

VIEW SYSTEMS INC
Form 10-Q
August 10, 2010

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

FORM 10-Q

Quarterly Report under Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended June 30, 2010

Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number **000-30178**

VIEW SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Nevada

59-2928366

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

(State or other jurisdiction of incorporation or organization)

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

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

(Address of principal executive offices) (Zip Code)

(410) 242-8439

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller
reporting company)

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

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class

Outstanding at August 6, 2010

Common Stock, \$.001 par value per share

93,343,369

1

VIEW SYSTEMS, INC.
FORM 10-Q
FOR THE PERIOD ENDED JUNE 30, 2010

INDEX

	Page
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	

3

PART I. FINANCIAL INFORMATION	
------------------------------------------	--

4

5

Item 1.

Financial Statements

4

Consolidated Balance
Sheets as of June 30, 2010
(Unaudited) and
December 31, 2009

4

Consolidated Statements
of Operations (Unaudited)
for the six months ended
June 30, 2010 and for the
six months ended June 30,
2009

5

Consolidated Statements
of Stockholders' Equity
(deficit)

6

Consolidated Statements
of Cash Flows
(Unaudited) for the six
months ended June 30,
2010 and June 30, 2009

7

Notes to the Consolidated
Financial Statements

6

Item 2.

Management's Discussion
and Analysis of Financial
Condition and Results of
Operations

19

Item 3.

Qualitative and
Quantitative Disclosures
About Market Risk

31

Item 4.

Controls and Procedures

31

**PART II. OTHER
INFORMATION**

32

Item 1.

Legal Proceedings

32

Item 2.

Unregistered Sales of
Equity Securities and Use
of Proceeds

32

Item 3.	
Defaults Upon Senior Securities	
	32

Item 4.	
[Removed and Reserved]	
	32

Item 5.	
Other information	
	32

Item 6.	
Exhibits	
	32

SIGNATURES	
	33

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Information included in this Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (Exchange Act). This information may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of View Systems, Inc. (the Company), to be materially different from future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe future plans, strategies and expectations of the Company, are generally identifiable by use of the words may, will, should, expect, anticipate, estimate, believe, intend, or project or the negative of these words or other variations on these words or comparable terminology. These forward-looking statements are based on assumptions that may be incorrect, and there can be no assurance that these projections included in these forward-looking statements will come to pass. Actual results of the Company could differ materially from those expressed or implied by the forward-looking statements as a result of various factors. Except as required by applicable laws, the Company has no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**View Systems, Inc.
and Subsidiaries**

Consolidated Balance
Sheets

JUN 30,

DEC 31,

2010

2009

ASSETS

(Unaudited)

Current Assets

Cash

\$

27,158

\$

70,804

Accounts
Receivable (Net of
Allowance of \$1,000)

118,267

251,561

Inventory

7,792

7,792

Total Current
Assets

153,217

330,157

Property &
Equipment (Net)

79,175

95,948

Other Assets

Licenses

839,664

892,144

Due from
Affiliates

147,507

147,507

Investment

67,500

67,500

Deposits

7,528

7,528

Total Other
Assets

1,062,199

1,114,679

Total
Assets

\$

1,294,591

\$

1,540,784

**LIABILITIES AND
STOCKHOLDERS'
EQUITY**

Current Liabilities

Accounts Payable

\$

495,913

\$

486,979

Accrued Expenses

94,985

71,912

Accrued Interest

122,604

170,518

Accrued Royalties

225,000

225,000

Loans from
Shareholder

185,978

193,027

Notes Payable

555,899

637,719

Deferred Revenue

42,153

129,553

Total Current
Liabilities

1,722,532

1,914,708

Long-term Debt

Note payable

37,384

39,872

Total
Liabilities

1,759,916

1,954,580

Stockholders' Equity
(Deficit):

Preferred Stock,
Authorized
10,000,000 Shares,
\$.01 Par Value,

Issued and
outstanding 89,647,

896

896

Common Stock,
Authorized
100,000,000 Shares,
\$.001 Par Value,

Issued and
Outstanding
83,903,369

83,903

	--
Issued and Outstanding	79,442,369
	--
	79,442
Additional Paid in Capital	22,032,912
	21,830,320
Retained Earnings (Deficit)	(22,583,036)
	(22,324,434)
Total Stockholders' Equity (Deficit)	

(465,325)

(413,776)

Total
Liabilities and
Stockholders' Equity

\$

1,294,591

\$

1,540,804

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

**View Systems,
Inc. and
Subsidiaries**

Consolidated
Statements of
Operations

(Unaudited)

THREE
MONTHS
ENDED
JUN 30, 2010

THREE
MONTHS
ENDED
JUN 30, 2009

SIX
MONTHS
ENDED
JUN 30, 2010

SIX

MONTHS

ENDED

JUN 30, 2009

Revenues, Net

\$

214,956

\$

63,690

\$

478,947

\$

175,052

Cost of Sales

52,516

30,527

160,926

71,871

Gross Profit

162,440

33,163

318,021

103,181

Operating
Expenses

Business
Development

21,752

16,415

53,978

42,753

General &
Administrative

136,707

239,286

243,377

340,875

Professional
Fees

24,770

109,640

126,750

276,825

Salaries &
Benefits

(239,324)

63,178

120,611

300,301

Total
Operating
Expenses

(56,095)

428,519

544,716

960,754

Net Operating
Income (Loss)

218,535

(395,356)

(226,695)

(857,573)

Other Income
(Expense)

Interest
Expense

(18,832)

(17,294)

(31,907)

(36,999)

Total
Other Income
(Expense)

(18,832)

(17,294)

(31,907)

(36,999)

Net Income
(Loss)

\$

199,703

\$

(412,650)

\$

(258,602)

\$

(894,572)

Net Income
(Loss) Per
Share

0.00

(0.01)

(0.00)

(0.02)

Weighted
Average Shares
Outstanding

83,903,369

46,261,222

77,788,119

46,638,222

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

**View Systems,
Inc. and
Subsidiaries**

Consolidated
Statements of
Stockholders'
Equity
(Deficit)

Additional

Retained

Preferred

Common

Paid-in

Earnings

Shares

Amount

Shares

Amount

Capital

(Deficit)

Balance,
December 31,
2008

89,647

\$

896

17,175,222

\$

17,175

\$

20,460,829

\$

(20,764,422)

January -
March 2009 -
shares issued
for services,

accounts
payable and
notes payable

-

-

13,536,000

13,536

527,489

April - June
2009 - shares
issued for
services,

accounts
payable and
notes payable

-

-

18,100,000

18,100

327,500

-

April - June
2009 - shares
issued as an
investment

in stock of
another
company (non
subsidiary)

