

Iveda Solutions, Inc.
Form 10-Q
August 13, 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 June 30, 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

(I.R.S.
Employer

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organization)	Identification No.)
<u>1201 South Alma School Road, Suite 8500, Mesa, Arizona</u> (Address of principal executive offices)	<u>85210</u> (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

<u>Class</u>	<u>Outstanding as of August 8, 2013</u>
Common stock, \$0.00001 par value	25,902,048

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PART I – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS****IVEDA SOLUTIONS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****JUNE 30, 2013 AND DECEMBER 31, 2012**

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,436,054	\$ 114,462
Restricted Cash	971,360	447,206
Accounts Receivable, net	997,774	1,958,799
Inventory	157,572	123,021
Other Current Assets	402,605	645,728
Total Current Assets	3,965,365	3,289,216
PROPERTY AND EQUIPMENT, Net	481,430	516,981
OTHER ASSETS		
Intangible Assets, Net	156,666	166,666
Goodwill	841,000	841,000
Other Assets	102,732	105,621
Total Other Assets	1,100,398	1,113,287
Total Assets	\$ 5,547,193	\$ 4,919,484
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts and Other Payables	\$ 1,755,494	\$ 2,456,788
Due to Related Parties, net of debt discount	100,000	336,605
Short Term Debt	439,052	802,122
Current Portion of Long-Term Debt	197,714	75,707
Total Current Liabilities	2,492,260	3,671,222
LONG TERM DEBT	104,350	67,695
STOCKHOLDERS' EQUITY		

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Preferred Stock	-	-
Common Stock	252	204
Additional Paid-In Capital	20,745,965	16,204,068
Accumulated Comprehensive Income (Loss)	(32,408)	(23,629)
Accumulated Deficit	(17,763,226)	(15,000,076)
Total Stockholders' Equity	2,950,583	1,180,657
Total Liabilities and Stockholders' Equity	\$ 5,547,193	\$ 4,919,484

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012**

	Three Months Ended June 30, 2013 (unaudited)	Three Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2013 (unaudited)	Six Months Ended June 30, 2012 (unaudited)
REVENUE				
Equipment Sales	\$ 621,989	\$ 596,099	\$ 1,057,822	\$ 1,096,964
Service Revenue	157,823	454,253	326,832	648,622
Other Revenue	14,354	10,144	24,734	25,734
TOTAL REVENUE	794,166	1,060,496	1,409,388	1,771,320
COST OF REVENUE	627,934	871,070	1,192,882	1,406,177
GROSS PROFIT	166,232	189,426	216,506	365,143
OPERATING EXPENSES	1,615,072	1,026,408	2,886,155	1,986,836
LOSS FROM OPERATIONS	(1,448,840)	(836,982)	(2,669,649)	(1,621,693)
OTHER INCOME (EXPENSE)				
Foreign Currency Gain (Loss)	(918)	-	(1,107)	-
Loss from conversion of debt	(27,500)	-	(44,000)	-
Interest Income	997	478	997	538
Interest Expense	(30,660)	(11,833)	(49,390)	(22,323)
Total Other Income (Expense)	(58,081)	(11,355)	(93,500)	(21,785)
LOSS BEFORE INCOME TAXES	(1,506,921)	(848,337)	(2,763,149)	(1,643,478)
BENEFIT FOR INCOME TAXES	-	-	-	-
NET LOSS	\$ (1,506,921)	\$ (848,337)	\$ (2,763,149)	\$ (1,643,478)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.06)	\$ (0.05)	\$ (0.12)	\$ (0.09)

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013 AND 2012

	Three Months Ended June 30, 2013 (unaudited)	Three Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2013 (unaudited)	Six Months Ended June 30, 2012 (unaudited)
Net Loss	\$ (1,506,921)	\$ (848,337)	\$ (2,763,149)	\$ (1,643,478)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(7,742)	(9,468)	(8,779)	6,826
Comprehensive Loss	\$ (1,514,663)	\$ (857,805)	\$ (2,771,928)	\$ (1,636,652)

