VIEW SYSTEMS INC
Form 10-Q
August 19, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

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

(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 R 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 R

(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 o No þ

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

Class	Outstanding at August 18, 2009
Common Stock, $.001 par value per share	53,942,369

1

VIEW SYSTEMS, INC.

FORM 10-Q

FOR THE PERIOD ENDED JUNE 30, 2009

INDEX

	Page
SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS	3
PART I. FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Consolidated Balance Sheets as of June 30, 2009 (Unaudited) and December 31, 2008	4

4

Consolidated Statements of Operations (Unaudited) for three months ended June 30, 2009

5

Consolidated Statements of Stockholders Equity (deficit)

6

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

7

Notes to the Consolidated Financial Statements

9

Item 2.

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

10

Item 3.

Qualitative and Quantitative Disclosures About Market Risk

19

Item 4.

Controls and Procedures

19

PART II. OTHER INFORMATION

20

Item 1.

Legal Proceedings

20

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

20

Item 3.

Defaults Upon Senior Securities

21

Item 4.

Submission of Matters to a Vote of Security Holders

21

Item 5.

Other information

21

Item 6.

Exhibits

21

SIGNATURES

22

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

Unaudited Financial Statements

JUNE 30, 2009

View Systems, Inc.
and Subsidiaries

Consolidated
Balance Sheets

June 30,

December 31,

	2009	2008
ASSETS		
Current Assets		

Cash	$ 1,614	$ 1,768
Accounts Receivable (Net of Allowance of $1,000)	85,112	88,731
Inventory		

	88,681
	46,599
Total Current Assets	
	175,407
	137,098
Property & Equipment (Net)	

123,067

16,262

Other Assets

Licenses	
	944,624
	997,104
Due from Affiliates	
	147,507
	147,507
Investment	
	67,500
	-

Deposits	
	7,528
	7,528
Total Other Assets	
	1,167,159
	1,152,139

Total Assets	$ 1,465,633	$ 1,305,499
LIABILITIES AND STOCKHOLDERS' EQUITY		

Current Liabilities		
Accounts Payable	$ 415,542	$ 499,329
Accrued Expenses		

	16,005
	28,650
Accrued Interest	
	161,375
	126,155
Accrued Royalties	
	262,500
	225,000
Loans from Shareholder	

	202,028
	152,794
Notes Payable	
	591,285
	559,093
Total Current Liabilities	
	1,648,735
	1,591,021

Long-term Debt	
Note payable	
	42,867
	-
Total Liabilities	

	1,691,602
	1,591,021
Stockholders' Equity (Deficit):	

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

Issued and outstanding 89,647

896

896

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

Issued and Outstanding 53,811,222

53,811

-

Issued and Outstanding
17,175,222

-

17,175

Additional Paid in Capital

21,378,318

20,460,829

Retained Earnings (Deficit)

(21,658,994)

(20,764,422)

Total Stockholders' Equity (Deficit)

(225,969)

(285,522)

Total Liabilities and Stockholders' Equity

$

1,465,633

$

1,305,499

.

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

View Systems, Inc. and Subsidiaries

Consolidated Statements of Operations

	For the Three Months Ended	For the Six Months Ended
	June 30,	June 30,
	2009	2008

2009

2008

Revenues, Net	
	$
	63,690
	$
	464,141
	$
	175,052
	$
	754,572
Cost of Sales	

	30,527
	131,981
	71,871
	239,211
Gross Profit	
	33,163
	332,160

103,181

515,361

Operating Expenses

Business Development

							16,415	
							12,037	
							42,753	
							35,654	
					General & Administrative			
							239,286	
							84,739	
							340,875	
							187,238	
					Professional Fees			
							109,640	
							13,824	
							276,825	

	51,227
Salaries & Benefits	
	63,178
	93,160
	300,301
	158,130
Total Operating Expenses	

428,519

203,760

960,754

432,249

Net Operating Income (Loss)
(395,356)
128,400
(857,573)

