

VIEW SYSTEMS INC  
Form 10-K/A  
January 14, 2010

**U.S. SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-K/A**

**Amendment No. 2**

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(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, 2008

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)

Issuer's telephone number: (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**

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

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 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Accelerated filer

Large 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

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 December 31, 2008 was \$687,009.

The number of shares outstanding of the issuer's common stock as of the latest practicable date was 79,442,369 shares.

### **Purpose of This Amendment**

After the March 31, 2009 filing of our Form 10-K for the year ended December 31, 2008, our independent accounting firm, Davis, Sita & Company, P.A. resigned. Subsequently, the U.S. Securities & Exchange Commission (SEC) undertook a review of our reports filed with it, and in the course of that process we filed, among other filings, on June 29, 2009, Amendment No. 1 to our Form 10-K for the year ended December 31, 2008. Thereafter, because questions were raised about the independence of Davis, Sita & Company, P.A. at or around the time it issued its opinion on our December 31, 2008 financial statements, both the Company and the SEC concluded that it was appropriate to obtain a re-audit of our financial statements for the year ended December 31, 2008. The new audit was conducted by Larry O'Donnell, CPA, P.C., our new independent accounting firm, and its opinion is enclosed in Item 8. This Form 10-K/A continues to report the audit opinion of Davis, Sita & Company, P.A. for the year ended December 31, 2007. There have not been any changes to our financial statements for the year ended December 31, 2008 as a result of the new audit conducted by Larry O'Donnell, CPA, P.C.

We are also amending our Form 10-K for the year ended December 31, 2008 to (i) amplify the Liquidity and Capital Resources section of Item 7, specifically dealing with cash flows from investing and financing activities as well as from operations, (ii) revise the Summary Compensation Table in Item 11 to conform with the tabular format specified in Item 402(n) of Regulation S-K, and (iii) correct our balance sheet to include comparative 2007 information. In general, we have also updated our cover page and Items 5, 7, 9, 10, 11, 12, 13, and 15 to present certain disclosures as of the most recent practicable date.

Nevertheless, this amendment is of a report for the year ended December 31, 2008, and, except as described above, no other changes have been made to Form 10-K Amendment No. 1 to update the information presented. Therefore, this Amendment No. 2 on Form 10-K/A does not reflect many events occurring after the filing of the Form 10-K nor does it modify or update all disclosures made therein or made in Amendment No. 1 to Form 10-K which may be affected by events subsequent to December 31, 2008. Accordingly, information presented in many Items is unchanged and reflects disclosures made at the time of the original Form 10-K, and this Amendment No. 2 and its predecessor Amendment No. 1 to Form 10-K should be read in conjunction with our filings and amendments thereto made with the SEC subsequent to the filing of the original Form 10-K for the year ended December 31, 2008.



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

Information included in this Form 10-K/A 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.

#### General Development of Business

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.

#### Business of Issuer

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 included 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 department of Energy National Lab

in Idaho. Until 2005 we assembled all of our products in-house, but we currently contract with third party manufacturers to manufacture the components of ViewScan and Visual First Responder products.

## **Products and Services**

### 1. ViewScan Concealed Weapons Detection System

We acquired exclusive licenses to manufacture, use, sub-license and distribute technology and processes for the concealed weapons detection technology and the first response wireless video transmitting system from Bechtel BWXT Idaho, LLC. Bechtel BWXT Idaho, LLC manages and operates the U.S. Department of Energy's Idaho National Engineering Laboratory ("Idaho Engineering Lab"). The development of the concealed weapons detection technology was funded by the National Institute of Justice and development was performed by the Idaho Engineering Lab. The ViewScan concealed weapons detection technology was patented by the Department of Energy and approved by the Federal Aviation Administration. Until last fall View Systems owned the exclusive worldwide rights to the ViewScan technology and ongoing improvements currently being funded by the National Institute of Justice.

Over time View has developed propriety components and made sufficient engineering design changes to the ViewScan product to allow lower costs and to accommodate the price points required by competitive pressures. The knowledge gained through this process is allowing View to apply for new provisional patents which incorporate new innovative sensing and data processing methods.

