VIEW SYSTEMS INC
Form 10-Q
August 20, 2012

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

FORM 10-Q

þ QUARTERLY REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED June 30, 2012

o TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 000-30178

VIEW SYSTEMS, INC.
(Exact name of registrant as specified in its charter)

Nevada	59-2928366
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1550 Caton Center Drive, Suite E, Baltimore, Maryland 21227
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes R No £

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

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

Large accelerated filer	o	Accelerated filer	o	Non-accelerated filer (Do not check if a smaller reporting	o	Smaller reporting company	þ

company)

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

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

Class	Outstanding at August 15, 2012
Common Stock, $.001 par value per share	170,421,178

VIEW SYSTEMS, INC.
FORM 10-Q
FOR THE PERIOD ENDED JUNE 30, 2012 (UNAUDITED)

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

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

View Systems, Inc. and Subsidiaries
Consolidated Balance Sheets (Unaudited)

ASSETS		June 30, 2012		December 31, 2011
Current Assets				
Cash	$	55,888	$	29,041
Accounts Receivable (Net of Allowance of Doubtful Accounts of $0 for June 30, 2012 and $5,450 for December 31, 2011)		106,328		78,222
Inventory		149,824		161,349
Prepaid Expenses		342,059		29,100
Total Current Assets		654,099		297,712
Property and Equipment (Net)		22,724		31,126
Other Assets				
Deposits		2,872		2,872
Total Other Assets		2,872		2,872
Total Assets	$	679,695	$	331,710
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current Liabilities				
Accounts Payable	$	505,848	$	548,999
Accrued Expenses		119,112		227,353
Accrued and Withheld Payroll Taxes Payable		137,396		137,396
Accrued Interest Payable		39,266		87,840
Accrued Royalties Payable		225,000		225,000
Loans from Stockholder		166,889		165,167
Notes Payable - Current Portion		198,878		200,628
Stock Settlement Payable		124,578		124,578
Deferred Revenue		360,524		398,078
Total Current Liabilities		1,877,491		2,115,039
Long-Term Debt				
Note payable, net of Current Portion		91,224		103,428
Total Liabilities		1,968,715		2,218,467

Stockholders' Deficit				
Convertible Preferred Stock, Authorized 10,000,000 Shares, $.01 Par Value,				
Issued and outstanding 2,489,647		24,896		-
Issued and outstanding 1,489,647		-		14,896
Preferred Stock Issuable 500,000		118,125		-
Common Stock, Authorized 950,000,000 Shares, $.001 Par Value,				
Issued and Outstanding 159,671,178		159,671		-
Issued and Outstanding 131,179,400		-		131,179
Common Stock Issuable 10,750,000		270,000		-
Stock Settlement in Process		(124,578)		(124,578)
Additional Paid in Capital		23,376,016		22,806,669
Accumulated Deficit		(25,113,150)		(24,714,923)
Total Stockholders' Deficit		(1,289,020)		(1,886,757)
Total Liabilities and Stockholders' Deficit	$	679,695	$	331,710

See Notes to Consolidated Financial Statements (Unaudited)

View Systems, Inc. and Subsidiaries
Consolidated Statements of Operations (Unaudited)

