

VIEW SYSTEMS INC
Form 10-Q/A
September 13, 2010

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

FORM 10-Q
Amendment No. 1

þ QUARTERLY REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2010

o 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

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(State or other jurisdiction of incorporation or organization)

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

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

(Address of principal executive offices) (Zip Code)

(410) 242-8439

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller
reporting company)

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

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 September 10, 2010

Common Stock, \$.001 par value per share

93,343,369

1

Purpose of This Amendment

We are amending our Form 10-Q for the period ended June 30, 2010 to correct our balance sheet's description of our authorized shares. We reported in error that there were 100,000,000 shares of common stock authorized while the correct number of authorized shares is 950,000,000.

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

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

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

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**View Systems, Inc.
and Subsidiaries**

Consolidated Balance
Sheets

JUN 30,

DEC 31,

2010

2009

ASSETS

(Unaudited)

Current Assets

Cash

\$

27,158

\$

70,804

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

118,267

251,561

Inventory

7,792

7,792

Total Current
Assets

153,217

330,157

Property &
Equipment (Net)

79,175

95,948

Other Assets

Licenses

839,664

892,144

Due from
Affiliates

147,507

147,507

Investment

67,500

67,500

Deposits

7,528

7,528

Total Other
Assets

1,062,199

1,114,679

Total
Assets

\$

1,294,591

\$

1,540,784

**LIABILITIES AND
STOCKHOLDERS'
EQUITY**

Current Liabilities

Accounts Payable

\$

495,913

\$

486,979

Accrued Expenses

94,985

71,912

Accrued Interest

122,604

170,518

Accrued Royalties

225,000

225,000

Loans from
Shareholder

185,978

193,027

Notes Payable

555,899

637,719

Deferred Revenue

42,153

129,553

Total Current
Liabilities

1,722,532

1,914,708

Long-term Debt

Note payable

37,384

39,872

Total
Liabilities

1,759,916

1,954,580

Stockholders' Equity
(Deficit):

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

Issued and
outstanding 89,647

896

896

Common Stock,
Authorized
950,000,000 Shares,
as of December 31,

2009 and
100,000,000 as of
December 31, 2008,
\$.001 Par Value

Issued and
Outstanding
83,903,369

83,903

--

Issued and
Outstanding
79,442,369

--

79,442

Additional Paid in
Capital

22,032,912

21,830,320

Retained Earnings
(Deficit)

(22,583,036)

(22,324,434)

Total
Stockholders' Equity
(Deficit)

(465,325)

(413,776)

Total
Liabilities and
Stockholders' Equity

\$

1,294,591

\$

1,540,804

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

**View Systems,
Inc. and
Subsidiaries**

Consolidated
Statements of
Operations

(Unaudited)

THREE
MONTHS
ENDED
JUN 30, 2010

THREE
MONTHS
ENDED
JUN 30, 2009

SIX
MONTHS
ENDED
JUN 30, 2010

SIX
MONTHS
ENDED
JUN 30, 2009

Revenues, Net

\$
214,956

\$
63,690

\$
478,947

\$
175,052

Cost of Sales

52,516

30,527

160,926

71,871

Gross Profit

162,440

33,163

318,021

103,181

Operating
Expenses

Business
Development

21,752

16,415

53,978

42,753

General &
Administrative

136,707

239,286

243,377

340,875

Professional
Fees

24,770

	109,640
	126,750
	276,825
Salaries & Benefits	
	(239,324)
	63,178
	120,611
	300,301
Total Operating Expenses	
	(56,095)
	428,519
	544,716
	960,754

Net Operating
Income (Loss)

218,535

(395,356)

(226,695)

(857,573)

Other Income
(Expense)

Interest
Expense

(18,832)

(17,294)

(31,907)

(36,999)

Total
Other Income
(Expense)

(18,832)

(17,294)

(31,907)

(36,999)

Net Income
(Loss)

\$

199,703

\$

(412,650)

\$

(258,602)

\$

(894,572)

Net Income
(Loss) Per
Share

0.00

(0.01)

(0.00)

(0.02)

Weighted
Average Shares
Outstanding

83,903,369

46,261,222

77,788,119

46,638,222

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

**View Systems,
Inc. and
Subsidiaries**

Consolidated
Statements of
Stockholders'
Equity
(Deficit)

Additional

Retained

Preferred

Common

Paid-in

Earnings

Shares

Amount

Shares

Amount

Capital

(Deficit)

Balance,
December 31,
2008

89,647

\$

896

17,175,222

\$

17,175

\$

20,460,829

\$

(20,764,422)

January -
March 2009 -
shares issued
for services,

accounts
payable and
notes payable

-

-

13,536,000

13,536

527,489

April - June
2009 - shares
issued for
services,

accounts
payable and
notes payable

-

-

18,100,000

18,100

327,500

-

April - June
2009 - shares
issued as an
investment

in stock of
another
company (non
subsidiary)