This product is a walk-through concealed weapons detector which uses data sensing technology to accurately pinpoint the location, size and number of concealed weapons. The controlling processors for this walk-through portal is 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. ViewScan products were distributed in three basic configurations; stand-alone units, portable units and integrated door systems.

Our marketing efforts and sales have been to courthouses, schools, correction facilities, and other public/governmental facilities, rather than public airports.

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.

The software calculates the difference between the magnetic field strength with the object in the magnetic field inside the sensors' range and the normal magnetic field strength. Then the system displays the results in graph format on a video display unit. Since the ViewScan technology does not use transmitters to produce electromagnetic induction, it does not pose a problem for pacemakers.

Radiation measurement devices are difficult to incorporate with ordinary metal detectors. They generate magnetic gradients which would spin the nuclear radiation outside the sensing fields. The ViewScan can incorporate radiation sensors which can be of significant value in hospitals, research institutions and nuclear facilities.

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.

The ViewScan self calibrates and does not need operator intervention or special calibration tools.

The ViewScan weapons detection system can be controlled via a central monitoring station using a Windows operating system and Pentium hardware. This can include additional closed-circuit television, two-way voice communication, door interlock, card-key and other biometric identification or access control components. The functionality of the ViewScan portal is increased by access control, database recording, video capture and archiving of images.

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. We sell these units for an average retail price of approximately \$10,000 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 are making additional cost reductions through economies of scale and larger scale integration by taking advantage of ongoing computer component improvements.

In February 2006 we demonstrated a ViewScan product with a precision optical biometric fingerprint terminal. We had developed this product with Sagem Morpho, a multi-biometric solutions provider. In March 2006 the Georgia Courts placed a purchase order for three Secure Scan II units with fingerprint identification capabilities. 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.

In spring of 2006 we entered into an additional CRADA (Cooperative Research and Development Agreement) with the Idaho National Laboratory (INL) to integrate nuclear radiation sensors into the ViewScan portal. We paid \$50,000 (of a \$200,000 total) as initial investment to license and deploy these sensors with the help of INL. We also hired an additional electrical engineer to reengineer the ViewScan to integrate this additional data with the magnetic and visual data processed by the firm/software. The entire processing system was rewritten into a Linux based Java operating system by another engineer hired for that purpose.

We intend to continue development to integrate explosive and other detections capabilities into the ViewScan.

## 2. Visual First Responder

In December 2003 View Systems obtained exclusive licensing and marketing rights for the HAZMAT CAM technology from the U.S. Department of Energy's INL.

Visual First Responder is a lightweight, wireless camera system housed in a tough, waterproof flashlight 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. Visual First Responder is able to transmit high quality video in the most difficult environments. It uses a patented triple-diversity antenna system that minimizes signal distortion in urban environments. Traditional wireless videos use one antenna and a single receiver. The problem with this configuration is that signals multi-path, which means they bounce off other structures, like buildings, file cabinets, etc., on the way to the receiver. This multi-pathing causes interference and seriously degrades the video images. The Visual First Responder receiver seeks the strongest signal from each of the three antennas and locks in that signal, resulting in a more reliable and clearer image.

The image is received from the Visual First Responder monitor or on the Visual First Responder color LCD 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. We also offer a unit with 360 degree coverage of a target area.

Visual First Responder also uses Extension Link which is a separate transmitter and receiving system that increases the operating range of the Visual First Responder. 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 Visual First Responder 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 \$18,000 retail, but the cost can be as high as \$30,500 depending on additional special features such as the extension link and encryption capabilities.

In March 2006 we introduced the Visual First Responder M2. This new product allows "hands-free" operation of the unit because it allows the person to wear the unit as a helmet mounted monocle. In 2007 we introduced the Multi-Mission Mobil Video (MMV) and field deployed it for testing.

We have chosen to not continue with the VFR product and are finding the MMV superior and more in line with customer needs and desires both functionally and cost wise.