83,112

Other
Income(Expense)

Interest Expense

(17,294)

(20,264)

(36,999)

(40,918)

Total Other Income(Expense)
(17,294)
(20,264)
(36,999)

(40,918)

Net Income (Loss)
$
(412,650)
$
108,136
$
(894,572)
$
42,194

Net Income (Loss) Per Share
$
(0.01)
$
0.09
$
(0.02)
$
0.03

	Weighted Average Shares Outstanding
	46,261,222
	1,247,162
	46,638,222
	1,244,744

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

5

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, 2007
89,647
$
896
1,245,347
$
1,245
$
19,930,378
$
(20,590,883)

April - June 2008 - shares issued in payment of accounts payable	-
	-
	4,875
	5
	8,001

-			

19,687

-

October - December 2008 - shares issued as payment

of notes payable, including accrued interest	
	-
	-
	15,000,000
	15,000
	485,000
	-

October - December 2008 - shares issued for services	
	-
	-
	612,500
	612
	17,763
	-

Net loss for the year ended December 31, 2008	-	-	-	-	-	(173,539)

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

62,500

-

Net loss for the period ended June 30, 2009

-

-

-

-

-

(894,572)

Balance, June 30, 2009

89,647

$

	896
	53,811,222
	$
	53,811
	$
	21,378,318
	$
	(21,658,994)

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

View Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

For the Six Months Ended

June 30,

2009

2008

Cash Flows from Operating Activities:

Net Income (Loss)

	$	
	(894,572)	
	$	
	42,194	
Adjustments to Reconcile Net Income (Loss) to		
Net Cash Provided (Used) by Operations:		
Depreciation & Amortization		
	58,380	
	56,780	
Common stock issued in payment of services		
	548,881	
	-	

Change in Operating Assets and Liabilities:	
(Increase) Decrease in:	
Accounts Receivable	3,619
Inventories	(164,330)
	(42,082)
	65,516

Increase (Decrease) in:	
Accounts Payable	46,943
	(42,058)
Accrued Expenses	
	(12,645)
	11,660
Accrued Interest	
	35,220

	32,040
Accrued Royalties	
	37,500
	-
Net Cash Provided (Used) by Operating Activities	
	(218,756)
	1,802

Cash Flows from Investing Activities:	
Purchases of equipment	(50,853)
	-
Net Cash Used	

In Investing Activities	
	(50,853)
	-
Cash Flows from Financing Activities:	
Loans received under a line of credit	
	198,566
	-

	Loans from Shareholders
	70,889
	14,300

	Net Cash Provided by Financing Activities
	269,455
	14,300

Increase (decrease) in Cash	(154)
	16,102
Cash and Cash Equivalents at Beginning of Period	1,768
	7,201

	Cash and Cash Equivalents at End of Period
$	1,614
$	23,303

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

View Systems, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Continued)

For the Six Months Ended

June 30,

2009

2008

Non Cash Investing and Financing Activities:

Vehicle purchase financed with note payable	54,041	-
Notes payable paid down with common stock	181,000	-
Loans from shareholders repaid with common stock	16,656	-
Accounts payables paid with common stock		

		132,250	
		8,006	
Vehicle purchased with common stock		7,813	
		-	
Investment made with common stock		67,500	
		-	

Cash Paid For:		
Interest	$	1,226
	$	8,480
Income Taxes		
	$	-
	$	

-

View Systems, Inc.

Notes to the Consolidated Financial Statements

June 30, 2009

GENERAL

View Systems, Inc. (the Company) has elected to omit substantially all footnotes to the financial statements for the six months ended June 30, 2009 since there have been no material changes (other than indicated in other footnotes) to the information previously reported by the Company in their amended Annual Report filed on the Form 10-K for the twelve months ended December 31, 2008.

