

VIEW SYSTEMS INC  
Form 10-Q  
November 15, 2010

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

FORM 10-Q

□ QUARTERLY REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 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**

(State or other jurisdiction of incorporation or organization)

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(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

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 [November 10, 2010]

Common Stock, \$.001 par value per share

[94,343,369]

1

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

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**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

**Sep 30,**

**Dec 31,**

**2010**

**2009**

**(Unaudited)**

**ASSETS**

Current Assets

Cash

\$

9,053

\$

70,804

Accounts  
receivable (net of  
allowance of \$1,000)

197,896

251,581

Inventory

7,792

7,792

Total Current  
Assets

214,741

330,177

Property and  
equipment (net)

74,174

95,948

Other Assets

Licenses

	813,424
	892,144
Due from affiliates	
	147,507
	147,507
Investment	
	67,500
	67,500
Deposits	
	7,385
	7,528
Total Other Assets	
	1,035,816
	1,114,679

Total Assets

\$

1,324,731

\$

1,540,804

**LIABILITIES AND  
STOCKHOLDERS'  
EQUITY**

Current Liabilities

Accounts payable

\$

	377,985
	\$
	486,979
Accrued expenses	
	116,655
	71,912
Accrued interest	
	35,819
	170,518
Accrued royalties	
	225,000
	225,000
Loans from shareholders	
	129,461
	193,027
Notes payable	

374,524

637,719

Deferred revenue

42,153

129,553

Total Current  
Liabilities

1,301,597

1,914,708

Long-term Debt

Note payable



32,310

39,872

Total  
Liabilities

1,333,907

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  
950,000,000 Shares,  
\$.001 par value

issued and  
outstanding  
94,343,369

94,343

-

issued and  
outstanding  
79,442,369

-

79,442

Additional paid in  
capital

22,514,084

21,830,320

Retained earnings  
(deficit)

(22,618,499)

(22,324,434)

Total  
Stockholders' Equity  
(Deficit)

(9,176)

(413,776)

Total Liabilities  
and Stockholders'  
Equity

\$

1,324,731

\$

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)

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For the Three  
Months Ended

For the Nine  
Months Ended

September 30,

September 30,

2010

2009

2010

2009

Revenues, Net

\$

243,095

\$

81,384

\$

722,042

\$

256,436

Cost of Sales

34,112

36,074

195,038

107,945

Gross Profit

208,983

45,310



527,004

148,491

Operating  
Expenses

Business  
development

35,212

6,515

89,190

49,268

General and  
administrative

111,406

81,768

354,783

422,643

Professional  
fees

61,523

30,400

188,273

307,225

Salaries and  
benefits

63,443

50,525

184,054

350,826

Total  
Operating  
Expenses

271,584

169,208

816,300

1,129,962

Net Operating  
Income (Loss)

(62,601)

(123,898)

(289,296)

(981,471)

Other  
Income(Expense)

Gain from  
renegotiated debt

42,502

-

42,502

-

Interest  
expense

(15,364)

(16,659)

(47,271)

(53,658)

Total Other  
Income(Expense)

27,138

(16,659)

(4,769)

(53,658)

Net Income  
(Loss)

\$

(35,463)

\$

(140,557)

\$

(294,065)

\$

(1,035,129)

Net Income  
(Loss) Per Share

\$
(0.00)
\$
(0.00)
\$
(0.00)
\$
(0.03)

Weighted  
Average Shares  
Outstanding

89,123,369

56,626,796



83,412,869

34,430,457

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

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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

62,500

-



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

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December 31,  
2009

-

-

-

-

-

(1,560,012)

Balance,  
December 31,

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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 in error

-

-

(10,000,000)

(10,000)

(290,000)

-

July  
September  
2010 shares  
issued for  
services,



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notes payable,  
accounts  
payable and  
accrued  
interest

-

-

10,440,000

10,440

448,672

-

Reclassified  
proceeds from  
prior year stock  
issuances

-

-

-

-

32,500

-

Net loss for the  
period ended  
September 30,  
2010

-

-

-

-

-

(294,065)

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Balance,  
September 30,  
2010

89,647

\$

896

94,343,369

\$

94,343

\$

22,514,084

\$

(22,618,499)

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

**View Systems,  
Inc. and  
Subsidiaries**

Consolidated  
Statements of  
Cash Flows

(Unaudited)

For the Nine  
Months Ended

September 30,

2010

2009

**Cash Flows  
from Operating  
Activities:**

Net Income  
(Loss)