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

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.

Depending on the features of a particular system the retail price can range from approximately \$1,500 up to \$6,500.

#### 4. Additional Products

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.

In addition, 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.

Commercial business users represent the greatest potential users of our surveillance and weapons detection products. Commercial businesses have already realized the need for surveillance and use of access control devices for protection of employees, customers, and assets. Our products can curtail crime and prevent loss caused by employees and others. The market for surveillance technology includes many types of commercial buildings; including, hospitals, schools, museums, retail, manufacturing and warehousing facilities.

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.

Schools have been very receptive and enthusiastic about the ViewScan portal and its integration with School Technology Management's Comprehensive Attendance/Security System, now named Access411. In early October 2003 we announced an alliance with School Technology Management, Inc. to integrate and market its products with ours. School Technology Management developed the comprehensive Attendance, Administration and Security System ("Comprehensive Attendance/Security System"), which is designed to use a magnetic card swipe system to monitor identification of students entering a school and to verify each student's attendance. School Technology Management combined our ViewScan portal with its card swipe system.

With the combined technology a student enters the portal and is scanned for any threat objects and his or her identity is concurrently confirmed to school security officers. During the spring semester of 2004, a subcontractor of the National Institute of Justice conducted a study of the effectiveness of the ViewScan portal in a school environment and the results were positive. The combined technology has been tested in schools in New York and Philadelphia. Management estimates that there are over 120,000 schools in the United States that may have problems with violence, truancy and other safety considerations, which may be addressed by the combined technology.

In addition to school security, the gathering of video and data images and weapons detection is commonplace in law enforcement. Because our technology can be used for stakeouts and remote monitoring of areas, we believe there is a market potential with law enforcement agencies. 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 Visual First Responder product's market includes state National Guard units and first response agencies such as firemen, police, SWAT, and homeland security response teams.

The residential home security user may purchase our products from either commercial companies installing self-contained or centrally monitored systems, or directly from retail distribution centers. However, at this time we do not have retail agreements in place. Using our technology, individuals may 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.

## **Manufacturing**

We initially manufactured the ViewScan portal internally at our facilities in Baltimore, Maryland. During the second quarter of 2004 we set up a complete manufacturing line in the Baltimore, Maryland facility. In the summer of 2005, we contracted with Sports Field Specialties, LLC, a sheet metal manufacturer, to build the ViewScan product line.

The Sports Field Specialties relationship did not work out due to quality and support issues. We settled our issues with a separation of the relationship and a payment plan for supplied components. We continue to entertain other manufacturing alternatives to insure the lowest possible cost while maintaining the highest possible quality.

Our third party manufacturers create several of the hardware components in our systems and 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 in the process of building a United States domestic network of manufacturing representatives and dealers for the sale and distribution of our products. We have added a Distributor in the Texas region to manage our end user dealer relationships. The distributor has successfully placed several units and we are encouraged by the progress. We are seeking security consultants, specifiers and distributors of security and surveillance equipment that sell directly to schools, courthouses, and government and commercial buildings. We intend to develop a national sales channel model and a distributor development program.

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 are now evaluating potential sales in the Middle East. We have unsuccessfully opened a distribution center in Bahrain and have decided that our business can be better served with agent relations and established distribution partners that have local presence and can distribute all our products more widely and efficiently.

### **Backlog**

As of December 31, 2007, we had a backlog of \$510,000. 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 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 the site, and delays caused by other contractors on the project.

## **Major Customers**

At present we do not have any single customer that consistently accounts for more than 10% of our revenues.

## **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 and 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 SecureScan 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 national labs, to commercialize, manufacture and market the concealed weapons detection technology. However, since we have improved the technology we will be filing for provisional patents in the near time frame, we call the new, improved technology ViewScan.

