

VIEW SYSTEMS INC  
Form 10-K  
March 10, 2011

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

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**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)

Registrant's telephone number, including area code: **(410) 242-8439**

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

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

**Common Stock, \$0.001 Par Value**

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  YES  NO

**Note** Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in a definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.  YES  NO

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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.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES  NO

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter.

**Note.** If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

**The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold as of June 30, 2010 was \$629,324.**

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY

PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

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Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.  YES  NO

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. **97,410,189 shares of common stock are outstanding as of March 7, 2011.**

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980). **None**

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Information included in this Form 10-K 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**

**ITEM 1. BUSINESS.**

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

**Corporate History**

View Systems was incorporated in Florida on January 25, 1989, as Beneficial Investment Group, Inc. and became active in September 1998 when we began development of our digital video product line and changed the company's name to View Systems, Inc. Starting in 1999 we expanded our business operations through a series of acquisitions of technologies we use in our digital video recorder technology products and in our concealed weapons technology.

On July 25, 2003, View Systems incorporated View Systems, Inc. as a wholly-owned Nevada corporation for the sole purpose of changing the domicile of the company from Florida to Nevada. On July 31, 2003, articles of merger were filed with the states of Florida and Nevada to complete the domicile change.

**Our Business**

View Systems, Inc. develops, produces and markets computer software and hardware systems for security and surveillance applications. In 1998 digital video recorder technology was our first developed product and we enhanced this product line by developing interfaces with other various technologies, such as facial recognition, access control cards and control devices such as magnetic locks, alarms and other common security devices. In 2003 we sold this product to various commercial entities including schools, restaurants, night clubs, car washers and car dealers (license plate recognition was incorporated into these types of installations), ranches and gas stations. In these installations we integrated the digital video recorded technology with other electronic devices and we gained knowledge of the security needs of a wide range of businesses.

We expanded our product line in 2002 to include a concealed weapons detection system we call ViewScan. We have penetrated four major market segments for this product: correctional facilities, courts, probation offices and federal facilities in the Mid-Atlantic States, the West Coast and the South. In 2003 we added a hazardous material first response wireless video transmitting system to our product line we refer to as Visual First Responder. The markets for these units are first responder units such as the National Guard, Coast Guard, Army, state law enforcement agencies and fire departments. Both of these technologies were licensed from the U.S. Department of Energy's Idaho

National Engineering Laboratory ("INEL"). Until 2005 we assembled all of our products in-house, but we currently contract with third party manufacturers to manufacture some components of our products.

Historically, the Company relied upon exclusive technology licensing agreements with federal departments to license and distribute the ViewScan technology. In anticipation of the expiration of federal licenses, we developed propriety components and made sufficient engineering design changes to the ViewScan product to lower production costs and to accommodate the price points required by competitive pressures. By redesigning the ViewScan, we offset the impact of the expiration of our license agreements and continued to capitalize on the competitive advantage we had in the markets we had entered. We have a similar strategy for the Visual First Responder, which is now in its third generation.

## **Products and Services**

Our current principal products and services include:

### **1. ViewScan Concealed Weapons Detection System**

ViewScan, which is also sold under the name Secure Scan , is a walk-through concealed weapons detector which uses data sensing technology to accurately pinpoint the location, size and number of concealed weapons. This walk-through portal is controlled by a master processing board and a personal computer based unit which receives magnetic and video information and combines it in a manner that allows the suspected location of the weapon to be stored electronically and referenced. Because ViewScan does not produce a graphic anatomical display of a scanned person, the Company does not believe that ViewScan is susceptible to privacy concerns raised about certain personnel scanners produced by other companies.

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

While electromagnetic induction systems of the type described above have been used for decades as concealed weapons detection systems, they are not without their problems. For example, such electromagnetic induction systems are generally sensitive to the overall size, i.e., surface area of the object, including its mass. Consequently, small, compact, but massive objects, such as a small pistol, may not produce a "signature" that is significantly larger than the signature produced by a light weight object of the same or greater size, such as a cell phone or compact camera. Another problem associated with electromagnetic induction systems is related to the fact that electromagnetic systems are sensitive to electrically conductive objects, regardless of whether they are magnetic or non-magnetic. That is, electromagnetic systems tend to detect non-magnetic objects, such as pocket change, just as easily as magnetic objects, such as weapons. Consequently, electromagnetic systems tend to be prone to false alarms. In many circumstances, such false alarms need to be resolved by scanning the suspect with a hand-held detector in order to confirm or deny the presence of a dangerous weapon.

ViewScan is designed to overcome the traditional shortcomings of electromagnetic induction scanners. The ViewScan portal uses an array of advanced magnetic sensors, each with internal digital signal processors. The sensors communicate with the control unit's software which spatially places identified magnetic anomalies and visually places the location of the potential threat object with a red dot that is superimposed over a real time snapshot image of the person walking through the portal. Along with the snapshot, a graph displays the sensor data which automatically scales the signal strength of the individual sensors and cross-references them to the video image. All of this information is brought together on a video screen that displays the image of the person, the location of the weapon(s) and the size of the weapon(s), depending on the intensity of the magnetic signature. The visual image allows the operator to determine what the object is without the need to conduct a personal search to locate the object and look at it.

The ViewScan system operates faster than ordinary metal detectors and can scan as high as 1,200 persons per hour.

Since the ViewScan technology does not use transmitters to produce electromagnetic induction, it does not pose a problem for pacemakers. The ViewScan self calibrates and does not need operator intervention or special calibration tools.

In 2004 we introduced the ViewScan product to the venue and stadium market. In February 2005 we tested the ViewScan at the pre-game venues of the Super Bowl football game in Jacksonville, Florida. During that installation, the portal scanned up to 3,000 to 4,000 people and at various times throughput ranged from approximately 600 to 1,200 persons per hour.

During 2005 we contracted with the University of Northern Florida to design new sensor boards for the ViewScan product which has allowed us to reduce the installed sensor cost by a factor of four. The new lower costs allow us to

offer price points to the market which compete directly with traditional metal detectors.

In February 2006 we demonstrated a ViewScan product with a precision optical biometric fingerprint terminal. As expected, the demand for biometric interfaces has increased significantly. In addition to verifying that an individual is not carrying guns, knives and sometimes cameras, the units can perform multi-modal double and triple identity checks, including: fingerprint, facial, iris, drivers license and employee identification card verification.

Today we sell these units for an average retail price of approximately \$9,000 with a one year extended warranty. We feel the new reduced price points and enhanced interface abilities will allow us to be more competitive, along with the advantages of three to four times the throughput rate, non-contact imaging and permanent visual storage, and a log of all individuals scanned. We have been making additional cost reductions through economies of scale and larger scale integration by taking advantage of ongoing computer component improvements.

## 2. Multi-Mission Mobil Video

The Multi-Mission Mobil Video (MMV) is a lightweight, wireless camera system housed in a tough, waterproof body.

The camera system sends back real-time images to a computer or video monitor at the command post located outside the exclusion zone or containment area. The MMV is able to transmit high quality video in the most difficult environments. The image is received from the MMV and displayed on a monitor and can be easily recorded using a common camcorder or VCR with video input. The camera can be completely submerged for fast and easy decontamination.

The MMV also uses an Extension Link which is a separate transmitter and receiving system that increases the operating range of the MMV. The Extension Link has field-selectable channels to avoid interference at longer distances. We have also incorporated a video encryption feature that allows first responders to transmit on-scene video to the command post without the data being intercepted by unwanted parties.

The complete MMV is fully deployed by one person in a stand-alone configuration in less than 10 minutes. The system is battery operated and can operate for eight continuous hours using one set of spare camera batteries. We sell this base product for approximately \$9,000 retail, but the cost can be as high as \$18,500 depending on additional special features such as the extension link and encryption capabilities.

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

### 3. ViewMaxx Digital Video System

ViewMaxx is a high-resolution, digital video recording and real-time monitoring system. This system can be scaled to meet a specific customer's needs by using anywhere from one camera up to 32 surveillance cameras per each ViewMaxx unit. The system uses a video capture card recording which translates closed-circuit television analog video data (a format normally used by broadcasters for national television programs) to a computer readable digital format to be stored on direct access digital disk devices rather than the conventional television format of video tape.

ViewMaxx offers programmable recording features that can eliminate the unnecessary storage of non-critical image data. This ability allows the user to utilize the digital disk storage more efficiently. The ViewMaxx system can be programmed to satisfy each customer's special requirements, be it coverage which is continuous, or only when events are detected. For example, it can be programmed to begin recording when motion is detected in a surveillance area, or a smaller field of interest within the surveillance area, and can be programmed to notify the user with an alarm or message.

Viewing of the stored digital images can be performed locally on the computer's video display unit or remotely through the customer's existing telecom systems or data network. It also uses a multi-mode search tool to quickly play back files with simple point and click operations. The search mode parameters can be set according to a specific monitoring need, such as: certain times of day, selected areas of interest in the field of view or breaches of limit areas. These features and abilities avoid the need to review an entire, or many, VCR tapes for a critical event.

Our ViewMaxx products include the following features:



1

Use any and all forms of telecommunications, such as standard telephone lines;

1

Video can be monitored 24 hours a day by a security monitoring center;

1

Local and remote recording, storage and playback for up to 28 days, with optional additional storage capability;

1

The system may be set to automatically review an area in a desired camera sequence;

1

Stores the video image according to time or a criteria specified by the customer and retrieves the visual data selectively in a manner that the customer considers valuable or desirable;

1

The system may trigger programmed responses to events detected in a surveillance area, such as break-ins or other unauthorized breaches of the secured area;

1

Cameras can be concealed in ordinary home devices such as smoke detectors;

1

The system monitors itself to insure system functionality with alert messages in the event of covert or natural interruption; and

1

Modular expansion system configuration allows the user to purchase add-on components at a later date.

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Depending on the features of a particular system the retail price including installation can range from approximately \$5,000 up to \$50,000.

#### 4. Additional Applications and Integration of ViewScan and ViewMaxx

We also offer integration of other products with ViewScan or ViewMaxx. Biometric verification is a system for recognizing faces and comparing them to known individuals, such as employees or individuals wanted by law enforcement agencies. This product can be interfaced with ViewScan and/or ViewMaxx to limit individual access to an area. ViewScan and/or ViewMaxx can be coupled with magnetic door locks to restrict access to a particular area. We also offer a central monitoring or video command center for ViewScan or ViewMaxx products.

#### 5. The MINI

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

We license the MINI from its manufacturer and act as a distributor. The Company established a dedicated e-commerce platform for the direct sale of this innovative product, which went online in February 2010. We are marketing the MINI to large potential users, such as real property managers, as well as retail customers through the [www.minicamsim.com](http://www.minicamsim.com) website. We have had non-material amounts of revenue from MINI sales thus far, which we attribute to a lack of advertising funds and market awareness.

#### 6. Network Services

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

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

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

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

7. FiberXpress, Inc.

On July 24, 2009 we entered into an asset purchase agreement to acquire FiberXpress, Inc., a company that sells specialist data network related products through its Internet web site. The transaction closed on September 15, 2009 with an exchange of stock and the hiring of William Paul Price. The acquisition has not been material to our financial statements. The FiberXpress acquisition has not resulted in meaningful sales, and we are looking for suitable options.

8. Visisys Ltd.

The status of View Systems partnership with Visisys is uncertain. There were no sales in 2010 from this partnership, and the Company may terminate the relationship in the coming months.

9. Training and Service Programs

We offer support services for our products which include:

1

On site consulting/planning with customer architect and engineers,

1

Installation and technical support,

1

Training and "Train the Trainer" programs, and

1

Extended service agreements.

**Our Market**

Our family of products offers government and law enforcement agencies, commercial security professionals, private businesses and residential consumers an enhanced surveillance and detection capacity. Management has chosen to avoid the air passenger traffic and civilian airport market for metal detection because we believe that a larger market exists in venues such as sporting events, concerts, and race tracks, and schools, courthouses and municipal buildings, and law enforcement agencies.

Our ViewScan products and technology can be used where there is a temporary requirement for real-time weapons detection devices in areas where a permanent installation is cost prohibitive or impractical. For example, our ViewScan portal could be set up for special events, concerts, and conventions. Our systems may reduce the need for a large guard force and can provide improved pedestrian traffic flow into an event because individuals can be scanned quickly and false alarms are reduced.