\$

(294,065)

\$

(1,035,129)

Adjustments to  
Reconcile Net  
Income (Loss) to

Net Cash  
Provided (Used)  
by Operations:

Depreciation  
and amortization

93,720

88,820

Common  
stock issued in  
payment of  
services

102,995

573,881

Gain from  
renegotiated debt

(42,502)

-

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

53,665

(6,573)

Inventories

-



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(42,082)

Deposits

143

-

Increase  
(Decrease) in:

Accounts  
payable

19,303

66,415

Accrued  
expenses

44,743

16,146

Accrued  
interest

40,604

51,879

Deferred  
revenue

(87,400)

Accrued  
royalties

-

56,250

Net Cash  
Provided (Used)  
by Operating  
Activities

(61,762)

(230,393)

**Cash Flows  
from Investing  
Activities:**

Purchases of  
equipment

(259)

(38,652)

Net Cash Used  
In Investing  
Activities

(259)

(38,652)

**Cash Flows  
from Financing  
Activities:**

Loans received  
(repaid) under a  
line of credit

(51,494)

252,018

Principal  
payments on  
notes payable

(7,170)

-

Loans received  
under notes  
payable

50,000

-

Loans from  
shareholders

8,934

18,390

Net Cash  
Provided by  
Financing  
Activities

270

270,408

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Increase  
(decrease) in  
Cash

(61,751)

(1,363)

Cash and Cash  
Equivalents at  
Beginning of  
Period

70,804

1,768

Cash and Cash  
Equivalents at  
End of Period

\$

9,053

\$

3,131

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

**View  
Systems, Inc.  
and  
Subsidiaries**

Consolidated  
Statements of  
Cash Flows  
(Continued)

(Unaudited)

For the Nine  
Months  
Ended



September  
30,

2010

2009

Non Cash  
Investing and  
Financing  
Activities:

Notes  
payable paid  
down with  
common  
stock

262,092

231,000

Accrued  
interest paid  
with common  
stock

175,303

2,633

Vehicle  
purchase  
financed with  
note payable

-

54,041

Loans  
from  
shareholders  
repaid with  
common  
stock

40,000

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16,656

Accounts  
payables paid  
with common  
stock

85,955

132,250

Vehicle  
purchased  
with common  
stock

-

7,813

Investment  
made with  
common  
stock

-

67,500

Cash Paid  
For:

Interest

\$  
8,645

\$

1,226

Income  
Taxes

\$

-

\$

-

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

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 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., 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 collectability 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

SEPTEMBER 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 collectability 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 September 30, 2010 and December 31, 2009 consisted of unassembled parts of products.

Property and Equipment

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



Equipment

5-7 years

Software tools

3 years

Repairs and maintenance charges which do not increase the useful lives of assets are charged to operations as incurred. Depreciation expense for the periods ended September 30, 2010 and December 31, 2009 amounted to \$15,000 and \$11,985, respectively.

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

1.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Licenses

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

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

The valuation of these licenses consist of the cost of acquiring Milestone, 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 September 30, 2010 and December 31, 2009 was \$78,720 and \$104,958, respectively. Consistent with SFAS No. 142, the license was also analyzed to determine if any impairment existed at September 30, 2010 and December 31, 2009. It was determined to be not impaired. The Company has fundamentally advanced the technology under which these licenses operate and it is in the process of filing for its own provisional patents.

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.

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

1.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Advertising

Advertising costs are charged to operations as incurred. Advertising costs for the periods ended September 30, 2010 and December 31, 2009 were \$20,696 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.

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 stocks. 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 September 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:

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

1.  
NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income

Shares

Per-share

(Numerator)

(Denominator)

Amount

Nine months  
ended  
September 30,  
2010

Income (loss)  
from  
continuing  
operations  
which is the

amount that is  
available to  
common  
stockholders

\$

(294,065)

83,412,869

\$

(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)



2.

#### GOING CONCERN

The Company has incurred and continues to incur, losses from operations. For the periods ended September 30, 2010 and December 31, 2009, the Company incurred net losses of \$294,065 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 to 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 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.



**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

2.

GOING CONCERN

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.

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 and \$0.31 per share in March) the total cost of the acquisition was \$1,298,000.

Milestone Technology, Inc., is a developer of concealed weapons detections systems. Its primary product is a walk-through detector that uses advanced magnetic technology to accurately pinpoint the location, size, and numbers of concealed weapons.

5.

