tapes for a critical event.

Our ViewMaxx products include the following features:

- Use any and all forms of telecommunications, such as standard telephone lines;
- Video can be monitored 24 hours a day by a security monitoring center;
- Local and remote recording, storage and playback for up to 28 days, with optional additional storage capability;
- The system may be set to automatically review an area in a desired camera sequence;
- Stores the video image according to time or a criteria specified by the customer and retrieves the visual data selectively in a manner that the customer considers valuable or desirable;
- The system may trigger programmed responses to events detected in a surveillance area, such as break-ins or other unauthorized breaches of the secured area;
- Cameras can be concealed in ordinary home devices such as smoke detectors;
- The system monitors itself to insure system functionality with alert messages in the event of covert or natural interruption; and
- Modular expansion system configuration allows the user to purchase add-on components at a later date.

Depending on the features of a particular system the retail price can range from approximately $1,500 up to $6,500.

Additional Products

We also offer integration of other products with SecureScan or ViewMaxx. Biometric verification is a system for recognizing faces and comparing them to known individuals, such as employees or individuals wanted by law enforcement agencies. This product can be interfaced with SecureScan and/or ViewMaxx to limit individual access to an area. SecureScan and/or ViewMaxx can be coupled with magnetic door locks to restrict access to a particular area. We also offer a central monitoring or video command center for SecureScan or ViewMaxx products.

In addition, we offer support services for our products which include:

- On site consulting/planning with customer architect and engineers,
- Installation and technical support,
- Training and "Train the Trainer" programs, and
- Extended service agreements.

Markets

Our family of products offers government and law enforcement agencies, commercial security professionals, private businesses and residential consumers an enhanced surveillance and detection capacity. Management has chosen to avoid the air passenger traffic and civilian airport market for metal detection because we believe that a larger market exists in venues such as sporting events, concerts, and race tracks, and schools, courthouses and municipal buildings, and law enforcement agencies.

Commercial business users represent the greatest potential users of our surveillance and weapons detection products. Commercial businesses have already realized the need for surveillance and using access control devices for protection of employees, customers, and assets. Our products can curtail crime and prevent loss caused by employees and others. The market for surveillance technology includes many types of commercial buildings; including, hospitals, schools, museums, retail, manufacturing and warehousing facilities.

Our SecureScan products and technology can be used where there is a temporary requirement for real-time weapons detection devices in areas where a permanent installation is cost prohibitive or impractical. For example, our SecureScan portal could be set up for special events, concerts, and conventions. Our systems may reduce the need for a large guard force and can provide improved pedestrian traffic flow into an event because individuals can be scanned quickly and false alarms are reduced.

Schools have been very receptive and enthusiastic about the SecureScan portal and its integration with School Technology Management's Comprehensive Attendance/Security System. In early October 2003 we announced an alliance with School Technology Management, Inc. to integrate and market its products with ours. School Technology Management developed the Comprehensive Attendance, Administration and Security System ("Comprehensive Attendance/Security System"), which is designed to use a magnetic card swipe system to monitor identification of students entering a school and to verify each student's attendance. School Technology Management combined our SecureScan portal with its card swipe system.

With the combined technology a student enters the portal and is scanned for any threat objects and his or her identity is concurrently confirmed to school security officers. During the spring semester of 2004, a subcontractor of the National Institute of Justice conducted a study of the effectiveness of the

SecureScan portal in a school environment and the results were positive. The combined technology has been tested in schools in New York and Philadelphia. Management estimates that there are over 120,000 schools in the United States that may have problems with violence, truancy and other safety considerations, which may be addressed by the combined technology.

In addition to school security, the gathering of video and data images and weapons detection is commonplace in law enforcement. Because our technology can be used for stakeouts and remote monitoring of areas, we believe there is a market potential with law enforcement agencies. A primary market for our SecureScan portal is federal and state government courthouses, county and municipal buildings, and correctional facilities. We have installed our

SecureScan weapons detection products in a variety of court house situations. The Visual First Responder product's market includes state National Guard units and first response agencies, such as; firemen, police swat and homeland security response teams.

The residential home security user may purchase our products from either commercial companies installing self-contained or centrally monitored systems, or directly from retail distribution centers. However, at this time we do not have retail agreements in place. Using our technology, individuals may run their own perimeter and interior surveillance systems from their own home computer. Real-time action at home can be monitored remotely through a modem and the Internet. There is also the capability to make real-time monitors wireless. An additional advantage of our technology is that it allows for the storage of information on the home computer and does not require a VCR. This capability may reduce the expense and time of the home installation and may make installation affordable for a majority of homeowners.

Manufacturing

We initially manufactured the SecureScan portal internally at our facilities in Baltimore, Maryland. During the second quarter of 2004 we set up a complete manufacturing line in the Baltimore, Maryland facility for building, testing and further development of the Visual First Responder product. In August 2005 we contracted with Inter-Connect Electronics, Inc. to manufacture and assemble our Visual First Responder units. We also contracted with Sports Field Specialties, LLC, a sheet metal manufacturer, to build the SecureScan product line. If certain quality control issues can be worked out, then manufacturing agreements may allow us to reduce our current backlog for our product lines. We continue to entertain other manufacturing alternatives to insure the lowest possible cost while maintaining the highest possible quality.

Our third party manufacturers create several of the hardware components in our systems and assemble our systems by combining other commercially available hardware and software together with our proprietary software. We hold licenses for software components that are integrated into our proprietary software and installed in our systems. We believe that we can continue to obtain components for our systems at reasonable prices from a variety of sources. Although we have developed certain proprietary hardware components for use in our products and purchased some components from single source suppliers, we believe similar components can be obtained from alternative suppliers without significant delay.

Sales and Distribution

We are in the process of building a United States domestic network of manufacturing representatives and dealers for the sale and distribution of our products. We are seeking security consultants, specifiers and distributors of security and surveillance equipment that sell directly to schools, courthouses, government and commercial buildings. We hired four in-house regional sales persons and intend to develop a national sales channel model and a distributor development program.

We use mailings and telephone calls to contact potential representatives in a geographical area with the intent to arrange a demonstration of our products to these persons. We attend region specific trade shows such as sheriff's conventions, court administrators meetings, civil support team and state police shows. Then we demonstrate or give trial offers in the area until a sale is completed. Once we have completed a sale in a specific market area, then we expand that market by contacting correctional facilities, courthouses and other municipal buildings. We ship our products to the customer and each product has an unconditional 30 day warranty, during which time the product can be returned for a complete refund.

We have ongoing reseller arrangements with small- and medium-sized domestic and international resellers. Our reseller agreements grant a non-exclusive right to the reseller to purchase our products at a discount from the list price and then sell them to others. These agreements are generally for a term of one year and automatically renew for successive one-year terms unless terminated by notice or in the event of breach.

We also have experienced international interest from security related resellers and system integrators. However, sales and shipments to overseas are regulated by federal guidelines for export. Previously, we had chosen not to pursue international markets, but are now evaluating potential sales in the Middle East. We intend to continue our focus on domestic markets which are less expensive to support and maintain.

Backlog

As of December 31, 2005, we had a backlog of $200,000, down from $700,000 at September 30, 2005. We measure backlog as orders for which a purchase order or contract has been signed or a verbal commitment for order or delivery has been made, but which has not yet been shipped and for which revenues have not been recognized. We typically ship our products months after receiving an order. However, we are attempting to shorten this lead time to several weeks. Also, product shipments may require more lead-time and may be delayed for a variety of reasons beyond our control, including:

- additional time necessary to conduct product inspections prior to shipping,
- design or specification changes by the customer,
- the customer's need to prepare the site, and
- delays caused by other contractors on the project.

Major Customers

During the year ended December 31, 2005 we had one customer, Battelle Energy Alliance, L.L.C., that accounted for $149,050, or 11.9%, of our revenues. These sales were related to product sales of our Visual First Responder.

Battelle Energy Alliance, L.L.C. is a science and technology organization that develops and commercializes technology and manages laboratories for the National Laboratories, Department of Defense and other clients.