A primary market for our ViewScan portal is federal and state government courthouses, county and municipal buildings, and correctional facilities. We have installed our ViewScan weapons detection products in a variety of court house situations.

The MMV product's market includes National Guard units and first response agencies such as fire, police, SWAT, and homeland security response teams.

The MINI is an easy to use, simple and convenient personal security monitoring device that can be purchased by individuals through an independent website, potentially through retail electronics stores, or through commercial installers of self-contained or centrally monitored security systems. However, at this time we do not have retail agreements in place. Using our technology, individuals could run their own perimeter and interior surveillance systems from their own home computer. Real-time action at home can be monitored remotely through a modem and the Internet. There is also the capability to make real-time monitors wireless. An additional advantage of our technology is that it allows for the storage of information on the home computer and does not require a VCR. This capability may reduce the expense and time of the home installation and may make installation affordable for a majority of homeowners.

Network Services fiber installation activities have positioned the Company to exploit at the regional level the widespread national demand for high speed optical fiber data networks by both businesses and consumers. Increasing acceptance of security video surveillance suggests that there may be a demand for professional installations that we may profit from. Certainly the Company has seen a significant increase in inquiries about the design, installation and maintenance of such systems.

The association with Visisys and its market-leading recognition software suites seems to be an excellent fit with customer requirements for such features, not only on ViewScan products, but also for the Company's Network Services projects.

## **Manufacturing**

We manufacture the ViewScan portal and the ViewMaxx internally at our facilities in Baltimore, Maryland. Our third party manufacturers create several of the hardware components in our systems and we assemble our systems by combining other commercially available hardware and software together with our proprietary software. We hold licenses for software components that are integrated into our proprietary software and installed in our systems. We believe that we can continue to obtain components for our systems at reasonable prices from a variety of sources.



Although we have developed certain proprietary hardware components for use in our products and purchased some components from single source suppliers, we believe similar components can be obtained from alternative suppliers without significant delay.

## **Sales and Distribution**

We are constantly seeking to extend our United States domestic network of manufacturing representatives and dealers for the sale and distribution of our products. We are looking for security consultants, specifiers and distributors of security and surveillance equipment that sell directly to schools, courthouses, and government and commercial buildings.

We use mailings and telephone calls to contact potential representatives in a geographical area with the intent to arrange a demonstration of our products to these persons. We attend region specific trade shows such as sheriff's conventions, court administrators meetings, civil support team and state police shows. Then we demonstrate or give trial offers in the area until a sale is completed. Once we have completed a sale in a specific market area, then we expand that market by contacting correctional facilities, courthouses and other municipal buildings. We ship our products to the customer and each product has an unconditional 30 day warranty, during which time the product can be returned for a complete refund.

We have ongoing reseller arrangements with small- and medium-sized domestic and international resellers. Our reseller agreements grant a non-exclusive right to the reseller to purchase our products at a discount from the list price and then sell them to others. These agreements are generally for a term of one year and automatically renew for successive one-year terms unless terminated by notice or in the event of breach.

We also have experienced international interest from security related resellers and system integrators. Previously, we had chosen not to pursue international markets, but in 2010 we secured a sales agent in The People's Republic of China (for the Chinese market) and in the United Arab Emirates (for the Middle East). Both of these agents have secured significant orders for our ViewScan product, to date 22 units for China and 124 units for the Middle East and the Sub-continent. We have decided that our business can be better served with agent relations and established distribution partners that have local presence and can distribute support and train users for all our products more widely and efficiently than can be achieved from the United States.

Marketing of the MINI is viral through use of Internet search engine optimization. We shall be undertaking further targeted marketing campaigns for the MINI.

## **Backlog**



As of December 31, 2010, we had a backlog of \$265,000 of firm ViewScan purchase orders. We measure backlog as orders for which a purchase order or contract has been signed or a verbal commitment for order or delivery has been made, but which has not yet been shipped and for which revenues have not been recognized. We typically ship our products weeks or months after receiving an order. However, we are attempting to shorten this lead time to several weeks.

Also, product shipments may require more lead-time and may be delayed for a variety of reasons beyond our control, including additional time necessary to conduct product inspections prior to shipping, design or specification changes by the customer, the customer's need to prepare an installation site, and delays caused by other contractors on the project. We have a back log because we do not hold unsold units in inventory.

### **Major Customers**

At present sales to state correctional facilities account for more than 50% of our revenues although recently we have received RFPs from schools and police departments. In addition, in 2010 our distributor in the United Arab Emirates has ordered 80 units of ViewScans, and we have delivered to date 19 units. We are attempting to fund the manufacture of the remaining units. In 2010, a Chinese customer ordered 50 units, and to date 22 units have been delivered.

### **Competition**

The markets for our products are extremely competitive. Competitors include a broad range of companies that develop and market products for the identification and video surveillance markets. In the weapons detection market,

we compete with Ranger Security Scanners, Inc. and Garrett Electronics, Inc. in the United States, and an Italian company, CEIA SpA, which has the most sophisticated electromagnetic induction product. In the video surveillance market we compete with numerous VCR suppliers and digital recording suppliers, including, Sensormatic Corporation, NICE Systems, Ltd., and Integral Systems.

### **Trademark, Licenses and Intellectual Property**

Certain features of our products and documentation are proprietary and we rely on a combination of patent, contract, copyright, trademark and trade secret laws and other measures to protect our proprietary information. We limit access to, and distribution of, our software, documentation and other proprietary information. As part of our confidentiality procedures, we generally enter into confidentiality and invention assignment agreements with our employees and mutual non-disclosure agreements with our manufacturing representatives, dealers and systems integrators.

Notwithstanding such actions, a court considering these provisions may determine not to enforce such provisions or only partially enforce such provisions.

The ViewScan concealed weapons detection technology involves sensing technology and data acquisition/analysis software subsystems that have patents pending or issued to the U.S. Department of Energy. We have not renewed our license, with the INEL to commercialize, manufacture and market the concealed weapons detection technology.

View Systems has not filed for patents and has found that the expense and difficulty of patenting this product would be financially prohibitive.

Governmental ownership of the patents is advantageous to us; however, the costs have outweighed the benefits. We have not received improvements, the promised funding or support from our government licensors. We have, however, paid money and spent time to advance the technologies. We have obtained software licensing agreements for software operating systems components, fingerprint identification capabilities to possibly integrate into our proprietary software, and commercially available operating systems software to integrate into our proprietary product software.

Because the software and firmware (software imbedded in hardware) are in a state of continuous development, we have not filed applications to register the copyrights for these items. However, under law, copyright vests upon creation of our software and firmware. Registration is not a prerequisite for the acquisition of copyright rights. We take steps to insure that notices are placed on these items to indicate that they are copyright protected. The copyright protection for our software extends for the 20-year statutory period from the date of first "publication," distribution of copies to the general public, or from the date of creation, whichever occurs first.

We provide software to end-users under non-exclusive "shrink-wrap" licenses, which are automatic licenses executed once the package is opened. This type of license has a perpetual term and is generally nontransferable. Although we do not generally make source code available to end-users, we may, from time to time, enter into source code escrow agreements with certain customers. We have also obtained licenses for certain software from third parties for incorporation into our products.

## **Research and Development**

We outsource improvements or changes when requested by customers and warranted financially. For the years ended December 31, 2009 and December 31, 2010, we have spent approximately \$15,000 and \$20,000, respectively, on research and development.

## **Regulatory Environment**

We are not subject to government approval or regulation in the manufacture of our products or the components in our products. However, our products are subject to certain government restrictions on sales to "unfriendly" countries and countries designated as adversarial, which may limit our sales to the international market. In addition, our resellers and end users may be subject to numerous regulations that stem from surveillance activities. We also benefit from the recent "made in America" trade laws where non-United States manufactures must secure waivers in order to sell security and surveillance products to United States domestic end-users.

Security and surveillance systems, including cameras, raise privacy issues and our products involve both video and audio, and added features for facial identification. The regulations regarding the recording and storage of this data are uncertain and evolving. For example, under the Federal wiretapping statute, the audio portion of our

surveillance systems may not record a person's conversation without his or her consent. Further, there are state and federal laws associated with recording video in non-public places.

### **Cost and effect of compliance with environmental laws**

The Company has not determined any recognizable cost related to compliance with environmental laws.

### **Employees**

As of the date of this annual report, the Company employed approximately 7 persons, including 1 sales executive, and 3 office personnel which include 2 customer service engineers. 2 persons are part-time and we also contract with 5 independent contractors who devote a majority of their work to a variety of our projects. Our employees are not presently covered by any collective bargaining agreement. Our relations with our employees are good, and we have not experienced any work stoppages by our employees.

## **ITEM 1A. RISK FACTORS.**

### **Risk Factors**

You should carefully consider the risks, uncertainties and other factors described 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 other information contained in or incorporated by reference to this Annual Report on Form 10-K, 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 \$513,353 for 2010 and had a net loss of \$1,560,012 at December 31, 2009. In addition, View Systems, Inc. had a retained earnings deficit of \$22,837,787 at December 31, 2010, as compared with \$22,324,434 at December 31, 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 \$513,353 for the fiscal year ended December 31, 2010 and net cash used in operations of \$51,821 for the fiscal year ended December 31, 2010. Because the Company has not yet achieved or acquired sufficient operating capital and given these financial results along with the Company's expected cash requirements in 2011, 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 year ended December 31, 2010 was \$513,353 and our net loss for the year ended December 31, 2009 was \$1,560,012. Our retained deficit was \$22,837,787 at December 31, 2010. We are unable to fund our day-to-day operations through revenues alone, and management believes we will incur operating losses for the near

future while we expand our sales channels. While we have expanded our product line and expect to establish new sales channels, we may be unable to increase revenues to the point that we attain and are able to maintain profitability. As a result we rely on private financing to cover cash shortfalls.

As a result, we continue to have significant working capital and stockholders' deficits including a substantial accumulated deficit at December 31, 2010. In recognition of such, our independent registered public accounting firm has included an explanatory paragraph in its report on our consolidated financial statements for the fiscal years ended December 31, 2010, and December 31, 2009 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 attempting to raise at least \$1 million through an offering of securities.

**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 Multi-Mission Mobil Video 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 43.1% of the voting power of our common and 100% of the preferred stock entitled to vote on any matter brought to a vote of the stockholders. Including the effects of Gunther Than s, our CEO s, voting preferred stock, our directors and officers have the

power to vote approximately 43.8% of common shares (based on the assumed effects of conversion of all of Mr. Than's preferred stock) as of the date of this report. Pursuant to Nevada law and our bylaws, the holders of a majority of our voting stock may authorize or take corporate action with only a notice provided to our stockholders. A stockholder vote may not be made available to our minority stockholders, and in any event, a stockholder vote would be controlled by the majority stockholders.

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

Pursuant to proposals related to Section 404 of the Sarbanes-Oxley Act of 2002, beginning with our Annual Report on Amendment No. 2 to Form 10-K for the fiscal year ending December 31, 2008, we have been 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:



1

Investors may have difficulty buying and selling our shares or obtaining market quotations;

1

Market visibility for our common stock may be limited; and

1

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 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 market price of our common stock may be higher or lower than the price you may pay for your Shares. 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;

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loss of a key relationship or failure to complete significant transactions;

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additions or departures of key personnel; and

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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.

**SALES OF OUR COMMON STOCK RELYING UPON RULE 144 MAY DEPRESS PRICES IN THE MARKET FOR OUR COMMON STOCK BY A MATERIAL AMOUNT.**

A majority of the currently outstanding shares of our Common Stock are *restricted securities* within the meaning of Rule 144 under the Securities Act of 1933, as amended. As restricted shares, these shares may be resold only pursuant to an effective registration statement or under the requirements of Rule 144 or other applicable exemptions from registration under the Act and as required under applicable state securities laws. Rule 144 provides in essence that an affiliate who has held restricted securities for a prescribed period may, under certain conditions, sell every three months, in brokerage transactions, a number of shares that does not exceed 1.0% of a company's outstanding Common Stock. The alternative average weekly trading volume during the four calendar weeks prior to the sale is also available to our affiliate shareholders because the OTCBB is an *automated quotation system* and, accordingly, market based volume limitations are available for securities quoted only over the OTCBB. However, there is no limit on the amount of restricted securities that may be sold by a non-affiliate (i.e., a stockholder who has not been an officer, director or control person for at least 90 consecutive days) after the restricted securities have been held by the owner for a period of at least six months and the other requirements of Rule 144 have been satisfied. Presently shares of restricted Common Stock held by non-affiliates of the Company may be sold, subject to compliance with Rule 144, six months after issuance. Sales under Rule 144 or under any other exemption from the Act, if available, or pursuant to registration of shares of Common Stock of present stockholders, may have a depressive effect upon the price of our Common Stock in the over-the-counter market.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

Not applicable to smaller reporting companies.