#### DUE FROM AFFILIATED ENTITIES

The Company has advanced non-interest bearing funds of \$147,507 as of September 30, 2010 and \$147,587 as of December 31, 2009 to a related corporation, The Fight Zone, Inc., (formerly Geoscopix, Inc.), which is controlled by the Chief Executive Officer of the Company. There are no formal repayment terms associated with this advance. The two companies enter into various transactions throughout the year to provide working capital to one another when necessary. Management has determined that the advance is totally collectible.

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

6.

NOTES PAYABLE

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

2010

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. The debt was settled in 2010 for 4,500,000 shares of common stock

\$ 0

\$ 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 commencing December 25, 2009 with a balloon payment in the amount \$175,630 due in May 2010. Interest accrues monthly at 7% per annum.

148,506

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 stock

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

42,328

49,497

TOTAL

\$ 406,834

\$ 677,589

Principal payments for the next five  
years are as follows:

2010

\$ 369,450

2011

10,151

2012

10,708

2013

11,294

2014

5,231

TOTAL

\$ 406,834

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 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

September 30,

December 31,

2010

2009

Net loss  
per financial  
statements  
which  
approximates

net loss  
per income tax  
returns

\$

(294,065)

\$

(1,560,012)

Income tax  
expense  
(benefit)  
applying  
prevailing

Federal  
and state  
income tax  
rates

(123,507)

(655,205)

Less  
valuation  
allowance

123,507

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.





**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

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. Each share is entitled to fifteen votes and shall be entitled to vote on any matters brought to a vote on the common stock shareholder.

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 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 shares did not change.

9.

**OPERATING LEASE**

The Company leases 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland, under a three-year noncancellable operating lease which expired in October 2008. A renewal of the lease expired on August 31, 2010, and the Company renewed the lease for one year commencing September 1, 2010 and expiring August 31, 2011. The base rent had been \$3,047 per month with an annual rent escalator of 3%.

Under the current renewal the monthly lease payment is \$3,077. Rent expense was \$35,419 and \$47,461 for the periods ended September 30, 2010 and December 31, 2009, respectively.



**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

10.

STOCK BASED COMPENSATION

During the periods ended September 30, 2010 and December 31, 2009 the Company granted restricted stock to independent contractors and consultants.

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.

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:

2010

2009

Number of

Expense

Number of

Expense

Shares

Recognized

Shares

Recognized

Officers and  
employees

500,000

\$ 15,000

35,305,500

\$ 744,681

Independent  
contractors  
and  
consultants

5,440,000

117,800

9,230,000

270,100

Total

5,940,000

\$ 132,800

44,535,500

\$ 1,014,781

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

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2010 AND DECEMBER 31, 2009

Stock Options and Warrants

Our 1999 Employee 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 the 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 prices as established on the date of the grant.

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 nine months ended September 30, 2010. The total balance due on unstructured loans from shareholders amount to \$129,461 at September 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 the 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 ended 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.





## **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 nine months ended September 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. There have been a net of seventeen sales in 2010 to date.

During 2009, the Company secured significant international sales opportunities for ViewScan in China and the Middle East through our respective local agents. However, no sales have occurred in China in 2010, and we have been unable to fill orders from the Middle East due to personnel issues in our product assembly locations. We will continue to work closely with our overseas agents to assist them in securing new orders and to resolve our product assembly issues. In addition we will seek new agents for as yet untapped markets for ViewScan and our range of security technologies.

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.

Fiber optic contract installations peaked for 2010 in the summer months. This market is seasonal and is anticipated to slow in the fall and winter months.

Our strategy for 2011 for ViewScan will be to extend our sales and service provisions. 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 fourth quarter 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. 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.

#### 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 October 7, 2010, we filed a registration statement on Form S-1 to register 50,000,000 shares of our common stock with the hope of raising up to \$1 million. The stated primary purposes of the offering are to obtain additional capital to: (1) facilitate product fulfillment (manufacturing, packaging and shipment), which we anticipate will enable future orders to be self funding; (2) provide working capital to finance corporate acquisitions and the integration of new technologies; and (3) retire debt through cash payment or the exchange of debt obligations with payment in registered Common Stock. The registration statement also registered for resale 1,500,000 shares of restricted common stock issued to a consultant of the Company in exchange for forgiveness of debt. As of the date of this report, the registration statement has not been declared effective by the U.S. Securities and Exchange Commission.

#### 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. Multi-Mission Mobil Video

The Multi-Mission Mobil Video (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 game 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 including installation can range from approximately \$5,000 up to \$50,000.