Competition

We believe the introduction of digital technology to video surveillance and security systems is our market opportunity. We believe that many of the established closed-circuit television companies have approached the design of their digital closed-circuit television products from the standpoint of integrating their digital products to existing security and surveillance product offerings. These systems are closed, not easily integrated with other equipment and not capable of upgrades as technology improves. We have designed our systems such that they are open, compatible with other digital and analog systems, and adaptable to technological advances that will inevitably occur with digital technology. In addition, we have evaluated price point competition and to ease the financial burden for schools and other customers with budget constraints, we accept a down payment with remaining payments due monthly for an agreed upon term.

The markets for our products are extremely competitive. Competitors include a broad range of companies that develop and market products for the identification and video surveillance markets. In the weapons detection market, we compete with Ranger Security Scanners, Inc. and Garrett Electronics, Inc. in the United States, and an Italian company, CEIA SpA, which has the most sophisticated electromagnetic induction product. In the video surveillance market we compete with numerous VCR suppliers and digital recording suppliers, including, Sensormatic Corporation and NICE Systems, Ltd. and Integral Systems.

Trademark, Licenses and Intellectual Property

Certain features of our products and documentation are proprietary and we rely on a combination of patent, contract, copyright, trademark and trade secret laws and other measures to protect our proprietary information. We limit access to, and distribution of, our software, documentation and other proprietary information. As part of our confidentiality procedures, we generally enter into confidentiality and invention assignment agreements with our employees and mutual non-disclosure agreements with our manufacturing representatives, dealers and systems integrators. Notwithstanding such actions, a court considering these provisions may determine not to enforce such provisions or only partially enforce such provisions.

The SecureScan concealed weapons detection technology involves sensing technology and data acquisition/analysis software subsystems that have patents pending or issued to the U. S. Department of Energy. We hold an exclusive license, D.O.E. License No. 03-LA-18, to commercialize, manufacture and market the concealed weapons detection technology. However, since the intellectual property was developed by the federal government under a grant from the National Institute of Justice, the patents belong to the government and we pay royalties of 2% of the net sale price per SecureScan unit sold. We also hold the exclusive license, D.O.E. License No. 03-LA-20, for the Visual First Responder technology and pay royalties of 4% of the net sale price per each Visual First Responder unit sold.

Governmental ownership of the patents is advantageous because the government has prosecution and stewardship responsibilities for the life of the patents.

We enjoy the benefit of any continuations and improvements to the concealed weapons detection technology performed by the government under the ongoing contract between the Department of Energy and National Institute of Justice. Our exclusive marketing agreement allows us to have cutting edge technology without funding the research and development or patent applications.

We have obtained software licensing agreements for

- software operating systems components,
- fingerprint identification to possibly integrate into our proprietary software, and
- integration of commercially available operating systems software into our proprietary software for installation into our products.

Because the software and firmware (software imbedded in hardware) are in a state of continuous development, we have not filed applications to register the copyrights for these items. However, under law, copyright vests upon creation of our software and firmware. Registration is not a prerequisite for the acquisition of copyright rights. We take steps to insure that notices are placed on these items to indicate that they are copyright protected. The copyright protection for our software extends for the 20-year statutory period from the date of first "publication," distribution of copies to the general public, or from the date of creation, whichever occurs first.

We provide software to end-users under non-exclusive "shrink-wrap" licenses, which are automatic licenses executed once the package is opened. This type of license has a perpetual term and is generally nontransferable. Although we do not generally make source code available to end-users, we may, from time to time, enter into source code escrow agreements with certain customers. We have also obtained licenses for certain software from third parties for incorporation into our products.

Government Regulation

We are not subject to government regulation in the manufacture of our products or the components in our products. However, our products are subject to certain government restrictions on sales to "unfriendly" countries and countries designated as adversarial, which may limit our sales to the international market. In addition, our resellers and end users may be subject to numerous regulations that stem from surveillance activities. We also benefit from the recent "made in America" trade laws where non-United States manufactures must secure waivers in order to sell security and surveillance products to United States domestic end-users.

Security and surveillance systems, including cameras, raise privacy issues and our products involve both video and audio, and added features for facial identification. The regulations regarding the recording and storage of this data are uncertain and evolving. For example, under the Federal wiretapping statute, the audio portion of our surveillance systems may not record people's conversations without their consent. Further, there are state and federal laws associated with recording video in non-public places.

Research and Development

For the year ended December 31, 2004 and 2003, we did not record research and development expense. We have cooperative research arrangements with the Department of Energy to receive technical assistance and further enhancements of the concealed weapons detection technology and Visual First Responder technology that are performed by the Department of Energy and the National Institute of Justice. We also contract with engineers and other third parties to develop or vary the design of our products and we record these expenses as professional fees.

Employees

We employ 12 persons, including four sales executives, four engineers and two office personnel. Two persons are part-time and we also contract with two independent contractors who devote a majority of their work to a variety of our projects. Our employees are not presently covered by any collective bargaining agreement. Our relations with our employees are good, and we have not experienced any work stoppages.

Investor Relations

On February 6, 2006 we entered into a consulting agreement with Elite Equity Marketing, a Maryland limited liability company. We engaged Elite Equity to provide consulting services for a term of three months in relation to interactions between broker/dealers, shareholders and members of the public and other matters related to investor/public relations, business modeling and development and release of press articles. We agreed to pay Elite Equity 500,000 common shares along with 1,500,000 warrants exercisable in 500,000 increments starting in February 2005. Elite Equity has agreed to maintain the confidentiality of secret, proprietary or non-public information. We agreed to indemnify Elite Equity for legal and other expenses related to litigation arising from the performance of its services and Elite Equity will indemnify View Systems for legal and other expenses related to litigation arising from Elite Equity's willful, negligent or inappropriate or illegal representation or misrepresentation of the company.

ITEM 2. DESCRIPTION OF PROPERTY

We lease 4,600 square feet of office space in Baltimore, Maryland. The lease term is three (3) years beginning on October 1, 2005, and expiring on September 30, 2008. The base rent is approximately $3,000 per month subject to an annual escalator of 3%. Management believes this facility will suit our needs for the future. We also lease a sales, engineering and manufacturing office in Jacksonville, Florida and a sales and engineering office in Los Angeles, California.

ITEM 3. LEGAL PROCEEDINGS

As of the date of this report we are not a party to any material legal proceedings.

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

We have not submitted a matter to a vote of security holders through the solicitation of proxies, or otherwise, during the fourth quarter of the 2005 year.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION

Our shares of common stock are traded on the NASD OTC Bulletin Board under the symbol "VYST." The following table lists the range of the quarterly high and low bid prices of our common stock in the over-the-counter market for each quarter for the two most recent fiscal years. The high and low bid prices were reported by the OTC Bulletin Board Historical Data Service. These over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-downs or commissions, and may not necessarily represent actual transactions.

Year	Quarter Ended	High Bid	Low Bid
2004	March 31	$ 0.37	$ 0.18
	June 30	0.33	0.115
	September 30	0.145	0.06
	December 31	0.24	0.09
2005	March 31	$ 0.165	$ 0.061
	June 30	0.078	0.046
	September 30	0.46	0.055
	December 31	0.285	0.152

Our common shares are subject to Section 15(g) and Rule 15g-9 of the Securities and Exchange Act of 1934 (the "Exchange Act"), commonly referred to as the "penny stock" rule. The rule defines penny stock to be any equity security that has a market price less than $5.00 per share, subject to certain exceptions. The rule provides that any equity security is considered to be a penny stock unless that security is:

- registered and traded on a national securities exchange meeting specified criteria set by the SEC;
- issued by a registered investment company; or
- excluded from the definition on the basis of share price or the issuer's net tangible assets.

These rules may restrict the ability of broker-dealers to trade or maintain a market in our common stock and may affect the ability of stockholders to sell their shares. The rules require broker-dealers who sell penny stocks to persons other than established customers and accredited investors to make a special suitability determination about the purchaser before for the purchase of the security. Accredited investors, in general, include individuals with assets in excess of $1,000,000 or annual income exceeding $200,000 or $300,000 together with their spouse, and certain institutional investors. The rules require the broker-dealer to receive the purchaser's written consent to the transaction prior to the purchase and require the broker-dealer to deliver a risk disclosure document relating to the penny stock prior to the first transaction. A broker-dealer also must disclose the commissions payable to both the broker-dealer and the registered representative, and current quotations for the security. Finally, monthly statements must be sent to purchasers disclosing recent price information for the penny stocks.