-

-

5,000,000

5,000

327,500

July-September
2009 shares
issued for
services,

Interest
expense and
notes payable

-

-

5,631,147

5,631

72,002

-

October -
December
2009 - shares
issued for
services

-

-

20,000,000

20,000

380,000

-

Net loss for the
year ended
December 31,
2009

-

-

-

-

-

(1,560,012)

Balance,
December 31,
2009

89,647

896

79,442,369

79,442

21,830,320

(22,324,434)

January March
2010 shares
issued for
services,

notes payable
and accrued
interest

-

-

14,461,000

14,461

492,592

April June
2010 reversal
of shares
issued for

services in
error

-

-

(10,000,000)

(10,000)

(290,000)

-

Net loss for the
period ended
June 30, 2010

-

-

-

-

-

(258,602)

Balance, June
30, 2010

89,647

\$

896

83,903,369

\$

83,903

\$

22,032,912

\$

(22,583,036)

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

**View Systems,
Inc. and
Subsidiaries**

Consolidated
Statements of
Cash Flows

(Unaudited)

SIX

MONTHS

ENDED

JUN 30, 2010

SIX

MONTHS

ENDED

JUN 30, 2009

**Cash Flows from
Operating
Activities:**

Net Income
(Loss)

\$
(258,602)

\$
(894,572)

Adjustments to
Reconcile Net
Income (Loss) to

Net Cash
Provided (Used)
by Operations:

Depreciation
& Amortization

62,480

58,380

Common
stock issued in
payment of
services

30,695

548,881

Loss from
sale of fixed
assets

4,996

--

Proceeds
from sale of fixed
assets

2,036

--

Change in
Operating Assets
and Liabilities:

(Increase)
Decrease in:

Accounts
Receivable

133,294

3,619

Inventories

--

(42,082)

Increase
(Decrease) in:

Accounts
Payable

8,955

46,943

Accrued
Expenses

23,073

	(12,645)
Accrued Interest	
	28,444
	35,220
Deferred Revenue	
	(87,400)
	--
Accrued Royalties	
	-
	37,500
Net Cash Provided (Used) by Operating Activities	
	(52,029)
	(218,756)

**Cash Flows from
Investing
Activities:**

Purchases of
equipment

(259)

(50,853)

Net Cash Used
In Investing
Activities

(259)

(50,853)

**Cash Flows from
Financing
Activities:**

Loans received
(repaid) under a
line of credit

(29,559)

198,566

Principal
payments on
notes payable

(4,749)

--

Loans received
under notes
payable

50,000

--

Loans from
Shareholders

(7,050)

70,889

Net Cash
Provided by
Financing
Activities

8,642

269,455

Increase
(decrease) in Cash

(43,646)

(154)

Cash and Cash
Equivalents at
Beginning of
Period

70,804

1,768

Cash and Cash
Equivalents at
End of Period

\$

27,158

\$

1,614

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

**View
Systems, Inc.
and
Subsidiaries**

Consolidated
Statements of
Cash Flows
(Continued)

SIX
MONTHS
ENDED
JUN 30, 2010

SIX
MONTHS
ENDED
JUN 30, 2009

Non Cash
Investing and
Financing
Activities:

Notes
payable paid

down with
common stock

100,000

181,000

Accrued
interest paid
with common
stock

76,538

-

Vehicle
purchase
financed with
note payable

-

54,041

Loans
from
shareholders
repaid with
common stock

-

16,656

Accounts
payables paid
with common
stock

-

132,250

Vehicle
purchased
with common
stock

-

7,813

Investment
made with
common stock

-

67,500

Cash Paid
For:

Interest

\$

5,260

\$

1,226

Income
Taxes

\$

-

\$

-

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

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. (Milestone), 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

JUNE 30, 2010 AND DECEMBER 31, 2009

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 June 30, 2010 and December 31, 2009 consisted of unassembled parts of products.

Property and Equipment

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

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 periods ended June 30, 2010 and December 31, 2009 amounted to \$10,000 and \$11,985, respectively.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

1.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Licenses

In connection with the acquisition of 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, that is, the difference of the cost paid for the entity vs. the value of the underlying assets and liabilities which was determined to be \$1,626,854. The cost of the licenses is being amortized on a straight line basis over the remaining useful lives of the underlying patents, which at the date of the purchase was 15.5 years. Amortization expense for the periods ended June 30, 2010 and December 31, 2009 was \$52,480 and \$104,958, respectively. Consistent with SFAS No. 142, the license was also analyzed to determine if any impairment existed at June 30, 2010 and December 31, 2009. It was determined not to be impaired. The Company has fundamentally advanced the technology under which these licenses operate but never sought its own patent protection.

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.

Advertising

Advertising costs are charged to operations as incurred. Advertising costs for the periods ended June 30, 2010 and December 31, 2009 were \$8,000 and \$19,737.

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.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

1.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Reverse Stock Split

During 2008 the Board of Directors approved a 1 for 80 reverse stock split of the issued and outstanding common and preferred stock. The reverse split did not change the authorized shares or the par value for either class of stock.

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 in addition to shares that may be issued in the event that convertible debt is exchanged for shares of common stock. The calculation of the net loss per share available to common stockholders for the periods ended

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

June 30, 2010 and December 31, 2009 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

Shares

Per-share

(Numerator)

(Denominator)

Amount

Six months
ended June 30,
2010

Income (loss)
from
continuing
operations
which is the

amount that is
available to
common
stockholders

\$

(258,602)

77,788,119

\$

(0.00)

Year ended
December 31,
2009

Income (loss)
from
continuing
operations
which is the

amount that is
available to
common
stockholders

\$

(1,560,012)

40,285,009

\$

(0.09)

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

2.

GOING CONCERN

The Company has incurred, and continues to incur, losses from operations. For the periods ended June 30, 2010 and December 31, 2009, the Company incurred net losses of \$258,602 and \$1,560,012, respectively. In addition, certain notes payable have come due and the note holders are demanding payment.

Management is very actively working to cure these situations. It has implemented major plans for the future growth and development of the Company. Management is in the process of renegotiating more favorable repayment terms on the notes payable, and the Company anticipates that these negotiations will result in extended payment plans. In addition, during 2009 and 2008, the Company implemented marketing and information strategies to increase public awareness of its products and thereby enhance its sales. It has established new international markets which it believes will be the source for sales growth in the very near future. 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 that appear to have greater sales potential.