**ITEM 2. DESCRIPTION OF PROPERTY**

The Company leases 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland, under a three-year noncancellable operating lease which expired in October 2008. This location serves as both the Company's principal executive office and the manufacturing and assembly location for our proprietary products. A renewal of the lease expired on August 31, 2010, and the Company renewed the lease for one year commencing September 1, 2010 and expiring August 31, 2011. The base rent had been \$3,047 per month with an annual rent escalator of 3%. Under the current renewal the monthly lease payment is \$3,077.

**ITEM 3. LEGAL PROCEEDINGS.**

As of the date of this report we are not a party to any material legal proceedings.

**ITEM 4. (REMOVED AND RESERVED).**

**PART II**

**ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASERS OF EQUITY SECURITIES.**

**Market Information**

Our common stock has been quoted on the OTC Bulletin Board under the symbol "VYST.OB" up to October 2008 and from October 17, 2008 under the symbol VSYM.OB and is traded over the counter. The following table sets forth the high and low bid information of the Company's common stock for the periods indicated. The source of the following information is [www.finance.yahoo.com](http://www.finance.yahoo.com).

**OTC Bulletin Board (1)**

FISCAL YEAR ENDED  
DECEMBER 31, 2010:

Fourth Quarter

\$

0.02

\$

0.01(2)

Third Quarter

\$

0.03

\$

0.01

Second Quarter

\$

0.06

\$

0.01

First Quarter

\$

0.12

\$

0.04

FISCAL YEAR ENDED  
DECEMBER 31, 2009:

Fourth Quarter

\$

0.11

\$

0.01

Third Quarter

\$

0.03

\$

	0.02
Second Quarter	
\$	
	0.05
\$	
	0.01
First Quarter	
\$	
	0.20
\$	
	0.02
(1)	

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

(2)

Actual lowest daily price is believed to be \$0.006 per share, but sub-penny historical price information is not available for our common stock on [www.finance.yahoo.com](http://www.finance.yahoo.com).

**Shareholders of Record**



As of December 31, 2010, there were approximately 273 holders of record of our common stock, not including holders who hold their shares in street name.

## **Dividends**

We have never declared or paid a cash dividend. At this time, we do not anticipate paying dividends in the future. We are under no legal or contractual obligation to declare or to pay dividends, and the timing and amount of any future cash dividends and distributions is at the discretion of our Board of Directors and will depend, among other things, on our future after-tax earnings, operations, capital requirements, borrowing capacity, financial condition and general business conditions. We plan to retain any earnings for use in the operation of our business and to fund future growth. You should not purchase our Shares on the expectation of future dividends.

## **Securities Authorized for Issuance Under Equity Compensation Plan**

### **Equity Compensation Plan Information**

**Plan Category**  
**Number of**  
**securities to be issued**  
**upon exercise**  
**of outstanding**  
**options,**  
**warrants and rights**  
**Weighted-**  
**average exercise**  
**price of**  
**outstanding**  
**options, warrants**  
**and rights**

**Number of securities  
remaining available for  
future issuance under  
equity compensation  
plans  
(excluding securities  
reflected in column (a))**

Equity compensation plans  
approved by security  
holders

50,000,000(1)

-

50,000,000(2)

Equity compensation plans  
not approved by security  
holders

-

-

-

**Total**

50,000,000

-

50,000,000

(1)

Represents shares reserved for the Company's 2010 Equity Incentive Plan.

(2)

Represents shares reserved for the Company's 2010 Service Provider Stock Compensation Plan.

### ***General Information About the 2010 Equity Incentive Plan***

The 2010 Equity Incentive Plan ( EIP ) is intended to attract, motivate, and retain employees of the Company, consultants who provide significant services to the Company, and members of the Board of Directors of the Company who are not employees of the Company. The EIP is designed to further the growth and financial success of the Company by aligning the interests of the participants, through the ownership of stock and through other incentives, with the interests of the Company's stockholders.

*Benefits under the 2010 EIP.* As defined under the 2010 EIP, the Board may grant any one or a combination of Incentive Stock Options (within meaning of the Code), Non-Qualified Stock Options, Restricted Stock, as well as Performance Awards (collectively, Awards ).

*Administration of the 2010 Equity Incentive Plan.* The EIP will be administered by the Board of Directors. If it chooses, the Board may delegate its authority to a Compensation Committee to be appointed by the Board (the Committee ), which Committee may be comprised of two or more outside directors as described in Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code ). Subject to certain limitations in the 2010 EIP, the Board establishes the terms and conditions of awards granted under the 2010 EIP, interprets the 2010 EIP and all awards under the 2010 EIP, and administers the 2010 EIP.

*Eligible Participants under the 2010 EIP.* Except for Incentive Stock Options which may only be granted to Employees of the Company, Awards under the 2010 EIP may be granted to Employees, Directors, and Consultants of the Company (as such terms are defined in the 2010 EIP) who are designated by the Board. No employee may receive Awards under this 2010 EIP in any given year which, singly or in the aggregate, cover more than 150,000 shares of the Company's Common Stock.

*Shares Available under the 2010 EIP.* The aggregate number of shares of Common Stock that may be issued or transferred to grantees under the 2010 EIP shall not exceed 50,000,000 shares. If there is a stock split, stock dividend or other relevant change affecting the Company's shares, appropriate adjustments will be made in the number of shares that may be issued or transferred in the future and in the number of shares and price of all outstanding Awards made before such event. If shares under an Award are not issued or transferred, those shares would again be available for inclusion in future Award grants.

*Awards Under the 2010 EIP*

*Stock Options.* The Board may grant options qualifying as incentive stock options under the Code and nonqualified stock options. The term of an option shall be fixed by the Board, but shall not exceed ten years. In the case of death of the holder of the option or upon the termination, removal or resignation of the option holder for any reason other than for cause within one year of the occurrence of a Change of Control (as that term is defined in the 2010 EIP), an option may be extended for up to 12 months depending on the circumstances. The option price shall not be less than the fair market value of the Common Stock on the date of grant. In the case of an award of Incentive Options to an employee possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent corporation or subsidiary corporation as those terms are defined in the Code, the option price shall not be less than 110% of the fair market value of the Common Stock on the date of grant and the option term shall not exceed five years from date of grant. Payment of the option price may be by cash or, with the consent of the Board, by tender of shares of Common Stock having an equivalent fair market value or delivery of shares of Common Stock for which the option is being exercised to a broker for sale on behalf of the option holder. With respect to Incentive Options, the aggregate fair market value of shares of Common Stock for which one or more options granted may for the first time become exercisable during any calendar year shall not exceed \$100,000.

*Restricted Stock.* The Board may also award shares of Restricted Stock. The shares will be issued as restricted stock within the meaning of Rule 144 of the Securities Act of 1933, as amended. Such grant would set forth the terms and conditions of the award, including the imposition of a vesting schedule during which the grantee must remain in the employ of the Company in order to retain the shares under grant. If the grantee's employment terminates during the period, the grant would terminate and the grantee would be required to return any unvested shares to the Company. However, the Board may provide complete or partial exceptions to this requirement as it deems equitable. Unless an Award specifically provides otherwise, any shares not otherwise vested shall vest upon the death, disability, termination, removal or resignation of the grantee for any reason other than for cause within one year of the

occurrence of a Change of Control (as that term is defined in the 2010 EIP). The grantee cannot dispose of the shares prior to the expiration of forfeiture restrictions set forth in the grant. During this period, however, the grantee would be entitled to vote the shares and, at the discretion of the Board, receive dividends. Each certificate would bear a legend giving notice of the restrictions in the grant.

*Performance Awards.* The Board may grant Performance Units or Performance Shares in consideration of services performed or to be performed, under which payment may be made in shares of the Common Stock, a combination of shares and cash, or cash if the performance of the Company or any subsidiary or affiliate of the Company selected by the Board meets certain goals established by the Board during an award period. The Board would determine the goals, the length of an award period and the minimum performance required before a payment would be made. In order to receive payment, a grantee must remain in the employ of the Company until the completion of, and settlement under, the award period, except that the Board may provide complete or partial exceptions to that requirement as it deems equitable.

*Other Stock or Performance-Based Awards.* The Board also may grant shares of Common Stock or performance based Awards on the terms and conditions it determines in its discretion, as well as other rights not an Award otherwise described in the 2010 EIP but is denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, shares of Common Stock or cash as are deemed by the Board to be consistent with the purposes of the 2010 EIP. Such other stock or performance-based Awards may be in addition to, or in lieu of, cash or other compensation due the grantee.

#### ***Other Information about the 2010 EIP***

The 2010 EIP will terminate in 2020 unless terminated earlier by our Board or extended by our Board with the approval of the stockholders.

Our Board may amend, suspend or terminate the 2010 EIP at any time, but such amendment, suspension or termination shall not adversely affect any Award then outstanding without the participant's consent. Any amendment that would constitute a material amendment of the 2010 EIP (as determined by the Board, in its sole discretion, subject to the rules and regulations of the OTCBB, if any, governing the use of such term in the context of an employee benefit plan), as amended, shall be subject to stockholder approval. Likewise, if the Exchange Act requires the Company to obtain stockholder approval, then such approval will be sought.

Unless approved by stockholders or as specifically otherwise required by the 2010 EIP (for example, in the case of a stock split), no adjustments or reduction of the exercise price of any outstanding incentive may be made in the event of a decline in stock price, either by reducing the exercise price of outstanding incentives or by canceling outstanding incentives in connection with re-granting incentives at a lower price to the same individual.

Awards may be exercised only by the Employee, Director, or Consultant to whom they are granted and are generally not assignable or transferable except for limited circumstances upon a grantee's death, or pursuant to rules that may be adopted by the Board. The Board may establish rules and procedures to permit a grantee to defer recognition of income or gain for incentives under the 2010 EIP.

It is anticipated that all members of the Board of Directors will participate in the 2010 EIP. Although the 2010 EIP has been approved, the Board of Directors has not contracted with the Company to implement the 2010 EIP into effect.

Amendments, Termination, Alteration or Suspension of the plan will impair the rights of any participant, only if mutually agreed to, in writing and signed by the participant and the Company.

***General Information about the 2010 Service Provider Stock Compensation Plan***

The Company's 2010 Service Provider Stock Compensation Plan ( SCP ) is intended to promote the interests of the Company and its subsidiaries by offering those officers, directors, employees and consultants or advisors of the Company or any subsidiary who assist in the development and success of the business of the Company or any subsidiary, the opportunity to be compensated for their services in the form of Company stock in lieu of payment in cash.

*Benefits of the 2010 SCP.* The 2010 SCP is registered with the SEC pursuant to the Securities Act. Therefore, all eligible recipients accepting awards of stock for services under the SCP will receive registered stock. Payment for

services in the form of registered stock is beneficial to the Company because it preserves its cash while enabling it the possibility of receiving valuable services from service providers. Not all service providers are expected to accept payment in Company stock. Those service providers that accept payment for services in Company Common Stock may liquidate the stock at any time at market price provided there is sufficient volume in the stock at time of sale. Usual investment risks in our Common Stock would apply to the stock issued pursuant to the SCP.

*Administration of the 2010 SCP.* The 2010 SCP initially will be administered by the Board of Directors. If it chooses, the Board may delegate its authority to a Board-appointed committee comprised of two or more outside directors as described in Section 162(m) of the Internal Revenue Code of 1986, as amended, for general administration of the SCP. The Board may also delegate its authority to a committee comprised of inside directors to administrate the SCP for non-executive officers and other service providers. The Board or the respective committees establish the terms and conditions of awards granted under the 2010 SCP, interpret the 2010 SCP and all awards under the 2010 SCP, and administer the 2010 SCP.

