Iveda Solutions, Inc.
Form 10-Q
May 14, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

R **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2012

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	20-2222203
(State or other jurisdiction of incorporation or 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 **x** 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 **x** 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 **x**

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

Class	Outstanding as of May 1 , 2012
Common stock, $0.00001 par value	18,554,229

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

IVEDA SOLUTIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

MARCH 31, 2012 AND DECEMBER 31, 2011

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 581,084	$ 850,364
Accounts Receivable, net	1,064,525	942,879
Note Receivable	6,728	102,092
Deposits	298,577	388,652
Inventory	110,807	80,033
Prepaid Expenses and Other Current Assets	51,570	44,887
Total Current Assets	2,113,291	2,408,907
PROPERTY AND EQUIPMENT		
Office Equipment	412,414	284,847
Furniture and Fixtures	67,612	67,476
Software	137,109	55,716
Leased Equipment	257,166	257,166
Leasehold Improvements	50,478	50,807
Total Property and Equipment	924,779	716,012
Less: Accumulated Depreciation	383,834	340,492
Property and Equipment, Net	540,945	375,520
OTHER ASSETS		
Deposits	10,836	10,836
Restricted Cash	96,912	53,806
Deferred Tax assets	4,738	4,638
Trademarks	200,000	200,000
Other Intangible assets	130,000	130,000
Less: Accumulated Amortization	(148,333)	(143,333)
Goodwill	841,000	841,000
Total Other Assets	1,135,153	1,096,947

Total Assets	$ 3,789,389	$ 3,881,374

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

MARCH 31, 2012 AND DECEMBER 31, 2011

	March 31, 2012 (Unaudited)	December 31, 2011 (Audited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts and other Payables	$ 955,250	$ 499,640
Accrued Expenses	365,150	393,612
Current Portion of Capital Lease Obligations	10,801	11,882
Due to Related Parties, net of debt discount	81,932	76,424
Bank Loans –Short Term	378,357	212,480
Income Tax Payable	84,458	103,204
Notes Payable, including $47,000 due to related parties	72,268	35,839
Deferred Revenue	84,279	98,813
Total Current Liabilities	2,032,495	1,431,894
LONG-TERM LIABILITIES		
Capital Lease Obligations, Net of Current Portion	8,141	10,464
Total Liabilities	2,040,636	1,442,358
STOCKHOLDERS' EQUITY		
Preferred Stock, $0.00001 par value; 100,000,000 shares authorized; no shares outstanding as of March 31, 2012 and December 31, 2011		
Common Stock, $0.00001 par value; 100,000,000 shares authorized; 19,491,729 (includes 1,4000,000 shares reserved for issuance) and 18,031,729 shares issued and outstanding, as of March 31, 2012 and December 31, 2011, respectively	181	180
Additional Paid-In Capital	13,731,475	13,642,892
Accumulated Comprehensive Income (Loss)	(29,613)	(45,907)
Accumulated Deficit	(11,953,290)	(11,158,149)
Total Stockholders' Equity	1,748,753	2,439,016
Total Liabilities and Stockholders' Equity	$ 3,789,389	$ 3,881,374

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

	Three Months Ended March 31, 2012 (unaudited)	Three Months Ended March 31, 2011 (unaudited)
REVENUE		
Equipment Sales	$ 500,865	$ 149,510
Service Revenue	194,369	119,590
Other Revenue	15,591	14,803
TOTAL REVENUE	710,825	283,903
COST OF REVENUE	535,108	172,506
GROSS PROFIT	175,717	111,397
OPERATING EXPENSES	960,428	537,606
LOSS FROM OPERATIONS	(784,711)	(426,209)
OTHER INCOME (EXPENSE)		
Interest Income	60	261
Interest Expense	(10,490)	(14,569)
Total Other Income (Expense)	(10,430)	(14,308)
LOSS BEFORE INCOME TAXES	(795,141)	(440,517)
BENEFIT FOR INCOME TAXES	-	-
NET LOSS	$ (795,141)	$ (440,517)
BASIC AND DILUTED LOSS PER SHARE	$ (0.04)	$ (0.03)

