VIEW SYSTEMS INC
Form 10KSB
April 02, 2007

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, 2006

Commission File Number 0-30178

VIEW SYSTEMS, INC.

(Name of small business issuer in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

59-2928366

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

1550 Caton Center Drive, Suite E,

Baltimore, Maryland 21227

(410) 242-8439

(Address, including zip code, and telephone number,

including area code, of registrant's

principal executive offices)

Securities registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class

Common Stock, $0.001 Par Value

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

| |

Check whether the Issuer (1) has filed all reports to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 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 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. |X|

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

The issuer's revenues for the fiscal year ended December 31, 2006 were $1,250,188.

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of a specified date with the past 60 days. (See definition of affiliate in Rule 12b-2 of the Exchange Act).

The number of shares of the issuer s common stock, par value $0.001 per share, outstanding as of March 28, 2007 held by non-affiliates was 93,656,638 shares. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant. The aggregate market value of the common equity held by non-affiliates as of March 28, 2007 was $8,335,440.70.

As of March 28, 2007 there were 98,398,422 shares of the issuer's common stock, $0.001 par value, outstanding.

Transitional Small Business Disclosure format (Check one): YES | | NO |X|

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Forward Looking Statements

Portions of this Form 10-KSB, including disclosure under "Management's Discussion and Analysis or Plan of Operation," contain forward-looking statements. These forward-looking statements are subject to risks and uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. You should not unduly rely on these statements.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "project," "contemplate," "would," "should," "could," or "may."

With respect to any forward-looking statement that includes a statement of its underlying assumptions or bases, we believe such assumptions or bases to be reasonable and have formed them in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material depending on the circumstances. When, in any forward-looking statement, we express an expectation or belief as to

future results, that expectation or belief is expressed in good faith and is believed to have a reasonable basis, but there can be no assurance that the stated expectation or belief will result or be achieved or accomplished. All subsequent written and oral forward-looking statements attributable to us, or anyone acting on our behalf, are expressly qualified in their entirety by the

cautionary statements. We do not undertake any obligations to publicly release any revisions to any forward-looking statements to reflect events or circumstances after the date of this report or to reflect unanticipated events that may occur.

Factors that may cause our actual results to differ materially from those described in forward-looking statements include the risks discussed elsewhere in this Form 10-KSB under the caption "Risk Factors".

You should read the following summary together with the more detailed information regarding us and the securities being offered for sale by means of this Form 10-KSB and our financial statements and notes to those statements appearing elsewhere in this Form 10-KSB. This summary highlights information contained elsewhere in this Form 10-KSB.

In this report the context requires otherwise, references to the "Company", "View Systems", "we", "us" and "our" are to View Systems, Inc.

PART I

Item 1. Description of Business

Company History

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 Operations

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 components of SecureScan and Visual First Responder products.

Products and Services

1. 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 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 it in a manner that allows the suspected location of the weapon to be stored electronically and referenced. SecureScan products are distributed in three basic configurations; stand-alone units, portable 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. As expected, the demand for biometric interfaces has increased significantly. 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, facial, iris, drivers license and employee identification card verification.

In spring of 2006 we entered into an additional CRADA (Cooperative Research and Development Agreement) with the Idaho National Laboratory (INL) to integrate nuclear radiation sensors into the Securescan portal. We paid $50,000 (of a $200,000 total) as initial investment to license and deploy these sensors with the help of INL. We also hired an additional electrical engineer to reengineer the Securescan to integrate this additional data with the magnetic and visual data processed by the firm/software. The entire processing system was rewritten into a Linux based java operating system by another engineer hired for that purpose.

We intend to continue development to integrate explosive and drug detections capabilities into the SecureScan

2. 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.

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.

3.Cellphone Intercept Apparatus (C.I.A.)

View Systems recently added C.I.A. wireless cell phone detection and monitoring system to its product line. C.I.A. was originally created for the military as a tool to seek out cell phones being used to detonate bombs. It has the ability to locate cell phones, store their unique codes in a database and even drain battery power or disable the unit. It has **4 Modes of Operation:**

- **Interrogate Mode:** Stores phone s IMSI / IMEI code in system database and releases the handset back to the Commercial Network in a non-destructive manner.

- **Targeted Mode:** Stores phone s IMSI / IMEI code in system database, and releases them in a nondestructive manner except for Targets which are locked to the system until they go out of range or are released by the system.

- **Firewall Mode:** Stores phone s IMSI / IMEI code in system database and locks them, controlling the ability to make or receive calls, SMSs, etc.