*Eligible Participants under the 2010 SCP.* Awards under the 2010 SCP may be granted to employees, officers, or directors of the Company or its affiliates, and/or to consultants or advisers currently providing bona fide services to the Company or its affiliates ( Service Providers ). Awards may be made under the SCP only if, at the time of grant, a Form S-8 Registration Statement under the Securities Act ( Form S-8 ) is available to register either the offer or the sale of the Company s securities to such Service Provider because the nature of the services that the Service Provider is providing to the Company is consistent with the instructions governing the use of Form S-8, including the SEC interpretive Releases pertaining to Form S-8, then in effect. No Award under the Plan may be made for services provided in connection with the offer or sale of securities in a capital-raising transaction or for services that directly or indirectly promote or maintain a market for the Company s securities.

*Shares Available under the 2010 SCP.* The aggregate number of shares of Common Stock that may be issued or transferred to grantees under the 2010 SCP shall not exceed 50,000,000 shares. The number of shares of Stock reserved for the SCP shall be adjusted proportionally to reflect, subject to any required action by stockholders, any stock dividend or split, recapitalization, merger, consolidation, spin-off, reorganization, combination or exchange of shares or other similar corporate change. Available shares under a stockholder approved plan of an acquired company (as appropriately adjusted to reflect the transaction) may be used for Awards under the SCP and will not reduce the number of shares available under the SCP, subject to applicable stock exchange requirements. The conversion of any convertible securities of the Company shall not be treated as an increase in shares effected without receipt of consideration. If shares covered by an Award are forfeited or expire, or terminates without delivery of any stock subject thereto, those shares would again be available for inclusion in future Award grants.

*Other Information about the 2010 SCP* The 2010 SCP will terminate automatically in 2020 unless terminated earlier by our Board or extended by our Board with the approval of the stockholders.

Our Board may amend, suspend or terminate the 2010 SCP at any time as to any shares of Common Stock as to which awards have not been made. An amendment shall be contingent on approval of the Company s stockholders to the extent stated by the Board, required by applicable law or required by applicable stock exchange requirements.

**Information Relating to Outstanding Shares**

As of March 7, 2011, there were 97,410,189 shares of our common stock issued and outstanding and 89,647 shares of our preferred stock issued and outstanding. Except for 50,000,000 shares reserved under our 2010 Equity Incentive Plan, we have not reserved any other shares for issuance upon exercise of common stock purchase warrants or stock options.

Of the issued and outstanding common shares, approximately 92,343,369 shares of our common stock (46,948,427 of which are owned by officers, directors and principal stock holders) have been held a period in excess of six months and are eligible to be resold pursuant to Rule 144 promulgated under the Securities Act.

Unless covered by an effective registration statement, the resale of our shares of common stock owned by officers, directors and affiliates is subject to the volume limitations of Rule 144. In general, Rule 144 permits our shareholders who have beneficially-owned restricted shares of common stock for at least six months to sell without registration, within a three-month period, a number of shares not exceeding one percent of the then outstanding shares of common stock. Furthermore, if such shares are held for at least six months by a person not affiliated with us (in general, a person who is not one of our executive officers, directors or principal shareholders during the three month period prior to resale), such restricted shares can be sold without any volume limitation.



## Recent Sales of Unregistered Securities

During 2010, we issued an aggregate of 17,967,820 shares of our unregistered common stock, after cancelling 10,000,000 shares issued to directors in error during the first quarter of 2010, as follows:

On January 28, 2010 we issued 3,500,000 shares at \$.0467 per share to Allen Bender in settlement of litigation to enforce the terms of a convertible promissory note plus costs of litigation, attorney's fees, and post-judgment interest in the total amount of \$163,366.27.

On February 17, 2010, we issued 500,000 shares at \$0.03 per share to William Paul Price as bonus compensation for his services rendered as an employee.

On February 22, 2010, we issued 461,000 shares at \$0.0622 per share to William D. Smith as payment of interest on a note.

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

M & A Advisors, LLC and Diana Vesta, LLC, each receiving 1.5 million shares as assignees of a collective 3,000,000 shares issued for March 2010 and April 2010 settlements by the Company with Active Stealth, Inc., YT2K, Inc., and MBA Investors, Ltd.; and Starr Consulting, Inc., which was a recipient of an additional 1.5 million shares (an aggregate of 4.5 million shares issued in total), of a debt collectively owed in the amount of \$162,092 at a price per share of \$0.027;

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

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

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

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

On November 8, 2010, we issued 857,143 restricted shares to Asher Enterprises as payment of \$6,000 of principal on a note payable, at a price of \$0.012 per share.

On November 29, 2010, we issued 1,209,677 restricted shares to Asher Enterprises as payment of \$7,000 of principal on a note payable, at a price of \$0.01 per share.

On December 21, 2010, we issued 1,000,000 restricted shares to Russell Holmes for business development services, at a price of \$0.005 per share.

The shares were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended.

We issued an aggregate of 62,267,147 shares of our unregistered common stock at purchase prices ranging from \$0.01 to \$0.0625 per share during 2009, as follows:

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On January 26, 2009, we issued a total of 2,900,000 shares of our common stock to Kelli Myers (550,000 shares), A.S. Austin Company, Inc. (750,000 shares), Marlin Molinaro (800,000 shares), and Redstone Communication (800,000 shares), all as payment against convertible debt at \$0.0345 per share.

On February 2, 2009, we issued a total of 250,000 shares of our common stock to Ralph Sita (as payment against debt for accounting services), John Sarman (120,000 shares as payment against debt for professional services), Charlotte DeLoof (48,000 shares as payment against debt for salary), Alexander N. Than (47,500 shares as payment against debt for salary), Michael Woodford (150,000 shares as payment

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against debt for legal services), Orion Financial Group, LLC (360,000 shares as payment against debt for investor relations services), all at \$0.0625 per share, and to Judith Downes (210,000 restricted shares in exchange for salary) at \$0.0313 per share.

On February 13, 2009, we issued a total of 7,000,500 shares of our common stock to Redstone Communication (750,000 restricted shares), Marlin Molinero (675,000 restricted shares), and Josh Norton (75,000 restricted shares), all as payment at \$0.0313 per share for investor relations services; James Alford (250,000 restricted shares as payment for the acquisition of a truck), Gary Berg (200,000 restricted shares for professional services), Gunther Than (5,000,000 restricted shares for salary), all as payment at \$0.0313 per share; and to William Jordan (50,500 shares for payment of a shareholder loan at \$0.0625 per share).

On March 11, 2009, we issued 950,000 shares of common stock to Orion Financial Group, LLC as payment at \$0.0625 per share against debt for investor relations services.

On March 19, 2009, we issued 500,000 shares of common stock to Ralph Sita as payment at \$0.0625 per share against debt for accounting services.

On March 23, 2009, we issued 1,000,000 shares of common stock to Russell Weigel as payment at \$0.0625 per share against debt for legal services.

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 Burton Prateley 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 Burton-Prateley in exchange for consulting services and 500,000 shares to Marlene Maassen (spouse of director Martin Maassen) as payment for a loan.

On July 6, 2009, we issued 131,147 shares to William D. Smith at \$0.02 per share as payment for accrued interest on a note payable.

On September 15, 2009 we issued: 500,000 shares to William Paul Price at \$0.02 per share as a consulting fee; 1,000,000 restricted shares to William Paul Price at \$0.01 per share as payment for the asset purchase of FiberXpress, Inc.; 3,500,000 shares to Anthony D. Altavilla at \$0.0143 per share in exchange for conversion of accounts payable, and 500,000 restricted shares to Crown Equity Holdings at \$0.01 per share in exchange for press release services.

On December 6, 2009 we authorized the issuance at \$0.02 per share: 5,000,000 shares to Martin Maassen (as inducement to continue to fund the working capital needs of the Company); 5,000,000 shares to Gunther Than (employment compensation), 5,000,000 shares to Michael Burton-Prateley (sign-on bonus upon appointment as an officer), and 5,000,000 shares to William Paul Price (sign-on bonus upon appointment as an officer).

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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.

We issued an aggregate of 15,925,000 shares of our unregistered common stock at purchase prices ranging from \$0.02 to \$0.064 per share to accredited investors during 2008, as follows:

.

Martin Maassen on October 16, 2008, 5,000,000 shares of our common stock at \$0.04 in exchange for conversion of \$200,000 in notes payable.

.

Starr Consulting on October 17, 2008, 500,000 shares of our common stock at \$0.02 in exchange for conversion of \$50,000 in notes payable and \$50,000 in interest.

.

Pertaining to the Starr Consulting Agreement, on October 17, 2008 we issued 500,000 shares of our common stock to each of the following entities: Power Network, BAF Consulting, New Age Sports, and Seville Consulting, all at \$0.02 per share.

.

Michael Bagnoli on October 17 and 21, 2008, a total of 5,000,000 shares of our common stock to at \$0.04 in exchange for conversion of \$200,000 in notes payable.

.

Pertaining to the Starr Consulting Agreement, on December 2, 2008 we issued 500,000 shares of our common stock to each of the following entities: Power Network, BAF Consulting, New Age Sports, and Seville Consulting, all at \$0.02 per share.

.

Michael Burton-Prateley on December 10, 2008, 500,000 shares of our common stock at \$0.03 in exchange for consulting services.

Michael Burton-Prateley on December 10, 2008, 112,500 shares of our common stock at \$0.03 in exchange for consulting services.

Marlene Maassen on December 10, 2008, 312,500 shares of our common stock at \$0.064 per share.

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.

**Use of Proceeds from Registered Securities**

None.

**Issuer Purchase of Securities**

None.

**ITEM 6. SELECTED FINANCIAL DATA.**

Not Applicable.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**



The following analysis of our consolidated financial condition and results of operations for the years ended December 31, 2010 and 2009 should be read in conjunction with the Consolidated Financial Statements and other information presented elsewhere in this annual report.

## **Overview**

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

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

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

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

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

Our strategy for 2011 for ViewScan will be to extend our sales and service provisions. To increase sales we offer demonstrations of our products to potential customers in specific geographical areas and at region - specific trade shows, such as sheriff's conventions, court administrators' meetings, civil support team, state police and dealer shows.

When a demonstration results in a sale of one of our products, then we attempt to expand that market by contacting other potential customers in the area, such as, correctional facilities, courthouses and other municipal buildings.

In the short term, management plans to raise funds through sales of our common stock for fulfillment (manufacturing, packaging and shipment), which will set the stage for future orders becoming self funding. Then the next phase of our business plan will be to raise additional funds through common stock offerings to provide working capital to finance several acquisitions and the integration of new technologies and businesses. We anticipate registering in the fourth quarter of 2010 sufficient shares of our common stock to raise at least \$1,000,000.00. (As of the date of this annual report, our registration statement filed on Form S-1 has not been declared effective by the SEC). We also intend to continue to strengthen our balance sheet by paying off debt either through exchange of equity for cancellation of debt obligations or the payment of debt obligations with cash.

When possible we have conserved our cash by paying employees, consultants, and independent contractors with our common stock. As of March 2010, our outstanding equity compensation and equity incentive plans established in 1999 and 2000 had expired by their terms. We implemented two new plans in April and June 2010, respectively. On April 2, 2010, by majority shareholder consent, the Company adopted its 2010 Equity Incentive Plan. Reserved for equity issuances under the Equity Incentive Plan are 50,000,000 shares of our common stock. On June 1, 2010, by majority shareholder consent, the Company adopted its 2010 Service Provider Stock Compensation Plan. Reserved for equity issuances under the Service Provider Stock Compensation Plan are 50,000,000 shares of our common stock. On July 21, 2010, the Company registered the Common Stock issuable under the 2010 Equity Incentive Plan and the 2010 Service Provider Stock Compensation Plan. A total of 100,000,000 shares are reserved for issuances under the two plans.

We intend to use the proceeds from this registered offering to: (1) facilitate product fulfillment (manufacturing, packaging and shipment), which we anticipate will enable future orders to be self funding; (2) provide working capital to finance corporate acquisitions and the integration of new technologies; and (3) retire debt through cash payment or the exchange of debt obligations with payment in Common Stock registered in this offering.