	For the Three Months Ended June 30, 2012	For the Three Months Ended June 30, 2011 (Restated)	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011 (Restated)
Revenues				
Product Sales and Installation	$211,839	$21,345	$294,147	$25,167
Extended Warranties	31,613	32,086	60,834	68,665
Total Revenue	243,452	53,431	354,981	93,832
Cost of Sales	104,351	6,709	159,649	10,854
Gross Profit	139,101	46,722	195,332	82,978
Operating Expenses				
Business Development	131,505	18,273	166,416	30,843
General and Administrative	81,939	72,527	173,035	146,060
Professional Fees	63,149	66,700	109,169	82,520
Salaries and Benefits	63,844	109,849	113,669	161,268
Total Operating Expenses	340,437	267,349	562,289	420,691
Loss from Operations	(201,336)	(220,627)	(366,957)	(337,713)
Other Income (Expense)				
Loss from Renegotiated Debt	-	(14,938)	-	(35,241)
Interest Expense	(15,612)	(16,034)	(31,270)	(29,505)
Total Other Income (Expense)	(15,612)	(30,972)	(31,270)	(64,746)
Net Loss	$(216,948)	$(251,599)	$(398,227)	$(402,459)
Net Loss Per Share (Basic and Diluted)	$(0.00)	$(0.00)	$(0.00)	$(0.00)
Weighted Average Shares Outstanding (Basic and Diluted)	141,559,641	115,213,792	138,079,742	106,311,991

See Notes to Consolidated Financial Statements (Unaudited).

View Systems, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)

	For the Six Months Ended June 30, 2012	For the Six Months Ended June 30, 2011 (Restated)
Cash Flows from Operating Activities:		
Net Loss	$(398,227)	$(402,459)
Adjustments to Reconcile Net Loss to		
Net Cash		
Depreciation and Amortization	9,600	63,880
Common Stock Issued/Issuable in Payment of Services	-	103,350
Preferred Stock Issued/Issuable in Payment of Services	-	15,000
Loss from Renegotiated Debt	-	35,241
Change in Operating Assets and Liabilities:		
(Increase) Decrease in Cash from:		
Accounts Receivable	(28,106)	39,089
Inventory	11,525	-
Prepaid Expenses	(90,166)	-
Deposits	-	(26,691)
Increase (Decrease) in Cash from:		
Accounts Payable	(14,651)	31,206
Accrued Expenses	43,598	39,355
Accrued Interest	26,426	26,543
Deferred Revenue	(37,554)	40,653
Net Cash Used in Operating Activities	(297,223)	(34,833)
Cash Flows from Investing Activities:		
Purchases of equipment	(1,198)	-
Net Cash Used in Investing Activities	(1,198)	-
Cash Flows from Financing Activities:		
Proceeds from issuable common stock	10,000	-
Proceeds from sale of common stock	312,500	
Principal payments on notes payable	(13,954)	(15,272)
Loans from Stockholders	16,722	44,223
Net Cash Provided by Financing Activities	325,268	28,951
Increase (decrease) in Cash	26,847	(5,882)
Cash and Cash Equivalents at Beginning of Period	29,041	8,334

Cash and Cash Equivalents at End of Period	$55,888	$2,452

See Notes to Consolidated Financial Statements (Unaudited)

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View Systems, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited) (Continued)

	For the Six Months Ended June 30, 2012	2011 (Restated)
Non Cash Investing and Financing Activities:		
Notes payable paid down with common stock	$15,000	26,000
Accrued interest paid with common stock	$75,000	-
Loans from stockholders repaid with common stock	-	$6,500
Accounts payables paid with common stock	$28,500	$20,660
Accrued expenses paid with common stock	$151,839	-
Common stock issuable in payment of services	$285,000	-
Preferred stock issuable in payment of services	$118,125	-
Cash Paid For:		
Interest	$247	$3,259
Income Taxes	$-	$-

See Notes to Consolidated Financial Statements (Unaudited)

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VIEW SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

View Systems, Inc. (the "Company") designs, develops and sells 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 developing and selling equipment and components for the fiber optic and communication cable industries.

Basis of Consolidation

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

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. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

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, installed (if necessary) and accepted by the customer as a completed sale. The concealed weapons detection 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 and acceptance by the customer. 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. Customers can purchase extended warranties, which provide for replacement or repair of the unit beyond the period provided by the unconditional warranty. Warranties can be purchased for various periods but generally they are for one year period that begins after any other warranties expire. The revenue from warranties is recognized on a straight line bases over the period covered by the warranty. Prior to the issuance of financial statements management reviews any returns subsequent to the end of the accounting period which are from sales recognized during the accounting period, and makes appropriate adjustments as necessary. Product prices are fixed or determinable and products are only shipped when collectability is reasonably assured.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in-first-out method (LIFO). As of June 30, 2012 and December 31, 2011, the Company’s inventory consisted of a number of assembled units as well as unassembled parts of product.