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2013 AND 2012**

	Six Months Ended June 30, 2013 <u>(Unaudited)</u>	Six Months Ended June 30, 2012 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (2,763,149	) \$ (1,643,478
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities		
Depreciation and Amortization	113,349	116,259
Loss from Conversion of Debt	44,000	-
Stock Compensation	88,020	61,076
Common Stock Issued for Services	148,756	110,562
(Increase) Decrease in Operating Assets:		
Accounts Receivable	913,018	(710,900
Inventory	(37,852	) (59,909
Other Current Assets	71,014	(53,906
Accounts and Other Payables	(486,279	) 165,063
Net cash used in operating activities	(1,909,123	) (2,015,233
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(68,597	) (338,666
Net cash used in investing activities	(68,597	) (338,666
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in Restricted Cash	(544,058	) (47,673
Proceeds from (Payments on) Short-Term Notes Payable/Debt	(138,612	) 716,204
Proceeds from Exercise of Stock Options	184,574	-
Proceeds from (Payments to) Related Parties	(230,440	) 392,753
Proceeds from Long-Term Debt	41,757	-
Bank Borrowings	-	101,226
Payments on Capital Lease Obligations	(5,567	) (5,917
Common Stock Issued, net of Cost of Capital	3,996,594	651,539
Net cash provided by financing activities	3,304,248	1,808,132
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(4,936	) 6,819
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,321,592	(538,948
Cash and Cash Equivalents - Beginning of Period	114,462	850,364
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 1,436,054	\$ 311,416

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Interest Paid	\$ 49,390	\$ 22,323
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See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 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, 2011. 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 six-month period ended June 30, 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. The consolidated financial statements include the accounts of the Company and MegaSys (from May 1, 2011 through September 30, 2012). 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 \$17.8 million at June 30, 2013 and has used approximately \$1.9 million in cash from operations through the current six months ended June 30, 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 plans to seek additional equity and/or debt financing.

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 seven representative firms covering 40 U.S. states and Canada. The names of the partner firms that have signed a partner agreement are as follows: HMR Associates, Langbaum & Associates, Milsk Company, SecuraGlobe, Security Reps, The Supply Channel, 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 has also beefed up its direct sales team to concentrate on residential and small business customers. To support their effort, the Company launched a new website with online order processing and marketing campaign consisting of digital billboards, Google Adwords, ValuPak, and online banner ads.

The Company will continue to directly service its large national and house accounts such as Telmex, American Security/Marsden, and a Mexican government agency.

Iveda Solutions formed a strategic partnership with Industrial Technology Research Institute (ITRI), a nonprofit research and development organization in Taiwan, engaged in applied research and technical services. The collaboration will result to continuously developing cloud video hosting services to enhance efficiency and scalability. This will not only enhance the Company's cloud video service offerings, but will also reduce cost.

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 58% of total revenues for the six months ended June 30, 2013, and approximately 45% of total accounts receivable at June 30, 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 June 30, 2013. Future amortization of Intangible Assets is as follows:

Trademarks	
2013	\$ 10,000
2014	\$ 20,000
2015	\$ 20,000
2016	\$ 20,000
Thereafter	\$ 86,666
Total	\$ 156,666

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.

Fair Value of Financial Instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of June 30, 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	\$ 241,557	\$2,798,691
Asia	\$ 1,039,151	\$ 151,892
Mexico	\$ 128,680	-

Furthermore, due to operations in various geographic locations, the Company is susceptible to changes in national, regional and local economic conditions, demographic trends, consumer confidence in the economy and discretionary spending priorities that may have a material adverse effect on the Company's future operations and results.

The Company is required to collect certain taxes and fees from customers on behalf of government agencies and remit these back to the applicable governmental agencies on a periodic basis. These taxes and fees are legal assessments to the customer, for which the Company has a legal obligation to act as a collection agent. Because the Company does not retain these taxes and fees, the Company does not include such amounts in revenue. The Company records a liability when the amounts are collected and relieves the liability when payments are made to the applicable governmental agencies.

The Company operates as two reportable business segments in defined in ASC 280, "Segment Reporting." Each business segment has a chief operating decision maker and management personnel which review their business segment's performance as it relates to revenue, operating profit and operating expenses.

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	Three Months Ended June 30, 2013 Iveda Solutions, Inc.	Three Months Ended June 30, 2013 MegaSys	Condensed Consolidated Total
Revenue	\$ 222,988	\$ 571,178	\$ 794,166
Cost of Revenue	174,443	453,491	627,934
Gross Profit	48,545	117,687	166,232
Depreciation and Amort.	53,587	2,678	56,265
General and Administrative	1,329,674	229,133	1,558,807
(Loss) from Operations	(1,334,716)	(114,124)	(1,448,840)
Foreign Currency Gain (Loss)	(918)	-	(918)
Loss from the conversion of debt	(27,500)		(27,500)
Interest Income	-	997	997
Interest Expense	25,413	5,247	30,660
(Loss) Before Income Taxes	(1,388,547)	(118,374)	(1,506,921)
(Provision) For Income Taxes	-	-	