## **Results of Operations**

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The following discussions are based on the consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the years ended December 31, 2010 and 2009 and should be read in conjunction with the financial statements, and notes thereto, included with this report at Part II, Item 8, below.

SUMMARY  
COMPARISON  
OF  
OPERATING  
RESULTS

Year ended  
December 31,

2010

2009(\*)

Revenues, net

\$ 768,026

\$ 631,757

Cost of sales

223,298

310,833

Gross profit  
(loss)

544,728

320,924

Total operating expenses

1,029,809

1,819,468

Loss from operations

(485,081)

(1,498,544)

Total other income (expense)

(28,272)

(61,468)

Net income (loss)

(513,353)

(1,560,012)

Net income (loss) per share

\$ (0.01)

\$ (0.04)

Revenue is considered earned when the product is shipped to the customer. The concealed weapons detection 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.

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The following chart provides a breakdown of our sales in 2010 and 2009.

	<u>Dec. 31, 2010</u>	<u>Dec. 31, 2009</u>
Totals per financial statements		
	\$ 768,012	
		\$ 631,757
ViewScan		
	311,882	
		231,698
Surveillance Package		
	107,752	
		0
Fiber-optic installation		
	91,118	
		0
Service, installation, training, etc		
	257,260	
		400,059
	\$ 768,012	

We have experienced an increase in sales of our products which resulted in an increase in revenues for the year ended December 31, 2010 compared to the year ended December 31, 2009. Some of this is attributable to summer seasonal revenue from our Network Services division, which was in a startup phase in 2009, but overall we have had more product sales in 2010 than in 2009. We are cautiously optimistic that revenues will continue to trend slightly upward in 2011 as the general economic situation in the world improves.

Our backlog at December 31, 2010, was \$265,000. The delay between the time of the purchase order and shipping of the product results in a delay of recognition of the revenue from the sale. This delay in recognition of revenues will continue as part of our results of operations. We measure backlog as orders for which a purchase order or contract has been signed or a verbal commitment for order or delivery has been made, but which has not yet been shipped and for which revenues have not been recognized. We typically ship our products weeks or months after receiving an order. However, we are attempting to shorten this lead time to several weeks.

Also, product shipments may require more lead-time and may be delayed for a variety of reasons beyond our control, including additional time necessary to conduct product inspections prior to shipping, design or specification changes by the customer, the customer's need to prepare an installation site, and delays caused by other contractors on the project. We have a back log because we do not hold unsold units in inventory.

Cost of sales include costs of products sold and shipping costs and were approximately 29% of net revenues for 2010 as compared to cost of sales of 49% of net revenues from 2009, a decrease of 20%.

For 2010 total operating expense decreased \$789,659, a decrease of 43%, as compared to 2009. Net Income (Loss) was (\$513,353) in 2010, and (\$1,560,012) in 2009, an improvement of \$1,046,659.

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

## **Liquidity and Capital Resources**

We have incurred losses for the past two fiscal years and had a net loss of \$513,353 at December 31, 2010. We had insufficient funds to deliver our backlog in the last half of 2010. Our revenues from several product sales have been increasing and some others decreasing but are not sufficient to cover our all of our operating expenses. Our auditors have expressed substantial doubt that we can continue as a going concern.

Historically, we have relied on revenues, debt financing and sales of our common stock to satisfy our cash requirements. For the year ended December 31, 2010, we received cash from revenues of \$768,026, loans from shareholders of \$6,934, and proceeds from notes payable of \$50,000. For the year ended December 31, 2009, we received cash from revenues of \$631,757, loans from shareholders of \$68,630, a line of credit for \$200,000, and proceeds from notes payable of \$50,000. We have incurred losses for the past two fiscal years and had a net loss of \$513,353 at December 31, 2010 as compared with a net loss of \$1,560,012 for the year ended December 31, 2009.

Our revenues from several product sales have been increasing and some others decreasing but are not sufficient to cover all of our operating expenses. We will also continue to rely on the issuance of our common stock to pay for services and debt when cash is unavailable. Management anticipates that we will continue to issue shares for services in the short term.

For the year ended December 31, 2010, we used a net amount of \$51,821 of cash to finance our day to day operating activities. We used \$0.00 of our cash to purchase fixed assets. We experienced a net reduction in cash from financing activities of \$10,649 which consisted of repayment of \$57,958 under a line of credit, and repayments of debt in the amount of \$9,625, which was offset by additional loans from stockholders in the amount of \$6,934, and proceeds from notes payable of \$50,000. This resulted in an overall net decrease in cash of \$62,470.

For the year ended December 31, 2009, we used \$217,926 of cash to finance our day to day operating activities. We used \$28,652 of our cash to purchase fixed assets which was offset by receipt of \$80 from related parties. We generated \$315,534 from financing activities which consisted of additional loans from stockholders in the amount of \$68,630, a line of credit for \$200,000, and proceeds from notes payable of \$50,000, less repayments of debt in the amount of \$3,096. This resulted in a net overall increase in cash of \$69,036.

Management intends to finance our 2011 operations primarily with the revenue from product sales and any cash short falls will be addressed through equity financing, if available. Management expects revenues will continue to increase but not to the point of profitability in the short term. We will need to continue to raise additional capital, both



internally and externally, to cover cash shortfalls and to compete in our markets. At our current revenue levels management believes we will require an additional \$1,200,000 during the next 12 months to satisfy our cash requirements of approximately \$100,000 per month.

We have a registered offering of common stock pending with the U.S Securities and Exchange Commission. We are seeking up to \$1 million in proceeds from the sale of stock in the offering. At present, we do not have an underwriter to purchase the offering from the Company. Accordingly, unless we contract with an underwriter, we will be selling the shares directly to the public. We cannot sell any shares in the offering unless the U.S. Securities and Exchange Commission first declares the registration statement to be effective.

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 2011, 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 2011, then we may be required to reduce our expenses and scale back our operations.

We have re-audited our financial statements for the year ended December 31, 2009 as a result of the Securities and Exchange Commission's notification to us that we may not rely on the opinion of our prior auditor for that year. The re-audited financial statements are included in this Form 10-K.

## Commitments and Contingent Liabilities

The Company leases 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland, under a three-year noncancellable operating lease which expired in October 2008. A renewal of the lease expired on August 31, 2010, and the Company renewed the lease for one year commencing September 1, 2010 and expiring August 31, 2011. The base rent had been \$3,047 per month with an annual rent escalator of 3%. Under the current renewal the monthly lease payment is \$3,077.

Our total current liabilities decreased to \$1,351,275 at December 31, 2010 compared to \$1,914,708 at December 31, 2009. Our current total liabilities at December 31, 2010 included accounts payable of \$383,695, accrued expenses of \$151,839, accrued interest of \$46,363, accrued royalties of \$225,000, loans from shareholders of \$127,461, notes payable (short term) of \$374,764, and deferred revenue of \$42,153.

Our total current liabilities at December 31, 2009 included accounts payable of \$486,979, accrued expenses of \$71,912, accrued interest of \$170,518, accrued royalties of \$225,000, loans from shareholder of \$193,027, notes payable of \$637,719, and deferred revenue of \$129,553.

As of December 31, 2010, our short and long term notes payable consist of the following:

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

.

We have a bank line of credit arranged for and secured by our Director Dr. Bagnoli in the amount of \$200,000 of which the outstanding balance is \$142,042. Interest is payable monthly at 7% per annum and the loan is due during 2011. The line of credit was used to purchase inventory and equipment for our fiber optics business.

.

We have two vehicles financed in 2009 through Chase Auto Finance in the principal amounts of \$18,682, and \$21,190 respectively. Combined payments are \$1,003 per month which includes interest at 5.34%. The loans are for 60 months with the final payments due in July 2014.

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

We have a convertible promissory note in the amount of \$50,000 payable on December 31, 2010 with interest at 8% per annum. The loan is convertible into 5,005,562 shares of common stock. During 2010, we issued 2,066,820 shares which paid for accrued interest and principal of \$13,000. The balance due at December 31, 2010 was \$37,000.

A loan of \$100,000 was due in full on November 1, 2007 with interest at 7%. The holder of this note has demanded payment and has chosen to convert to equity. In February 2010, agreement was reached with the holder of the loan due on November 1, 2007. The Holder agreed to accept 3,500,000 common shares in payment, which he will liquidate to realize the principal sum of \$100,000 plus associated costs and fees. The total due under this loan at the date of settlement in January 2010 was \$163,366.27. Should the holder not realize \$163,366.27 from the sale of 3,500,000 shares, then he will be granted additional shares to resolve any shortfall, provided his sales have been in good faith.

### **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:

1  
Whether other assets or group of assets are related to the useful life of the licenses,

1  
Whether any legal, regulatory or contractual provisions will limit the use of the assets,

1  
We evaluate the cost of maintaining the license,

1  
We consider the possible effects of obsolescence, and

1  
Whether there is maintenance or any other costs associated with the license.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

As a smaller reporting company, the Company is not required to provide this information.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

**VIEW SYSTEMS, INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER 31, 2010 AND 2009**

**C O N T E N T S**

Report of Independent Registered Public Accounting Firm

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Robert L. White & Associates, Inc.

**Certified Public Accountants**

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Cincinnati, Ohio 45245

Fax (513) 943-7760

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors

View Systems, Inc.

Baltimore, Maryland

We have audited the accompanying consolidated balance sheets of View Systems, Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above presented fairly, in all material respects, the financial position of View Systems, Inc. and subsidiaries as of December 31, 2010 and 2009, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



The accompanying consolidated financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has an accumulated deficit of \$22,837,787 at December 31, 2010. Additionally, for the year ended December 31, 2010, the Company had a net loss of \$513,353. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

*/s/ Robert L. White*

Robert L. White & Associates, Inc.

March 7, 2010

**View Systems, Inc.  
and Subsidiaries**

Consolidated Balance  
Sheets

**DEC 31, 2010**

**DEC 31, 2009**

**ASSETS**

Current Assets

Cash

	\$
	8,334
	\$
	70,804

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

78,449

251,581

Inventory

2,724

7,792

Total Current  
Assets

89,507

330,177

Property and  
equipment (net)

65,774

95,948

Other Assets

Licenses

787,186

892,144

Due from affiliates

--

147,507

Intellectual  
Property

147,507

--

Investment

67,500

67,500

Deposits

2,872

7,528

Total Other  
Assets

1,005,065

1,114,679

Total Assets

\$  
1,160,346  
\$  
1,540,804

**LIABILITIES AND  
STOCKHOLDERS'  
EQUITY**

Current Liabilities



Accounts payable  
\$  
383,695  
\$  
486,979

Accrued expenses  
  
151,839  
  
71,912

Accrued interest  
  
46,363  
  
170,518

Accrued royalties  
  
225,000

225,000

Loans from  
shareholders

127,461

193,027

Notes payable

374,764

637,719

Deferred revenue

42,153

129,553

Total Current  
Liabilities

1,351,275

1,914,708

Long-term Debt

Note payable

10,152

39,872

Total  
Liabilities

1,361,427

1,954,580

Stockholders' Equity  
(Deficit):

Preferred stock,  
authorized 10,000,000  
shares, \$.01 par value,  
issued and  
outstanding 89,647

896

896

Common stock,  
authorized  
950,000,000 shares,  
\$.001 par value;  
issued and  
outstanding  
97,410,189, and  
79,442,369 at  
December 31, 2010  
and 2009,  
respectively

97,410

79,442

Additional paid in  
capital

22,538,400

21,830,320

Retained earnings  
(deficit)

(22,837,787)

(22,324,434)

Total  
Stockholders' Equity  
(Deficit)

(201,081)

(413,776)

Total Liabilities  
and Stockholders'  
Equity

\$

1,160,346

\$

1,540,804

**View Systems,  
Inc. and  
Subsidiaries**

Consolidated  
Statements of  
Operations

**YEAR ENDED  
DEC 31, 2010**

**YEAR ENDED  
DEC 31 2009**



Revenues, Net	
	\$
	768,026
	\$
	631,757

Cost of Sales

223,298

310,833

Gross Profit

544,728

320,924

Operating  
Expenses

Business  
development

General and  
administrative

515,214

407,377

Professional  
fees

228,934

830,552

Bad Debts

15,748

18,370

Salaries and  
benefits

269,913

563,169

Total  
Operating  
Expenses

1,029,809

1,819,468

Net Operating  
Income (Loss)