UNAUDITED INFORMATION

The information furnished herein was taken from the books and records of the Company without audit. However, such information reflects all adjustments which are, in the opinion of management, necessary to properly reflect the results of the interim period presented. The information presented is not necessarily indicative of the results from operations expected for the full fiscal year.

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

EXECUTIVE OVERVIEW

The following analysis of our consolidated financial condition and results of operations for the six months ended June 30, 2009 should be read in conjunction with the Consolidated Financial Statements and other information presented elsewhere in this quarterly report.

Overview

Our current product lines are related to visual surveillance, intrusion detection and physical security. We introduced a new product that we call the MINI (Mobile Intelligent Network Informer). We have received multiple inquires about the need for such a device during 2008 and have invested engineering resources to create a working device that should be market ready in the fourth quarter of 2009. We expected that the production of the device for beta versions and testing purposes would be accomplished in the third quarter of this year but due to lack of financing we are putting a hold on further testing and development until the financial condition of the company improves. We have removed the product from the web site and will look for potential partners and/or investment capital.

Our current principal products and services include:

.

ViewScan Magnetic Detection System a walk-through archway detector which uses passive magnetic sensing technology and unique location algorithms to suggest the location of certain kinds of threat objects and other potentially undesirable objects such as cell phones or digital cameras. The control unit combines the magnetic and video information in a manner that allows it to be displayed for easy recognition and auditory warning. The network architecture allows for remote monitoring, integration of biometrics and access control devices and storage locally on the control unit or remotely on servers.

.

ViewScan has incorporated Biometric analysis such as fingerprint verification and is capable of incorporating facial recognition as well. Access control methods such as magnetic door locks can and have also been incorporated in several banks and credit unions. Our new partner Visisys Plc (Visisys) is well versed in facial recognition technology and we hope that the added expertise will increase sales in the correctional market.

.

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

.

ViewMaxx Digitial Video products a high-resolution, digital video recording and real-time monitoring system. The cameras are viewable remotely via internet access.

.

Multi-mission Mobile Video (MMV) a lightweight mobile camera and recording system housed in a tough, waterproof enclosure designed to be worn on tacticle body wear. The camera systems sends real-time images back to a video monitor at a command post located outside the exclusion zone or contaminated area. The MMV is able to transmit high quality video in the most difficult environments. A multitude of these systems have been deployed and are currently being field-tested. We offer a variety of transmission options including encryption, diversity receivers and on-body recording incase of transmission failure. SWAT, fire fighters and first responders are the focus of the MMV.

.

Fiber Optic Data Network Installation Service - we have invested in tools, vehicles and testing equipment to enter the fiber optics installations arena. Using a credit line provided by Lafayette Commercial Bank we have expended $200,000 plus to purchase tools to splice, test and install fiber optic transmission ducts. Several opportunities have been presented to us and we have investigated the potential and probabilities of success. During this work, opportunities for video surveillance and access control contract will present themselves and we hope to capitalize on those opportunities.

Since we have invested in tools, vehicles and testing equipment to enter the fiber optics installations arena, several opportunities have been presented to us and we have investigated the potential and probabilities of success. We advertised the receipt of several multi-million dollar contracts with Verizon. The contracts were presented by several individuals associated from HC Professional, LLC. Verizon informed us that neither the individuals nor HC Professional were associated with it. Meanwhile, a Verizon employee referred us to MasTec North America, Inc. (Mastec), one of Verizon s prime contractors, and we retracted our announcement of the contracts received with Verizon. We have since established qualifications and a relationship with the designated prime contractor, Mastec, and are an insured, bonded and an approved sub-contractor with Mastec. Our subcontract is incorporated by reference as Exhibit 10.3. Mastec has told us that we can work on four jobs initially and then will start on a fifth job. We are diligently moving to assemble teams to begin work in the near future. We expect that these subcontracting jobs will provide us with a substantial revenue stream for a significant number of years. Our expectation is based on oral representations made by Mastec personnel to Gunther Than, indicating that Mastec is backlogged at least over one year in work, that it has not tapped the commercial potential of the fiber optics installation market, that the entire country is moving toward fiber networking, and it will take generations to accomplish what is necessary.