-

-

5,000,000

5,000

327,500

July-September
2009 shares
issued for
services,

Interest
expense and
notes payable

-

-

5,631,147

5,631

72,002

-

October -
December
2009 - shares
issued for
services

-

-

20,000,000

20,000

380,000

-

Net loss for the
year ended
December 31,
2009

-

-

-

-

-

(1,560,012)

Balance,
December 31,
2009

89,647

896

79,442,369

79,442

21,830,320

(22,324,434)

January March
2010 shares
issued for
services,

notes payable
and accrued
interest

-

-

14,461,000

14,461

492,592

April June
2010 reversal
of shares
issued for

services in
error

-

-

(10,000,000)

(10,000)

(290,000)

-

Net loss for the
period ended
June 30, 2010

-

-

-

-

-

(258,602)

Balance, June 30, 2010
89,647
\$
896
83,903,369
\$
83,903
\$
22,032,912
\$
(22,583,036)

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

**View Systems,
Inc. and
Subsidiaries**

Consolidated
Statements of
Cash Flows

(Unaudited)

SIX
MONTHS
ENDED
JUN 30, 2010

SIX
MONTHS
ENDED
JUN 30, 2009

**Cash Flows from
Operating
Activities:**

Net Income
(Loss)

\$

(258,602)

\$

(894,572)

Adjustments to
Reconcile Net
Income (Loss) to

Net Cash
Provided (Used)
by Operations:

Depreciation
& Amortization

62,480

58,380

Common
stock issued in
payment of
services

30,695

548,881

Loss from
sale of fixed
assets

4,996

--

Proceeds
from sale of fixed
assets

2,036

--

Change in
Operating Assets
and Liabilities:

(Increase)
Decrease in:

Accounts
Receivable

133,294

3,619

Inventories

--

(42,082)

Increase
(Decrease) in:

Accounts
Payable

8,955

46,943

Accrued
Expenses

23,073

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

**Cash Flows from
Investing
Activities:**

Purchases of
equipment

(259)

(50,853)

Net Cash Used
In Investing
Activities

(259)

(50,853)

**Cash Flows from
Financing
Activities:**

Loans received
(repaid) under a
line of credit

(29,559)

198,566

Principal
payments on
notes payable

(4,749)

--

Loans received
under notes
payable

50,000

--

Loans from
Shareholders

(7,050)

70,889

Net Cash
Provided by
Financing
Activities

8,642

269,455

Increase
(decrease) in Cash

(43,646)

(154)

Cash and Cash
Equivalents at
Beginning of
Period

70,804

1,768

Cash and Cash
Equivalents at
End of Period

\$

27,158

\$

1,614

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

**View
Systems, Inc.
and
Subsidiaries**

Consolidated
Statements of
Cash Flows
(Continued)

SIX
MONTHS
ENDED
JUN 30, 2010

SIX
MONTHS
ENDED
JUN 30, 2009

Non Cash
Investing and
Financing
Activities:

Notes
payable paid

down with
common stock

100,000

181,000

Accrued
interest paid
with common
stock

76,538

-

Vehicle
purchase
financed with
note payable

-

54,041

Loans
from
shareholders
repaid with
common stock

-

16,656

Accounts
payables paid
with common
stock

-

132,250

Vehicle
purchased
with common
stock

-

7,813

Investment
made with
common stock

-

67,500

Cash Paid
For:

Interest

\$

5,260

\$

1,226

Income
Taxes

\$

-

\$

-

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

1.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

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

Basis of Consolidation

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

Cash and Cash Equivalents

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

Use of Estimates

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

Accounts Receivable

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

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

1.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

The Company has three main products, namely the concealed weapons detection system, the visual first responder system and the Viewmaxx digital video system. In all cases revenue is considered earned when the product is shipped to the customer. The concealed weapons system and the digital video system each require installation and training.

The customer can engage us for installation and training, which is a revenue source separate and apart from the sale of the product. In those cases revenue is recognized at the completion of the installation and training. However, the customer can also self install or can engage another firm to provide installation and training. Each product has an unconditional 30 day warranty, during which time the product can be returned for a complete refund. Prior to the issuance of financial statements management reviews any returns subsequent to the end of the accounting period which are from sales recognized during the accounting period, and makes appropriate adjustments as necessary.

Product prices are fixed or determinable and products are only shipped when collectibility is reasonably assured.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in-first-out method (LIFO). All inventory as of June 30, 2010 and December 31, 2009 consisted of unassembled parts of products.

Property and Equipment

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

Equipment

5-7 years

Software tools

3 years

Repairs and maintenance charges which do not increase the useful lives of assets are charged to operations as incurred. Depreciation expense for the periods ended June 30, 2010 and December 31, 2009 amounted to \$10,000 and \$11,985, respectively.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

1.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Licenses

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

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

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

Income Taxes

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

Research and Development

Research and development costs are expensed as incurred.

