

Iveda Solutions, Inc.  
Form 10-Q  
May 16, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the quarterly period ended March 31, 2013**

OR

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File No. 000-53285

**IVEDA SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or

20-2222203

Edgar Filing: Iveda Solutions, Inc. - Form 10-Q

organization) (I.R.S. Employer Identification No.)

1201 South Alma School Road, Suite 8500, Mesa, Arizona 85210  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (480) 307-8700

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 the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller reporting company

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

Class Outstanding as of April 30, 2013  
Common stock, \$0.00001 par value 24,354,548

**TABLE OF CONTENTS**

	Page
<b>PART I - FINANCIAL INFORMATION</b>	
ITEM 1. FINANCIAL STATEMENTS	3
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	15
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	19
ITEM 4. CONTROLS AND PROCEDURES	19
<b>PART II - OTHER INFORMATION</b>	
ITEM 1. LEGAL PROCEEDINGS	20
ITEM 1A. RISK FACTORS	20
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	20
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	20
ITEM 4. MINE SAFETY DISCLOSURES	21
ITEM 5. OTHER INFORMATION	21
ITEM 6. EXHIBITS	21
SIGNATURES	23

**PART I – FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****IVEDA SOLUTIONS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****MARCH 31, 2013 AND DECEMBER 31, 2012**

	March 31, 2013 (Unaudited)	December 31, 2012 (Audited)
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$1,707,308	\$114,462
Restricted Cash	1,097,489	447,206
Accounts Receivable, net	685,665	1,958,799
Inventory	161,311	123,021
Other Current Assets	416,793	645,728
Total Current Assets	4,068,566	3,289,216
PROPERTY AND EQUIPMENT, Net	480,973	516,981
<b>OTHER ASSETS</b>		
Intangible Assets, Net	161,666	166,666
Goodwill	841,000	841,000
Other Assets	105,429	105,621
Total Other Assets	1,108,095	1,113,287
Total Assets	\$5,657,634	\$4,919,484

**LIABILITIES AND STOCKHOLDERS' EQUITY****CURRENT LIABILITIES**

Accounts and Other Payables	\$1,966,791	\$2,456,788
Due to Related Parties, net of debt discount	340,803	336,605
Short Term Debt	453,807	802,122
Current Portion of Long-Term Debt	74,612	75,707
Total Current Liabilities	2,836,013	3,671,222

LONG TERM DEBT	49,237	67,695
STOCKHOLDERS' EQUITY		
Preferred Stock	-	-
Common Stock	235	204
Additional Paid-In Capital	19,054,087	16,204,068
Accumulated Comprehensive Income (Loss)	(25,134 )	(23,629 )
Accumulated Deficit	(16,256,804)	(15,000,076)
Total Stockholders' Equity	2,772,384	1,180,567
Total Liabilities and Stockholders' Equity	\$5,657,634	\$4,919,484

*See accompanying Notes to Condensed Consolidated Financial Statements*

**IVEDA SOLUTIONS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012**

	Three Months Ended March 31, 2013 (unaudited)	Three Months Ended March 31, 2012 (unaudited)
REVENUE		
Equipment Sales	\$ 435,833	\$ 500,865
Service Revenue	169,009	194,369
Other Revenue	10,380	15,591
<b>TOTAL REVENUE</b>	<b>615,222</b>	<b>710,825</b>
<b>COST OF REVENUE</b>	<b>564,948</b>	<b>535,108</b>
<b>GROSS PROFIT</b>	<b>50,274</b>	<b>175,717</b>
<b>OPERATING EXPENSES</b>	<b>1,271,083</b>	<b>960,428</b>
<b>LOSS FROM OPERATIONS</b>	<b>(1,220,809 )</b>	<b>(784,711 )</b>
<b>OTHER INCOME (EXPENSE)</b>		
Foreign Currency Gain (Loss)	(189 )	-
Loss from conversion of debt	(16,500 )	-
Interest Income	-	60
Interest Expense	(18,730 )	(10,490 )
Total Other Income (Expense)	(35,419 )	(10,430 )
<b>LOSS BEFORE INCOME TAXES</b>	<b>(1,256,228 )</b>	<b>(795,141 )</b>
<b>BENEFIT FOR INCOME TAXES</b>	<b>-</b>	<b>-</b>
<b>NET LOSS</b>	<b>\$ (1,256,228 )</b>	<b>\$ (795,141 )</b>
<b>BASIC AND DILUTED LOSS PER SHARE</b>	<b>\$ (0.06 )</b>	<b>\$ (0.04 )</b>