Governmental ownership of the patents is advantageous because the government has prosecution and stewardship responsibilities for the life of the patents. We enjoy the benefit of any continuations and improvements to the concealed weapons detection technology performed by the government under the ongoing contract between the Department of Energy and National Institute of Justice. Our exclusive marketing agreement allows us to have cutting edge technology without funding the research and development or patent applications. However, the costs have outweighed the benefits. We have not received improvements, the promised funding or support. We have, however, paid money and spent time to advance the technologies. The company is in a position to patent and further develop the technology for the benefit of the shareholders and society.

We have obtained software licensing agreements for software operating systems components, fingerprint identification to possibly integrate into our proprietary software, and integration of commercially available operating systems software into our proprietary software for installation into our products.

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 have ceased our cooperative research arrangements with the Department of Energy to receive technical assistance and further enhancements of the concealed weapons detection technology, nuclear sensors and the Visual First Responder technology which were performed by the Department of Energy and the National Institute of Justice. We have tasked our own engineers and other third parties to develop or vary the design of our products, and we record these expenses as professional fees.

## **Regulatory Environment**

We are not subject to government 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 people's conversations without their consent. Further, there are state and federal laws associated with recording video in non-public places.

## **Employees**

As of the date of this annual report, the Company employed approximately 8 persons, including 2 sales executives, 1 engineer and 6 office personnel which include 3 customer service engineers. Two persons are part-time and we also contract with one independent contractor who devotes a majority of its 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.

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

Not Applicable.

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

Not Applicable.

**ITEM 2. DESCRIPTION OF PROPERTY**

Our principal executive office is located in Baltimore, Maryland, where we lease approximately 4,600 square feet for \$3,047. We are on a month to month basis at this time.

We also lease a sales and engineering office at Office World Plaza in Lomita, California, near Los Angeles. Two of our employees work from this office. A written lease expired in February 2006, and we have continued to lease this office space for \$950 per month on a month to month basis.

### ITEM 3. LEGAL PROCEEDINGS.

As of the date of this report we are not a party to any material legal proceedings. During the year, we became a party and then resolved two material matters:

#### 1. *View Systems, Inc. vs. State of Florida, Dept. of State, Div. of Corporations*

On February 5, 2008, we filed suit in the Florida 4<sup>th</sup> Judicial Circuit in and for Duval County, Florida in a case styled *View Systems, Inc. vs. State of Florida, Dept. of State, Div. of Corporations*, Case No. 2008-CA-001565-XXXX-MA, seeking an order compelling Florida to change the date of filing of our Articles of Merger, which we filed in 2003.

On May 5, 2008, the Circuit Court in the Florida 4<sup>th</sup> Judicial Circuit in and for Duval County, Florida in a case styled *View Systems, Inc. vs. State of Florida, Dept. of State, Div. of Corporations*, Case No. 2008-CA-001565-XXXX-MA, entered summary judgment for declaratory relief in favor of the Company. The judgment is final.

We filed a civil action to compel the correction of the filing date. The Company's complaint alleged that during the third quarter of 2007, it came to our attention that there was a clerical communications error, which affected our efforts in 2003 to re-domicile our state of incorporation from Florida to Nevada. On July 31, 2003, we filed Articles of Merger in both Florida and Nevada to effect our re-domicile. However, on August 12, 2003 the Florida Secretary of State rejected our Articles of Merger. The Florida Secretary of State wanted original documents, not copies, which would be acceptable for computer imaging. The Company re-filed the Articles of Merger with the Florida Secretary of State as requested. However, Florida filed our Articles of Merger as of August 29, 2003 instead of July 31, 2003; an event that escaped our attention for more than four years.

#### 2. *Sigma International Holdings, Inc. v. View Systems, Inc.*

We were served with a complaint filed in the circuit court in Montgomery County Maryland, case number 288395-V, in which the plaintiff sought payment of \$250,000. We defaulted and a judgment was entered against us. We settled the judgment by paying the plaintiff \$296,000 plus another \$5,196.50 interest and costs for a total of \$301,196.50. Of this amount, \$100,000 was paid by the Company, and our director, Dr. Michael Bagnoli, provided the balance of \$201,196.50.