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](http://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 with an exchange of stock and the hiring of William Paul Price. The acquisition has not been material to our financial statements. The FiberXpress acquisition has not resulted in meaningful sales, and we are looking for suitable options.

8. Visisys Ltd.

The status of View Systems partnership with Visisys is uncertain. There have not been any sales in 2010 to date from this partnership, and the Company may terminate the relationship in the coming months.

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 September 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

Nine  
months ended September 30,

	2010	2009
Revenues, net	722,042	256,436
Cost of sales	195,038	107,945
Gross profit (loss)	527,004	148,491
Total operating expenses	816,300	1,129,962
Profit (Loss) from operations		

	(289,296)
	(981,471)
Total other income (expense)	
	(4,769)
	(53,658)
Net income (loss)	
	(294,065)
	(1,035,129)
Net income (loss) per share	
\$	(0.00)
\$	(0.03)

Revenue is considered earned when the product is shipped to the customer. The concealed weapons system and the digital video system each require installation and training. Training is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training.

We have experienced a slight increase in sales of our products which resulted in an increase in revenues for the third quarter of 2010 compared to the third quarter of 2009. Management anticipates that the pace of revenues will continue to increase as the general economic situation in the world improves.

Our backlog at September 30, 2010 was \$80,000, down from June 30, 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 nine months ended September 30, 2010, we received cash from revenues of \$722,042, repaid \$51,494 on lines of credit, repaid \$7,170 on notes payable, and received an additional \$50,000 in loans under notes payable and repaid \$8,934 of stockholder loans. For the nine months ended September 30, 2009, we received cash from revenues of \$256,436, \$252,018 under a line of credit, and \$18,390 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 nine months ended September 30, 2010, was \$294,065, as compared with a net loss of \$1,035,129 for the nine months ended September 30, 2009. Our net loss was offset by adjustments which resulted in \$61,762 net cash used by operating activities for the nine months ended September 30, 2010, as compared with \$230,393 net cash used in operating activities for the nine months ended September 30, 2009. Our net cash used in investing activities for the nine months ended September 30, 2010 was \$259, as compared with \$38,652 net cash used in investing activities for the nine months ended September 30, 2009, both of which derived exclusively from purchases of equipment. For the nine months ended September 30, 2010, our net cash increased by financing activities by \$270, as compared with \$270,408 net cash provided by financing activities for the nine months ended September 30, 2009. For the nine months ended September 30, 2010, we had a net decrease in cash of \$61,751, resulting in \$9,053 cash on hand, as compared with a net decrease in cash of \$1,363, resulting in \$3,131 cash on hand for the nine months ended September 30, 2009.

After the reporting period, we filed a registration statement to register an offering of common stock which we anticipate will fund growth and acquisitions during the coming year. 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 short falls 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 leases 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland, under a three-year noncancellable operating lease which expired in October 2008. A recent renewal of the lease expired on August 31, 2010, and the Company again renewed the lease for one year commencing September 1, 2010 and expiring August 31, 2011. The base rent had been \$3,047 per month. Under the current renewal the monthly lease payment is \$3,077.

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Our total current liabilities decreased to \$1,301,597 at September 30, 2010, compared to \$1,914,708 at December 31, 2009. Our current total liabilities at September 30, 2010 included accounts payable of \$377,985, accrued expenses of \$116,655 accrued interest of \$35,819, accrued royalties of \$225,000, loans from shareholders of \$129,461, notes payable (short term) of \$374,524, and deferred revenue of \$42,153.

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

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We have an unsecured convertible loan from a stockholder in the principal amount of \$116,000. The holder of the note has been receiving interest payments irregularly in the form of cash and common stock. The amount currently outstanding is \$116,000.

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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 \$148,506. 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.

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We have two vehicles financed in 2009 through Chase Auto Finance in the principal amounts of \$19,833, and \$22,495 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.

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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. The loan is secured by the Company's accounts receivable.

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We have a convertible promissory note in the amount of \$50,000 payable on December 31, 2010 with interest at 8% per annum. The loan is convertible into 5,005,562 shares of common stock.