- **DF Mode:** Stores phone s IMSI / IMEI code in system database and releases the phone back to the commercial network in a non-destructive manner, except for those designated as DF which will be locked until they go out of range or are placed into a covert call mode that facilitates their location with a DF unit.

The C.I.A. unit carries a price point in excess of $300,000 plus installation and training. The gross margin of this product is in excess of 50%. The patent holder of the product has asked us to be the exclusive manufacturer and distributer to other resellers and end users. We feel that that will enhance gross margins through further cost reductions via re-engineering and volume discounts. The indicated market size for correctional facilities alone is in excess of $300,000,000.

At the present time we only offer this product to government authorities and government controlled institutions.

4.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.

3. 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.

OUR MARKET

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. In the summer of 2005, we contracted with Sports Field Specialties, LLC, a sheet metal manufacturer, to build the SecureScan product line. The Sports Field Specialties relationship did not work out due to quality and support issues. We settled our issues with a separation of the relationship and a payment plan for supplied components. 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 have added a Distributor in the Texas region to manage our end user dealer relationships. The distributor has successfully placed several units and we are encouraged by the progress. We are seeking security

consultants, specifiers and distributors of security and surveillance equipment that sell directly to schools, courthouses, and 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. Previously, we had chosen not to pursue international markets, but are now evaluating potential sales in the Middle East. We have opened a distribution center in Bahrain and have sold units to several companies and have entered reseller relationships to distribute all our products more widely.

Backlog

As of December 31, 2006, we had a backlog of $650,000, up from September 30, 2006. 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, 2006 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. These customers continue to order products from us. We currently have a backlog of approximately $200,000 plus.

Competition

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.

Research and Development

We have cooperative research arrangements with the Department of Energy to receive technical assistance and further enhancements of the concealed weapons detection technology, nuclear sensors and the 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.

Regulatory Environment

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.

Employees

As of the date of this annual report, the Company employed approximately 17 persons, including four sales executives, 2 engineers and three 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

In August of , 2006 we entered into a consulting agreement with the Riderwwood Group, a Maryland limited liability company. We engaged the Riderwood Group to assist in raising private equity investment. They has raised $400,000 investment to date. The Riderwood Group has agreed to maintain the confidentiality of secret, proprietary or non-public information.

Item 2. Description of Property

Our principal executive office is located in Baltimore, Maryland, where we lease approximately 4,600 square feet under a lease scheduled to expire on September 30, 2008, with monthly rental payments of approximately $2,870 with an annual escalator of 3%.

We also lease two additional offices. We lease approximately 1,299 square foot sales, engineering and manufacturing office in the East Point Business Center in Jacksonville, Florida. This lease has a base rent of approximately $1,500 with a 4% annual escalator and expires on January 1, 2008. The second sales and engineering office is located in Office World Plaza in Lomita, California, near Los Angeles. We lease this office for $850 per month and this lease expires February 28, 2007.

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 2006 year.

PART II

Item 5. Market For Common Equity, Related Stockholder Matters And Small Business Issuer Purchasers of Equity Securities

Market Information

Our common stock has been traded on the National Association of Securities Dealers OTC Bulletin Board under the symbol "VYST.OB" The following table sets forth the high and low bid information of the Company's common stock for the periods indicated. The source of the following information is Yahoo Finance.

OTC Bulletin Board (1) (2)

	COMMON STOCK MARKET PRICE	
	HIGH	**LOW**
FISCAL YEAR ENDED DECEMBER 31, 2006:		
Fourth Quarter	$0.10	$0.10
Third Quarter	$0.08	$0.08
Second Quarter	$0.10	$0.09
First Quarter	$0.16	$0.14

FISCAL YEAR ENDED DECEMBER 31, 2005:		
Fourth Quarter	$0.18	$0.16
Third Quarter	$0.29	$0.26
Second Quarter	$0.07	$0.06
First Quarter	$0.08	$0.06

(1) Our common stock has been traded under the symbol "VYST.OB" on the OTC Bulletin Board since September 1998.

(2) Over-the-counter market quotations reflect inter-dealer prices without retail mark-up, mark-down or commission, and may not represent actual transactions.

Shareholders of Record

As of December 31, 2006, there were approximately 344 holders of record of our common stock, not including holders who hold their shares in street name.

Dividends

We have never paid cash dividends on our common stock. We intend to keep future earnings, if any, to finance the expansion of our business, and we do not anticipate that any cash dividends will be paid in the foreseeable future. Our future payment of dividends will depend on our earnings, capital requirements, expansion plans, financial condition and other relevant factors.

Our retained earnings deficit currently limits our ability to pay dividends.