HOLDERS

As of March 29, 2006 we had 349 stockholders of record, which does not include shares held in "street accounts" of securities brokers that we estimate to be approximately 4,500.

DIVIDENDS

We have not paid cash or stock dividends, have no present plan to pay any dividends, and payment of any cash dividends on our common stock is unlikely. Instead, we intend to retain any earnings to finance the operation and expansion of our business

RECENT SALE OF UNREGISTERED SECURITIES

The following discussion describes all securities sold by View Systems during the fourth quarter of 2004 through the date of this filing that have not been previously disclosed.

On December 29, 2005, we issued 85,000 shares to Jennifer Seymour for $12,750, we issued 120,000 shares to Tim Clark for $18,000 and we issued 85,000 shares to John V. Addeo, Sr. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act.

On December 27, 2005, we authorized the issuance of options to purchase 2,500,000 shares to Business

12

Development Corporation, Inc., a Nevada corporation. Business Development Corporation, Inc. provides consulting services related to financing, public relations, business modeling and corporate development related to acquisitions, mergers and financing. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act.

On November 23, 2005, we issued 100,000 shares to Mark Mintz for $15,000. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act.

On November 17, 2005, we issued 70,000 shares to Doug Coombs for $10,500. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act.

On October 6, 2005, we authorized the issuance of 10,000 shares per month to John F. Alexander for engineering consulting. We relied on an exemption from registration for a private transaction not involving a public distribution provided by Section 4(2) of the Securities Act.

In connection with each of these isolated issuances of our securities, we believe that each purchaser:

- was aware that the securities had not been registered under federal securities laws;
- acquired the securities for his/its own account for investment purposes and not with a view to or for resale in connection with any distribution for purposes of the federal securities laws;
- understood that the securities would need to be indefinitely held unless registered or an exemption from registration applied to a proposed

disposition; and

.. was aware that the certificate representing the securities would bear a legend restricting their transfer.

ISSUER PURCHASE OF SECURITIES

None.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

EXECUTIVE OVERVIEW

Our product lines are related to visual surveillance, intrusion detection and physical security. Management believes that heightened attention to personal threats potential large scale destruction and theft of property in the United States and spending by the United States government on Homeland Security will continue to drive growth in the market for security products.

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

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

For the next twelve months our primary challenge will be to add new products and develop our sales and distribution network into additional regions and markets in the United States and abroad. We intend to increase sales by offering demonstrations of our products in specific geographical areas to potential customers or at region specific trade

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

In 2006 we will add three additional products which relate to sensing enriched nuclear material which may be used to build nuclear based explosive devices or for creating radiological disasters. These sensing devices will be integrated into our current products in addition to being used as stand alone handheld portable detectors. These products are based on existing patents owned by the United States government and are licensed exclusively to View Systems for the purpose of commercializing them for the public good.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred losses for the past two fiscal years and had a net loss of $2,243,976 at December 31, 2005. Approximately $1.5 million of this loss is due to compensation expense recognized for shares issued for services. Our revenues from product sales have been increasing but are not sufficient to cover our operating expenses. Our auditors have expressed substantial doubt that we can continue as a going concern. We are in default on some of our debt obligations at December 31, 2005 but continue to make payments. We have some financing commitments in place, but not enough to meet our expected cash requirements for 2006.

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

Historically, we have relied on private financing and revenues to satisfy our cash requirements for working capital. For the year ended December 31, 2005 ("2005") we received cash from revenues of $1,172,163, proceeds of $312,534 from sales of our common stock and relied on advances of $64,000 from Gunther Than, our CEO. For the year ended December 31, 2004 ("2004"), we received cash from revenues of $476,319, received proceeds of $933,800 from debt financing, proceeds of $157,900 from sales of common stock, and received advances from Mr. Than totaling $132,000. Due to the increase in revenues in 2005 we were less reliant on financing. Net cash provided by financing decreased in 2005 to $338,034 from $1,003,700 in 2004.

We use our cash for working capital and at our current revenue levels we will require an additional $500,000 during the last half of 2006 to cover our operating costs of approximately $100,000 per month. These operating costs include cost of sales, general and administrative expenses, salaries and benefits and professional fees related to contracting engineers. The engineering efforts were mainly applied to unit cost reduction of the SecureScan product which has been reduced in cost by more than 50% from $8,450 to $4,200 per unit.

We also rely on the issuance of our common stock to pay for services and to convert debt when cash is unavailable. In 2004 we issued 1,934,850 shares for services valued at $353,604 and 5,221,050 shares for debt valued at $702,105. In 2005 we issued 10,106,000 shares for services valued at $1,856,862 and 128,000 shares to convert debt of $19,000. As of the date of this filing we have approximately 9,000,000 authorized common shares remaining and management believes we will need to take the necessary steps to increase our authorized common stock during 2006.

Management believes revenues will continue to increase but not to the point of profitability in the short term. We will need to continue to raise additional capital, both internally and externally, to cover cash shortfalls and to compete in our markets. We cannot assure you that we will be able to obtain financing on favorable terms and 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%. Rent expense was $81,216 for 2005 compared to $61,047 for 2004. At December 31, 2005, future minimum payments for operating leases related to our office and manufacturing facility were $97,646 through December 31, 2008.

Our total current liabilities at December 31, 2005 included accounts payable of $343,430, accrued expenses of $43,229, accrued interest of $77,000, accrued royalties of 75,000, loans to an officer of 64,000 and notes payable of $110,000.

At December 31, 2004 we were in default on our debt obligations and did not have financing commitments in place to meet our expected cash requirements. Our auditors expressed substantial doubt that we could continue as a going concern based on these operating losses. To remedy this situation on September 22, 2005, we arranged for three accredited investors to pay notes payable of $237,357 that we owed to Niki Group, LLC and Compass Equity Partners LLC. In consideration for the pay-off of this debt our board of directors authorized the issuance of an aggregate of 2,390,000 shares to three investors. Starr Consulting, Inc. received 597,500 shares for $60,000 paid on the debt; Power Network, Inc. received 597,500 shares for $60,000 paid on the debt; and YT2K, Inc. received 1,195,000 shares for $120,000 paid on the debt.

Subscription Agreement

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

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

The agreement provides for piggy back registration rights for the shares underlying the convertible promissory notes. The agreement provides that we must file a registration statement within 60 days of a request by any Subscriber and cause the registration statement to become effective within 120 days of that request. We are obligated to maintain the effectiveness of the registration statement until all the underlying shares have been sold by the

Subscribers. If we fail to obtain or maintain effectiveness of the registration statement, then we are required to pay liquidated damages in an amount equal to 2% of the purchase price of the convertible promissory notes remaining unconverted and the purchase price of the shares issued upon conversion of the notes owned of record by the holder of the notes for each 30 day period that the registration statement is not effective. We filed a registration statement on Form SB-2 on October 12, 2005 to register the underlying shares, but as of the date of this filing, the registration statement has not been declared effective.

If we fail to issue shares within 10 business days after a request by a Subscriber, then the Subscriber is entitled to a sum of money, whichever is greater of either (i) multiplying the outstanding principal amount of the note designated

by the Subscriber by 130%, or (ii) multiplying the number of shares deliverable upon conversion of the amount of the note's principal and/or interest at the conversion price that would be in effect on the deemed conversion date by the highest closing price of the common stock on the principal market for the period commencing on the deemed conversion date until the day prior to the receipt of the payment.

OFF-BALANCE SHEET ARRANGEMENTS

None.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates of particular significance in our financial statements include annual tests for impairment of our licenses. These estimates could likely be materially different if events beyond our control, such as changes in government regulations that affect the usefulness of our licenses or the introduction of new technologies that compete directly with our licensed technologies affect the value of our licenses.

We first determine the value of the license using a projected cash-flow analysis to determine the present value of cash flows. The test is done using assumptions as to various scenarios of increases and decreases in the revenue stream and applying a discount rate of 6%. If the value achieved under these various methods is less than the carrying value of the assets then it is considered that an impairment has occurred and the asset's carrying value is adjusted to reflect the impairment.

