VIEW SYSTEMS INC
Form 10-Q/A
October 15, 2012

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

FORM 10-Q/A
Amendment No. 1

þ QUARTERLY REPORT UNDER TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED June 30, 2011

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 £ No R

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 þ No o

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

Large accelerated filer £	Accelerated filer £	Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company R

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 October 12, 2012
Common Stock, $.001 par value per share	170,421,178

Purpose of This Amendment

We are amending our Form 10-Q for the period ended June 30, 2011 in order that it would conform to the correction of a revenue recognition error uncovered in the audit of our financial statements for the year ended December 31, 2011. Due to accounting errors, the Company has restated its financial statements as of and for the period ended June 30, 2011 to reflect the correction of an understatement of deferred income that results from incorrectly allocating the revenue received under extended warranty arrangements over the life of the warranty. Also, in the original filing revenue was overstated due to recognition of sales prior to the installation of the products. As a result of reducing sales revenue, there was a corresponding reduction in cost of sales and accounts payable. In addition the Company is restating its 2010 financial statements for the year ended December 31, 2010 due to the reclassification of common stock that was issued to a holder of the note payable. The Company had originally recorded the issuance of the stock as a payment in full for the note and related costs. However, after a further review of the legal documents, it was determined that the debt was not satisfied. Instead, the ultimate resolution of the debt was contingent on events that were still unfolding. Other information that is required to be presented as of the most recent practicable date has also changed. We have updated certain information and results in our “Risk Factors” section, our Notes to Consolidated Financial Statements (Unaudited), “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” Unregistered Sales of Securities and Use of Proceeds" and "Other Information." Because of the errors that are being corrected, we have restated our belief that our internal controls over financial reporting were effective to conclude that they were not effective.

Except as described above, no other changes have been made to Form 10-Q to update the information presented. Therefore, this Amendment No. 1 on Form 10-Q does not reflect many events occurring after the filing of the Form 10-Q nor does it modify or update all disclosures made therein which may be affected by events subsequent to June 30, 2011. Accordingly, information presented in many Items is unchanged and reflects disclosures made at the time of the original Form 10-Q, and this Amendment No. 1 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, 2010.

VIEW SYSTEMS, INC.
FORM 10-Q/A
FOR THE PERIOD ENDED JUNE 30, 2011

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

Information included in this Form 10-Q/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.

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

ASSETS

	June 30, 2011 RESTATED	December 31, 2010 RESTATED
Current Assets		
Cash	$2,452	$8,334
Accounts Receivable (Net of Allowance of $1,000)	39,360	78,449
Inventory	2,724	2,724
Prepaid Expenses		
Total Current Assets	44,536	89,507
Property and Equipment (Net)	53,821	65,774
Other Assets		
Licenses (Net)	734,706	787,186
Intellectual Property	147,507	147,507
Investment in Visisys Ltd	67,500	67,500
Deposits	29,563	2,872
Total Other Assets	979,276	1,005,065
Total Assets	$1,077,633	$1,160,346
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities		
Accounts Payable	$394,260	$383,695
Accrued Expenses	191,194	151,839
Accrued Interest	72,906	46,363
Accrued Royalties	225,000	225,000
Loans from Stockholder	165,184	127,461
Notes Payable - Current Portion	318,634	374,764
Stock Settlement Payable	163,366	163,366
Deferred Revenue	198,923	158,270
Total Current Liabilities	1,729,467	1,630,758
Long-Term Debt		
Note payable, Net of Current Portion	24,438	10,152
Total Liabilities	1,753,905	1,640,910
Stockholders' Deficit		
Preferred Stock, Authorized 10,000,000 Shares, $.01 Par Value,		

Issued and outstanding 1,589,647	15,896	
Issued and outstanding 89,647		896
Common Stock, Authorized 950,000,000 Shares, $.001 Par Value,		
Issued and Outstanding 127,987,092	127,987	
Issued and Outstanding 97,410,092		97,410
Stock Settlement in Process	(163,366)	(163,366)
Additional Paid in Capital	22,699,574	22,538,400
Accumulated Deficit	(23,356,363)	(22,953,904)
Total Stockholders' Deficit	(676,272)	(480,564)
Total Liabilities and Stockholders' Deficit	$1,077,633	$1,160,346