Historically, the Company has financed its operations primarily through private financing; however, sales revenue during 2010 and 2009 and decreases in expenses during 2010 made a significant contribution to working capital. It is management's intention to finance operations during the remainder of 2010 primarily through increased sales although there will still be a need for additional equity financing. In addition, management is actively seeking out mergers and acquisitions which would be beneficial to the future growth of the Company. 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.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

3.

NEW ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) periodically issues new accounting standards in a continuing effort to improve standards of financial accounting and reporting. The Company has reviewed the recently issued pronouncements and concluded that there are no new accounting standards are applicable to the Company.

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 2001 and \$0.31 per share in March 2002) 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 number of concealed weapons.

5.

DUE FROM AFFILIATED ENTITIES

The Company has advanced non-interest bearing funds of \$147,507 as of June 30, 2010 and \$147,587 as of December 31, 2009 to a related corporation, The Fight Zone, Inc., (formerly Geoscopix, Inc.), which until approximately March 2008 was controlled by the Chief Executive Officer of the Company. There are no formal repayment terms associated with this advance, but the Fight Zone, Inc.'s viability is no longer certain, and Management is exploring its collection options.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

6.

NOTES PAYABLE

Notes payable as of June 30, 2010 and December 31, 2009 consists of the following:

JUN 30,

2010

DEC 31, 2009

Investor/stockholder Group

During 2006 the Company negotiated a loan arrangement with a group of investors to loan a specific amount to the Company which, once the total amounts loaned reached a certain amount, the loans would be converted into shares of common stock. Since the threshold was never achieved, the conversion option was terminated and the loans became due on demand with interest at 8% per annum. After the reporting period, the balance due was settled for the issuance of 4,500,000 shares of Company common stock.

\$162,092

\$162,092

Stockholder

An unsecured loan from a stockholder which is payable on demand with interest at 12%.

116,000

116,000

Stockholder

An unsecured loan from a stockholder which was due in full on November 1, 2007 with interest at 15%. The note is convertible into shares of common stock at the option of lender at the rate of \$6.00 per share of common stock. If converted in full this amounts to 16,667 shares. This debt was settled in 2010 for 3,500,000 shares of

common stock.

0

100,000

Lafayette Community Bank

A short term line of credit loan secured by a stockholder, payable in five monthly installments of \$6,175 that commenced in December 2009 with a balloon payment in the amount \$175,630 due in May 2010. Interest accrues monthly at 7% per annum. We have continued to make monthly payments, and the balloon provision has not been exercised.

170,441

200,000

Investor

Demand loan payable with interest at 5% per month. The loan is secured by the Company's accounts receivable.

50,000

50,000

Investor

Convertible promissory note payable on December 31, 2010 with interest at 8% per annum.

Upon meeting certain provisions the note can be converted to 5,005,562 shares

of common

50,000

0

Chase

Equipment loans to finance the purchases of two trucks, payable monthly in installments of \$1,003, which include interest at 5.34% per annum

44,750

49,497

TOTAL

\$ 593,283

\$ 677,589

Principal payments for the next
five years are as follows:

2010

\$ 555,899

2011

10,151

2012

10,708

2013
11,294

2014
5,231

TOTAL
\$ 593,283

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

7.

INCOME TAXES

For income tax purposes the Company has net operating loss carryforwards of \$21,342,673 as of December 31, 2009 that may be used to offset future taxable income. In the instance of future corporate acquisitions, the net operating losses may be used to offset the future taxable income of a qualifying subsidiary corporation which meets IRS regulations governing such situations. The losses have accumulated since 1998 and they will start to expire in 2018.

The components of the net deferred tax asset as of December 31, 2009 are as follows:

Effect of net operating loss carryforward

\$

8,963,923

Less evaluation allowance

(8,963,923)

Net deferred tax asset

\$

-

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

Period ended

June 30,

December 31,

2010

2009

Net loss per financial statements which approximates

net loss
per income tax
returns

\$

(258,602)

\$

(1,560,012)

Income tax
expense
(benefit)
applying
prevailing

Federal
and state
income tax rates

(108,613)

(655,205)

Less
valuation
allowance

108,613

655,205

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. Effective in 2010 the Series A Preferred can be converted into common stock in the ratio of 15:1. See note 13 below. Each Series A Preferred share is entitled to fifteen votes of common stock and shall be entitled to vote on any matters brought to a vote by the common stockholders.

During 2008 the Board of Directors approved a reverse split of the stock in which one new share of preferred stock was issued in exchange for each 80 shares of preferred stock outstanding. Accordingly, the total issued of preferred

stock was adjusted from 7,171,725 shares to 89,647 shares. The par value and the total authorized preferred shares did not change.

9.

OPERATING LEASE

The Company leases office and warehouse space in Baltimore, MD under a three-year non-cancellable operating lease which expired in October 2008 and which was subsequently extended to August 2010. The base rent is \$3,047 per month with an annual rent escalator of 3%. Rent expense was \$26,436 and \$47,461 for the periods ended June 30, 2010 and December 31, 2009, respectively.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

10.

STOCK BASED COMPENSATION

During the periods ended June 30, 2010 and December 31, 2009 the Company granted restricted stock to independent contractors and consultants as payment for services rendered.

Restricted Stock Grants

Our 1999 Restricted Share Plan terminated automatically pursuant to the terms of its agreement on March 1, 2009.

Our 2000 Restricted Share Plan terminated automatically pursuant to the terms of its agreement on March 15, 2010.

On April 2, 2010, the Company adopted its 2010 Equity Incentive Plan. Reserved for equity issuances under the Equity Incentive Plan are 50,000,000 shares of our common stock. No equity issuances have been made from the 2010 Equity Incentive Plan.

On June 1, 2010, the Company adopted its 2010 Service Provider Stock Compensation Plan. Reserved for equity issuances under the Service Provider Stock Compensation Plan are 50,000,000 shares of our common stock. No equity issuances were made during the reporting period from the 2010 Service Provider Stock Compensation Plan.

Edgar Filing: VIEW SYSTEMS INC - Form 10-Q

During 2010 and 2009, the Company issued the following compensatory shares outside of its existing Stock Option and Restricted Share Plans at the discretion of the Board of Directors:

	<u>2010</u>
	<u>2009</u>
Number of	
Expense	
Number of	
Expense	
Of shares	
Recognized	
Of shares	
Recognized	
Officers and employees	
	500,000
	\$
	15,000
	35,305,500
	744,681

Independent
contractors
and
consultants

0

0

9,230,000

270,100

Total

500,000

\$

15,000

44,535,500

\$

1,014,781

Independent contractors and consultants expense was based on the estimated value of services rendered.