Information Relating to Outstanding Shares

As of December 31, 2006, there were 98,398,422 shares of our common stock issued and outstanding and 7,171,725 shares of our preferred stock issued and outstanding. We have not reserved any shares for issuance upon exercise of common stock purchase warrants, and no shares are issuable upon exercise of options to purchase shares of our common stock.

Of the issued and outstanding shares, approximately 5,000,000 shares of our common stock (3,000,000 of which are owned by our officers, directors and principal stockholders) have been held for in excess of one year and are available for public resale pursuant to Rule 144 promulgated under the Securities Act.

Unless covered by an effective registration statement, the resale of our shares of common stock owned by officers, directors and affiliates is subject to the volume limitations of Rule 144. In general, Rule 144 permits our shareholders who have beneficially-owned restricted shares of common stock for at least one year to sell without registration, within a three-month period, a

number of shares not exceeding one percent of the then outstanding shares of common stock. Furthermore, if such shares are held for at least two years by a person not affiliated with us (in general, a person who is not one of our executive officers, directors or principal shareholders during the three month period prior to resale), such restricted shares can be sold without any volume limitation.

Recent Sales of Unregistered Securities

During the year, we issued the following unregistered securities:

We issued an aggregate of 6,601,000 shares of our common stock at purchase prices ranging from $0.01738 to $0.10 per share to accredited investors during 2006, as follows:

Date of Issue

Price per Share

Number of Shares

February 20

$0.10

100,000

May 10

$0.10

60,000

October 17

$0.05

560,000

October 31

$0.05

300,000

November 1

$0.05

100,000

November 2

$0.05

500,000

November 3

$0.05

536,000

November 13

$0.05

300,000

November 30

$0.05

150,000

December 1

$0.04

875,000

December 4

$0.05

100,000

December 5

$0.05

250,000

December 6

$0.05

200,000

December 13

$0.05

200,000

December 15

$0.05

400,000

December 18

$0.05

100,000

December 19

$0.05

800,000

December 27

$0.05

740,000

December 29

$0.01738

330,000

Total

6,601,000

All of such shares were offered and sold pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended. The gross proceeds of the offer and sale of such shares was $348,237. We paid placement agent commissions of 7%, or an aggregate of approximately $16,191 to Riverwood Group with respect to the issuance of 4,626,000 of such shares during November and December 2006 for an aggregate purchase price of $231,300.

In addition, the Company issued 1,355,000 shares to consultants and employees for services in 2006 at values per shares of $0.04 to $0.14.

Issuer Purchase of Securities

None.

Item 6. Management Discussion And Analysis Or Plan of Operation

The following analysis of our consolidated financial condition and results of operations for the years ended December 31, 2006 and 2005 should be read in conjunction with the Consolidated Financial Statements and other information presented elsewhere in this annual report.

Overview

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

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

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

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

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

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

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

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

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

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

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

During 2006 we previewed our Biometric SecureScan III which includes positive identification and biometric verification capabilities, expanded our dealers and resellers in the Mid-West and Southwest region of the United States, introduced two new products. The SecureScan III includes a fingerprint identification and verification system, state-issued identification scanning device for driver s licenses and passports, and a visitor badge printing system. The new products introduced in 2006 include a product offering marketed as the LAW, which is a handheld metal detector designed to improve police officer safety and a new wireless network detection system that senses cell phones and recognizes their identity, can intercept their transmissions and/or pass the signal on or return network busy signals. We do not manufacture the LAW product but use it as an adjunct to the SecureScan and sell it separately. The wireless network detection system is currently a military product and we are intending to deploy it exclusively in the correctional facilities market. Response to and interest in this technology has been from high security situations.

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

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

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

We have identified a company for acquisition that has just received a patent for an encryption engine which secures wireless and wired transactions (voice, data and video) from hackers and intruders. The technology is a market disruptive technology which supersedes any other encryption and security methods currently used. Both inventors have been career encryption specialists with the federal government at the highest and most secure levels. We have also identified a second company which is a Department of Defense service provider that is based in the Mid-east. This company has significant revenues and a cadre of consultants that will be of great benefit during the deployment of our products in that region. We are in the initial stages of negotiations for these acquisitions and we have not entered into a definite agreement with either company.

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

RESULTS OF OPERATIONS

The following discussions are based on the consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the years ended December 31, 2006 and 2005 and should be read in conjunction with the financial statements, and notes thereto, included with this report at Part II, Item 7, below.