### **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 \$294,065 for the nine months ended September 30, 2010. In addition, at September 30, 2010, the Company had a retained deficit of \$22,618,499. 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 \$294,065 for the nine months ended September 30, 2010 and net cash used in operations of \$61,762 for the nine months ended September 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 nine months ending September 30, 2010 was \$294,065 and our net loss for the nine months ending September 30, 2009 was \$1,035,129. Our retained deficit was \$22,618,499 at September 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 September 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 \$1,000,000 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 44.5% 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 45.2% 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 September 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 third 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 third 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**

On July 27, 2010, we issued restricted shares to:

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M & A Investors, LLC, Diana Vesta, LLC, and Starr Consulting, Inc., in the aggregate 4.5 million shares in settlement of a debt in the amount of \$162,092 at a price per share of \$0.027;

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Russell C. Weigel, III, P.A., in the amount of 1.5 million shares in settlement of a debt in the amount of \$66,147 at a price per share of \$0.044;

.

Charles Gordon Davis, III, in the amount of 625,000 shares in settlement of a debt in the amount of \$12,500 at a price per share of \$0.02; and

.

Jerry Miller, in the amount of 750,000 shares in settlement of a debt in the amount of \$20,000 at a price per share of \$0.027.

On September 15, 2010, we issued 500,000 restricted shares to John P. Holms and 500,000 restricted shares to William Stamp in exchange for services rendered in the approximate amount of \$5,000 each, at a price of \$0.01 per share.

### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **ITEM 4. [REMOVED AND RESERVED]**



## ITEM 5. OTHER INFORMATION

### 1. Filing of Registration Statement.

On October 7, 2010, the Company filed a registration statement on Form S-1 to register 50,000,000 shares of common stock and to register for re-sale 1,500,000 shares of restricted common stock owned by a selling shareholder.

### 2. Changes in Registrant's Certifying Accountant.

(a) Previous Independent Auditors:

(i) We received a letter dated October 26, 2010 from our independent accounting firm Larry O' Donnell, CPA, P.C., which was addressed generically to its clients. In the letter the audit firm explained that it was resigning as the auditor of all of its public company clients and had sold that segment of his practice to another firm.

(ii) Larry O' Donnell, CPA, P.C.'s accountant's report on the financial statements for either of the past two fiscal years did not contain an adverse opinion or a disclaimer of opinion, nor were its reports qualified or modified as to uncertainty, audit scope, or accounting principles, but with the exception that, in its reports on the Company's financial statements for the years ended December 31, 2009 and December 31, 2008, Larry O' Donnell, CPA, P.C. reported that the Company's financial statements have been prepared assuming that the Company will continue as a going concern. As the certifying accountant's opinion pertained to the year ended December 31, 2009, the reason for this opinion was that the Company has incurred ongoing operating losses and has accumulated debts. In addition, certain notes payable have come due and the note holders have demanded payment. In the opinion of Larry O' Donnell, CPA, P.C., these conditions raise substantial doubt about the Company's ability to continue as a going concern.

(iii) In connection with its review of the Company's financial statements during the Company's two most recent fiscal years and any subsequent interim period preceding its resignation, there have been no disagreements with Larry O' Donnell, CPA, P.C. on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Larry O' Donnell, CPA, P.C. would have caused it to make reference to the subject matter of the disagreement(s) in connection with its report.



(iv) During the two most recent audit periods, and through the date of Larry O Donnell, CPA, P.C.'s resignation, there have been no reportable events with the Company as set forth in Item 304(a)(i)(v) of Regulation S-K.

(v) The Company requested that Larry O Donnell, CPA, P.C. furnish it with a letter addressed to the SEC stating whether or not it agrees with the above statements. A copy of such letter is filed as Exhibit 16.1 to this Form 10-Q.

(b) New Independent Auditors:

On November 7, 2010, the Company engaged R. R. Hawkins & Associates International PC as its independent public accounting firm. The independent accountant was engaged to review this report and to audit the Company's financial statements for the year ended December 31, 2010. During the two most recent fiscal years and the interim periods preceding the engagement, the Company has not consulted Hawkins Accounting regarding (i) the application of accounting principles to a specific transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, or (ii) any matter that was either the subject of a disagreement as that term is used in Item 304 (a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K or a reportable event as that term is used in Item 304(a)(1)(v) and the related instructions to Item 304 of Regulation S-K.

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## 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 \*\*\*\*\*

16.1 Letter from Larry O'Donnell, CPA, P.C. to the Securities and Exchange Commission dated November 15, 2010

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.

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\*\*\*\* Incorporated by reference to exhibit 10.1 to Form 10-Q for the period ended March 31, 2010.

\*\*\*\*\*Incorporated by reference to exhibit 10.4 to Form 10-Q for the period ended June 30, 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:  
November  
12, 2010

By:

*/s/ Gunther  
Than*

Gunther  
Than

Chief  
Executive  
Officer

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