In August 2006 we entered into a consulting agreement with The Riderwood Group, a Maryland limited liability investment banker, for the purpose of assisting in raising private equity financing and finding suitable acquisition targets. The Riderwood Group subsequently introduced the Company to Sigma International Holdings in 2007 which signed a non-binding merger and acquisition agreement and in addition loaned us \$250,000. The proposed merger

was cancelled approximately three weeks later.

Sigma soon thereafter demanded satisfaction of their note or a control block of the company. The BOD decided not to give Sigma control of View Systems. Sigma sued the company on the note and was awarded a judgment on May 11, 2008.

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

We have not submitted a matter to a vote of security holders through the solicitation of proxies, or otherwise, during the fourth quarter of 2008. We intend to solicit shareholder proxies to increase the authorized shares during 2009.

**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 . 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)**

COMMON  
STOCK  
MARKET  
PRICE

HIGH

LOW

FISCAL  
YEAR  
ENDED  
DECEMBER  
31, 2008:



Fourth  
Quarter

\$1.20

\$0.02

Third  
Quarter

\$1.44

\$0.24

Second  
Quarter

\$0.04

\$0.01

First Quarter

\$0.04

\$0.02

FISCAL  
YEAR  
ENDED  
DECEMBER  
31, 2007:

Fourth  
Quarter

\$0.08

\$0.03

Third  
Quarter

\$0.09

\$0.07

Second  
Quarter

\$0.10

\$0.08

First Quarter

\$0.11

\$0.08

(1)

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

### **Shareholders of Record**

As of January 11, 2010, there were approximately 369 holders of record of our common stock, not including holders who hold their shares in street name.

### **Dividends**

We have never paid cash dividends on our common stock. We intend to keep future earnings, if any, to finance the expansion of our business, and we do not anticipate that any cash dividends will be paid in the foreseeable future. Our future payment of dividends will depend on our earnings, capital requirements, expansion plans, financial condition and other relevant factors. Our retained earnings deficit currently limits our ability to pay 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

2,000,000

-

2,000,000

Equity compensation  
plans not approved by  
security holders

-
-
- (1)
<b>Total</b>
2,000,000
-
2,000,000

(1) Our 1999 Stock Option Plan and our 1999 Restricted Share Plan terminated automatically pursuant to the terms of their respective agreements on March 1, 2009. Our 2000 Restricted Share Plan will terminate automatically pursuant to the terms of its agreement on March 15, 2010.

### **Information Relating to Outstanding Shares**

As of January 11, 2010, there were 79,442,369 shares of our common stock issued and outstanding and 89,647 shares of our preferred stock issued and outstanding. We have not reserved any shares for issuance upon exercise of common stock purchase warrants, and no shares are issuable upon exercise of options to purchase shares of our common stock.

Of the issued and outstanding common shares, approximately 51,311,222 shares of our common stock (15,431,926 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 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**

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:

1

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.

1

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.

1

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.

1

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.

1

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.

1

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

1

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

1

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.

During 2007, we issued our common stock in unregistered, exempt transactions as follows (presented on a post-reverse split basis):

1

James and Patricia Hartman and Mary McGinn purchased 63 shares and 13 shares, respectively, at \$6.64 per share on June 30, 2007.

1

Anna and James Wolfe, Jay I. Levinson, and Isabel M. Bernfeld purchased 13,393 shares, 1,786 shares, and 714,286, respectively, at \$5.60 per share on September 30, 2007.

1

All of such shares are designated at in post-reverse prices and quantities and were offered and sold pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended.

We issued in 2007 an aggregate of 99,450 shares of our unregistered common stock at purchase prices ranging from \$3.20 to \$11.20 per share to accredited investors who purchased during 2006, as follows(presented on a post-split basis):

1

On February 20, 2006 we issued 2,000 shares to Thomas Pierson for consulting services at \$8.00 per share. We issued to Carolyn Harrison 750 shares and 1,500 shares, at \$11.20 and \$4.00 per share, respectively, of our common stock on April 28, 2006 and October 17, 2006 for consulting services. On June 16, 2006 we issued 2,500 shares each to Mark Mintz and Asghar Ali & Sons, Ltd. for consulting services at \$8.00 per share.