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

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

	For the Three Months Ended June 30, 2011 RESTATED	For the Three Months Ended June 30, 2010	For the Six Months Ended June 30, 2011 RESTATED	For the Six Months Ended June 30, 2010
Revenue				
Product Sales and Installation	$ 21,345	$ 151,116	$ 25,167	$ 369,197
Extended Warranties	32,086	63,840	68,665	109,750
Total Revenue	53,431	214,956	93,832	478,947
Cost of Sales	6,709	52,516	10,854	160,926
Gross Profit	46,722	162,440	82,978	318,021
Operating Expenses				
Business Development	18,273	21,752	30,843	53,978
General and Administrative	72,527	136,707	146,060	243,377
Professional Fees	66,700	24,770	82,520	126,750
Salaries and Benefits	109,849	60,676	161,268	120,611
Total Operating Expenses	267,349	243,905	420,691	544,716
Loss from Operations	(220,627)	(81,465)	(337,713)	(226,695)
Other Income (Expense)				
Loss on Renegotiated Debt	(14,938)	-	(35,241)	-
Interest Expense	(16,034)	(18,832)	(29,505)	(31,907)
Total Other Income (Expense)	(30,972)	(18,832)	(64,746)	(31,907)
Net Loss	$ (251,599)	$ (100,297)	$ (402,459)	$ (258,602)
Net Loss Per Share (Basic and Diluted)	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.00)
Weighted Average Shares Outstanding (Basic and Diluted)	115,213,792	83,903,369	106,311,991	77,788,119

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

View Systems, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Deficit (Unaudited)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Stock Settlement in Process- Note 13	Additional Paid-in Capital	Accumulated (Deficit)
Balance, December 31, 2010	89,647	896	97,410,189	97,410	(163,366)	22,538,400	(22,953,904)
January - March 2011 - shares issued in payment of accounts payable, notes payable and interest			5,030,303	5,030		35,273	
April - June 2011 - shares issued for services, notes and loans payable and accrued interest	1,500,000	15,000	25,546,600	25,547		125,901	
Net loss for the period ended June 30, 2011							(402,459)
Balance, June 30, 2011	1,589,647	$15,896	127,987,092	$127,987	$(163,366)	$22,699,574	$(23,356,363)

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

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

	For the Six Months Ended June 30, 2011 RESTATED	2010
Cash Flows from Operating Activities:		
Net Loss	$(402,459)	$(258,602)
Adjustments to Reconcile Net Loss to		
Net Cash		
Depreciation and Amortization	63,880	62,480
Common Stock Issued in Payment of Services	103,350	30,695
Preferred Stock Issued in Payment of Services	15,000	-
Loss from disposition of fixed assets	-	4,996
Proceeds from sale of fixed assets	-	2,036
Loss from equity transactions	35,241	-
Change in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	39,089	133,294
Deposits	(26,691)	-
Increase (Decrease) in:		
Accounts Payable and Accrued Expenses	31,206	8,955
Deferred Compensation	39,355	23,073
Accrued Interest	26,543	28,444
Deferred Revenue	40,653	(87,400)
Net Cash Used in Operating Activities	(34,833)	(52,029)
Cash Flows from Financing Activities:		
Loans received (paid) under a line of credit	-	(29,559)
Principal payments on notes payable	(15,272)	(4,749)
Loans received under notes payable	-	50,000
Loans from Stockholders	44,223	(7,050)
Net Cash Provided by Financing Activities	28,951	8,642
Decrease in Cash	(5,882)	(43,646)
Cash at Beginning of Period	8,334	70,804
Cash at End of Period	$2,452	$27,158

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

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

	For the Six Months Ended June 30, 2011 RESTATED	2010
Non Cash Investing and Financing Activities:		
Notes payable paid down with common stock	26,000	100,000
Accrued interest paid with common stock	-	76,538
Loans from shareholders repaid with common stock	6,500	-
Accounts payables paid with common stock	20,660	-
Cash Paid For:		
Interest	$3,259	$5,260
Income Taxes	$-	$-

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

VIEW SYSTEMS, INC.
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 FibreXpress, 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 subsidiaries, Milestone Technology, Inc. and FibereXpress, 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.