Stock Option Awards

Our 1999 Stock Option Plan terminated automatically pursuant to the terms of its agreement on March 1, 2009.

Footnote 10 in our Form 10-K for the year ended December 31, 2009 should have reported that 1,346 stock options (adjusted for stock split in 2008) were expired as of March 1, 2009. Instead, the stock option table in footnote 10

incorrectly reported these options as being outstanding at December 31, 2009.

On April 2, 2010, the Company adopted its 2010 Equity Incentive Plan, which authorized, among other forms of incentives, the issuance of stock options. Reserved for equity issuances under the 2010 Equity Incentive Plan are 50,000,000 shares of our common stock. No equity issuances have been made from the 2010 Equity Incentive Plan. Stock 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.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

11.

RELATED PARTY TRANSACTIONS

During the periods reflected on this report certain shareholders made cash advances to the Company to help with short-term working capital needs. The total additions to loans from shareholders with unstructured payment plans amounted to \$68,630 during 2009 and none during the six months ended June 30, 2010. The total balance due on unstructured loans from shareholders amount to \$185,978 at June 30, 2010 and \$193,027 at December 31, 2009. Loans from stockholders made with repayment terms are described in Note 6 above.

12.

CORRECTION FOR DUPLICATIVE STOCK ISSUANCE

On January 13, 2010, we inadvertently issued a total of 10,000,000 shares of common stock to two of our directors who had previously been issued a total of 10,000,000 shares of common stock in December 2009. The duplicative issuance did not affect our directors' reporting of their actual stock holdings. However, the duplicative stock issuance was recorded in our financial statements and reported on Form 10-Q for the period ending March 31, 2010. We have reversed the expense item attributed to the duplicative stock issuance which results in a decrease in our expenses of \$300,000 and a corresponding increase in revenue for the six months ended June 30, 2010.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

EXECUTIVE OVERVIEW

The following analysis of our consolidated financial condition and results of operations for the six months ended June 30, 2010 should be read in conjunction with the Consolidated Financial Statements and other information presented elsewhere in this quarterly report.

Overview

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.

Our current product lines are related to visual surveillance, intrusion detection and physical security. In February 2010 we introduced a new product that we call the MINI (Mobile Intelligent Network Informer). We have received multiple inquiries about the need for such a device during 2008 and have invested engineering resources to create a working device. In the fall of 2009 we discovered a device in China that fit our specifications closely so we decided to enter the market with that device instead of continuing to spend our own engineering dollars. We commenced Internet sales efforts of the MINI as a distributor in February 2010.

During 2009, the Company secured significant international sales opportunities in China and the Middle East through our respective local agents. We anticipate further and substantial growth in the sale of ViewScans and our complimentary security technologies for the remainder of 2010 as a result of the positive feedback we received. We will continue to work closely with our overseas agents to assist them in securing new orders. In addition we will seek new agents for as yet untapped markets for ViewScan and our range of security technologies.

On November 24, 2008 and December 26, 2008, we announced that a merger with Wytan Corp. was underway. We also announced that additional conditions to the merger closing were required by Wytan and that the merger would not occur until such time as the conditions were satisfied. Attempts to merge ceased in November 2009 and this proposed transaction was terminated. Wytan then demanded payment for its costs incurred in connection with this attempted merger. In February 2010 we agreed to pay \$20,000 in installments, and we completed the final payment in April 2010.

On August 13, 2009 we announced the formation of a strategic technology partnership with Super Nova Resources designed to facilitate sales of Visisys Holdings, Plc.'s VisoVue personal identity recognition system. The Company has no estimate of the impact that such a partnership may have on its revenues at this time. The project is terminated because Super Nova Resources is defunct.

We have been approached by certain entities that would make use of our public structure and/or our net tax loss carry-forward of approximately \$21,800,978. However, it is our intention to continue to execute our current business plan until such time, if ever, that we conclude that an acquisition or merger will lead to greater value for our principals and shareholders. We have not entered into definite agreements or decisions about any business combination opportunities. However, we continue to explore potential merger and acquisition options.

On June 15, 2010, we announced the award to us of a large-scale fiber optic contract. This award represents another subcontracting job in a series of subcontracting jobs we have provided to MasTec North America, Inc. for whom we have installed fiber optic cable since March 2009.

Our strategy for 2010 will be to extend our sales and service provision. To increase sales we offer demonstrations of our products to potential customers in specific geographical areas and at region - specific trade shows, such as sheriff's conventions, court administrators' meetings, civil support team, state police and dealer 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.

In the short term, management plans to raise funds 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 will be 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 anticipate registering in the third or fourth quarters of 2010 sufficient shares of our common stock to raise at least \$1,000,000.00. We also intend to continue to strengthen our balance sheet by paying off debt either through exchange of equity for cancellation of debt obligations or the payment of debt obligations with cash.

When possible we have conserved our cash by paying employees, consultants, and independent contractors with our common stock. As of March 2010, our outstanding equity compensation and equity incentive plans established in 1999 and 2000 had expired by their terms. We implemented two new plans in April and June 2010, respectively. On April 2, 2010, by majority shareholder consent, the Company adopted its 2010 Equity Incentive Plan. Reserved for equity issuances under the Equity Incentive Plan are 50,000,000 shares of our common stock. On June 1, 2010, by majority shareholder consent, the Company adopted its 2010 Service Provider Stock Compensation Plan. Reserved for equity issuances under the Service Provider Stock Compensation Plan are 50,000,000 shares of our common stock.

Correction to Previously Reported Shares Outstanding and Expenses

Our financial statements for the quarter ended March 31, 2010 and our reporting of shares outstanding on Form 10-Q for the quarter ended March 31, 2010 overstated our expenses from stock issuance by \$300,000 and reported 10,000,000 more shares outstanding than was actually the case. The error was caused by a duplicitous January 13, 2010 instruction to our transfer agent to issue shares that had been issued in December 2009. The error did not affect the beneficial ownership reporting by shareholders. We discovered the error and made an adjustment to our financial statements for the current period by reversing the expense item attributed to the duplicative stock issuance which resulted in a decrease in our expenses of \$300,000 and a corresponding increase in revenue. We have instructed our stock transfer agent to cancel the duplicative shares.

Subsequent Event

On July 21, 2010, the Company registered the Common Stock issuable under the 2010 Equity Incentive Plan and the 2010 Service Provider Stock Compensation Plan. A total of 100,000,000 shares are reserved for issuances under the two plans.