Property and Equipment

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

Equipment	5-7 years
Software tools	3 years

Depreciation expense for the periods ended June 30, 2012 and 2011 amounted to $9,600 and $11,400, respectively.

VIEW SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 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 June 30, 2012 and 2011 does not include potential shares of common stock equivalents, as their impact would be antidilutive.

VIEW SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

2. GOING CONCERN

The Company has incurred and continues to incur, losses from operations. For the periods ended June 30, 2012 and 2011, the Company incurred net losses of $398,227 and $402,459, respectively. In addition, certain notes payable have come due and the Company is in default.

Management is very actively working to cure these situations. It has implemented major plans to for the future growth and development of the Company. Management is in the process of renegotiating more favorable repayment terms on the notes payable and the Company anticipates that these negotiations will result in extended payment plans. In addition, during 2011 and 2010, the Company implemented marketing and information strategies to increase public awareness of its products and thereby sales. It has established new international markets which it believes will be the source for sales growth in the very near future. It also was able to reduce the per-unit cost of manufacturing its products. Additionally, the Company has increased the efficiency of its processes and focused its development efforts on products that appear to have greater sales potential.

Historically, the Company has financed its operations primarily through private financing; however, sales revenue during 2012 and 2011 and increases in expenses during 2012 and 2011 made contributions to working capital. It is management’s intention to finance operations during the remainder of 2012 primarily through increased sales although there will still be a need for additional equity financing. In addition, management is actively seeking out mergers and acquisitions which would be beneficial to the future growth of the Company. There can be no assurance, however, that this financing will be successful and the Company may be required to further reduce expenses and scale back operations.

As previously noted the Company is currently in default on a $50,000 loan to a stockholder and it is also in default under the terms of its arrangement with CRA, Inc. in the amount of $25,954.

The consolidated financial statements presented above and the accompanying Notes have been prepared on a going concern basis, which contemplates the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future, and does not include any adjustments to reflect possible future effects on the recoverability and classification of assets, or the amounts and classification of liabilities that may result from the outcome of any extraordinary regulatory action, which would affect our ability to continue as a going concern.

Due to the conditions and events discussed above, there is substantial doubt about the Company’s ability to continue as a going concern.

VIEW SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

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. NOTES PAYABLE

Notes payable as of June 30, 2012 and December 31, 2011 consist of the following:

	June 30, 2012	December 31, 2011
Stockholder An unsecured loan from a stockholder which is payable on demand with interest at 12%. The note payable was dated November 1, 2007, and the note matures and the principal is payable upon the demand of the lender.	116,000	116,000
Lafayette Community Bank A term loan secured by a stockholder, payable in monthly installments of $2,587 commencing in December 25, 2009 but refinanced in May 2011. The loan is due in full on May 18, 2016. Interest accrues monthly at 7.5% per annum.	107,847	119,079
Stockholder Demand loan dated September 18, 2009 and payable with interest at 5% per month. The loan is secured by the Company's accounts receivable. The note payable was due and payable in full on December 17, 2009 so this debt is currently in default.	50,000	50,000
Chase Equipment loans to finance the purchases of two trucks, payable monthly in installments of $533, which include interest at 5.34% per annum. During 2011 one truck was disposed of and the debt was reduced accordingly.	16,255	18,977
TOTAL	$290,102	$304,056
Less current portion	198,878	200,628
Non-current portion	$91,224	$103,428

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VIEW SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

Principal payments for the next five years ending June 30:

2013	$198,878
2014	31,775
2015	28,578
2016	29,741
2017	1,130
Thereafter	0
TOTAL	$290,102

5. INCOME TAXES

For income tax purposes the Company has net operating loss carry forwards of $24,073,000 as of December 31, 2011 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. Due to continuing losses from operation the Company has assigned a full valuation allowance against its deferred tax assets.