Management also makes estimates on the useful life of our licenses based on the following criteria:

.. Whether other assets or group of assets are related to the useful life of the licenses,

.. Whether any legal, regulatory or contractual provisions will limit the use of the assets,

.. We evaluate the cost of maintaining the license,

.. We consider the possible effects of obsolescence, and

.. Whether there is maintenance or any other costs associated with the license.

RESULTS OF OPERATIONS

The following discussions are based on the consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the years ended December 31, 2005 and 2004 and should be read in conjunction with the financial statements, and notes thereto, included with this report at Item II, Part 7, below.

Summary Comparison of 2005 and 2004 Fiscal Year Operations

	2005	2004
Revenues, net	$ 1,172,163	$ 476,319
Cost of sales	629,319	257,179
Gross profit (loss)	542,844	219,140
Total operating expenses	2,900,136	1,369,474
Loss from operations	(2,357,292)	(1,150,334)

Total other income (expense)	(11,684)	(36,144)
Net income (loss)	(2,368,976)	(1,186,478)
Net earnings (loss) per share	$ (0.03)	$ (0.02)

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 2005 compared to 2004. 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 2005 resulted in an increased gross profit for 2005 compared to 2004.

The following chart provides a breakdown of our sales in 2004 and 2005.

	Dec. 31, 2004	Dec. 31, 2005
Secure Scan	$ 24,800	$ 727,895

ViewMaxx	153,271	50,412
Visual First Responder	296,100	362,340
Service	2,148	31,516

Our backlog at December 31, 2005, was $200,000, down from $700,000 at September 30, 2005. The reduction in backlog is primarily a result of outsourcing our manufacturing. Our back log is more manageable and is in part carried by the third party manufacturers because purchase orders are placed with the manufacturers and they receive payment when we receive payment from the customer. However, the delay between the time of the purchase order and shipping of the product results in a delay of recognition of the revenue from the sale. This delay in recognition of revenues will continue as part of our results of operations.

Cost of sales include costs of products sold and shipping costs and were approximately 54% of net revenues for both 2004 and 2005. Management anticipates that the relative margins of each product line should remain relatively the same during 2006.

For 2005 total operating expense increased in 2005 compared to 2004. The increase in 2005 was primarily a result of $1,774,696 of professional fees expense. Approximately $1.5 million of the professional fees expense is related to consulting contracts with third parties for legal, corporate development and investor relations services. Management anticipates that our professional fees related to consulting contracts will decrease in the next quarter due to the non-recurring nature of these third party consulting contracts.

Total other expense for the 2005 and 2004 comparable periods was related to interest on loans. Management anticipates interest expense to increase as a result of the subscription agreement with the Subscribers, described above, and our need to seek further private financing in the future to cover cash shortfalls.

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

FACTORS AFFECTING FUTURE PERFORMANCE

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

We have incurred ongoing operating losses and do not currently have financing commitments in place to meet expected cash requirements for the next twelve months. Our net loss for the year ended December 31, 2005 was

$2,368,976 and our net loss for the year ended December 31, 2004 was $1,186,478. Our retained deficit was $18,060,472 at December 31, 2005. 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 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 agencies and partners.

While we own exclusive licenses for the SecureScan technology, we are dependent upon the continuation of the ongoing contract between the Department of Energy and National Institute of Justice for continuations and improvements to the concealed weapons detection technology. We are also reliant upon the Department of Energy and National Institute of Justice for continuations and improvements to the Visual First Responder. If either of these entities should discontinue its operations or research and development we may lose our competitive edge in our market.

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

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

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

Currently, our directors and executive officers collectively hold approximately 58.8% of the voting power of our common and preferred stock entitled to vote on any matter brought to a vote of the stockholders. Specifically, Gunther Than, our CEO, holds approximately 57.0 % of the total voting power as of the date of this report. Pursuant to Nevada law and our bylaws, the holders of a majority of our voting stock may authorize or take corporate action with only a notice provided to our stockholders. A stockholder vote may not be made available to our minority stockholders, and in any event, a stockholder vote would be controlled by the majority stockholders. As a result, our minority stockholders may not have the opportunity to approve or consent to corporate actions or other transactions. This concentration of ownership may also have the effect of delaying or preventing a change in control.

Failure to achieve and maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could lead to loss of investor confidence in our reported financial information.

Pursuant to proposals related to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 10-KSB for the fiscal year ending December 31, 2007, we will be required to furnish a report by our management on our internal control over financial reporting. If we cannot provide reliable financial reports or prevent fraud, then our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

In order to achieve compliance with Section 404 of the Act within the prescribed period, we will need to engage in a process to document and evaluate our internal control over financial reporting, which will be both costly and challenging. In this regard, management will need to dedicate internal resources, engage outside consultants and adopt a detailed work plan.

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

ITEM 7. FINANCIAL STATEMENTS

VIEW SYSTEMS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2005 AND 2004

C O N T E N T S

Chisholm
Bierwolf &
Nilson, LLC
Certified Public Accountants

533 West 2600 South, Suite 25
Bountiful, Utah 84010
Phone: (801) 292-8756
Fax: (801) 292-8809

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the Board of Directors and Stockholders
View Systems, Inc.
Baltimore, Maryland

We have audited the accompanying consolidated balance sheet of View Systems, Inc., (the Company) as of December 31, 2005, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 2005 and 2004. These consolidated financial statements are the responsibility of Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the PCAOB (United

States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying consolidated balance sheet as of December 31, 2005 and the related consolidated statements of operations, changes in stockholders' equity and cash flows for the years ended December 31, 2005 and 2004 present fairly, in all material respects, the financial position of the Company as of December 31, 2005, and the results of operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of View Systems, Inc. as of December 31, 2005 and the result of its operations, and its cash flows for the years ended December 31, 2005 and 2004 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has incurred ongoing operating losses and does not currently have financing commitments in place to meet expected cash requirements through 2006. Additionally, the Company is in default on some of its debt obligations. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty.

/s/ Chisholm, Bierwolf & Nilson, LLC

Chisholm, Bierwolf & Nilson, LLC
Bountiful, Utah
March 1, 2006

View Systems, Inc. and Subsidiaries
Consolidated Balance Sheets

ASSETS

	December 31, 2005
Current Assets	
Cash	$ 8,708
Accounts Receivable(Net of Allowance of $68,539)	280,001
Inventory	72,012
Total Current Assets	360,721
Property & Equipment (Net)	18,043
Other Assets	
Licenses	1,626,854
Due from Affiliates	95,575
Deposits	7,291
Total Other Assets	1,729,720
Total Assets	$ 2,108,484

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities	
Accounts Payable	$ 343,430
Accrued Expenses	43,229
Accrued Interest	77,000
Accrued Royalties	75,000
Loans from Shareholder	64,000
Notes Payable	110,000
Total Current Liabilities	712,659
Stockholders' Equity	
Preferred Stock, Authorized 10,000,000 Shares, $.01 Par Value, Issued and outstanding 7,171,725	71,717
Common Stock, Authorized 100,000,000 Shares, $.001 Par Value, Issued and Outstanding 90,775,752	90,776
Additional Paid in Capital	19,293,804
Retained Earnings (Deficit)	(18,060,472)
Total Stockholders' Equity	1,395,825
Total Liabilities and Stockholders' Equity	$ 2,108,484

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

View Systems, Inc. and Subsidiaries
Consolidated Statements of Operations

	For the Year Ended December 31, 2005	2004 (Restated)
Revenues, Net	$ 1,172,163	$ 476,319
Cost of Sales	629,319	257,179
Gross Profit (Loss)	542,844	219,140
Operating Expenses		
General & Administrative	347,016	281,127
Professional Fees	1,774,696	286,323
Bad Debts	48,485	148,928
Salaries & Benefits	729,939	653,096
Total Operating Expenses	2,900,136	1,369,474
Net Operating Income (Loss)	(2,357,292)	(1,150,334)
Other Income(Expense)		
Interest Expense	(11,684)	(36,144)
Total Other Income(Expense)	(11,684)	(36,144)
Net Income (Loss)	$ (2,368,976)	$ (1,186,478)
Net Income (Loss) Per Share	$ (0.03)	$ (0.02)
Weighted Average Shares Outstanding	80,462,924	68,924,152