*See accompanying Notes to Condensed Consolidated Financial Statements*



IVEDA SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)

FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012

	Three Months Ended March 31, 2013 (unaudited)	Three Months Ended March 31, 2012 (unaudited)
Net Loss	\$ (1,256,228 )	\$ (795,141 )
Other comprehensive income (loss):		
Foreign currency translation adjustment	(1,505 )	16,294
Comprehensive Loss	\$ (1,257,733 )	\$ (778,847 )

*See accompanying Notes to Condensed Consolidated Financial Statements*



**IVEDA SOLUTIONS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012**

	Three Months Ended March 31, 2013		Three Months Ended March 31, 2012	
	(Unaudited)		(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net Loss	\$ (1,256,228	)	\$ (795,141	)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities				
Depreciation and Amortization	57,084		43,347	
Loss from conversion of debt	16,500		-	
Stock Compensation	40,000		28,584	
Non - cash compensation	13,378		-	
(Increase) Decrease in Operating Assets:				
Accounts Receivable	1,258,084		(106,480	)
Inventory	(38,197	)	(29,148	)
Other Current Assets	165,016		107,288	
Accounts and Other Payables	(423,574	)	446,443	
Net cash used in operating activities	(167,937	)	(305,107	)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Cash Acquired in Acquisition	-		-	
Purchase of Property and Equipment	(16,656	)	(203,366	)
Net cash provided by (used) in investing activities	(16,656	)	(203,366	)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Changes in Restricted Cash	(645,511	)	(41,844	)
Proceeds from (Payments to) on Short-Term Notes Payable/Debt	(313,500	)	166,413	
Proceeds from (Payments to) Related Parties	4,600		47,000	
Proceeds from Exercise of stock options	42,000		-	
Payments on Long Term Debt	(20,058	)	(3,403	)
Common Stock Issued, net of Cost of Capital	2,708,172		60,000	
Net cash provided by financing activities	1,775,703		228,166	
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>1,736</b>		<b>11,027</b>	
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>1,592,846</b>		<b>(269,280</b>	<b>)</b>

Edgar Filing: Iveda Solutions, Inc. - Form 10-Q

Cash and Cash Equivalents - Beginning of Period	114,462	850,364
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 1,707,308	\$ 581,084
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 18,730	\$ 10,490

*See accompanying Notes to Condensed Consolidated Financial Statements*

6

**IVEDA SOLUTIONS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012**

**NOTE 1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These statements should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2012. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted. The operating results and cash flows for the three-month period ended March 31, 2013, are not necessarily indicative of the results that will be achieved for the full fiscal year ending December 31, 2013 or for future periods.

The accompanying condensed consolidated financial statements have been prepared without audit and reflect all adjustments, consisting of normal recurring adjustments, which are, in the opinion of management, necessary for a fair statement of financial position and the results of operations for the interim periods. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts, impairment costs, depreciation and amortization, sales returns and discounts, warranty costs, uncertain tax positions and the recoverability of deferred tax assets, stock compensation, contingencies and the fair value of assets and liabilities disclosed. Actual results and outcomes may differ from management’s estimates and assumptions. The statements have been prepared in accordance with GAAP and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures, normally included in financial statements prepared in accordance with GAAP, have been condensed or omitted pursuant to such SEC rules and regulations.