Products and Services

Our current principal products and services include:

1. ViewScan Concealed Weapons Detection System

ViewScan, which is also sold under the name Secure Scan, is a walk-through concealed weapons detector which uses data sensing technology to accurately pinpoint the location, size and number of concealed weapons. This walk-through portal is controlled by a master processing board and 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. Because ViewScan does not produce a graphic anatomical display of a scanned person, the Company does not believe that ViewScan is susceptible to privacy concerns raised about certain personnel scanners produced by other companies.

ViewScan products are distributed in three basic configurations; stand-alone units, portable units and integrated door systems.

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.

ViewScan is designed to overcome the traditional shortcomings of electromagnetic induction scanners. The ViewScan 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 ViewScan system operates faster than ordinary metal detectors and can scan as high as 1,200 persons per hour. Since the ViewScan technology does not use transmitters to produce electromagnetic induction, it does not pose a problem for pacemakers. The ViewScan self calibrates and does not need operator intervention or special calibration tools.

In 2004 we introduced the ViewScan product to the venue and stadium market. In February 2005 we tested the ViewScan 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 ViewScan 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.

In February 2006 we demonstrated a ViewScan product with a precision optical biometric fingerprint terminal. 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.

Today we sell these units for an average retail price of approximately \$9,000 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 have been making additional cost reductions through economies of scale and larger scale integration by taking advantage of ongoing computer component improvements.

2. Visual First Responder and Multi-Mission Mobil Video

In December 2003 View Systems obtained exclusive licensing and marketing rights for the HAZMAT CAM technology from the U.S. Department of Energy's INEL. We marketed the HAZMAT CAM under the name Visual First Responder. Visual First Responder was a lightweight, wireless camera system housed in a tough, waterproof flashlight body. The camera system was designed to transmit real-time images to a computer or video monitor at a location outside the exclusion zone or containment area. Now in its third generation, we now license the manufacture of our proprietary unit, the Multi-Mission Mobil Video (MMV). The MMV is a lightweight, wireless camera system housed in a tough, waterproof 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. The MMV is able to transmit high quality video in the most difficult environments. The image is received from the MMV and displayed on a 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.

The MMV also uses an Extension Link which is a separate transmitter and receiving system that increases the operating range of the MMV. 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 MMV is 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 \$9,000 retail, but the cost can be as high as \$18,500 depending on additional special features such as the extension link and encryption capabilities.

This new product allows hands-free operation of the unit because it allows the person to wear the unit with a helmet mounted monocle.

3. 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 32 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.

4. Additional Applications and Integration of ViewScan and ViewMaxx

We also offer integration of other products with ViewScan 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 ViewScan and/or ViewMaxx to limit individual access to an area. ViewScan 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 ViewScan or ViewMaxx products.

5. The MINI

The MINI (Mobile Intelligent Network Informer) is a portable, wireless watchdog communication device that checks for intrusion into uninhabited areas such as foreclosed houses, storage spaces and vacation homes. The MINI senses motion and sends text messages to a user's cell phone. Property and remote assets may be guarded by this innovative device that requires no plug-in electricity, no physical phone line and no monitoring service. The MINI runs on batteries and one configuration of the system can even send a photo of the intruder to the user's cell phone. Camera settings can be controlled and changed via SMS commands.

We license the MINI from its manufacturer and act as a distributor. The Company established a dedicated e-commerce platform for the direct sale of this innovative product, which went online in February 2010. As of February 2010, we are marketing the MINI to large potential users, such as real property managers, as well as to retail customers through the www.minicamsim.com website.

6. Network Services

View Systems Inc. Network Services group supplies integrated electronic security and control systems for commercial and industrial applications throughout the Mid Atlantic area.

The Network Services group specializes in the installation of complex electronic control systems which typically include access control, parking and vehicular control, closed circuit television surveillance, audio intercommunication, and proprietary alarm monitoring systems in commercial and multi-tenant residential applications. The Network Service's true specialty is the integration of two or more of these subsystems into one complete and easy to operate package with all subsystems being highly integrated and easy to manage.

The installation of fiber optic backbones is a primary focus of Network Services. Since March 2009 we have been a subcontractor of MasTec North America, Inc. for the installation of fiber optic cable networks. Using a credit line provided by Lafayette Commercial Bank, in 2009 we spent more than \$200,000 to purchase tools and equipment to enhance our fiber optic installation capability. Payment (less a 10% holdback) for our services is expected at 45 days after completion of each project.

We will continue to work with MasTec North America, Inc. on the installation of fiber cable infrastructure, as well as seek video surveillance and access control system design, installation, maintenance and support contracts in our geographical areas of proximity and strength.

7. FiberXpress, Inc.

On July 24, 2009 we entered into an asset purchase agreement to acquire FiberXpress, Inc., a company that sells specialist data network related products through its Internet web site. The transaction closed on September 15, 2009. The FiberXpress acquisition has not resulted in meaningful sales, and we are looking for suitable options.

8. Visisys Ltd.

View Systems has a strategic partnership with Visisys. Visisys and its subsidiaries enjoy an international reputation for developing and marketing intelligent video, monitoring and sensory systems. Visisys main focus is the integration of proprietary and/or estimable devices with design and applied science to provide customized applications in a number of diverse fields, such as, security, medical, retail, hospitality and financial/clerical management.

Our strategic partnership with Visisys has brought us additional video expertise and has indirectly brought us \$200,000 worth of business with a public utility.

9. Training and Service Programs

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.

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 six months ended June 30, 2010 and 2009 and should be read in conjunction with the financial statements, and notes thereto, included with our most recent Form 10-K for the year ended December 31, 2009.

SUMMARY COMPARISON
OF OPERATING RESULTS

Six
months ended June 30,

	2010	2009
Revenues, net	478,947	175,052
Cost of sales	160,926	71,871
Gross profit (loss)	318,021	111

	103,181
Total operating expenses	
	544,716
	960,754
Profit (Loss) from operations	
	(226,695)
	(857,573)
Total other income (expense)	
	(31,907)
	(36,999)
Net income (loss)	
	(258,602)
	(894,572)
Net income (loss) per share	
\$	(0.00)
\$	(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.

We have experienced a slight increase in sales of our products which resulted in an increase in revenues for the second quarter of 2010 compared to the second quarter of 2009. We believe the cause of that is the domestic and worldwide down turn of the economy although we received verbal indications of increased need from our international customers such as Pakistan, UAE and China. Those orders have been stalled and or cancelled; we suspect at this time that they have been canceled. We have had inquiries for quotes from India and indications of additional purchases by the United Arab Emirates. Management anticipates that revenues will resume as the general economic situation in the world improves.