Consistent with our stated strategic ambitions for non-organic growth, we continue to seek potential acquisition candidates, the purchase of which would provide incremental synergistic benefits to the Company and provide an opportunity to benefit from our net tax assets of $8,301,528. However, we have not entered into definitive acquisition or merger agreements with any of the candidates currently under review.

On our merger and acquisition front, we have signed a Memorandum of Understanding (MOU) with a private research and development company named Visisys Plc (Visisys) and separately with its CEO. Visisys is a multinational, private holding company organized under the laws of the United Kingdom and Wales with offices in New York, London and Moscow. The entity has two wholly owned subsidiaries: Visisys Systems Ltd. and Face Trend, Ltd. Visisys and its subsidiaries enjoy an international reputation for developing and marketing intelligent video, monitoring and sensory systems. Visisys main focus is the integration of proprietary and/or estimable devices with design and applied science to provide customized applications in a number of diverse fields, such as, security, medical, retail, hospitality and financial/clerical management.

The MOU s entered with Visisys and its CEO provide that Visisys and its CEO shall assist the Company in the final design, production, and marketing of the MINI. As compensation, Visisys and its CEO shall each receive 5,000,000 shares of the Company s common stock. Visisys shall receive an option to acquire 5,000,000 additional shares of common stock expiring in twenty-four months and exercisable at strike prices ranging between $0.03 and $0.05. The option shares have piggy-back registration rights. The CEO will receive 5,000,000 shares of Company common stock pursuant to an earn-out agreement based upon certain performance requirements and an option to acquire 10,000,000 additional shares, with the option expiring in eighteen months and exercisable at strike prices ranging between $0.03 and $0.05. The Company shall receive 5,000,000 shares of Visisys common stock and granted warrants to acquire additional shares in Visisys *pari passu* with options exercised by Visisys or its CEO. The MOU s are assignable but are binding on the present parties as to the respective agreed benefits contained therein.

We are still perusing the acquisition and merger strategy started last year and are in negotiations and collaboration with several companies. The slowdown of the economy has caused a slowdown of most activities in that arena.

The next phase of our business plan will be to continue to raise additional funds through common stock offerings to provide working capital to finance several acquisitions and the integration of new technologies and/or businesses. We also intend to continue to strengthen our balance sheet by paying off debt.

We will hold an annual meeting as soon as practicable. We will issue information statements and mail out proxy statements as necessary at the appropriate time.

Subsequent Event

On July 24, 2009 we entered into an asset purchase agreement to acquire FiberXpress, Inc., a company that sells data network related products via their web site. This company dovetails into our newly formed fiber optic data network installation service and provides for an additional revenue stream in the growing fiber and data network market segment. The terms call for 1,000,000 shares of View Systems, Inc. common stock to be delivered to Mr. Paul Price, the sole owner of FiberXpress, Inc., in exchange for 100% of the issued and outstanding shares of FiberXpress, Inc. The transaction has not closed as of the date of this interim report.

RESULTS OF OPERATIONS

The following discussions are based on the consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the six months ended June 30, 2009 and 2008 and should be read in conjunction with the financial statements, and notes thereto, included with our most recently amended Form 10-K for the year ended December 31, 2008.

SUMMARY COMPARISON OF OPERATING RESULTS

	Six months ended June 30,
	2009
	2008
Revenues, net	
	63,690
	464,141

Cost of sales	
30,527	
131,981	
Gross profit (loss)	
33,163	
332,160	
Total operating expenses	
428,519	
203,760	
Profit (Loss) from operations	
(395,356)	
128,400	
Total other income (expense)	
(17,294)	
(20,264)	
Net income (loss)	
(412,650)	
108,136	
Net income (loss) per share	

$	(0.01)
$	.09

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 decrease in sales of our products which resulted in continuing decreased revenues for the second quarter of 2009 compared to the second quarter of 2008. We believe the cause of that is the domestic and worldwide down turn of the economy although we received verbal indications of increased need from our international customers such as Pakistan, UAE and China. Those orders have been stalled and or cancelled; we suspect at this time that they have been canceled. We have had inquiries for quotes from India and indications of additional purchases by the United Arab Emirates. Management anticipates that revenues will resume as the general economic situation in the world improves.