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.

During 2009 the Company began to engage in the business of installing fiber optics lines in multi-family housing. The fiber optics company will engage us to install lines in various configurations or multiples of individual units. Revenue is recognized at the completion of a certain number of units and after the fiber optics company has approved the installation as complete. In March 2011, the Company exited from this business.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the last-in-first-out method (LIFO). All inventory as of June 30, 2011 and December 31, 2010 consisted of unassembled parts of products.

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

Repairs and maintenance charges which do not increase the useful lives of assets are charged to operations as incurred. Depreciation expense for the periods ended June 30, 2011 and June 30, 2010 amounted to $11,400 and $10,000, respectively.

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets – Licenses and Intellectual Property

In connection with the acquisition on Milestone, the Company received, among other things, various licenses to use software that had been developed by INEEL (Idaho National Engineering and Environmental Laboratory). In addition to the right to use this software, the Company also acquired, as a part of the Milestone purchase, various technical manuals, drawings, plans for hardware design and systems configuration and corporate expertise which, in total, comprised the intellectual property which is a significant element of the current secure scan system. Milestone transferred the licenses to View Systems, Inc., and in November 2003, two separate licenses were signed in the name of View Systems with Bechtel BWXT Idaho, LLC (BBWI).

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

The valuation of the intellectual property in total consists of the cost of acquiring Milestone, that is, the difference of the cost paid for the entity vs. the value of the underlying assets and liabilities which was determined to be $1,626,854. The cost is being amortized on a straight line basis over the remaining useful lives of the underlying patents, which at the date of the purchase was 15.5 years. Amortization expense for the periods ended June 30, 2011 and June 30, 2010 was $52,480 and $104,958, respectively. Consistent with ASC 410, the intellectual property was also analyzed to determine if any impairment existed at June 30, 2011 and December 31, 2010. It was determined to be not impaired. The Company has fundamentally advanced the technology under which these licenses operate and it is in the process of filing for its own provisional patents.

Income Taxes

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

Research and Development

Research and development costs are expensed as incurred.

Advertising

Advertising costs are charged to operations as incurred. Advertising costs for the periods ended June 30, 2011 and June 30, 2010 were $2,644 and $25,862.

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Nonmonetary Transactions

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

Financial Instruments

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

Net Loss Per Common Share

Basic net loss per common share is computed by dividing net loss available to common stockholder by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares and dilutive potential common 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, 2011 and June 30, 2010 does not include potential shares of common stock equivalents, as their impact would be antidilutive. The following reconciles amounts reported in the financial statements:

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

	Income (Numerator)	Weighted Shares (Denominator)	Per-share Amount
Six months ended June 30, 2011			
Income (loss) from continuing operations which is the amount that is available to common stockholders	$ (402,459)	106,311,991	$ (0.00)
Six months ended June 30, 2010			
Income (loss) from continuing operations which is the amount that is available to common stockholders	$ (258,602)	77,788,119	$ (0.00)

2. GOING CONCERN

The Company has incurred and continues to incur, losses from operations. For the six month periods ended June 30, 2011 and June 30, 2010, the Company incurred net losses of $402,459 and $258,602, 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 2011 and 2010 and decreases in expenses during 2011 and 2010 made a significant contribution to working capital. It is management’s intention to finance operations during the remainder of 2011 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.

3. NEW ACCOUNTING PRONOUNCEMENTS

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

4. BUSINESS COMBINATION

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

Milestone Technology, Inc. was a developer of concealed weapons detections systems. Its primary product was a walk-through detector that used advanced magnetic technology to accurately pinpoint the location, size, and numbers of concealed weapons. Milestone Technology, Inc. is not active.