Our backlog at June 30, 2010 was \$80,000, down from March 31, 2010, which was \$210,000. 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. 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 weeks or 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 an installation site, and delays caused by other contractors on the project. We have a back log because we do not hold unsold units in inventory.

The increase of margins from quarter to quarter was primarily the result of decreased costs and due to an increase in volume of units shipped. Management realizes that the relative margins of each product line will increase with higher volume and decrease with lower volume.

Inflation has not been a significant factor in either our price points nor in the cost of products sold. The sales cycles are long and cross budget and annual review boundaries. The approval for purchase process is affected by both federal funds being available and state decisions interacting with local needs and review of safety and homeland security committees comprised of sheriffs, police, fire and SWAT teams. We have not found elasticity in price affecting decision for purchase or approval.

LIQUIDITY AND CAPITAL RESOURCES

We had insufficient funds to deliver our backlog in the last half of 2009. Our revenues from several product sales have been increasing and some others decreasing but are not sufficient to cover all of our operating expenses. Our auditors have expressed substantial doubt that we can continue as a going concern. We are continuing to push sales and control costs.

Historically, we have relied on revenues, debt financing and sales of our common stock to satisfy our cash requirements. For the six months ended June 30, 2010, we received cash from revenues of \$478,947, repaid \$29,559 on lines of credit, repaid \$4,749 on notes payable, and received an additional \$50,000 in loans under notes payable and repaid \$7,050 of stockholder loans. For the six months ended June 30, 2009, we received cash from revenues of \$175,052, \$198,566 under a line of credit, and \$70,889 in loans from shareholders. We will also continue to rely on the issuance of our common stock to pay for services and to debt when cash is unavailable. Management anticipates that we will continue to issue shares for services in the short term.

Our net loss for the six months ended June 30, 2010, was \$258,602, as compared with a net loss of \$894,572 for the six months ended June 30, 2009. Our net loss was offset by adjustments which resulted in \$52,029 net cash used by operating activities for the six months ended June 30, 2010, as compared with \$218,756 net cash used in operating activities for the six months ended June 30, 2009. Our net cash used in investing activities for the six months ended June 30, 2010 was \$259, as compared with \$50,853 net cash used in investing activities for the six months ended June 30, 2009, both of which derived exclusively from purchases of equipment. For the six months ended June 30, 2010, our net cash increased by financing activities by \$8,642, as compared with \$269,455 net cash provided by financing activities for the six months ended June 30, 2009. For the six months ended June 30, 2010, we had a net decrease in cash of \$43,646, resulting in \$27,158 cash on hand, as compared with a net decrease in cash of \$154, resulting in \$1,614 cash on hand for the six months ended June 30, 2009.

Management believes we will need to take the necessary steps to file a registration of common stock to fund growth and acquisitions during 2010. Our ability to take this action will depend on our ability to pay for legal, accounting, and auditing services in conjunction with a notice to shareholders. We have re-audited our financial statements for the year ended December 31, 2008 as a result of the Securities and Exchange Commission's concerns that our principal accountant was not independent at the time that the audit of our 2008 financial statements was conducted. The re-audited financial statements are included in Form 10-K/A to the 2008 10-K, which was filed with the Securities and Exchange Commission on January 14, 2010.

Management intends to finance our 2010 operations primarily with the revenue from product sales and any cash shortfalls will be addressed through equity or debt 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 \$1,000,000 in equity financing during the next 12 months to satisfy our cash requirements of approximately \$100,000 per month for operations and to facilitate our business plan.

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 2010 and 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 2010, then we may be required to reduce our expenses and scale back our operations.

Commitments and Contingent Liabilities

The Company leased office and warehouse space in Baltimore, Maryland under a six-month non-cancelable operating lease, which expired February 2010. Base rent is \$3,300 per month. We continue to lease this property on a month to month basis.

Our total current liabilities decreased to \$1,722,532 at June 30, 2010, compared to \$1,914,708 at June 30, 2009. Our current total liabilities at June 30, 2010 included accounts payable of \$495,913, accrued expenses of \$94,985 accrued interest of \$122,604, accrued royalties of \$225,000, loans from shareholders of \$185,978, notes payable (short term) of \$555,899, and deferred revenue of \$42,153.

As of June 30, 2010, our short and long term notes payable consist of the following:

We issued notes in the aggregate amount of \$343,093 pursuant to a Subscription Agreement, dated December 23, 2005, with three accredited investors; Starr Consulting, Inc., Active Stealth, LLC, and KCS Referral Service LLC (the Subscribers). We agreed to sell and the Subscribers agreed to purchase convertible promissory notes and warrants. However, on January 6, 2006, the Subscribers consented to the removal of the warrants from the subscription agreement, with the understanding that the warrants would be reinstated after we increased our authorized common stock and the shares underlying the warrants would be registered at a later date. The Subscribers did not receive any other additional consideration for the removal of the warrants. The Subscribers agreed to purchase up to an aggregate of \$500,000 of 8% promissory notes convertible into shares of our common stock at a per share conversion price of \$0.10. The notes were originally to be due and payable by December 31, 2006. The Subscribers agreed to purchase the promissory notes over a 5 month period in \$100,000 per month installments; however, the investment threshold was never achieved, so the conversion option of the notes was terminated and the loans became due on demand with interest at 8% per annum. As of the date of this report the investors have demanded repayment of these loans. The Company has taken steps to negotiate these defaults. In November of 2008 the holders agreed to accept shares of common stock as payment. The holders of these notes have received \$181,000 in cash payments from the sale of stock received. The amount outstanding as of the end of the reporting period was approximately \$162,093.

This debt was settled subsequent to the reporting period with the Company's agreement to issue 4,500,000 shares of Company common stock. The stock was issued in July 2010.

We issued unsecured convertible loans from two stockholders in the principal amount of \$216,000.

The first loan of \$100,000 was due in full on November 1, 2007 with interest at 7%. In August 2009, the Holder sued the Company to enforce the note, and in January 2010 the Holder agreed to accept 3,500,000 common shares in payment of principal and interest on the note and litigation related fees, costs, and post-judgment interest. The total due under this loan at the date of settlement was \$163,366.27. Should the holder not realize \$163,366.27 from the sale of 3,500,000 shares, then he will be granted additional shares to resolve any shortfall, provided his sales have been in good faith.

The holder of the second note of \$116,000 has been receiving interest payments irregularly in the form of cash and common stock. The amount currently outstanding is \$119,480.

We have a line of credit arranged for and secured by our Director Dr. Bagnoli in the amount of \$200,000 of which the outstanding balance is \$170,441. Interest is payable monthly at 7% per annum and the loan is due during 2010. The line of credit was used to purchase inventory and equipment for our fiber optics business.