(485,081)

(1,498,544)

Other  
Income(Expense)

Gain from  
renegotiated debt

42,502

--

Interest  
expense

(70,774)

(61,468)

Total Other  
Income(Expense)

(28,272)

(61,468)

Net Income	
(Loss)	
	\$
	(513,353)
	\$
	(1,560,012)

Net Income	
(Loss) Per Share	
	\$
	(0.01)
	\$
	(0.04)



Weighted  
Average Shares  
Outstanding

88,885,437

40,285,009

**View Systems,  
Inc. and  
Subsidiaries**

Consolidated  
Statements of  
Stockholders'  
Equity (Deficit)

Additional

Retained

Preferred

Common

Paid-in

Earnings

Shares

Amount

Shares

Amount

Capital

(Deficit)

Balance,  
December 31,  
2008

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89,647

\$

896

17,175,222

\$

17,175

\$

20,460,829

\$

(20,764,422)

January - March  
2009 - shares  
issued for services,

accounts payable  
and notes payable

--

--

13,536,000

13,536

527,489

--

April - June 2009 -  
shares issued for  
services,

accounts payable  
and notes payable

--

--

18,100,000

18,100

327,500

--

April - June 2009 -  
shares issued as an  
investment

in stock of  
another company  
(non subsidiary)

--

--

5,000,000

5,000

62,500

--



July-September  
2009 shares  
issued for services,

Interest expense  
and notes payable

--

--

5,631,147

5,631

72,002

--

October -  
December 2009 -  
shares issued for  
services

--

--

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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 in  
error

--

--

(10,000,000)

(10,000)

(290,000)

--

July    September  
2010    shares  
issued for services,

notes payable,  
accounts payable  
and accrued  
interest

--

--

10,440,000



10,440

448,672

--

Reclassified  
proceeds from  
prior year stock  
issuances

--

--

--

--

32,500

--

October-December  
2010 shares  
issued for services,

notes payable  
and accrued  
interest

--

--

3,066,820

3,067

24,316

--

Net loss for the  
year ended  
December 31,  
2010

--

--

--

--

--

(513,353)

Balance,  
December 31,  
2010

89,647

\$

896

97,410,189

\$

97,410

\$

22,538,400

\$

(22,837,787)

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

**View Systems,  
Inc. and  
Subsidiaries**

Consolidated  
Statements of  
Cash Flows

**YEAR ENDED  
DEC 31, 2010**

**YEAR ENDED  
DEC 31 2009**

**Cash Flows  
from Operating  
Activities:**

Net Income (Loss)	
	\$
	(513,353)
	\$
	(1,560,012)

Adjustments  
to Reconcile Net  
Income (Loss) to  
Net Cash  
Provided by  
(Used in)  
Operations:

Depreciation  
and amortization

128,099

116,945

Common  
stock issued in  
payment of  
services

113,292

1,014,781

Bad Debts

15,748

18,370

Gain from  
renegotiated debt



(42,502)

--

Interest  
Expense Paid  
with Stock

4,085

--

Loss from  
sale of fixed  
assets

4,996

--

Proceeds  
from sale of fixed  
assets

2,036

121

(Increase)  
decrease in  
operating assets

Accounts  
receivable

157,384

(181,220)

Inventories

5,068

38,807

Other assets

4,656

--

Increase  
(decrease) in  
operating  
liabilities

Accounts  
payable

25,175

114,592

Accrued  
expenses

130,895

90,258

Deferred  
revenue

(87,400)

129,553

Net Cash  
Provided (Used)  
by Operating  
Activities

(51,821)

(217,926)

**Cash Flows  
from Investing  
Activities:**

Additions to  
Fixed Assets

--

(28,652)

Advances (to)/  
receipt from  
Related Party

--

80

125

Net Cash  
Used In Investing  
Activities

--

(28,572)

**Cash Flows  
from Financing  
Activities:**

Funds  
Advanced from  
Stockholders

6,934

68,630

Loans  
received (repaid)  
under a line of  
credit

(57,958)

200,000

Proceeds from  
Notes Payable

50,000

50,000

Principal  
Reductions on  
Equipment Notes  
Payable

(9,625)

(3,096)

Net Cash  
Provided by  
(Used in)  
Financing  
Activities

(10,649)

315,534

Increase  
(decrease) in  
Cash

(62,470)

69,036

128



Cash and Cash  
Equivalents at  
Beginning of  
Period

70,804

1,768

Cash and Cash  
Equivalents at  
End of Period

\$

8,334

\$

70,804

**Supplemental  
Cash Flow  
Information**

Cash paid for  
interest

15,016

14,473

Cash paid for  
income taxes

--

--

**Non Cash  
Investing and  
Financing  
Activities:**

Notes  
payable paid  
down with  
common stock

275,092

231,000

Accrued  
interest paid with  
common stock

175,123

--

Vehicle  
purchase  
financed with  
note payable

--

52,594

Loans from  
shareholders  
repaid with  
common stock

40,000

16,656

Accounts  
payables paid  
with common  
stock

85,955

132,250

Vehicle  
purchased with  
common stock

--

132

7,813

Investment  
made with  
common stock

--

67,500

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

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

1.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

View Systems, Inc. (the Company) designs and develops computer software and hardware used in conjunction with surveillance capabilities. The technology utilizes the compression and decompression of digital inputs. In March 2002, the Company acquired Milestone Technology, Inc., which has developed a concealed weapons detection portal. In July 2009, the Company acquired FiberXpress, Inc., which is a company that specializes in equipment and components for the fiber optic and communication cable industries. FiberExpress, Inc. has not had a material effect on the Company's financial statements other than to expense the shares issued in exchange for its acquisition.

Basis of Consolidation

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

Cash and Cash Equivalents

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

Use of Estimates

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

Accounts Receivable

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

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

1.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

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

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

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

During 2009 the Company began to engage in the business of installing fiber optics lines in multi-family housing as a subcontractor of Mastec, Inc. Revenue is recognized at the completion of a job and after Mastec, Inc. has approved the installation as complete.

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 December 31, 2010 and 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 December 31, 2010 and 2009 amounted to \$23,141 and \$11,985, respectively.

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

1.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Intangible Assets – Licenses and Intellectual Property

In connection with the acquisition on Milestone, the Company received, among other things, various licenses to use software that had been developed by INEEL (Idaho National Engineering and Environmental Laboratory). In addition to the right to use this software, the Company also acquired, as a part of the Milestone purchase, various technical manuals, drawings, plans for hardware design and systems configuration and corporate expertise which, in total, comprised the intellectual property which is a significant element of the current secure scan system. 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 the intellectual property in total consists 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 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 December 31, 2010 and 2009 was \$104,958 and \$104,958, respectively. Consistent with SFAS No. 142, the intellectual property was also analyzed to determine if any impairment existed at December 31, 2010 and 2009. It was determined to be not impaired. See also Note 4 below for additional information about Milestone Technology, Inc.

By at least 2006, the Company had fundamentally advanced the technologies beyond the relevance of the Milestone Technologies, Inc. licenses. In 2010 the Company determined that it was not strategic to reveal in a patent application the blue prints to its technology enhancements nor was it economically feasible to patent its technologies based upon current sales volumes.

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 carry forwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the rate change becomes effective. Valuation allowances are recorded for deferred tax assets when it is more likely than not that such deferred tax assets will not be realized.

Research and Development

Research and development costs are expensed as incurred.

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

1.

NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Advertising

Advertising costs are charged to operations as incurred. Advertising costs for the periods ended December 31, 2010 and 2009 were \$25,862 and \$19,737.

Nonmonetary Transactions

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

Financial Instruments

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

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

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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 December 31, 2010 and 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

Year ended  
December 31,  
2010

Income (loss)  
from  
continuing  
operations  
which is the

amount that is  
available to  
common

stockholders

\$

(513,353)

88,885,437

\$

(0.01)

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

DECEMBER 31, 2010 AND 2009

2.

GOING CONCERN

The Company has incurred and continues to incur, losses from operations. For the periods ended December 31, 2010 and 2009, the Company incurred net losses of \$513,353 and \$1,560,012, respectively. In addition, certain notes payable have come due and the note holders are demanding payment. Our retained deficit was \$22,837,787 at December 31, 2010. We do not have financing commitments in place to meet expected cash requirements for the next twelve months.

We are unable to fund our day-to-day operations through revenues alone, and management believes we will incur operating losses for the near future while we expand our sales channels. While we have expanded our product line and expect to establish new sales channels, we may be unable to increase revenues to the point that we attain and are able to maintain profitability. As a result we rely on private financing to cover cash shortfalls.

As a result, we continue to have significant working capital and stockholders' deficits including a substantial accumulated deficit at December 31, 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, 2010, and December 31, 2009 that expressed substantial doubt regarding our ability to continue as a going concern.

Management is very actively working to cure these situations. It has implemented major plans to for the future growth and development of the Company. Management is in the process of renegotiating more favorable repayment terms on some of the notes payable and the Company anticipates that these negotiations will result in extended payment plans. The Company is also seeking investors for bridge capital until it has a larger source of capital. In addition, during 2010 and 2009, the Company implemented marketing and information strategies to increase public awareness of its products and thereby sales. It has re-established its international markets which it believes will be a 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, and management is actively seeking out mergers and acquisitions which would be beneficial to the future growth of the Company.

We also have a registration of securities pending with the U.S. Securities & Exchange Commission, which, when it becomes effective, will enable the Company to fund growth and acquisitions during the coming year. Without it, Management intends to finance our 2010 operations primarily with the revenue from product sales and any cash shortfalls will be addressed through equity or debt financing, if available. Management expects revenues will continue to increase but not to the point of profitability in the short term. We will need to continue to raise additional capital, both internally and externally, to cover cash shortfalls and to compete in our markets. At our current revenue levels management believes we will require an additional \$1,000,000 in equity financing during the next 12 months to satisfy our cash requirements of approximately \$100,000 per month for operations and to facilitate our business plan. These operating costs include cost of sales, general and administrative expenses, salaries and benefits and professional fees related to contracting engineers. We have insufficient financing commitments in place to meet our expected cash requirements for 2010 and we cannot assure you that we will be able to obtain financing on favorable terms. If we cannot obtain financing to fund our operations in 2010, then we may be required to reduce our expenses and scale back our operations.

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 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 and \$0.31 per share in March) the total cost of the acquisition was \$1,298,000.

Milestone Technology, Inc. is a developer of concealed weapons detections systems. Its primary product is a walk-through detector that uses advanced magnetic technology to accurately pinpoint the location, size, and numbers of concealed weapons. See also Note 1 above under Intangible Assets Licenses and Intellectual Property for additional information.

5.

DUE FROM AFFILIATED ENTITIES

The Company has advanced non-interest bearing funds of \$147,507 as of December 31, 2010 and \$147,587 as of December 31, 2009 to a related corporation, The Fight Zone, Inc., (formerly Geoscopix, Inc.), which at one time was controlled by the Chief Executive Officer of the Company. During 2010 that control was lost due to the restructuring

of The Fight Zone, Inc. During periods prior to the emergence of The Fight Zone, Inc. that company, which was then known as Geoscopix, Inc. had been developing a three dimensionally lensed camera system which was titled as The Gator. The Gator had promising potential industrial applications particularly in the construction industry.

The Fight Zone, Inc. is no longer capable of repaying the debt to the Company in cash however, in settlement of the debt; it has deeded the intellectual property known as The Gator to View Systems, Inc. View Systems, Inc. plans to continue the development of the product and to bring it to market as soon as possible. Accordingly the asset which was formerly reflected as the receivable from The Fight Zone, Inc. has been replaced and reclassified as intellectual property.

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

6.