The balance sheet at December 31, 2012 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

**Consolidation**

Effective April 30, 2011, Iveda Solutions, Inc. (the “Company”) completed its acquisition of Sole Vision Technologies (dba “MegaSys”), a company based in Taiwan. All intercompany balances and transactions have been eliminated in consolidation. See Note 8.

**Going Concern**

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. Since inception, the Company has generated an accumulated deficit from operations of approximately \$16.3 million at March 31, 2013 and has used approximately \$168,000 in cash from operations through the current three months ended March 31, 2013. As a result, a risk exists regarding our ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from this uncertainty.

A multi-step plan was adopted by management to enable the Company to continue to operate and begin to report operating profits. The highlights of that plan are:

- The Company is seeking additional equity and/or debt financing.

The Company shifted from direct to indirect sales channels. The Company has established and implemented a commission-based national manufacturer's independent representative network. The network is designed to increase sales and marketing activities with minimal cost to the Company. The Company has engaged with ten representative firms covering 41 U.S. states, the Caribbean, and Canada. The names of the partner firms that have signed a partner agreement are as follows: Coaxial Systems Associates, Inc., GP Marketing, HMR Associates, IDMC Associates, Intech Sales, Langbaum & Associates, Milsk Company, R.W. Kunz & Associates, SecuraGlobe, and Warren & Associates. The representatives will bring to the Company their network of security integrators and will recruit new integrators that will serve as salespeople and installers of surveillance cameras.

The Company hired channel sales managers to provide field sales support and manage a group of reps and integrators. The Company is also enhancing its channel program, including co-op program and face-to-face in-depth training of reps and integrators.

The Company has been participating in security technology tradeshow and regional vertical tradeshow for lead generation activities and public relations campaign.

- The Company will launch local direct marketing to generate leads.

The Company will continue to directly service its large national and house accounts such as Pinkerton/Securitas, Telmex, and the Company's Mexican government agency customer.

### **Concentrations**

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents and trade accounts receivable.

Substantially all cash is deposited in two financial institutions, one in the United States and one in Taiwan. At times, amounts on deposit in the United States may be in excess of the FDIC insurance limit. Deposits in Taiwan financial institutions are insured by CDIC (Central Deposit Insurance Corporation) with maximum coverage of NTD 3 million.

At times, amounts on deposit in Taiwan may be in excess of the CDIC insurance limit.

Accounts receivable are unsecured, and the Company is at risk to the extent such amount becomes uncollectible. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Revenue from two customers represented approximately 61% of total revenues for the three months ended March 31, 2013, and approximately 31% of total accounts receivable at March 31, 2013.

### **Intangible Assets and Goodwill**

Intangible assets consist of trademarks and other intangible assets associated with the purchase price allocation of MegaSys. Such assets are being amortized over their estimated useful lives ranging from six months to ten years. Other Intangible Assets are fully amortized as of March 31, 2013. Future amortization of Intangible Assets is as follows:

Trademarks	
2013	15,000
2014	20,000
2015	20,000
2016	20,000
Thereafter	86,666
Total	161,666

Goodwill represents the excess of the purchase price of MegaSys over the net assets acquired. Goodwill is tested annually for impairment or more frequently if indicators of impairment exist.

Accordingly, the Company has recorded an impairment of \$955,710 in the Statement of Operations in the year ended 2011.

### **Fair Value of Financial Instruments**

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of March 31, 2013. The respective carrying values of certain on-balance-sheet financial instruments approximate their fair values. These financial instruments include cash, accounts receivable, accounts payable, accrued expenses, convertible notes and amounts due to related parties. Fair values were assumed to approximate carrying values for these financial instruments because they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand.

### **Segment Information**

The Company conducts operations in various geographic regions outside the United States. The operations and the customer base conducted in the foreign countries are similar to the United States operations. The net revenues and net assets (liabilities) for other significant geographic regions outside the United States are as follows:

	Net Revenues	Net Assets
United States	\$ 88,929	\$2,494,844
Asia	\$ 467,973	\$277,540
Mexico		