1

Employees David Johansen, Ruediger Klose, John Sarman, Matthew Tyson, Matthew Mahin, Charles Nelson and Faye Williams received stock as compensation at \$9.60 per share on May 3, 10, or 12, 2006, in the following amounts: 1,500 shares, 2,250 shares, 750 shares, 750 shares, 750 shares, 1,313 shares, and 375 shares, respectively.

1

Mike Luke, on February 20, 2006, bought 1,250 shares at \$8.00 per share.

1

John Voss, on May 10, 2006, bought 750 shares at \$8.00 per share.

1



Will Stamp and Duane Anderson, on October 17, 2006, bought 6,250 and 750 shares, respectively, at \$4.00 er share.

1

The following individuals bought stock at \$4.00 per share:

10/17/2006

Will Stamp

6,250

10/17/2006

Duane  
Anderson

750

10/17/2006

Carolyn  
Harrison

1,500

11/2/2006

Michael Burke

6,250

11/3/2006

Michael Burke

1,500

10/31/2006

Abraham  
Sperling

3,750

11/3/2006

SIGMA

5,200

11/1/2006

LiMinLee

1,250

11/13/2006

Wayne Harrison

3,750

11/30/2006

Joshua Shein

1,875

12/4/2006

Harvey Fenster

1,250

12/5/2006

Mark Krauss  
2,500

12/6/2006

Ruth Shein  
2,500

12/13/2016

Bruce  
Gladstone  
2,500

12/15/2006

Marilyn Seeley  
5,000

12/18/2006

David R. Seeley  
1,250

12/19/2006

Karen &  
Bernard Bellow  
7,500

12/19/2006

Gregory Adams

2,500

12/27/2006

John McNulty

1,250

12/27/2006

Stephan J.  
Berwick

375

12/27/2006

H. & M Fenster

1,250

12/27/2006

Daniel Seeley

1,250

12/27/2006

Primus  
Solutions

375

12/27/2006

W & S Melcher

1,250

1

The following individuals bought stock at \$3.20 per share:

12/1/2006

Will Stamp

4,688

12/1/2006

Joel Stamp

62,50

12/5/2006

RL Wactler

625

1

Jay and Associates bought 4,125 shares at \$8.59 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, 2008 and 2007 should be read in conjunction with the Consolidated Financial Statements and other information presented elsewhere in this annual report.

Our product lines are related to visual surveillance, intrusion detection and physical security. Our principal products include:

1

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

1

Biometric analysis such as fingerprint verification or facial recognition can be and have been incorporated into ViewScan. The control unit can be programmed to automatically search against most wanted or outstanding warrant databases. Access control methods such as magnetic door locks can and have been incorporated.

1

Central monitoring or video command centers which have and can be combined with the ViewScan product.

1

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

1

ViewMaxx Digital Video products a high-resolution, digital video recording and real-time monitoring system.



1

Visual First Responder a lightweight, wireless camera system housed in a tough, waterproof flashlight body. The camera systems sends real-time images back to a video monitor at a command post located outside the exclusion zone or contaminated area. The Visual First Responder is able to transmit high quality video in the most difficult environments. It uses a triple-diversity antenna system that minimizes signal distortion in difficult environments. A multitude of these systems have been deployed by the Department of Defense in combat areas. This product is being replaced by the new Multi-mission Mobile Video product release in the fall of 2007 and which is currently being field-tested.

1

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.

During 2004 we increased our product lines to include our Visual First Responder and during 2005 we had engineering design changes made to the sensor boards for the ViewScan product to allow lower costs and to accommodate the price points required by competitive pressures. Also, in 2005 we redesigned the Visual First Responder and ViewScan products.

During 2005 we continued to establish new partnerships, add active resellers and dealers and we hired four sales representatives to build a United States domestic network for the sale and distribution of our products within the 48 states. These developments have led to increased sales while at the same time decreasing the cost of products. We intend to develop these sales and distribution channels to a level that will result in increased revenues and continued profitability. We have completed sales in the correctional facility market, some Homeland Security departments and some sports venues.