Our backlog at June 30, 2009 was $160,000 down from March 31, 2009, which was $300,000. We received cancelations for orders and indications that these orders would be re-established when the economic climate improves. 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.

The decrease of margins from quarter to quarter was primarily the result of increased costs and due to a decrease 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. For 2009, our attention been focused on future fiber (FIOS) data installation work.

LIQUIDITY AND CAPITAL RESOURCES

Annually our revenues from product sales have been decreasing and are not sufficient to cover our operating expenses. Our auditors have expressed substantial doubt that we can continue as a going concern. We are continuing to push sales and control costs.

Historically, we have relied on revenues, debt financing and sales of our common stock to satisfy our cash requirements. For the six months ended June 30, 2009, we received cash from revenues of $ 175,052, $198,586 from borrowings under a line of credit, $0 from issuance of equity, and $70,889 from stockholder advances. For the six months ended June 30, 2008, we received cash from revenues of $764,572, $0 from issuance of equity and $14,600 from stockholder advances. We will also continue to rely on the issuance of our common stock to pay for services and to debt when cash is unavailable. Management anticipates that we will continue to issue shares for services in the short term.

Our net loss for the six months ended June 30, 2009, was $849,572, as compared with a net income of $42,194 for the six months ended June 30, 2008. Our net loss was offset by adjustments which resulted in $218,756 net cash used by operating activities for the six months ended June 30, 2009, as compared with $1,802 net cash provided by operating activities for the six months ended June 30, 2008. Our net cash used in activities for the six months ended June 30, 2009 was $50, 853, which was derived exclusively from purchases of equipment, as compared with $0 net cash used in investing activities for the six months ended June 30, 2008. For the six months ended June 30, 2009, we had $269,455 net cash provided by financing activities, as compared with $14,300 net cash provided by financing activities for the six months ended June 30, 2008. For the six months ended June 30, 2009, we had a net decrease in cash of $154, resulting in $1,614 cash on hand, as compared with a net increase in cash of $16,102, resulting in $23, 303 cash on hand for the six months ended June 30, 2008.

Management believes we will need to take the necessary steps to increase our authorized common stock during 2009. The Company intends to hold a meeting of shareholders as soon as practicable to consider, among, other things, an increase in the authorized common stock of the Company.

Management intends to finance our 2009 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 decrease. 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 $1,200,000 during the next 12 months to satisfy our cash requirements of approximately $100,000 per month for operations. 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 2009 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 2009, then we may be required to reduce our expenses and scale back our operations.

We are actively pursuing alternative strategies to merge with suitable entities that are interested in our products, customer base and market penetration and can provide operating capital while utilizing our tax credits.

Commitments and Contingent Liabilities

The Company leased office and warehouse space in Baltimore, MD under a three-year non-cancelable operating lease, which expired October 2008. Base rent is $3,300 per month. We are leasing this property on a month to month basis.

Our total current liabilities decreased to $1,648,735 at June 30, 2009, compared to $1,694,445 at March 31, 2009. Our current total liabilities at June 30, 2009 included accounts payable of $468,035, accrued expenses of $1, accrued interest of 144,672, accrued royalties of 243,750, loans from shareholders of $205,528 and notes payable of $670,486.