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	Re Ea (D
Balance, December 31, 2003	-	$ -	62,730,619	$ 62,730	$ 15,604,609	$(14
Cancellation of shares	-	-	(100,000)	(100)	(4,900)	
January - March 2004 - shares issued for cash	-	-	244,500	245	34,755	
January - March 2004 - shares issued for services	-	-	932,000	932	203,048	
April - June 2004 - shares issued for cash	-	-	84,333	84	11,916	
April - June 2004 - shares issued for services	-	-	221,250	221	39,979	
June 2004 - shares issued for payment of notes payable and accrued interest	-	-	5,221,050	5,221	516,884	
July - September 2004 - shares issued for cash	-	-	100,000	100	19,900	
July - September 2004 - shares issued for services	-	-	781,600	782	108,642	
September 2004 - shares issued in settlement of litigation	-	-	2,000,000	2,000	178,000	
October - December 2004 - shares issued for cash	-	-	1,066,750	1,067	89,833	
December 2004 - shares issued for payment of notes payable and accrued interest	-	-	3,251,820	3,252	321,930	
Cost of issuance of common stock	-	-	-	-	(5,000)	
Net loss for the year ended December 31, 2004	-	-	-	-	-	(1
Balance, December 31, 2004	-	-	76,533,922	76,534	17,119,596	(15
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	
July - September 2005 - shares issued for services	-	-	150,000	150	37,998	
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
Balance, December 31, 2005	7,171,725	$ 71,717	90,775,752	$ 90,776	$ 19,293,804	$(18

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

24

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

	For the Year Ended December 31, 2005	For the Year Ended December 31, 2004 (Restated)
Cash Flows from Operating Activities:		
Net Income (Loss)	$ (2,368,976)	$ (1,186,478)
Adjustments to Reconcile Net Loss to Net Cash Provided by Operations:		
Depreciation & Amortization	15,861	29,890
Bad Debts	48,485	148,928
Bad Debts recoveries		
Accrued interest paid with stock	-	13,987
Stock Issued for Services	1,928,633	353,604
Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		

Accounts Receivable	(220,144)	(32,182)
Inventories	(10,815)	32,044
Other Assets	(4,972)	2,500
Increase (Decrease) in:		
Accounts Payable	96,655	(208,439)
Accrued Expenses	28,681	(3,967)
Net Cash Provided(Used) by Operating Activities	(486,592)	(850,113)
Cash Flows from Investing Activities:		
Additions to fixed assets	(19,102)	-
Advances (to)/ receipt from related party	2,882	-
Net Cash Provided (Used) by Investing Activities	(16,220)	-
Cash Flows from Financing Activities:		
Funds advanced (to) from stockholders	64,000	-
Proceeds from debt financing	-	933,800
Proceeds from stock issuance	312,534	157,900
Cost of issuance of common stock	-	(5,000)
Principal Payments on Notes Payable	(38,500)	(83,000)
Net Cash Provided (Used) by Financing Activities	338,034	1,003,700
Increase (Decrease) in Cash	(164,778)	153,587
Cash and Cash Equivalents at Beginning of Period	173,486	19,899
Cash and Cash Equivalents at End of Period	$ 8,708	$ 173,486

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

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

	For the Year Ended December 31,	
	2005	2004
		(Restated)
Cash Paid For:		
Interest	$ 684	$ 25,144
Income Taxes	$ -	$ -
Non-Cash Investing and Financing Activities:		
Stock Issued in payment for Note Payable	$ -	$ 833,300
Stock issued in payment of accounts payable	$ 19,000	$ 200,000

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

VIEW SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

View Systems, Inc. (the "Company") designs and develops computer software and hardware used in conjunction with surveillance capabilities. The technology utilizes the compression and decompression of digital inputs. In March 2002, the Company acquired Milestone Technology, Inc., which has developed a concealed weapons detection portal.

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Milestone Technology, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less to be cash equivalents.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from the estimates that were used.

Accounts Receivable

Accounts receivable consists of amounts due from customers. Management periodically reviews the open accounts and makes a determination as to the ultimate collectibility of each account. Once it is determined that collection is in doubt the account is written off as a bad debt. In order to provide for accounts that may become uncollectible in the future, the Company has established an allowance for doubtful accounts. The balance of the allowance for doubtful accounts is based on management's judgment and the Company's prior experience with managing accounts receivable.

VIEW SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company has three main products, namely the concealed weapons detection system, the visual first responder system and the Viewmaxx digital video system. In all cases 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. The customer can engage us for installation and training, which 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. However, the customer can also self install or can engage another firm to provide installation and training. Each product has an unconditional 30 day warranty, during which time the product can be returned for a complete refund. Prior to the issuance of financial statements management reviews any returns subsequent to the end of the accounting period which are from sales recognized during the accounting period, and makes appropriate adjustments as necessary. Product prices are fixed or determinable and products are only shipped when collectibility is reasonably assured.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in-first-out method (LIFO). All inventory as of December 31, 2005 consisted of finished goods.

Property and Equipment

Property and equipment is recorded at cost and depreciated over their useful lives, using the straight-line and accelerated depreciation methods. Upon sale or retirement, the cost and related accumulated depreciation are eliminated from the respective accounts, and the resulting gain or loss is included in the results of operations. The useful lives of property and equipment for purposes of computing depreciation are as follows:

Equipment	5-7 years
Software tools	3 years

Repairs and maintenance charges which do not increase the useful lives of assets are charged to operations as incurred. Depreciation expense for the years ended December 31, 2005 and 2004 amounted to $15,861 and $29,890, respectively.

VIEW SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Licenses

In connection with the acquisition on Milestone, the Company received various licenses to products developed by INEEL (Idaho National Engineering and Environmental Laboratory). Milestone transferred the licenses to View Systems, Inc., and in November 2003, two separate licenses were signed in the name of View Systems with Bechtel BWXT Idaho, LLC (BBWI).

BBWI is the management and operating contractor of the INEEL under its Contract No. DE-AC07-99ID13727 ("M&O Contract") and has the authorization, right and ability to grant the license of the Agreement. The licenses allow View Systems to commercially develop, manufacture, use, sell and distribute processes and products embodying the U.S. Patent No. 6.150.810 "Method for Detecting the Presence of a Ferromagnetic Object Using Maximum and Minimum Magnetic Field Data", and U.S. Patent Application S/N 10/623,372, "Communication Systems, Camera Devices, and Communication Methods".

The valuation of these licenses consist of the cost of acquiring Milestone, ie the difference of the cost paid for the entity vs. the value of the underlying assets and liabilities which was determined to be $1,626,866. Consistent with SFAS No. 142, the license was analyzed to determine if any impairment existed at December 31, 2005. It was determined to not be impaired. Pursuant to SFAS No. 142, the license will not be amortized, rather the valuation of this intangible will be reviewed periodically.

Income Taxes

Deferred income taxes are recorded under the assets and liability method whereby deferred tax assets and liabilities are recognized for the future tax consequences, measured by enacted tax rates, attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the rate change becomes effective. Valuation allowances are recorded for deferred tax assets when it is more likely than not that such deferred tax assets will not be realized.

Research and Development

Research and development costs are expensed as incurred. Equipment and facilities acquired for research and development activities that have alternative future uses are capitalized and charged to expense over the estimated useful lives.

VIEW SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Advertising

Advertising costs are charged to operations as incurred. Advertising costs for the years ended December 31, 2005 and 2004 were $26,024 and $10,214.

Nonmonetary Transactions

Nonmonetary transactions are accounted for in accordance with Accounting Principles Board Opinion No. 29, "Accounting for Nonmonetary Transactions" which requires the transfer or distribution of a nonmonetary asset or liability to be based generally, on the fair value of the asset or liability that is received or surrendered, whichever is more clearly evident.

Financial Instruments

For most financial instruments, including cash, accounts receivable, accounts payable and accruals, management believes that the carrying amount approximates fair value, as the majority of these instruments are short-term in nature.

Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss available to common stockholder by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares and dilutive potential common share equivalents then outstanding. Potential common shares consist of shares issuable upon the exercise of stock options and warrants. The calculation of the net loss per share available to common stockholders for the years ended December 31, 2005 and 2004 does not include potential shares of common stock equivalents, as their impact would be antidilutive. The following reconciles amounts reported in the financial statements:

	Income (Numerator)	Shares (Denominator)	Per-share Amount
Year ended December 31, 2005			
Income (loss) from continuing operations which is the amount that is available to common stockholders	$ (2,243,976)	80,462,924	$ (0.03)
Basic and fully diluted earning per share			$ (0.03)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Loss Per Common Share

Year ended December 31, 2004

Income (loss) from continuing operations which is the amount that is available to common stockholders	$ (1,186,478)	68,924,152	$ (0.02)
Basic and fully diluted earning per share			$ (0.02)

As of December 31, 2005 and 2004 there were unexercised options for 107,690 shares. However due to operating losses in both years, these shares are considered to be antidilutive in nature.

2. GOING CONCERN

The Company has incurred and continues to incur, losses from operations. For the years ended December 31, 2005 and 2004, the Company incurred net losses of $2,368,976 and $1,186,478, respectively. During 2005 and 2004, the Company implemented marketing and information strategies to increase public awareness of its products and thereby sales. It also was able to reduce the per unit cost of manufacturing its products. Additionally, the Company has increased the efficiency of its processes and focused its development efforts on products with greater sales potential.

Historically, the Company has financed its operations primarily through private financing however increases in sales revenue during 2005 made a significant contribution to working capital. It is management's intention to finance operations during 2006 primarily through increased sales although there will still be a need for additional equity financing. There can be no assurance, however, that this financing will be successful and the Company may be required to further reduce expenses and scale back operations.

3. NEW ACCOUNTING PRONOUNCEMENTS

In May 2005, the FASB issued statement No. 154, "Accounting Changes and Error Corrections", a replacement of APB Opinion No. 20, "Accounting Changes" and a replacement of FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements". FASB 154 changes the accounting for, and reporting of, a change in accounting principle. The statement requires retrospective application to prior period's financial statements of voluntary changes in accounting principles and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impracticable to do so.

3. NEW ACCOUNTING PRONOUNCEMENTS

statement is effective for accounting changes and corrections of errors in fiscal years beginning after December 15, 2005. Earlier application is permitted for accounting changes and corrections of errors during fiscal years beginning after June 1, 2005.

In December 2004, FASB issued a revision to SFAS 123 "Share-Based Payment". This Statement is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. This Statement supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." This Statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, Employers' Accounting for Employee Stock Ownership Plans. The Company does not believe adoption of this revision will have a material impact on the Company's consolidated financial statements.

In December 2004, FASB issued SFAS 153 "Exchanges of Nonmonetary Assets-an amendment of APB Opinion No. 29". The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company does not believe adoption of SFAS 153 will have any impact on the Company's consolidated financial statements.

In December 2004, FASB issued SFAS 152 "Accounting for Real Estate Time-Sharing Transactions-an amendment of FASB Statements No. 66 and 67". This Statement amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions.

VIEW SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

3. NEW ACCOUNTING PRONOUNCEMENTS

This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2. This Statement is effective for financial statements for fiscal years beginning after June 15, 2005. The Company does not believe adoption of SFAS 152 will have any impact on the Company's consolidated financial statements.

In November 2004, the FASB issued SFAS 151 "Inventory Costs-an amendment of ARB No. 43". This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement shall be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe adoption of SFAS 151 will have any impact on the Company's consolidated financial statements.

4. BUSINESS COMBINATION

The Company purchased 100% of the common stock of Milestone Technology, Inc., effective March 25, 2002. The purchase was accomplished in two transactions. The Company acquired 6% of Milestone in December 2001 in exchange for 500,000 shares of the Company's common stock. In March 2002, the Company acquired the remaining 94% of Milestone for 3,300,000 share of the Company's common stock. Based on the market value of the Company's common stock ($0.55 per share in December and $0.31 per share in March) the total cost of the acquisition was $1,298,000.

Milestone Technology, Inc., is a developer of concealed weapons detections systems. Its primary product is a walk-through detector that uses advanced magnetic technology to accurately pinpoint the location, size, and numbers of concealed weapons. Prior to its acquisition, Milestone Technology, Inc., was considered to be a development stage enterprise.

5. DUE FROM AFFILIATED ENTITIES

The Company has advanced non-interest bearing funds of $95,575 as of December 31, 2005 and $98,478 as of December 31, 2004 to a related corporation, View Technologies, Inc., which is controlled by the Chief

Executive Officer of the Company. There are no formal repayment terms associated with this advance. The two companies enter into various transactions throughout the year to provide working capital to one another when necessary. Management does not believe the advance to be uncollectible.

6. NOTE PAYABLE

Notes payable as of December 31, 2005 consist of $110,000 due former stockholder of Xyros Technology. The loan is due on demand, interest at 10% per annum.
The note , which was acquired by the Company in 1999 was due December 31, 1999 but the Company has negotiated to repay the loan as cash flow permits.

7. INCOME TAXES

The components of the net deferred tax asset and liability as of December 31, 2005 are as follows:

Effect of net operating loss carryforward	$ 8,363,154
Less evaluation allowance	(8,363,154)
Net deferred tax asset (liability)	$ -

The components of income tax expense (benefit) are as follows:

	Year ended December 31, 2005	2004
Net loss per financial statements which approximates net loss per income tax returns	$ (2,368,976)	$ (1,186,478)
Income tax expense (benefit) applying prevailing Federal and state income tax rates	(914,898)	(458,218)
Less valuation allowance	914,898	458,218
Net income tax expense (benefit)	$ -	$ -

Net income tax benefit is not recognized at this time because there is no reasonable expectation that the benefit will be realized in the future.

8. PREFERRED STOCK

In July 2005 the Company issued 7,171,725 shares of Series A Preferred Stock in payment of services. The issuance had been previously authorized by the Board of Directors. Each share of Series A Preferred Stock has a liquidation preference, in the event of liquidation of the corporation, of

$0.01 per share before any payment or distribution is made to the holders of common stock. The Series A Preferred has no conversion rights into common stock. Each share is entitled to fifteen votes and shall be entitled to vote on any matters brought to a vote on the common stock shareholder.

9. OPERATING LEASE

The Company leases office and warehouse space in Baltimore, Maryland under a three-year noncancellable operating lease, expiring October 2008. Base rent is $2,872 per month with an annual rent escalator of 3%. Rent expense was $81,216 and $61,047 for the years ended December 31, 2005 and 2004, respectively.

The following is a schedule by year, of approximate future minimum lease payments required under this lease:

Year ending December 31:	
2006	34,464
2007	35,762
2008	27,420
Total minimum future rental payments	$ 97,646

10. STOCK BASED COMPENSATION

During the years ended December 31, 2005 and 2004 the Company granted restricted stock, incentive stock options, nonqualified stock options, and warrants to employees, officers, and independent contractors and consultants.

VIEW SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

10. STOCK BASED COMPENSATION

Restricted Stock Grants

The Company's Board of Directors and stockholders have approved a restricted share plan under which shares of the Company's common stock will be granted to employees, officers and directors at the discretion of the Board of Directors. During 2005 and 2004, the Company issued the following shares under this Plan and additional shares at the discretion of the Board of Directors:

	2005		2004	
	Number of Shares	Expense Recognized	Number of Shares	Expense Recognized
Officers and employees	2,907,000	$ 294,540	702,000	$ 144,480
Independent contractors				

and consultants	7,199,000	1,562,376	1,502,850	209,124
Total	10,106,000	$1,856,916	2,725,000	$ 353,604

Officers' and employees' compensation was based on the fair market value of the common stock issued on the date of grant less a discount of 10% due to the restricted nature of the grant. Independent contractors and consultants expense was based on the estimated value of services rendered.

Stock Options and Warrants

The Company adopted the 1999 Stock Option Plan during the year ended December 31, 1999. The Plan reserves 4,500,000 shares of the Company's unissued common stock for options. Options, which may be tax qualified and non-qualified, are exercisable for a period of up to ten years at prices at or above market price as established on the date of the grant.