Advertising

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

Nonmonetary Transactions

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

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

1.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Instruments

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

Reverse Stock Split

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

Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss available to common stockholder by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares and dilutive potential common share equivalents then outstanding. Potential common shares consist of shares issuable upon the exercise of stock options and warrants in addition to shares that may be issued in the event that convertible debt is exchanged for shares of common stock. The calculation of the net loss per share available to common stockholders for the periods ended

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June 30, 2010 and December 31, 2009 does not include potential shares of common stock equivalents, as their impact would be antidilutive. The following reconciles amounts reported in the financial statements:

Income

Shares

Per-share

(Numerator)

(Denominator)

Amount

Six months
ended June 30,
2010

Income (loss)
from
continuing
operations
which is the

amount that is
available to
common
stockholders

\$

(258,602)

77,788,119

\$

(0.00)

Year ended
December 31,
2009

Income (loss)
from
continuing
operations
which is the

amount that is
available to
common
stockholders

\$

(1,560,012)

40,285,009

\$

(0.09)

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

2.

GOING CONCERN

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

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

Historically, the Company has financed its operations primarily through private financing; however, sales revenue during 2010 and 2009 and decreases in expenses during 2010 made a significant contribution to working capital. It is management's intention to finance operations during the remainder of 2010 primarily through increased sales although there will still be a need for additional equity financing. In addition, management is actively seeking out mergers and acquisitions which would be beneficial to the future growth of the Company. There can be no assurance, however, that this financing will be successful, and the Company may be required to further reduce expenses and scale back operations.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

3.

NEW ACCOUNTING PRONOUNCEMENTS

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

4.

BUSINESS COMBINATION

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

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

5.

DUE FROM AFFILIATED ENTITIES

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

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

6.

NOTES PAYABLE

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

JUN 30

2010

DEC 31, 2009

Investor/stockholder Group

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

\$ 162,092

\$ 162,092

Stockholder

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

116,000

116,000

Stockholder

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

common stock.

0

100,000

Lafayette Community Bank

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

170,441

200,000

Investor

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

50,000

50,000

Investor

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

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

of common

50,000

0

Chase

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

44,750

49,497

TOTAL

\$ 593,283

\$ 677,589

Principal payments for the next
five years are as follows:

2010

\$ 555,899

2011

10,151

2012

10,708

2013

11,294

2014

5,231

TOTAL

\$ 593,283

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

7.

INCOME TAXES

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

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

Effect of net operating loss carryforward

\$

8,963,923

Less evaluation allowance

(8,963,923)

Net deferred
tax asset

\$

-

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

Period ended

June 30,

December 31,

2010

2009

Net loss
per financial
statements
which
approximates

net loss
per income
tax returns

\$

(258,602)

\$

(1,560,012)

Income
tax expense
(benefit)
applying
prevailing

Federal
and state
income tax
rates

(108,613)

(655,205)

Less
valuation
allowance

108,613

655,205

Net income tax expense (benefit)	\$
	-
	\$
	-

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

8

PREFERRED STOCK

In July 2005 the Company issued 7,171,725 shares of Series A Preferred Stock in payment of services. The issuance had been previously authorized by the Board of Directors. Each share of Series A Preferred Stock has a liquidation preference in the event of liquidation of the corporation of \$0.01 per share before any payment or distribution is made to the holders of common stock. Effective in 2010 the Series A Preferred can be converted into common stock in the ratio of 15:1. See note 13 below. Each Series A Preferred share is entitled to fifteen votes of common stock and shall be entitled to vote on any matters brought to a vote by the common stockholders.

During 2008 the Board of Directors approved a reverse split of the stock in which one new share of preferred stock was issued in exchange for each 80 shares of preferred stock outstanding. Accordingly, the total issued of preferred stock was adjusted from 7,171,725 shares to 89,647 shares. The par value and the total authorized preferred shares did not change.

9.

OPERATING LEASE

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

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

10.

STOCK BASED COMPENSATION

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

Restricted Stock Grants

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

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

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

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

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

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

Independent
contractors
and
consultants

0

0

9,230,000

270,100

Total

500,000

\$

15,000

44,535,500

\$

1,014,781

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

Stock Option Awards

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

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

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

On April 2, 2010, the Company adopted its 2010 Equity Incentive Plan, which authorized, among other forms of incentives, the issuance of stock options. Reserved for equity issuances under the 2010 Equity Incentive Plan are 50,000,000 shares of our common stock. No equity issuances have been made from the 2010 Equity Incentive Plan. Stock options, which may be tax qualified and non-qualified, are exercisable for a period of up to ten years at prices at or above market price as established on the date of the grant.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND DECEMBER 31, 2009

11.

RELATED PARTY TRANSACTIONS

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

12.

CORRECTION FOR DUPLICATIVE STOCK ISSUANCE

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

PART II - OTHER INFORMATION

ITEM 6. EXHIBITS

The following exhibits are filed herewith:

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

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:
September
13, 2010

By:

*/s/ Gunther
Than*

Gunther
Than

Chief
Executive
Officer

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