SUMMARY COMPARISON OF OPERATING RESULTS

	Year ended December 31,	
	2006	2005
Revenues, net	$ 1,250,188	$ 1,172,163
Cost of sales	751,578	629,319
Gross profit (loss)	498,610	542,844
Total operating expenses	1,608,321	3,005,094
Loss from operations	(1,109,711)	(2,462,250)
Total other income (expense)	(30,741)	(11,684)
Net income (loss)	(1,140,452)	(2,473,934)
Net income (loss) per share	$ (0.01)	$ (0.03)

Revenue is considered earned when the product is shipped to the customer. The concealed weapons system and the digital video system each require installation and training. Training is a revenue source separate and apart from the

sale of the product. In those cases revenue is recognized at the completion of the installation and training.

Our marketing efforts have increased sales of our SecureScan and Visual First Responder and resulted in increased revenues for 2006 compared to 2005. We also introduced new products in

2006, including the Cellphone Intercept Apparatus (C.I.A.) system. Management anticipates that increases in revenues will continue as we develop our sales and marketing channels and establish local sales and service offices in geographic areas where we have already completed sales. The increased net revenues for 2006 resulted in an increased gross profit for 2006 compared to 2005.

The following chart provides a breakdown of our sales in 2006 and 2005.

	Dec. 31, 2006	Dec. 31, 2005
Secure Scan	$ 840,713	$ 708,695
ViewMaxx	32,802	53,057
Visual First Responder	332,646	362,340
Service	44,027	48,071

Our backlog at December 31, 2006, was $640,000, up from $200,000 at December 31, 2005. 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 60% of net revenues for 2006, an increase from 54% in 2005. The increase from year to year was primarily the result of decreased price points for an increased volume of units shipped. Management anticipates that the relative margins of each product line should remain relatively the same during 2007.

For 2006 total operating expense decreased compared to 2005. The decrease in 2006 was primarily a result of a reduction in professional fees expense recognized related to agreements and consulting contracts with third parties from $1,774,696 to $286,229.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred losses for the past two fiscal years and had a net loss of $1,140,452 at December 31, 2006. 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.

Historically, we have relied on revenues, debt financing and sales of our common stock to satisfy our cash requirements. For the year ended December 31, 2006, we received cash from revenues of $1,250,188, proceeds from debt financing of $526,425 (less principal payments on notes payable of $10,797), $312,800 from sales of our common stock (less costs of issuance of common stock of $23,526) and $49,175 from stockholder advances. For the year ended December 31, 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.

We also continue to rely on the issuance of our common stock to pay for services and to convert debt when cash is unavailable. For the year ended December 31, 2006 we issued 795,000 shares, valued at $73,800, to officers and employees for services, and we issued 560,000 shares, valued at $70,400 to independent contractors and consultants for services. For the year ended December 31, 2005 we issued 2,907,000 shares, valued at $294,540, to officers and employees for services, and we issued 7,199,000 shares, valued at $1,562,376 to independent contractors and consultants for services. Management anticipates that we will continue to issue shares for services in the short term.

As of December 31, 2006 we had approximately 1,601,588 authorized common shares remaining and management believes we will need to take the necessary steps to increase our authorized common stock during 2007. On September 11, 2006, the Company filed an Information Statement on Schedule 14C with the SEC with respect to the receipt of the approval of holders of a majority of our then outstanding shares of, among other things, an increase in the authorized common stock of the Company to 250,000,000 shares. However, due to possible or potential technical violations of the proxy rules promulgated under the Securities Exchange Act of 1934, as amended, with respect to the method of acquisition of such approvals and proxies, management of the Company notified the SEC in March 2007 that it will not rely on any prior proxies or approvals obtained with respect to the matters described in the Schedule 14C and would not pursue SEC approval of the preliminary Information Statement or filing or mailing of a definitive Information Statement related to such proxies and approvals. Instead, the Company intends to hold a special meeting of shareholders during the second quarter of 2007 to consider, among, other things, an increase in the authorized common stock of the Company to 250,000,000 shares.

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

COMMITMENTS AND CONTINGENT LIABILITIES

The Company leases office and warehouse space in Baltimore, MD under a three-year non-cancellable operating lease, expiring October 2008. Base rent is $2,872 per month with an annual rent escalator of 3%. The Company also leases warehouse and office space in Jacksonville, FL under a two-year non-cancellable operating lease, expiring in January 2008. Base rent is $1,506 with an annual rent escalator of 4%. The Company also rents additional space in Baltimore, MD and Lomita, CA under leases which are not long term. Rent expense was $135,690 and $81,216 for the years ended December 31, 2006 and 2005, respectively. At December 31, 2006, future minimum payments for operating leases related to our office and manufacturing facilities were $86,193 through December 31, 2008.

Our total current liabilities increased to $1,338,691 at December 31, 2006 compared to $712,658 at December 31, 2005. Our total current liabilities at December 31, 2006 included accounts payable of $421,908, acc