5. INTELLECTUAL PROPERTY

The Company advanced non-interest bearing funds of $147,507 as of June 30, 2011 and December 31, 2010 to a related corporation, The Fight Zone, Inc., (formerly Geoscopix, Inc.), which at one time was controlled by the Chief Executive Officer of the Company. During 2010 that control was lost due to the restructuring of The Fight Zone, Inc. During periods prior to the emergence of The Fight Zone, Inc. that company, which was then known as Geoscopix, Inc. had been developing a three dimensionally lensed camera system which was titled as The Gator. The Gator had promising potential industrial applications particularly in the construction industry.

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

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

6. NOTES PAYABLE

Notes payable as of June 30, 2011 and December 31, 2010 consist of the following:

		2011		2010
Stockholder				
An unsecured loan from a stockholder which is payable on demand with interest at 12%.	$	116,000	$	116,000
Lafayette Community Bank				
A term loan secured by a stockholder, payable in five monthly installments of $6,175 commencing December 25, 2009 with a balloon payment in the amount $175,630 due in May 2011. Interest accrues monthly at 7% per annum.		130,935		142,042
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 matured on December 17, 2009 became due and payable, and is therefore in default.		50,000		50,000
Investor				
Convertible promissory note payable on December 31, 2010 with interest at 8% per annum. Upon meeting certain provisions the note can be converted to shares of common stock at $0.0033 per share.		10,500		37,000
Chase				
Equipment loans to finance the purchases of two trucks, payable monthly in installments of $1,003, which include interest at 5.34% per annum.		35,637		39,873
TOTAL	$	343,072	$	384,915
Less Current Portion		318,634		374,763
Non-Current Portion	$	24,438	$	10,152

Principal payments for the next five years are as follows:

2011	$318,634
2012	10,708
2013	11,294
2014	2,436
TOTAL	$343,072

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

7. INCOME TAXES

For income tax purposes the Company has net operating loss carry forwards of $21,856,026 as of December 31, 2010 that may be used to offset future taxable income. In the instance of future corporate acquisitions, the net operating losses may be used to offset the future taxable income of a qualifying subsidiary corporation which meets IRS regulations governing such situations. The losses have accumulated since 1998 and they will start to expire in 2018.

The components of the net deferred tax asset as of December 31, 2010 are as follows:

Effect of net operating loss carry forward	$9,179,531
Less evaluation allowance	(9,179,531)
Net deferred tax asset	$-

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

	Period ended	
	June 30, 2011	June 30, 2010
Net loss per financial statements, which approximates net loss per income tax returns	$ (402,459)	$ (258,602)
Income tax expense (benefit) applying prevailing Federal and state income tax rates	(169,033)	(108,613)
Less valuation allowance	169,033	108,613
Net income tax expense (benefit)	$ -	$ -

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

8. 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. Effective in 2010 the Series A Preferred can be converted into common stock in the ratio of 15:1. Each share is entitled to fifteen votes and shall be entitled to vote on any matters brought to a vote by common stock stockholders.

During 2008 the Board of Directors approved a reverse split of the stock in which one new share of preferred stock was issued in exchange for each 80 shares of 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.

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.

Preferred Stock Issued for Services

During the six months ended June 30, 2011 the Company issued the following compensatory shares outside of its existing Equity Incentive and Service Provider Plans at the discretion of the Board of Directors:

	2011 Number of Shares	Expense Recognized
Officers and employees	1,000,000	$ 10,000
Independent contractors and consultants	500,000	5,000
Total	1,500,000	$ 15,000

9. OPERATING LEASE

The Company leases 3,600 sq. ft. of office and warehouse space at 1550 Caton Center Drive, Suites D and E, Baltimore, Maryland, under a three-year non-cancellable operating lease which expired in October 2008. A renewal of the lease expired on August 31, 2010, and the Company renewed the lease for one year commencing September 1, 2010 and expiring August 31, 2011. The base rent had been $3,047 per month with an annual rent escalator of 3%. Under the current renewal the monthly lease payment is $3,077. Rent expense was $16,621 and $47,789 for the periods ended June 30, 2011 and June 20, 2010, respectively.

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NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

10. STOCK BASED COMPENSATION

During the periods ended June 30, 2011 and June 30, 2010 the Company granted restricted stock to independent contractors and consultants.