6. CONVERTIBLE 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.

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.

Effective in 2010 the initial issuance of preferred of Series A Preferred can be converted into common stock in the ratio of 15:1. During 2011 the Board of Directors authorized the issuance of an additional 1,400,000 shares of Series A Preferred Stock in payment of a loan from a shareholder in the amount of $64,000 and also in payment of services in the amount of $34,000. These additional shares can be converted to common stock in 2013. 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.

7. 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 one-year non-cancellable operating lease which expires in December 2012. The rent is $3,077 per month. Rent expense, which includes the Caton Center property as well as some other short-term leases, was $28,178 and $16,621 for the periods ended June 30, 2012 and 2011, respectively.

VIEW SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

8. STOCK BASED COMPENSATION

During the periods ended June 30, 2012 and 2011 the Company issued stock in payment of services and debts as follows:

For the six month period ended June 30, 2012, 14,250,000 shares of common stock and 500,000 shares of preferred stock were issued in payment of services in the amount of $403,125. 3,000,000 shares of common stock were issued in payments of accounts payable amounting to $28,500. 1,839,000 shares of common stock plus 1,000,000 shares of preferred stock were issued in payment of deferred compensation in the amount of $151,839. In addition 3,000,000 shares of common stock were issued in payment of loans in the amount of $15,000 and 1,000,000 shares of common stock were issued in payment of accrued interest in the amount of $75,000.

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

Stock Options and Warrants

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.

9. 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 balance due on unstructured loans from shareholders amounted to $166,889 at June 30, 2012 and $165,167 at December 31, 2011. Loans from stockholders made with repayment terms are described in Note 6 above.

10. STOCK SETTLEMENT IN PROCESS

During 2006 the Company negotiated a loan from an individual in the amount of $100,000. Under the terms of the loan it was to be repaid in full within one year together with interest at the rate of 15% per annum. The Company was unable to pay the loan when due and under the threat of litigation the note holder was given 3,500,000 shares of common stock. The stock was issued on January 28, 2010. At that time the principal, accrued interest and legal fees amounted to $163,366. Under the terms of a court ordered stipulation agreement if the note holder was unable to liquidate the stock in full payment of the stipulated amount then the Company would be obligated to issue more stock to him to make up for the shortage. As a part of the agreement the note holder is required to account for proceeds realized from the sales of stock. The note holder has yet to report any stock sales so this settlement is considered to be in process.

During the year ended December 31, 2011 $38,788 was levied against the Company's bank accounts as a result of a legal action brought to force collection of the balance. The note holder's contention was that stock sales had fallen well short of the balance due and thus he was due to be paid. While the Company had a complaint that they had not been provided with any information regarding sales of stock management was unable to stave off the forced levy. As a result of the levy the debt balance as of December 31, 2011 was reduced to $124,578.

VIEW SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

11. JOINT VENTURE PROFIT SHARING

During 2011 the Company entered into an agreement with CRA, Inc. regarding a sale of 60 scanners to a municipal school system. Under the terms of the deal CRA, Inc. purchased all of the materials and paid substantially all of the cost, View Systems, Inc. assembled the products, shipped the scanners for installation and billed the school system. The terms of the agreement provide that each party is to share equally in the profits. As of December 31, 2011 the Company owed $106,366 to CRA, Inc. During the six months ended June 30, 2012 the Company paid $80,412 to CRA leaving a balance in the amount of $25,954 still due as of the date of this report. The Company is technically in default under the terms of the agreement because of late payments.