A summary of the Company's common stock option activity and related information for the years ended December 31, 2005 and 2004 is as follows:

	2004		
	Common Stock Options	Weighted Average Exercise Price	Range of Exercise Price
Outstanding at beginning of year	107,690	$ 1.63	$ .01 - 2.07
Granted	-	-	-
Exercised	-	-	-
Expired/Cancelled	-	-	-
Outstanding at end of year	107,690	$ 1.63	$ .01 - 2.07

10. STOCK BASED COMPENSATION

	2005		
	Common Stock Options	Weighted Average Exercise Price	Range of Exercise Price
Outstanding at beginning of year	107,690	$ 1.63	$ .01 - 2.07
Granted	-	-	-
Exercised	-	-	-
Expired/Cancelled	-	-	-
Outstanding at end of year	107,690	$ 1.63	$ .01 - 2.07

========== ============= ===============

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123), but applies Accounting Principle Board Opinion No. 25 and related interpretations. There were no stock options granted during the years ended December 31, 2005 and 2004.

11. RELATED PARTY TRANSACTIONS

In order for the Company to meet its financial obligations, the Company's President, Gunther Than, loans the Company funds on occasion and is repaid when funds are available. During 2005 and 2004 Mr. Than advanced to Company a total of $64,000 and $132,000, respectively. Amounts paid back to Mr. Than in 2005 totaled $0 in 2005 and $132,000 in 2004, leaving balances due as of December 31, 2005 and 2004 of $64,000 and $0, respectively.

12. RECLASSIFICATION

The statement of operations for the year ended December 31, 2004 was adjusted for presentation reclassifications. Bad debt expense in the amount of $148,928 was moved from other income and expenses to operating expenses. The effect was a decrease in the loss from operations of $148,928. There was no change to net income for the year.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

On March 2, 2004, we filed a current report on Form 8-K, dated February 24, 2004, under Item 4 related to the engagement of Chisholm, Bierwolf & Nilson, LLC as our independent auditor. On March 3, 2004 we filed an amendment to this report related to the resignation of our former auditor, Stegman & Company, Certified Public Accountants.

ITEM 8A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our filings under the Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC. This information is accumulated and communicated to our executive officers to allow timely decisions regarding required disclosure.

Our Chief Executive Officer, who also acts in the capacity of principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the fiscal year 2005. He concluded that our disclosure controls and procedures were not effective as of December 31, 2005. His evaluation identified a weakness in our disclosure controls and procedures with respect to accounting entries related to loans receivable and payable to our executive officers. An error was made in 2004 where a payment from Mr. Than was incorrectly recorded as a loan to Mr. Than. As a result of this error, we were required to restate our financial statements for the year ended December 31, 2004 and the interim quarterly financial statements for 2005. Management is taking steps to implement appropriate corrective action including, but not limited to, changes to the way we process advances and payments to a director and executive officer.

Other than the actions described above, there has been no change in our internal control over financial reporting during the year ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 8B. OTHER INFORMATION

None.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS, COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

DIRECTORS AND EXECUTIVE OFFICERS

The name, age, position and biographical information of our executive officers and directors are presented below. Our bylaws provide for a board of directors consisting of at least one director. The term of office of each director is until the next annual meeting of stockholders or until the director's earlier death, resignation, or removal. However, if his term expires, he continues to serve until his successor is elected and qualified. Executive officers are chosen by our board of directors and serve at its discretion. There are no family relationships between or among any of our directors and executive officers.

Name	Age	Position	Director Since
Gunther Than	58	Chief Executive Officer, Treasurer, and Director	September 1998
Michael L. Bagnoli	50	Secretary and Director	May 1999
Martin Maassen	63	Director	May 1999

Gunther Than - Gunther Than was appointed Treasurer in July 2003 and has served as our Chief Executive Officer since September 1998. He served as our President from September 1998 to May 2003 and had served intermittently as Chairman of the Board from September 1998 to September 2003. Mr. Than was the founder, President and CEO of Real View Systems, Inc., a company that developed compression technology and computer equipment. Real View Systems was acquired by View Systems in 1998. Mr. Than is the founder, President and CEO of View Technologies, Inc., a software development company, and he continues in those positions. Mr. Than is a graduate of the University of Wisconsin, with a dual Bachelors degree in engineering physics and applied mathematics.

Michael L. Bagnoli - Mr. Bagnoli became a Director in May 1999 and was appointed Secretary in June 2004. He holds degrees as a medical doctor and a dental specialist. Since 1988 he has practiced dentistry in the specialty area of oral and masiofacial surgery for a physician group in Lafayette, Indiana. In his practice he introduced arthroscopy surgery along with the full scope of arthroplastic and total joint reconstruction. Mr. Bagnoli was founder, CEO and president of a successful medical products company, Biotek, Inc., which was sold in 1994.

Martin Maassen - Mr. Maassen became a Director in May 1999, he formerly served as our Chairman of the Board from April 2000 to September 2002. From September 1995 to the present he is a staff physician at Lafayette Emergency Care, P.C. located in Lafayette, Indiana. He is board-certified in internal medicine and emergency medicine and has served as a staff physician in the emergency departments of Jackson County, Deaconess, Union and St. Elizabeth hospitals located in Indiana. In addition to practicing medicine, he maintains an expertise in computer technologies and their medical applications.

AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that we have one audit committee financial expert serving on our audit committee. Ms. Susan Mrzlack serves on our audit committee and is a certified public accountant and, pursuant to NASD Rule 4200(a)(15), we believe Ms. Mrzlack is independent.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and person who own more than ten percent of our common stock to file initial reports of ownership and reports of changes in ownership of our common stock with the SEC. Officers, directors and ten-percent or greater beneficial owners are required by SEC regulations to furnish us with copies of all Section 16(a) reports they file. Based upon review of the copies of such forms furnished to us during the fiscal year ended December 31, 2005, and representations from reporting persons whether Forms 5 were not required, we believe Mr. Than filed late three Forms 4 related to 16 transactions. Mr. Maassen filed late two Forms 4 related to 7 transactions.

CODE OF ETHICS

We have not adopted a code of ethics for our principal executive and financial officers. However, our management intends to promote honest and ethical conduct, full and fair disclosure in our reports to the SEC, and compliance with applicable governmental laws and regulations.

ITEM 10. EXECUTIVE COMPENSATION

The following table shows the compensation paid to our named executive officers in all capacities during the past three fiscal years.

SUMMARY COMPENSATION TABLE

	Annual Compensation		
Name and Principal Position	Fiscal Year	Salary	Other
Gunther Than	2005	$100,000 (1)	$ 0

CEO, Treasurer	2004	100,000 (1)	120,000 (2)
Director	2003	100,000 (1)	138,000 (3)
Michael L. Bagnoli	2005	$ 0	$ 12,000 (4)
Director and Secretary	2004	0	0
	2003	0	0

(1) Represents accrued salary.
(2) Represents 600,000 common shares issued as compensation.
(3) Represents 1,150,000 common shares issued as compensation.
(4) Represents 120,000 common shares issued as compensation.

COMPENSATION OF DIRECTORS

We compensate our independent directors with 5,000 shares of our common stock for each month of service. We determined independence in accordance with by NASD Rule 4200(a)(15). We do not have any arrangement for cash compensation of our directors for the services they provide in their capacity as directors, including services for committee participation or for special assignments. As an independent director Mr. Maassen accrued 60,000 shares for the year ended December 31, 2005. As of the date of this filing, we have not issued the accrued shares to Mr. Maassen.

EMPLOYMENT CONTRACTS

Mr. Than entered into an employment agreement with us and agreed to serve as our Chief Executive Officer, effective January 1, 2003. Mr. Than's employment is "at will" and we may terminate him with or without cause. Either party may terminate his employment with a 30-day written notice or we may terminate him immediately and provide Mr. Than with severance pay in an amount equal to thirty (30) days of salary as of the date of termination. Mr. Than will receive an annual salary of $100,000 and 50,000 shares of common stock for each month of service. Mr. Than has agreed to maintain the confidentiality of our trade secrets and not to compete with the company or to solicit any employee or client of the company during his employment and for a period of one year after any termination of his employment.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

SECURITIES UNDER EQUITY COMPENSATION PLANS

The following table lists the securities authorized for issuance under any equity compensation plans approved by our shareholders and any equity compensation plans not approved by our shareholders at the year ended December 31, 2005.