Restricted Stock Grants

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

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

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

During the six months ended June 30, 2011 and June 30, 2010, the Company issued the following compensatory shares outside of its existing Equity Incentive and Service Provider Plans at the discretion of the Board of Directors:

	June 30, 2011		June 30, 2010	
	Number of Shares	Expense Recognized	Number of Shares	Expense Recognized
Officers and employees	7,000,000	$46,200	500,000	$15,000
Independent contractors and consultants	11,459,100	57,150	10,919,810	184,095
Total	18,459,100	$103,350	11,419,810	$199,095

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.

11. RELATED PARTY TRANSACTIONS

During the periods reflected on this report certain shareholders made cash advances to the Company to help with short-term working capital needs. The total balance due on unstructured loans from shareholders amount to $165,184 at June 30, 2011 and $127,461 at December 31, 2010. The Board of Directors authorized the issuance of 1,000,000 Series A Preferred Stock in payment of a loan from a shareholder in the amount of $64,000. These shares can be converted to common stock in 2013. Loans from stockholders made with repayment terms are described in Note 6 above.

12. 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 $136,366. 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 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 to this settlement is considered to be in process.

13. CORRECTION FOR DUPLICATIVE STOCK ISSUANCE

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

14. RESTATEMENT

Due to accounting errors, the Company has restated its financial statements as of and for the period 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. Also, in the original filing revenue was overstated due to recognition of sales prior to the installation of the products. As a result of reducing sales revenue there was a corresponding reduction in cost of sales and accounts payable. In addition, the Company is restating the December 31, 2010 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. However, after a further review of the legal documents, it was determined that the debt was not satisfied. Instead, the ultimate resolution of the debt was contingent on events that were still unfolding. The Company's summarized financial statement elements comparing the restated financial statement elements to those originally filed are as follows:

VIEW SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

COMPARISON OF FINANCIAL STATEMENTS ELEMENTS AT 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	$ 394,260	$ (45,971)
Stock settlement payable	-	163,366	163,366
Deferred income	-	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	-	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)

15. MATERIAL WEAKNESS IN CONTROLS OVER FINANCIAL REPORTING

We have identified material weakness in our internal controls over financial reporting, that, if not corrected, could result in material misstatements in our financial statements. We are not currently required to comply with Section 404 of the Sarbanes Oxley Act of 2002 and are therefore not required to make an assessment of the effectiveness of our internal controls over financial reporting for that purpose. However, in connection with the audit of our financial statements for the year ended December 31, 2011, our auditors and we have identified certain matters involving our internal controls over financial reporting that constitute material weaknesses under standards established by the Public

Accounting Oversight Board.

The material weakness identified resulted from inadequate oversight by management and accounting personnel into the process of recognizing revenue in accordance with generally accepted accounting principles. As a result revenue from sales of extended warranties were recognized as revenue when contracted for rather than allocated over the life of the warranty. In addition, some sales of products were recognized as revenue even though all of the elements of a completed sale were not evident. See Note 14 above.

We have instituted a remediation plan which involves reeducating Company management, the accounting staff and the administrative staff as to the elements of a completed sale. We increased the oversight of the process by increasing the frequency of involvement of outside accounting consultants. Internal systems are being put into place to track and document significant dates, such as delivery, installation and customer acceptance. In addition, the bookkeeping system has been modified so that all sales of extended warranties are automatically recorded as deferred revenue and that the amount of revenue that is ultimately recognized as warranty revenue is as the result of an analysis of the significant aspects of the warranty such as coverage and period.

16. MODIFICATIONS TO FINANCIAL STATEMENT ACCOUNT GROUPINGS

The amount reported in the line items of expenses reflected on the consolidated statements of operations (unaudited) within the section for Operating Expenses have been changed to better reflect the nature of the expenses and to be consistent with how these accounts were reflected on the year-end financial statements. The total of Operating Expenses have not changed materially from what was previously reported except for a small change which is reflected on the footnote regarding restatement.

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, 2011 should be read in conjunction with the Consolidated Financial Statements and other information presented elsewhere in this quarterly report.

Overview

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