During 2006 we previewed our Biometric ViewScan III which includes positive identification and biometric verification capabilities, expanded our dealers and resellers in the Mid-West and Southwest region of the United States, introduced two new products. The ViewScan III includes a fingerprint identification and verification system, state-issued identification scanning device for driver s licenses and passports, and a visitor badge printing system. The new products introduced in 2006 include a product offering marketed as the LAW, which is a handheld metal detector designed to improve police officer safety. We do not manufacture the LAW product but use it as an



adjunct to the ViewScan and sell it separately. The wireless network detection system is currently a military product and we are intending to deploy it exclusively in the correctional facilities market. Response to and interest in this technology has been from high security situations.

We have also continued to develop international markets in China and the Mid-East and have established international relationships with distributors and dealers. We will be separating our international business from our domestic business to gain efficiency and financial backing.

In September 2008 we disseminated an information statement to shareholders to inform them of a forthcoming reverse-split of our common stock. The share split occurred in October 2008 and was effected in a 1:80 ratio. Following the recapitalization of our common stock structure, 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 of new technologies and/or businesses. We also intend to strengthen our balance sheet by paying off debt with cash if possible or through the exchange of equity securities for the release of debt obligations.

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 \$19,782,661. 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.

We are continuing to negotiate with potential merger and acquisition candidates.

We intend to hold an annual meeting as soon as practicable. However, no firm plan or date has been identified. Thus, we will issue notice of a meeting at an appropriate time.

For the next twelve months our primary challenge will be to continue to develop our sales and distribution network into additional regions and markets in the United States and abroad. We have been and plan to continue to increase sales by offering demonstrations of our products in specific geographical areas to potential customers or at region specific trade shows, such as sheriff's conventions, court administrators' meetings, civil support team, state police shows 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. After several sales in a particular geographic area management will decide whether it is appropriate to open a sales and service office.

In the short term, management plans to raise funding 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.

On November 24, 2008 and December 26, 2008, we announced that a merger with Wytan Corp. is underway. Wytan manufactures security products, sells internationally, is profitable, and can benefit from our net tax asset of \$8,301,528. Wytan has since insisted that the Company pay for its audit, advance it additional cash, and commit to supporting. We believe that the acquisition of Wytan would be beneficial to the Company overall and anticipate that the acquisition will occur; however, the progress of the negotiations has been slower than anticipated because the Company will at a minimum need to raise the funds necessary to pay for the audit. The timing of a capital raise is presently unknown but is a condition precedent to the parties' execution of a material definitive agreement.

**Results of Operations**

The following discussions are based on the consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the years ended December 31, 2008, 2007 and 2006 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,

2008

2007(\*)

2006(\*)

Revenues, net

\$  
1,148,314

\$  
1,256,534

\$  
1,250,188

Cost of sales

391,216

574,971

751,578

Gross profit (loss)

	757,098
	681,563
	498,610
Total operating expenses	
	965,388
	1,675,604
	1,608,321
Loss from operations	
	(208,290)
	(994,041)
	(1,109,711)
Total other income (expense)	
	34,751
	(81,045)
	(30,741)
Net income (loss)	
	(173,539)
	(1,075,086)
	(1,140,452)
Net income (loss) per share	
	\$
	(0.04)
	\$
	(0.89)

\$ (0.97)

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

We have not increased sales of our SecureScan and Visual First Responder but have increased our gross margins through better efficiency of our employee s efforts and higher units per sale. Management anticipates that increases in revenues will resurge as we further develop our sales and marketing channels and establish local sales and service offices in geographic areas where we have already completed sales. The increased quantity per sales resulted in an increased gross profit for 2008 compared to 2007.

The following chart provides a breakdown of our sales in 2008, 2007 and 2006.