Our notes payable consist of the following:

We issued notes in the aggregate amount of $343,093 pursuant to a Subscription Agreement, dated December 23, 2005, with three accredited investors; Starr Consulting, Inc., Active Stealth, LLC, and KCS Referral Service LLC (the Subscribers). We agreed to sale and the Subscribers agreed to purchase convertible promissory notes and warrants. However, on January 6, 2006, the Subscribers consented to the removal of the warrants from the subscription agreement, with the understanding that the warrants would be reinstated after we increased our authorized common stock and the shares underlying the warrants would be registered at a later date. The Subscribers did not receive any other additional consideration for the removal of the warrants. The Subscribers agreed to purchase up to an aggregate of $500,000 of 8% promissory notes convertible into shares of our common stock at a per share conversion price of $0.10. The notes were originally to be due and payable by December 31, 2006. The Subscribers agreed to purchase the promissory notes over a 5 month period in $100,000 per month installments; however, the investment threshold was never achieved, so the conversion option of the notes was terminated and the loans became due on demand with interest at 8% per annum. As of the date of this report the investors have demanded repayment of these loans. The Company has taking steps to negotiate these defaults. In November of 2008 the holders agreed to accept shares of common stock as payment. The holders of these notes have received $100,008 in cash payments from the sale of stock received.

Unsecured convertible loans from two stockholders in the principal amount of $216,000. $100,000 of the loans was due in full on November 1, 2007 with interest at 7%. The holder of this note has demanded payment of $137,150.68 in cash and has chosen not to convert to equity. The holder of the second note of $116,000 has been receiving interest payments irregularly. The amount currently outstanding is $136,880.

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 most recently amended Form 10-K for the year ended December 31, 2008, including our financial statements and the related notes.

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 $173,539 for 2008 and had a net loss of $849,572 for the six months ended June 30, 2009. 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 $849,572 for the six months ended June 30, 2009 and net cash used in operations of $218,756 for the six months ended June 30, 2009. 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 2009, 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 quarter ending June 30, 2009 was $412,650 and our net income for the quarter ending June 30, 2008 was $108,316. Our retained deficit was $21,658,994 at June 30, 2009. 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,

15

we may be unable to increase revenues to the point that we attain and are able to maintain profitability. As a result we rely on private financing to cover cash shortfalls.

As a result, we continue to have significant working capital and stockholders deficits including a substantial accumulated deficit at June 30, 2009. 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, 2008 and December 31, 2007 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 $1,200,000 in additional financing within the next twelve months to develop our sales channels. Our success will depend upon our ability to access equity capital markets and borrow on terms that are financially advantageous to us. However, we may not be able to obtain additional funds on acceptable terms. If we fail to obtain funds on acceptable terms, then we might be forced to delay or abandon some or all of our business plans or may not have sufficient working capital to develop products, finance acquisitions, or pursue business opportunities. If we borrow funds, then we could be forced to use a large portion of our cash reserves, if any, to repay principal and interest on those loans. If we issue our securities for capital, then the interests of investors and stockholders will be diluted.

WE ARE CURRENTLY DEPENDENT ON THE EFFORTS OF RESELLERS FOR OUR CONTINUED GROWTH AND MUST EXPAND OUR SALES CHANNELS TO INCREASE OUR REVENUES AND FURTHER DEVELOP OUR BUSINESS PLANS.

We are in the process of developing and expanding our sales channels, but we expect overall sales to remain down as we develop these sales channels. We are actively recruiting additional resellers and dealers and have hired in-house sales personnel for regional and national sales. We must continue to find other methods of distribution to increase our sales. If we are unsuccessful in developing sales channels we may have to abandon our business plan.

WE MAY NOT BE ABLE TO COMPETE SUCCESSFULLY IN OUR MARKET BECAUSE WE HAVE A SMALL MARKET SHARE AND COMPETE WITH LARGE NATIONAL AND INTERNATIONAL COMPANIES.

We estimate that we have less than a 1% market share of the surveillance and weapons detection market. We compete with many companies that have greater brand name recognition and significantly greater financial, technical, marketing, and managerial resources. The position of these competitors in the market may prevent us from capturing more market share. We intend to remain competitive by increasing our existing business through marketing efforts,

selectively acquiring complementary technologies or businesses and services, increasing our efficiency, and reducing costs.