12. RESTATEMENT

Due to an accounting error, the Company has restated its consolidated financial statements as of and for the six months ended June 30, 2011 to reflect a correction to an understatement of deferred income that results from allocating the revenue received under extended warranty arrangements over the life of the warranty. In addition the Company is restating the June 30, 2011 consolidated financial statements due to the reclassification of common stock that was issued to a holder of a note payable. The Company had originally recorded the issuance of the stock as a payment in full for the note and related costs (see note 10 above). However, after a further review of the legal documents, it was determined that the debt was not satisfied but instead the ultimate resolution of the debt was contingent on events that were still unfolding. The Company’s summarized consolidated financial statement elements comparing the restated financial statement elements to those originally filed are as follows:

Consolidated Financial Statement Elements as of and for the six months ended June 30, 2011.

	Original	Restated	Change
Consolidated Balance Sheet:			
Accounts receivable	53,692	39,360	(14,332)
Total assets	1,091,965	1,077,633	(14,332)
Accounts payable	440,231	394,188	(46,043)
Stock settlement payable	0	163,366	163,366
Deferred income	0	198,923	198,923
Current liabilities	1,413,221	1,729,467	316,246
Total liabilities	1,437,659	1,753,905	316,246
Stock settlement in process	0	163,366	163,366
Accumulated Deficit			
Beginning of period	(22,837,787)	(22,953,904)	(116,117)
End of period	(23,189,151)	(23,356,363)	(167,212)
Total stockholders’ deficit	(345,694)	(676,272)	(330,578)
Consolidated Statement of Operations:			
Revenue	191,296	93,832	(97,464)
Cost of sales	58,339	10,854	(47,485)
Gross profit	132,957	82,978	(49,979)
Operating expenses	419,575	420,691	1,116
Net loss	(351,364)	(402,459)	(51,095)

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

EXECUTIVE OVERVIEW

The following analysis of our consolidated financial condition and results of operations for the six months ended June 30, 2012 should be read in conjunction with the Consolidated Financial Statements and other information presented elsewhere in this quarterly report.

Overview

Our current product lines are related to visual surveillance, intrusion detection and physical security. 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.

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 $24,073,000. 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.

Our strategy for 2012 for ViewScan is 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. Thus, we 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. We have continued to issue restricted stock to consultants and employees when possible. We have not yet tapped the resources of our 2010 Equity Incentive Plan or our 2010 Service Provider Stock Compensation Plan. Reserved for equity issuances under the Equity Incentive Plan and the Service Provider Stock Compensation Plan are a total of 100,000,000 shares are reserved for registered stock issuances under the two plans.

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.

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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, driver's 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 product allows hands-free operation of the unit because it allows the person to wear the unit with a helmet mounted monocle.

3. ViewMaxx Digital Video System

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

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

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

Our ViewMaxx products include the following features:

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

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

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

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

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

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

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

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

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

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

4. Additional Applications and Integration of ViewScan and ViewMaxx

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

5. The MINI

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

We license the MINI from its manufacturer and act as a distributor. The Company established a dedicated e-commerce platform for the direct sale of this innovative product, which went online in February 2010. We are marketing the MINI to large potential users, such as real property managers, as well as retail customers through the 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. 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.

7. Training and Service Programs

We offer support services for our products which include:

On site consulting/planning with customer architect and engineers,
Installation and technical support,
Training and "Train the Trainer" programs, and
Extended service agreements.

RESULTS OF OPERATIONS

The following discussions are based on the consolidated financial statements of View Systems and its subsidiaries. These charts and discussions summarize our financial statements for the six months ended June 30, 2012 and 2011 as amended (see note * below) and should be read in conjunction with the financial statements, and notes thereto, included with our most recent Form 10-K for the year ended December 31, 2011.

SUMMARY COMPARISON OF OPERATING RESULTS*

	Six months ended June 30,	
	2012	2011 (Restated)
Revenues, net	$354,981	$93,832
Cost of sales	159,649	10,854
Gross profit (loss)	195,332	82,978
Total operating expenses	562,289	420,691
Loss from operations	(366,957)	(337,713)
Total other income (expense)		