NOTES PAYABLE

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

2010

2009

**Investor/stockholder Group**

During 2006 the Company negotiated a loan arrangement with a group of investors, directly including Active Stealth, Inc., Starr Consulting, Inc., and KCS Referral Service, LLC, and indirectly including YT2K, Inc. and MBA Investors, Ltd., who invested through Active Stealth, Inc., to loan a specific amount to the Company which, once the total amounts loaned reached a certain amount, the loans would be converted into shares of common stock. Since the threshold was never achieved, the conversion option was terminated and the loans became due on demand with interest at 8% per annum. The collective debt was settled in 2010 for 4,500,000 shares of common stock. We also determined that no debt was owed to KCS Referral Service, LLC, an initial subscriber to the debt, because no funds were tendered by KCS Referral Service, LLC. (See also the Subscription Agreement in

Exhibit 4.2 incorporated by reference herein).

\$ 0

\$ 162,092

**Stockholder**

An unsecured loan from a stockholder/former director 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.

100,000

**Lafayette Community Bank**

A short term line of credit loan secured by a stockholder/director, payable in five monthly installments of \$6,175 commencing December 25, 2009 with a balloon payment in the amount \$175,630 due in March 2011. Interest accrues monthly at 7% per annum.

142,042

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 2,938,742 shares of common stock.

37,000

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.

39,873

49,497

TOTAL

153

\$ 384,915

\$ 677,589

Principal payments for the next five years are as follows:

2011

\$ 357,679

2012

10,708

2013

11,294

2014

5,231

154

TOTAL

\$ 384,915

**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

7.

INCOME TAXES

For income tax purposes the Company has net operating loss carry forwards of \$21,856,026 as of December 31, 2010 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,  
2010 are as  
follows:

Effect of net  
operating loss  
carry forward

\$

9,179,531

Less  
evaluation  
allowance

(9,179,531)

Net deferred  
tax asset

\$

-

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

Period ended

December 31,

December 31,

2010

2009

Net loss  
per financial  
statements  
which  
approximates

net loss  
per income tax  
returns

\$

(513,353)

\$

(1,560,012)

Income tax  
expense  
(benefit)  
applying  
prevailing

Federal  
and state  
income tax  
rates

(215,608)

(655,205)

Less  
valuation  
allowance

215,608

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

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

9.

OPERATING LEASE

The Company leases 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland, under a three-year noncancellable operating lease which expired in October 2008. A renewal of the lease expired on August 31, 2010, and the Company renewed the lease for one year commencing September 1, 2010 and expiring August 31, 2011. The base rent had been \$3,047 per month with an annual rent escalator of 3%. Under the current renewal the monthly lease payment is \$3,077. Rent expense was \$47,789 and \$47,461 for the periods ended December 31, 2010 and 2009, respectively.



**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

10.

STOCK BASED COMPENSATION

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

Restricted Stock Grants

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

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

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

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

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

2010

2009

Number of

Expense

Number of

Expense

Shares

Recognized

Shares

Recognized

Officers and  
employees

500,000

\$ 15,000

35,305,500

\$ 744,681

Independent  
contractors  
and  
consultants

5,889,507

143,792

9,230,000

270,100

Total

6,389,507

\$ 158,792

44,535,500

\$ 1,014,781

Independent contractors and consultants expense was based on the estimated value of services rendered or the value of the common stock issued, if more appropriate.

#### Stock Options and Warrants

Our 1999 Employee Stock Option Plan terminated automatically pursuant to the terms of its agreement on March 1, 2009. Footnote 10 in our Form 10-K for the year ended December 31, 2009 should have reported that 1,346 stock options (adjusted for the stock split in 2008) were expired as of March 1, 2009. Instead, the stock option table in Footnote 10 incorrectly reported these options as being outstanding at December 31, 2009.

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



**VIEW SYSTEMS, INC.**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 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 \$6,934 during the year ended December 31, 2010. The total balance due on unstructured loans from shareholders amount to \$127,461 at December 31, 2010 and \$193,027 at December 31, 2009. Loans from stockholders made with repayment terms are described in Note 6 above.

12. CORRECTION FOR DUPLICATIVE STOCK ISSUANCE

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

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**ITEM 9A. 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 December 31, 2010. Based on such evaluation, we have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer/Principal Financial Officer, as appropriate, to allow timely discussions regarding required disclosure.

**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 fairly 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 or 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 December 31, 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 December 31, 2010, 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 fourth quarter of 2010. In connection with such evaluation, there have been no changes to the Company's internal control over financial reporting that occurred since the beginning of the Company's fourth quarter of 2010 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

**ITEM 9A(T). CONTROLS AND PROCEDURES.**

Not Applicable.

**ITEM 9B. OTHER INFORMATION.**

There are no further disclosures.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

**Directors and Executive Officers**

The following table includes the names and positions held of our executive officers and directors who served during the years ended December 31, 2009 and/or December 31, 2010 and their current ages:

**NAME**

**AGE**



**POSITION**

**DIRECTOR SINCE**

Gunther Than

63

Chief Executive  
Officer, Treasurer and  
Director

1998

Michael L. Bagnoli

55

Corp. Secretary and  
Director

1999

Martin Maassen

68

Director

1999

Michael  
Burton-Prateley(1)

48

Director and Chief  
Financial Officer

(2009-2010)

William Paul Price

62

Director and Vice  
President of Network  
Services

2009

(1) Resigned in April 2010.

Gunther Than, Director, Treasurer and Chief Executive Officer. Gunther Than was appointed Treasurer in July 2003 and has served as our Chief Executive Officer since September 1998. He served as our President from September 1998 to May 2003 and had served intermittently as Chairman of the Board from September 1998 to September 2003. Mr. Than was the founder, President and CEO of Real View Systems, Inc., a company that developed compression technology and computer equipment. Real View Systems was acquired by View Systems in 1998. Between March 2010 and December 2010, Mr. Than also served as an officer and director of Kalahari Greentech, Inc., a development stage manufacturer and distributor of solar power and wind energy electrical products, to which Mr. Than devoted less than 10 hours per week of his time. Mr. Than is a graduate of the University of Wisconsin.

Michael L. Bagnoli, Secretary and Director. Mr. Bagnoli became a Director in May 1999 and was appointed Secretary in June 2004. He holds degrees as a medical doctor and a dental specialist. Since 1988 he has practiced dentistry in the specialty area of oral and masiofacial surgery for a physician group in Lafayette, Indiana. In his practice he introduced

arthroscopy surgery along with the full scope of arthroplastic and total joint reconstruction. Mr. Bagnoli was founder, CEO and president of a successful medical products company, Biotek, Inc., which was sold in 1994.

Martin Maassen, Director. Mr. Maassen became a Director in May 1999. He formerly served as our Chairman of the Board from April 2000 to September 2002. From September 1995 to the present he is a staff physician at Lafayette Emergency Care, P.C. located in Lafayette, Indiana. He is board-certified in internal medicine and emergency medicine and has served as a staff physician in the emergency departments of Jackson County, Deaconess, Union and St. Elizabeth hospitals located in Indiana. In addition to practicing medicine, he maintains an expertise in computer technologies and their medical applications.

William Paul Price, Director and Vice President of Network Services. Mr. Price became a Director on December 6, 2009. From April 1982 to February 2009, Mr. Price owned and served as the President of Electra-Tech, Inc. Electra-Tech, Inc. sold products on behalf of manufacturers of fiber optic cables, connectivity products, ethernet switches, media converters and other electronic equipment. Electra-Tech, Inc. operated in the Maryland, District of Columbia, and Virginia area. Mr. Price also formed FiberXpress, Inc. in October 2000, operated it through its acquisition by View Systems, Inc. in September 2009, and continues to operate FiberXpress, Inc. as a subsidiary of View Systems, Inc. FiberXpress, Inc. is an internet-based business that sells fiber and copper connectivity equipment.

There are no family relationships, or other arrangements or understandings between or among any of the directors, executive officers or other person pursuant to which such person was selected to serve as a director or officer.

### **Involvement in Certain Legal Proceedings**

None of our directors, executive officers or control persons has been involved in any of the legal proceedings required to be disclosed in Item 401 of Regulation S-K, during the past five years.

### **Corporate Governance Matters**

**Audit Committee.** The board of directors has established an audit committee, and the functions of the audit committee are currently performed by our Corporate Secretary, with assistance by expert independent accounting personnel and oversight by the entire board of directors. We are not currently subject to any law, rule or regulation requiring that we establish or maintain an audit committee.

**Board of Directors Independence.** Our board of directors currently consists of five members. We are not currently subject to any law, rule or regulation requiring that all or any portion of our board of directors include "independent" directors.

Audit Committee Financial Expert. Our board of directors has determined that we have one audit committee financial expert serving on our audit committee within the meaning of Item 407(d)(5) of Regulation S-K. In general, an "audit committee financial expert" is an individual member of the audit committee who (a) understands generally accepted accounting principles and financial statements, (b) is able to assess the general application of such principles in connection with accounting for estimates, accruals and reserves, (c) has experience preparing, auditing, analyzing or evaluating financial statements comparable to the breadth and complexity to the Company's financial statements, (d) understands internal controls over financial reporting and (e) understands audit committee functions.

Ms. Susan Mrzlack serves on our audit committee and is a certified public accountant. We believe Ms. Mrzlack is independent because she is not an officer, director, or employee of the Company, nor is she employed by our outside accountants or principal accounting firm, nor is she compensated for her services through payment of Company securities.

### **Code of Ethics**

We have not adopted a code of ethics for our executive officers, directors and employees. However, our management intends to promote honest and ethical conduct, full and fair disclosure in our reports to the SEC, and compliance with applicable governmental laws and regulations.

### **Nominating Committee**

We have not yet established a nominating committee. Our board of directors, sitting as a board, performs the role of a nominating committee. We are not currently subject to any law, rule or regulation requiring that we establish a nominating committee.

### **Compensation Committee**

We have not established a compensation committee. We are not currently subject to any law, rule or regulation requiring that we establish a compensation committee.

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires officers and directors, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Commission. Officers, directors and greater than ten percent beneficial owners are required by Commission regulations to furnish us with copies of all forms they file pursuant to Section 16(a). Based solely on our review of the copies of such forms received and written representations from reporting persons required to file reports under Section 16(a), all of the Section 16(a) filing requirements applicable to such persons, with respect to fiscal 2010, appear not to have been complied with to the best of our knowledge. Forms 4 dated March 29, 2010 and July 29, 2010 were filed late by officer and director William Paul Price.

### **ITEM 11. EXECUTIVE COMPENSATION.**

Management has been compensated entirely in accrued salary, common stock, and reimbursement of fuel expense during the fiscal years ended December 31, 2010 and 2009. The cash value of Mr. Gunther Than's compensation was determined in negotiations with directors Drs. Maassen and Bagnoli and was determined based upon an informal survey of human resource firms as to the compensation awarded to chief executives in companies with similar revenues. Likewise, the cash value of Messrs. Burton-Prateley's and Price's respective compensation was determined in negotiations with Mr. Than that were ratified by Drs. Maassen and Bagnoli. The Company's limited revenues have prevented its executive, Mr. Than, from receiving payment in cash for compensation for services. Mr. Than accrued \$120,000 in salary for 2010 and 2009 and received \$256,250 as the cash value of restricted stock received in 2009.

The Company paid compensation to each of the directors and executive officers in the following amounts during fiscal year 2010:

**Name**

**Salary**

**Position**

Gunther Than

\$

0

As Chairman of the Board, Director

\$

120,000

As Chief Executive Officer and Treasurer

Martin Maassen

\$  
0

As Director

Michael Bagnoli

\$  
0

As Director

\$  
0



As Secretary

Michael Burton-Prateley

\$

0

As Director

\$

0

As Chief Financial Officer

William Paul Price

\$

0

As Director

\$

28,678

As Vice President of Network Services

Mr. Than is also reimbursed for his motor vehicle fuel expense.

The Company does not consider Mr. Price to be an executive officer.

**SUMMARY COMPENSATION TABLE**

Name and  
Principal  
Position  
  
Fiscal  
Year  
Salary  
(\$)  
Bonus  
(\$)  
  
Stock  
Awards  
(\$)  
Option  
Awards  
(\$)  
Nonequity  
Incentive  
Plan  
Compen-  
sation (\$)  
Non-

Qualified

Deferred

Compen-  
sation

Earnings

(\$)

All

Other

Compen-  
sation

(\$)

Total

(\$)

2010

\$

120,000

\$

0

\$

120,000

(Principal Chief  
Executive

2009

120,000

256,250

476,250

Officer,  
President

and Director)

Michael  
Bagnoli

2010

0

0

(Secretary and

2009

0

0

Director)

Martin Maassen

2010

0

0



(Director)

2009

0

0

Michael  
Burton-Prateley

2010

0

0

0

(Chief Financial

2009

0

100,000

100,000

Officer and  
Director)(1)

William Paul  
Price

2010

28,678

15,000

43,678

(Vice President  
of

2009

0

100,000

100,000

Network  
Services

and Director)

Mr. Than also receives reimbursement of motor fuel expense.