	<u>Dec. 31, 2008</u>
	<u>Dec. 31, 2007</u>
	<u>Dec. 31, 2006</u>
Totals per financial statements	
	1,148,314
	1,256,535
	1,250,188
Secure Scan	
	851,961
	910,485
	840,713
ViewMaxx	
	12,478

	15,635
	32,802
MMV, VFR & misc.	
	87,497
	224,997
	332,646
Service, installation, training, etc	
	196,378
	105,417
	44,027
	1,148,314
	1,256,534
	1,250,188

Our backlog at December 31, 2008, was \$310,000. 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.

Cost of sales include costs of products sold and shipping costs and were approximately 34% of net revenues for 2008, a decrease from 46% in 2007. The decrease from year to year is primarily the result of decreased costs due to engineering changes. Management anticipates that the relative margins of each product line will increase even more with an increase of number of units shipped. The quantities per average sale have been increasing steadily.

For 2008 total operating expense decreased \$710,216, a decrease of 43%, as compared to 2007. Net Income (Loss) was (\$173,539) in 2008, and (\$1,075,086) in 2007, an improvement of \$901,547.



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

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, 2008, we received cash from revenues of \$1,148,314, proceeds of \$20,000 from sales of our common stock, and loans from shareholders of \$93,496. For the year ended December 31, 2007, we received cash from revenues of \$1,256,534, proceeds of \$22,000 from sales of our common stock, and loans from shareholders of \$379,622. We have incurred losses for the past two fiscal years and had a net loss of \$173,539 at December 31, 2008 as compared with a net loss of \$1,075,086 for the year ended December 31, 2007. We had insufficient funds to deliver our backlog in the last half of 2008. Our revenues from several product sales have been increasing and some others decreasing but are not sufficient to cover all of our operating expenses. Management anticipates that we will continue to issue shares for services in the short term.

For the year ended December 31, 2008, we used a net amount of \$18,313 of cash to finance our day to day operating activities. We used \$536 of our cash to purchase fixed assets and \$80 to reduce certain loans. We generated \$13,496 from financing activities which consisted of additional loans from stockholders of \$93,496 and \$20,000 from the issuance of common stock less repayments of debt in the amount of \$100,000. This resulted in an overall net decrease in cash of \$5,433.

For the year ended December 31, 2007, we used \$666,223 of cash to finance our day to day operating activities. We used \$2,100 of our cash to purchase fixed assets and \$25,031 to reduce certain loans. We generated \$652,322 from financing activities which consisted of additional loans from stockholders in the amount of \$379,622, other loans of \$255,000, and \$22,000 from the issuance of common stock less repayments of debt in the amount of \$4,300. This resulted in a net overall decrease in cash of \$41,032.

Management believes we will need to take the necessary steps to file a registration of common stock to fund growth and acquisitions during 2009. The Company intends to hold a special meeting of shareholders during 2009 to consider, among, other things, an increase in the authorized common stock of the Company to 250,000,000 shares.

Management intends to finance our 2009 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 \$500,000 during the next 12 months to satisfy our cash requirements of approximately \$100,000 per month.

These operating costs include cost of sales, general and administrative expenses, salaries and benefits and professional fees related to contracting engineers. We have insufficient financing commitments in place to meet our expected cash requirements for 2009, and we cannot assure you that we will be able to obtain financing on favorable terms. If we cannot obtain financing to fund our operations in 2009, then we may be required to reduce our expenses and scale

back our operations.

### **Commitments and Contingent Liabilities**

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

Our total current liabilities decreased to \$1,591,101 at December 31, 2008 compared to \$2,165,418 at December 31, 2007. Our current total liabilities at December 31, 2008 included accounts payable of \$499,409, accrued expenses of \$28,650, accrued interest of 126,155, accrued royalties of 225,000, loans from shareholders of \$152,794 and notes payable of \$559,093.

Our total current liabilities at December 31, 2007 included accounts payable of \$505,168, accrued expenses of \$80,878, accrued interest of \$171,078, accrued royalties of \$150,000, loans from shareholder of \$299,298 and notes payable of \$958,996.