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 48.9% of the voting power of our common and 100% of the preferred stock entitled to vote on any matter brought to a vote of the stockholders. Specifically, Gunther Than, our CEO, holds approximately 9.3% of the total voting power of our common stock and 100% of the voting power of our 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. QUANTI TATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer/Principal Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of June 30, 2009. 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.

Management s Report on Internal Control over Financial Reporting

View Systems, Inc. s management is responsible for establishing and maintaining internal control over financial reporting for the Company. View Systems, Inc. s internal control system was designed to provide reasonable assurance

regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting of the Company includes those policies and procedures that:

(1) pertain to the maintenance of records that in reasonable detail accurately and fairy reflect the transactions of the company.

(2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorization of management and directors of the Company; and

(3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on the Company s financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error or circumvention through collusion of improper overriding of controls. Therefore, even those internal control systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

The management of View Systems, Inc. assessed the effectiveness of the Company s internal control over financial reporting as of June 30, 2009. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSD) in *Internal-Control-Integrated Framework* and implemented a process to monitor and assess both the design and operating effectiveness of the Company s internal controls. Based on this assessment, management believes that as of June 30, 2009, the Company s internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the Company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only Management s report in this annual report.

Changes in Internal Control Over Financial Reporting

Management of the Company has evaluated, with the participation of the Company s Chief Executive Officer/Chief Financial Officer, changes in the Company s internal controls over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the second quarter of 2009. In connection with such evaluation, there have been no changes to the Company s internal control over financial reporting that occurred since the beginning of the Company s second quarter of 2009 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

We issued an aggregate of 23,100,000 shares of our unregistered common stock at purchase prices ranging from $.0135 to $.0270 per share during the reporting period, as follows:

.

On April 29, 2009, we issued 500,000 shares to William Gaskill at $0.03 per share in exchange for conversion of accounts payable and 500,000 shares to Rosenberg & Fayne at $0.0135 per share in exchange for legal services.

.

On May 12, 2009 we issued 1,500,000 shares to Michael Prately at $0.027 per share in exchange for consulting services.

.

On May 15, 2009 we issued 250,000 shares to Barbara Morelli, 2,000,000 shares to James Russell Wheeler, and 750,000 shares to Starr Consulting, Inc. at $0.027 per share in exchange for conversion of notes payable.

.

On May 29, 2009 we issued at $0.0135 per share a total of 5,000,000 shares to 12 shareholders of Visisys, Plc in connection with the execution of a Memorandum of Understanding.

.

On June 1, 2009 we issued 10,000,000 shares at $0.0135 per share to director Michael Bagnoli as compensation for a line of credit he guaranteed on behalf of the Company.

.

On June 5, 2009 we issued 100,000 shares to William Bryan Bogan at $0.0135 per share in exchange for consulting services.

.

On June 16, 2009 we issued at $0.027 per share 2,000,000 shares to Michael Prately in exchange for consulting services and 500,000 shares to Marlene Maassen (spouse of director Martin Maassen) as payment for a loan.

All of such shares were offered and sold pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

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. 1999 Stock Option Plan

10.2***

Employment agreement between View Systems, Inc. and Gunther Than, dated January 1, 2003

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

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 10.16 to Form SB-2 filed January 11, 2000.

***

Incorporated by reference to exhibit 10.3 for Form 10-KSB, filed April 14, 2004.

****

Incorporated by reference to exhibit 10.3 for Form 10-Q, Amendment No. 1, for the period ended March 31, 2009.

SIGNATURES

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

VIEW SYSTEMS, INC.

Date: August 19, 2009

By:

/s/ Gunther Than

Gunther Than

Chief Executive Officer

(Principal executive

officer, principal financial officer, and principal accounting officer)