The Company does not consider Mr. Price to be an executive officer, but he is included in this table because he is the only other management level employee.

No director has been compensated for services as a director.

(1) Resigned in April 2010.

Payroll is accrued payable to Mr. Than at the rate of \$10,000 per month. Therefore his annual rate of pay is \$120,000. In addition, during the year ended December 31, 2009, Mr. Than was issued 10,000,000 shares of restricted common stock as compensation.

### **Employment Contracts and Termination of Employment and Change-In-Control Arrangements**

Mr. Than is the only executive officer of the Company, and he has a written employment agreement. Mr. Than's current employment agreement was ratified as of December 1, 2009. This agreement supersedes Mr. Than's prior written employment agreement dated January 1, 2003. Mr. Than's salary has been accrued as has his entitlement to partial compensation in common stock.

The following is a summary of the pertinent parts of Mr. Than's Employment Agreement:

.  
The Company will pay Mr. Than a base salary of \$10,000.00 per month, subject to increase, but not decrease (unless the parties mutually agree), as determined by the Company's Board of Directors or by a committee of the Company's Board of Directors;

.  
Mr. Than shall also be entitled to an incentive bonus, to be determined by the Board of Directors, as well as Options to purchase the Company's Common Stock;

.  
Mr. Than shall also be entitled to per annum payment of at least 600,000 shares of Common Stock in exchange for the non-compete provision included in the Employment Agreement;

In the event of the involuntary termination of Mr. Than's service with us, without cause, the Agreement provides that Mr. Than shall be paid a salary and bonus equivalent to his salary and bonus of the year prior to his termination, for a period of three years; and

Either party may terminate the Agreement upon at least ninety (90) days notice. In the event Mr. Than elects to terminate the Agreement, the Company, at its discretion may relieve him of all duties and immediately terminate the Agreement, provided however, that the Company shall pay Executive the compensation he has earned until the termination date included in Mr. Than's original termination notice.

### **Outstanding Equity Awards**

No officer of the Company had any outstanding equity awards granted at December 31, 2008, 2009, or 2010.

### **Issuance of Common Stock**

The Company authorized in December 2009 and issued in January 2010: (1) 5,000,000 shares of Common Stock, par value \$0.001 per share, to Gunther Than as payment for deferred compensation and bonus for 2009 under the terms of his Executive Employment Agreement with the Company; (2) 5,000,000 shares of Common Stock, par value \$0.001 per share, to Martin Maassen as inducement to continue to fund the working capital needs of the Company; and 5,000,000 shares of Common Stock, par value \$0.001 per share, each to Michael Burton-Prateley and William Paul Price as bonus compensation (but not as director service compensation) upon their respective appointments to the board of directors.

In February 2010 the Company issued 500,000 restricted shares of Common Stock, par value \$0.001 per share, to William Paul Price as performance based consulting compensation earned pursuant to his February 2009 consulting contract with the Company.

### **Directors Compensation**

No director of the Company received compensation for services rendered in any capacity to the Company during the fiscal years ended December 31, 2007, 2008, 2009, and 2010.

### **Indemnification of Directors and Officers**

Our Articles of Incorporation, as amended and restated, and our Bylaws provide for mandatory indemnification of our officers and directors, except where such person has been adjudicated liable by reason of his negligence or willful misconduct toward the Company or such other corporation in the performance of his duties as such officer or director.

Our Bylaws also authorize the purchase of director and officer liability insurance to insure them against any liability asserted against or incurred by such person in that capacity or arising from such person's status as a director, officer, employee, fiduciary, or agent, whether or not the corporation would have the power to indemnify such person under the applicable law.

### **Compensation Committee Interlocks and Insider Participation**

We have not established a compensation committee. We are not currently subject to any law, rule or regulation requiring that we establish a compensation committee. During the last fiscal year, Mr. Gunther Than, an executive officer, participated in our board of directors' deliberations concerning executive officer compensation.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The following tables set forth information as of March 7, 2011 regarding the beneficial ownership of our common stock, (a) each stockholder who is known by the Company to own beneficially in excess of 5% of our outstanding common stock; (b) each director known to hold common stock; (c) the Company's chief executive officer; and (d) the executive officers and directors as a group. Except as otherwise indicated, all persons listed below have (i) sole voting power and investment power with respect to their shares of common stock, except to the extent that authority is shared by spouses under applicable law, and (ii) record and beneficial ownership with respect to their shares of



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stock. The percentage of beneficial ownership is based upon 97,410,189 shares of common stock outstanding as of March 7, 2011.

NUMBER OF  
SHARES  
PERCENT OF  
SHARES  
NAME AND  
ADDRESS OF  
TITLE  
BENEFICIALLY  
BENEFICIALLY  
BENEFICIAL  
OWNER  
OF CLASS  
OWNED  
OWNED

Michael L. Bagnoli  
Common  
15,009,000 (1)  
15.4%

40 Redwood Court

Lafayette, Indiana  
47905

Martin Maassen

Common

11,210,624 (2)

11.5%

1340 Fawn Ridge  
Drive

West Lafayette,  
Indiana 47906

Gunther Than

Common

10,032,302

10.3%

1550 Caton Center  
Drive, Suite E

Preferred

89,647

100%

Baltimore, Maryland  
21227

William Paul Price

Common

5,696,501

5.8%

1550 Caton Center  
Drive, Suite E

Baltimore, Maryland  
21227

Michael  
Burton-Prateley(3)

Common

5,000,000

5.1%

951 Fell St., Apt. 601

Baltimore, Maryland  
21231

All Directors and  
officers

Common

41,948,427

43.1%

as a group

Preferred

89,647

100%

(1) Represents 5,007,625 common shares held by Mr. Bagnoli, 500 common shares held by his spouse and 875 common shares held by a trust.

(2) Represents 11,210,624 common shares held by Mr. Maassen and his spouse and 829,375 common shares held by his spouse.

(3) Resigned in April 2010. Share ownership excluded from all directors and officers beneficial ownership calculation.

The above table reflects share ownership as of the most recent date. Each share of common stock has one vote per share on all matters submitted to a vote of our shareholders. Each share of Series A preferred stock has the equivalent of fifteen votes per share of common stock and is entitled to vote on all matters. Accordingly, Mr. Than's preferred stock has the voting rights of, and is convertible into, 1,344,705 common shares in addition to his ownership and voting rights to 10,032,302 common shares.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

The Company does not have a specific policy or procedure for the review, approval, or ratification of any transaction involving related persons. The Company historically has sought and obtained funding from officers, directors, and

family members as these categories of persons are familiar with management and the Company and often provide better terms and conditions than we can obtain from unassociated sources. Also, the Company is so small that having specific policies or procedures of this type would be unworkable.

In order for the Company to meet its financial obligations, the Company's President, Gunther Than, loans the Company funds on occasion and is repaid when funds are available. During 2006 and 2005 Mr. Than advanced to the Company a total of \$0 and \$64,000, respectively. The Company did not repay these advances during 2006 or 2005 so the balance due to Mr. Than remains at \$64,000.

A shareholder advanced cash on August 9, 2006 to the Company to help with short-term working capital needs in the aggregate amount of \$50,000 and was paid monthly interest payments of \$2,500 until February 28, 2007, at which point payments were halted after conversations with the lending shareholder.

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In October 2007, former director William D. Smith made an unsecured loan of \$116,000 with interest at 12% per year. The amount currently outstanding is \$116,000.

Mr. Burton-Prateley also received a total of 3,500,000 shares of Company common stock in May 2009 as partial payment for consulting services rendered to the Company between 2006 to approximately January 2009. The shares were sold prior to Mr. Burton-Prateley's December 2009 appointment as an officer of the Company.

William Paul Price received 500,000 shares of Company common stock in September 2009 as non-officer salary and also received 1,000,000 shares of Company common stock in exchange for his interest in FiberXpress, Inc. a company acquired by View Systems, Inc. in September 2009. Mr. Price sold 493,498 shares prior to his December 2009 appointment as an officer of the Company.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table shows the fees paid or accrued for the audit and other services provided by our principal accountant. For the annual audit for the year ended December 31, 2010 and for performing a re-audit of the year ended December 31, 2009, we have engaged the firm of Robert L. White & Associates, Inc., CPAs. The financial statements for the year ended December 31, 2009 were previously audited by Larry O. Donnell, CPA PC; however, as noted earlier, we were required by the SEC to have that year re-audited. The information displayed below includes payments made or payable to Larry O. Donnell CPA, PC. Since the professional accounting services of Robert L. White & Associates, Inc. were not engaged until after the year ended December 31, 2010, none of that firm's accounting fees appear below.

2010

2009

Audit fees	\$ 11,850	\$ 15,000
Audit related fees	0	1,600
Tax fees	0	0
All other fees	0	0

### **Audit Fees**

Audit fees represent the professional services rendered for the audit of our annual financial statements and the review of our financial statements included in quarterly reports, along with services normally provided by the accountant in connection with statutory and regulatory filings or engagements.

### **Audit Related Fees**

Audit-related fees represent professional services rendered for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of our financial statements that are not reported under audit fees.

### **Tax Fees**

Tax fees represent professional services rendered by the principal accountant for tax compliance, tax advice, and tax planning.

### **All Other Fees**

All other fees represent fees billed for products and services provided by the principal accountant, other than the services reported for the other categories.

### **PRE-APPROVAL POLICIES**

Our audit committee does not rely on pre-approval policies and procedures. Typically, Management has sought out audit firm candidates and presented them to the audit committee. Before the auditor renders audit and non-audit services our board of directors approves the engagement.





**ITEM 15. EXHIBITS.**

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

4.2

Subscription Agreement between View Systems, Inc. and Starr Consulting, Inc., Active Stealth, LLC, and KCS Referral Service LLC, dated December 23, 2005 (Incorporated by reference to exhibit 4.1 of Form 8-K, filed January 6, 2006)

10.1

View Systems, Inc. 2010 Equity Incentive Plan (Incorporated by reference to exhibit 10.1 to Form 10-Q filed May 14, 2010)

10.2

View Systems, Inc. 2010 Service Provider Stock Compensation Plan (Incorporated by reference to exhibit 10.4 to Form 10-Q filed August 19, 2010)

10.3

Employment agreement between View Systems and Gunther Than, dated December 1, 2009 (Incorporated by reference to exhibit 10.1 to Form 8-K, filed January 11, 2010)

10.4

Subcontractor Agreement dated March 9, 2009 between MasTec North America, Inc. and View Systems, Inc. (Incorporated by reference to exhibit 10.3 for Form 10-Q, Amendment No. 1, for the period ended March 31, 2009)

31.1

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

32.1

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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 \*

\*Filed herewith

**SIGNATURES**

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 9, 2011.

**View Systems, Inc.**

By: /s/ Gunther Than

Gunther Than

Chief Executive Officer

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

Each person whose signature appears below appoints Gunther Than as his or her attorney-in-fact, with full power of substitution and re-substitution, to sign any and all amendments to this report on Form 10-K of View Systems, Inc., and to file them, with all their exhibits and other related documents, with the Securities and Exchange Commission, ratifying and confirming all that their attorney-in-fact and agent or his or her substitute or substitutes may lawfully do or cause to be done by virtue of this appointment. In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Issuer and in the capacities and on the dates indicated:

**Name**

**Title**

**Date**

*/s/ Gunther Than*

Director, Chief  
Executive Officer  
and Treasurer

March 9, 2011

Gunther Than

*/s/ Michael L.  
Bagnoli*

Director and  
Secretary

March 9, 2011

Michael L.  
Bagnoli

*/s/ Martin J.  
Maassen*

Director

March 9, 2011

Martin J. Maassen

*/s/ William Paul  
Price*

Director

March 9, 2011

William Paul  
Price