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities remaining available for future issuance under equity

Plan category	Number of securities to be issued upon exercise of out-standing options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	0	$ 0. 00	0
Equity compensation plans not approved by security holders	107,690	1.63	4,392,310
Total	107,690	$ 1.63	4,392,310

Our shareholders approved the 2000 Restricted Share Plan and our board of directors adopted the 1999 Stock Option Plan. The purpose of the plans is to retain employees, management and consultants by granting options to employees, directors, officers and consultants. Both plans have a term of 10 years. Pursuant to the 2000 Restricted Share Plan our board of directors granted 11,820,589 shares during 2002, 2,725,000 shares in 2003 and 2,204,850 for the 2004 year. Under the 1999 Stock Option Plan our board of directors reserved 4,500,000 shares and granted options to purchase 107,690 shares before 2002. The options must be 100% of the fair market value of our common stock on the date of grant and the options expire after five years.

BENEFICIAL OWNERS

The following table lists the beneficial ownership of our management. We are unaware of any person or group that beneficially owns 5% or more of our outstanding common stock. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to the shares. Except as indicated by footnote, the persons named in the table below have sole voting power and investment power with respect to all shares of common stock shown as beneficially owned by them. The percentage of beneficial ownership is based on 90,702,422 outstanding shares of common stock as of March 29, 2006 and any shares that each of the following persons may acquire within 60 days by the exercise of warrants and/or options.

MANAGEMENT

Name and address of beneficial owner	Title of class	Amount of beneficial ownership	Percent of class
Michael L. Bagnoli 40 Redwood Court Lafayette, Indiana 47905	Common	720,000 (1)	Less than 1%
Martin Maassen 1340 Fawn Ridge Drive West Lafayette, Indiana 47906	Common	2,449,919 (2)	2.7%

Gunther Than 1550 Caton Center Drive, Suite E Baltimore, Maryland 21227	Common Preferred	4,819,140 (3) 7,171,725	5.3% 100%

Directors and officers as a group	Common Preferred	7,989,059 7,171,725	8.8% 100%

(1) Represents 610,000 shares held by Mr. Bagnoli, 40,000 shares held by his spouse and 70,000 shares held by a trust.
(2) Represents 1,699,919 held by Mr. Maassen and his spouse and 750,000 shares held by his spouse
(3) Represents 4,649,140 shares owned by Mr. Than and 170,000 shares held by his spouse.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following information summarizes transactions exceeding $60,000 we have either engaged in during the last two years, or propose to engage in, involving our executive officers, directors, more than 5% stockholders, or immediate family members of these persons. These transactions were negotiated between related parties without "arms length" bargaining and, as a result, the terms of these transactions may be different than transactions negotiated between unrelated persons.

Our CEO, Gunther Than, loans funds to View Systems on occasion in order for us to meet our financial obligations. He is repaid when funds are available. During 2005 Mr. Than advanced $64,000 and in 2004 he advanced a total of $132,000. We owe him $64,000 as of December 31, 2005.

In April 2005 we issued an aggregate of 1,800,000 shares of common stock to Gunther Than, our Chief Executive Officer and director, in accordance with his employment agreement. Of those shares, 1,200,000 shares were in lieu of wages of $100,000 and 600,000 shares were issued in accordance with the 50,000 shares a month requirement in his employment contract. In April 2004 we issued 600,000 shares to Mr. Than in accordance with his employment agreement.

In June 2005, our board of directors authorized the issuance of 7,171,725 shares of Series A Preferred Stock to Mr. Than in consideration for conversion of notes payable of $48,000 and services rendered to the company valued at $23,717. The 7,171,725 shares of Series A Preferred represent 107,575,875 votes on any matter brought to a stockholder vote. Prior to this transaction Mr. Than held 7.5% of the voting power of the common stock. Immediately after this transaction, Mr. Than held 60.9% of the total voting power of the common and Series A Preferred.

Mr. Than is the President and CEO of View Technologies, Inc., a private company that develops software. Mr. Than devotes approximately 12 hours a week to View Technologies, Inc. Our Board is aware of his position in View Technologies, Inc. and believes that there are no conflicts of interest resulting from his positions in both companies. During 2004 we advanced non-interest bearing funds of $98,478 to View Technologies, Inc. and during 2005 we issued $95,575 to View Technologies, Inc. There are no formal repayment terms associated with this advance. The companies enter into various transactions throughout the year to provide working capital to one another when necessary.

On June 21, 2005, we issued 522,000 shares of common stock to Martin J. Maassen for advances to the company of $52,000 and we issued 230,000 shares of common stock to Michael L. Bagnoli for direct investments to the company of $11,000 and director and other services rendered to the company.

ITEM 13. EXHIBITS

No.	Description
3.1	Articles of Incorporation of View Systems, as amended (Incorporated by reference to exhibit 3.1 to Form 10-QSB, filed November 14, 2003)
3.2	By-Laws of View Systems (Incorporated by reference to exhibit 3.2 to Form 10-QSB, filed November 14, 2003)
4.1	View Systems, Inc. 2005(b) Professional/Consultant Compensation Plan, dated November 7, 2005 (Incorporated by reference to exhibit 4.1 to Form S-8 filed November 8, 2005)

42

4.2	Subscription Agreement between View Systems, Inc. and Starr Consulting, Inc., Active Stealth, LLC, and KCS Referral Service LLC, dated December 23, 2005 (Incorporated by reference to exhibit 4.1 of Form 8-K, filed January 6, 2006)
10.1	View Systems, Inc. 1999 Stock Option Plan (Incorporated by reference to exhibit 10.16 to Form SB-2 filed January 11, 2000)
10.2	Employment agreement between View Systems and Gunther Than, dated January 1, 2003 (Incorporated by reference to exhibit 10.3 for Form 10-KSB, filed April 14, 2004)
10.3	Lease agreement between View Systems and MIE Properties, Inc., dated August 3, 2005 (Incorporated by reference to exhibit 10.2 to Form 10-QSB, filed November 10, 2005)
10.4	Consulting Agreement between View Systems and Business Development Corporation, dated December 27, 2005. (Incorporated by reference to exhibit 10.4 to Form SB-2, as amended, filed February 2, 2006)
10.5	Engagement between View Systems and John F. Alexander, dated October 6, 2005 (Incorporated by reference to exhibit 10.5 to Form SB-2, as amended, filed February 2, 2006)
10.6	Consulting Agreement between View Systems and Elite Equity Marketing, dated February 6, 2006
21.1	Subsidiaries (Incorporated by reference to exhibit 21.1 for Form 10-KSB, filed March 31, 2003)
31.1	Chief Executive Officer Certification
31.2	Principal Financial Officer Certification
32.1	Section 1350 Certification

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table presents the aggregate fees billed for each of the last two fiscal years by our principal accountant, Chisholm, Bierwolf & Nilson, LC, Certified Public Accountants, in connection with the audit of our financial statements and other professional services rendered by that firm.

	2005	2004
Audit fees	$ 15,000	$ 19,771
Audit-related fees	0	0
Tax fees	0	0
All other fees	$ 0	$ 0

Audit fees represent the professional services rendered for the audit of our annual financial statements and the review of our financial statements included in quarterly reports, along with services normally provided by the accountant in connection with statutory and regulatory filings or engagements. Audit-related fees represent professional services rendered for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of our financial statements that are not reported under audit fees.

Tax fees represent professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning. All other fees represent fees billed for products and services provided by the principal accountant, other than the services reported for the other categories.

PRE-APPROVAL POLICIES

Our audit committee makes recommendations to our board of directors regarding the engagement of an auditor. Before the auditor renders audit and non-audit services our board of directors approves the engagement. Our audit committee does not rely on pre-approval policies and procedures.

43

SIGNATURES

In accordance with Section 13 or 15(d) 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: April 13, 2006

By: /s/ Gunther Than
Gunther Than, Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Date: April 13, 2006

/s/ Gunther Than
Gunther Than, CEO, Principal Financial and Accounting Officer, Treasurer and Director

Date: April 13, 2006

/s/ Martin J. Maassen
Martin J. Maassen
Director

Date: April 13, 2006

/s/ Michael L. Bagnoli

Michael L. Bagnoli
Director and Secretary