We have two vehicles financed in 2009 through Chase Auto Finance in the principal amounts of \$20,967, and \$23,783 respectively. Combined payments are \$1,003 per month which includes interest at 5.34%. The loans are for 60 months with the final payments due in July 2014.

We are in default of a September 18, 2009 demand loan payable to an investor which was due December 17, 2009 in the amount of \$50,000. Interest has accrued at 5% per month since December 17, 2009.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Contractual Obligations

As a smaller reporting company as defined by Item 10 of Regulation S-K, the Company is not required to provide this information.

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.

Risk Factors, including Going Concern Opinion

You should carefully consider the risks, uncertainties and other factors identified below because they could materially and adversely affect our business, financial condition, operating results and prospects and could negatively affect the market price of our Common Stock. Also, you should be aware that the risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we do not yet know of, or that we currently believe are immaterial, may also impair our business operations and financial results. Our business, financial condition or results of operations could be harmed by any of these risks. The trading price of our Common Stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks you should also refer to the information contained in or incorporated by reference to our Form 10-K for the year ended December 31, 2009, including our financial statements and the related notes thereto.

WE HAVE EXPERIENCED HISTORICAL LOSSES AND A SUBSTANTIAL ACCUMULATED DEFICIT. IF WE ARE UNABLE TO REVERSE THIS TREND, WE WILL LIKELY BE FORCED TO CEASE OPERATIONS.

We have incurred losses for the past two fiscal years which consists of a net loss of \$1,560,012 for 2009 and had a net loss of \$258,602 for the six months ended June 30, 2010. In addition, at June 30, 2010, the Company had a retained deficit of \$22,583,036. Our operating results for future periods will include significant expenses, including new product development expenses, potential marketing costs, professional fees and administrative expenses, and

will be subject to numerous uncertainties. As a result, we are unable to predict whether we will achieve profitability in the future, or at all.

WE HAVE A WORKING CAPITAL DEFICIT AND SIGNIFICANT CAPITAL REQUIREMENTS. SINCE WE WILL CONTINUE TO INCUR LOSSES UNTIL WE ARE ABLE TO GENERATE SUFFICIENT REVENUES TO OFFSET OUR EXPENSES, INVESTORS MAY BE UNABLE TO SELL OUR SHARES AT A PROFIT OR AT ALL.

The Company has a net loss of \$258,602 for the six months ended June 30, 2010 and net cash used in operations of \$52,029 for the six months ended June 30, 2010. Because the Company has not yet achieved or acquired sufficient operating capital and given these financial results along with the Company's expected cash requirements in 2010, additional capital investment will be necessary to develop and sustain the Company's operations.

OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM HAS RAISED DOUBT OVER OUR CONTINUED EXISTENCE AS A GOING CONCERN.

We have incurred substantial operating and net losses, as well as negative operating cash flow and do not have financing commitments in place to meet expected cash requirements for the next twelve months.

Our net loss for the six months ending June 30, 2010 was \$258,602 and our net loss for the six months ending June 30, 2009 was \$894,572. Our retained deficit was \$22,583,036 at June 30, 2010. We are unable to fund our day-to-day operations through revenues alone and management believes we will incur operating losses for the near future while we expand our sales channels. While we have expanded our product line and expect to establish new sales channels, we may be unable to increase revenues to the point that we attain and are able to maintain profitability. As a result we rely on private financing to cover cash shortfalls.

As a result, we continue to have significant working capital and stockholders' deficits including a substantial accumulated deficit at June 30, 2010. In recognition of such, our independent registered public accounting firm has included an explanatory paragraph in its report on our consolidated financial statements for the fiscal years ended December 31, 2009 and December 31, 2008 that expressed substantial doubt regarding our ability to continue as a going concern.

WE NEED ADDITIONAL EXTERNAL CAPITAL AND IF WE ARE UNABLE TO RAISE SUFFICIENT CAPITAL TO FUND OUR PLANS, WE MAY BE FORCED TO DELAY OR CEASE OPERATIONS.

Based on our current growth plan we believe we may require approximately \$2,000,000 in additional financing within the next twelve months for operations and 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.

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 ViewScan 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 44.9% of the voting power of our common and 100% of the preferred stock entitled to vote on any matter brought to a vote of the stockholders. Including the effects of Gunther Than s, our CEO s, voting preferred stock, our directors and officers have the power to vote approximately 45.7% of common shares (based on the assumed effects of conversion of all of Mr. Than s preferred stock) as of the date of this report. Pursuant to Nevada law and our bylaws, the holders of a majority of our voting stock may authorize or take corporate action with only a notice provided to our stockholders. A stockholder vote may not be made available to our minority stockholders, and in any event, a stockholder vote would be controlled by the majority stockholders.

FAILURE TO ACHIEVE AND MAINTAIN EFFECTIVE INTERNAL CONTROLS IN ACCORDANCE WITH SECTION 404 OF THE SARBANES-OXLEY ACT WOULD LEAD TO LOSS OF INVESTOR CONFIDENCE IN OUR REPORTED FINANCIAL INFORMATION.

Pursuant to proposals related to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Form 10-K for the fiscal year ending December 31, 2008, we will be required to furnish a report by our management on our internal control over financial reporting. If we cannot provide reliable financial reports or prevent fraud, then our business and operating results could be harmed, investors could lose confidence in our reported financial

information, and the trading price of our stock could drop significantly.

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

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

THERE IS NO SIGNIFICANT ACTIVE TRADING MARKET FOR OUR SHARES, AND IF AN ACTIVE TRADING MARKET DOES NOT DEVELOP, PURCHASERS OF OUR SHARES MAY BE UNABLE TO SELL THEM PUBLICLY.

There is no significant active trading market for our shares and we do not know if an active trading market will develop. An active market will not develop unless broker-dealers develop interest in trading our shares, and we may be unable to generate interest in our shares among broker-dealers until we generate meaningful revenues and profits from operations. Until that time occurs, if it does at all, purchasers of our shares may be unable to sell them publicly. In the absence of an active trading market:

- Investors may have difficulty buying and selling our shares or obtaining market quotations;
- Market visibility for our common stock may be limited; and
- A lack of visibility for our common stock may depress the market price for our shares.

THE SUCCESS OF OUR BUSINESS DEPENDS UPON THE CONTINUING CONTRIBUTION OF OUR KEY PERSONNEL, INCLUDING MR. GUNTHER THAN, OUR CHIEF EXECUTIVE OFFICER, WHOSE KNOWLEDGE OF OUR BUSINESS WOULD BE DIFFICULT TO REPLACE IN THE EVENT WE LOSE HIS SERVICES.