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

	Three Months Ended March 31, 2012 (Unaudited)	Three Months Ended March 31, 2011 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (795,141)	$ (440,517)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities		
Depreciation and Amortization	43,347	24,927
Stock Compensation	28,584	55,741
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(106,480)	187,778
Notes Receivable	97,288	-
Prepaid Expense	(8,391)	2,547
Inventory	(29,148)	1,641
Deposit	98,126	1,200
Other Current Assets	2,179	-
Accounts and other Payables	446,443	57,338
Notes Payable	(11,308)	-
Tax Payable	(20,898)	-
Accrued Expenses	(35,110)	(5,286)
Deferred Revenue	(14,598)	(4,932)
Net cash used in operating activities	(305,107)	(119,563)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(203,366)	-
Net cash provided by (used) in investing activities	(203,366)	-
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in Restricted Cash	(41,844)	-
Payments on Short-Term Notes Payable/Debt	166,413	-
Proceeds from (Payments to) Related Parties	47,000	-
Payments on Capital Lease Obligations	(3,403)	(15,325)
Common Stock Issued, net of Cost of Capital	60,000	30,000
Net cash provided by financing activities	228,166	14,675
EFFECT OF EXCHANGE RATE CHANGES ON CASH	11,027	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	(269,280)	(104,888)

Cash and Cash Equivalents - Beginning of Period	850,364	355,343
CASH AND CASH EQUIVALENTS - END OF PERIOD	$ 581,084	$ 250,455
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	$ 10,490	$ 14,569

See accompanying Notes to Condensed Consolidated Financial Statements

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IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011

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 three-month period ended March 31, 2012, are not necessarily indicative of the results that will be achieved for the full fiscal year ending December 31, 2012 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, 2011 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 March 31, 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. The Company has generated an accumulated deficit from operations of approximately $12 million at March 31, 2012 and has used approximately $305,000 in cash from operations through the current three months ended March 31, 2012. 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 plans to establish distributor networks with existing companies to create a reseller network to increase the scope of the Company's marketing activities with low cost to the Company.
- The Company plans to grow its direct sales channel to aggressively go after the small to medium-size businesses.

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.

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 one customer represented approximately 52% of total revenues for the three months ended March 31, 2012, and approximately 34% of total accounts receivable at March 31, 2012.

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, 2012. Future amortization of Intangible Assets is as follows:

Trademarks	
2012	15,000
2013	20,000
2014	20,000
2015	20,000

Thereafter	106,667

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 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, 2012. 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	$ 150,265	$ 1,018,300
Asia	$ 479,426	$ 730,453
Mexico	$ 81,134	-

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 company has a chief operating decision maker and management personnel review which review their company's performance as it relates to revenue, operating profit and operating expenses.

	Three Months Ending March 31, 2012 Iveda Solutions, Inc.	Three Months Ending March 31, 2012 MegaSys	Condensed Consolidated Total
Revenue	$ 231,399	$ 479,426	$ 710,825
Cost of Revenue	128,804	406,304	535,108
Gross Profit	102,595	73,122	175,717
Depreciation and Amort.	41,914	1,433	43,347
General & Administrative	792,514	124,567	917,081

(Loss) from Operations		(731,833)	(52,878)	(784,711)
Interest Income		49	11	60
Interest Expense		8,843	1,647	10,490
(Loss) Before Income Taxes		(740,627)	(54,514)	(795,141)
(Provision) For Income Taxes		-	-	-
Net Loss	$	(740,627)	$ (54,514)	$ (795,141)

Revenues as shown below represent sales to external customers for each segment. Additions to long-lived assets as presented in the following table represent capital expenditures. Inventories, property and equipment for operating segments are regularly reviewed by management and are therefore provided below.

	March 31,	
	2012	2011
Revenues		
United States	$231,399	$283,903
Republic of China (Taiwan)	479,426	-
	$710,825	$283,903

	March 31,	
	2012	2011
Operating earnings (loss)		
United States	$(731,833)	$(426,209)
Republic of China (Taiwan)	(52,878)	-
	$(784,711)	$(426,209)

	March 31,	
	2012	2011
Property and equipment		
United States	$522,761	