Our operations are dependent on the efforts and relationships of Gunther Than and the senior management of our organization. We will likely be dependent on the senior management of our organization for the foreseeable future. If any of these individuals becomes unable to continue in their role, our business or prospects could be adversely affected. For example, the loss of Mr. Than could damage customer relations and could restrict our ability to raise additional working capital if and when needed. There can be no assurance that Mr. Than will continue in his present capacity for any particular period of time.

OUR COMMON STOCK IS CONSIDERED TO BE "PENNY STOCK."

Our common stock is considered to be a "penny stock" because it meets one or more of the definitions in Rules 15g-2 through 15g-6 promulgated under Section 15(g) of the Securities Exchange Act of 1934, as amended. These include but are not limited to, the following: (i) the stock trades at a price less than \$5.00 per share; (ii) it is not traded on a "recognized" national exchange; (iii) it is not quoted on The NASDAQ Stock Market, or even if quoted, has a price less than \$5.00 per share; or (iv) is issued by a company with net tangible assets less than \$2.0 million, if in business more than a continuous three years, or with average revenues of less than \$6.0 million for the past three years. The principal result or effect of being designated a "penny stock" is that securities broker-dealers cannot recommend the stock but must trade it on an unsolicited basis.

BROKER-DEALER REQUIREMENTS MAY AFFECT TRADING AND LIQUIDITY.

Section 15(g) of the Securities Exchange Act of 1934, as amended, and Rule 15g-2 promulgated thereunder by the SEC require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account. Potential investors in our common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stocks." Moreover, Rule 15g-9 requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for holders of our common stock to resell their shares to third parties or to otherwise dispose of them in the market or otherwise.

OUR COMMON STOCK MAY BE VOLATILE, WHICH SUBSTANTIALLY INCREASES THE RISK THAT YOU MAY NOT BE ABLE TO SELL YOUR SHARES AT OR ABOVE THE PRICE THAT YOU MAY PAY FOR THE SHARES.

Because of the limited trading market expected to develop for our common stock, and because of the possible price volatility, you may not be able to sell your shares of common stock when you desire to do so. The inability to sell your shares in a rapidly declining market may substantially increase your risk of loss because of such illiquidity and because the price for our common stock may suffer greater declines because of its price volatility.

The price of our common stock may be higher or lower than the price you may pay. Certain factors, some of which are beyond our control, that may cause our share price to fluctuate significantly include, but are not limited to, the following:

- variations in our quarterly operating results;
- loss of a key relationship or failure to complete significant transactions;
- additions or departures of key personnel; and
- fluctuations in stock market price and volume.

Additionally, in recent years the stock market in general, and the over-the-counter markets in particular, have experienced extreme price and volume fluctuations. In some cases, these fluctuations are unrelated or disproportionate to the operating performance of the underlying company. These market and industry factors may materially and adversely affect our stock price, regardless of our operating performance.

In the past, class action litigation often has been brought against companies following periods of volatility in the market price of those companies' common stock. If we become involved in this type of litigation in the future, it could result in substantial costs and diversion of management attention and resources, which could have a further negative effect on your investment in our stock.

WE HAVE NOT PAID, AND DO NOT INTEND TO PAY, CASH DIVIDENDS IN THE FORESEEABLE FUTURE.

We have not paid any cash dividends on our common stock and do not intend to pay cash dividends in the foreseeable future. We intend to retain future earnings, if any, for reinvestment in the development and expansion of our business. Dividend payments in the future may also be limited by other loan agreements or covenants contained in other securities which we may issue. Any future determination to pay cash dividends will be at the discretion of our board

of directors and depend on our financial condition, results of operations, capital and legal requirements and such other factors as our board of directors deems relevant.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company as defined by Item 10 of Regulation S-K, the Company is not required to provide information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer/Principal Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of June 30, 2010. Based on such evaluation, we have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer/Principal Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

Management of the Company has evaluated, with the participation of the Company's Chief Executive Officer/Chief Financial Officer, changes in the Company's internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the second quarter of 2010. In connection with such evaluation, there have been no changes to the Company's internal control over financial reporting that occurred since the beginning of the Company's second quarter of 2010 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. [REMOVED AND RESERVED]

ITEM 5. OTHER INFORMATION

After the reporting period, on July 21, 2010, the Company registered on Form S-8 a total of 100,000,000 shares of its common stock issuable pursuant to its 2010 Equity Incentive Plan and 2010 Service Provider Stock Compensation Plan. The Board of Directors previously approved in June 2010 the issuance of 1,065,000 shares to service providers under the 2010 Service Provider Stock Compensation Plan.

The Company also authorized in June 2010 and issued in July 2010 7,375,000 shares of restricted common stock as compensation to service providers outside of the 2010 Service Provider Stock Compensation Plan as all of these compensatory arrangements were in discussions with the recipients prior to the establishment of the 2010 Service Provider Stock Compensation Plan. The Company also agreed to include these restricted share issuances in a forthcoming Form S-1 registration statement. The shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended.

ITEM 6. EXHIBITS

The following exhibits are filed as part of this Form 10-Q:

4.2

Subscription Agreement between View Systems, Inc. and Starr Consulting, Inc., Active Stealth, LLC, and KCS Referral Service LLC, dated December 23, 2005 *

10.1

View Systems, Inc. 2010 Equity Incentive Plan *****

10.2

Employment agreement between View Systems, Inc. and Gunther Than, dated December 1, 2009 **

10.3

Subcontractor Agreement dated March 9, 2009 between MasTec North America, Inc. and View Systems, Inc. ***

10.4

View Systems, Inc. 2010 Service Provider Stock Compensation Plan

31.1

Rule 13a-15(e)/15d-15(e) Certification by the Chief Executive Officer and Chief Financial Officer

32.1

Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- * Incorporated by reference to exhibit 4.1 of Form 8-K, filed January 6, 2006.
- ** Incorporated by reference to exhibit 10.1 to Form 8-K, filed January 11, 2010.
- *** Incorporated by reference to exhibit 10.3 for Form 10-Q, Amendment No. 1, for the period ended March 31, 2009.
- **** Incorporated by reference to exhibit 10.1 to Form 10-Q for the period ended March 31, 2010.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**VIEW
SYSTEMS,
INC.**

Date:
August 10,
2010

By:

*/s/ Gunther
Than*

Gunther
Than

Chief
Executive
Officer

(Principal
executive
officer,
principal
financial
officer, and
principal
accounting
officer)