

ANV SECURITY GROUP INC.  
Form 10-Q  
May 11, 2012

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

**FORM 10-Q**

(Mark One)

**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 Number: 000-53802**

**ANV Security Group, Inc.**

**(Exact name of registrant as specified in its charter)**

Nevada  
**(State or other jurisdiction of  
incorporation or organization)**

13-3089537  
**(I.R.S. Employer  
Identification No.)**

8th Floor, Block B, R&D  
Building, Tsinghua Hi-Tech  
Park, North Area of Shenzhen  
Hi-Tech & Industrial Park,  
Nanshan District, Shenzhen,  
China  
**(Address of principal executive  
offices)**

518057

**(Zip Code)**

0086-755-8665-6436

**(Registrant's telephone number, including area code)**

N/A

**(Former name, former address and former fiscal year, if changed since last report)**

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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

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 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  (Do not check if a smaller reporting company)

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

As of May 4, 2012, 74,480,071 shares of common stock, par value\$0.001 per share, were outstanding, of which 10,545,461 shares were held by non-affiliates.

**ANV SECURITY GROUP, INC.**

**FORM 10-Q**

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## PART I Financial Information

## Item 1 Financial Statements

**ANV Security Group, Inc.****Consolidated Balance Sheets****(Expressed in US dollars)**

	March 31 , 2012 (Unaudited)	As of	December 31, 2011
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	\$ 1,048,595	\$	1,388,743
Accounts Receivable, net	4,645,174		4,860,072
GST Receivable	997		11,671
Inventories, net	4,598,191		5,252,778
Prepayments and Deposits	1,473,898		1,399,787
Due from Shareholders	147,902		177,683
Total Current Assets	11,914,757		13,090,734
Property, Plant and Equipment , net	673,832		636,787
Intangible Assets	1,610,436		1,692,613
Goodwill	4,197,256		4,197,256
Deferred Tax Assets	1,674,258		1,397,267
Total Assets	\$ 20,070,539	\$	21,014,657
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current Liabilities			
Accounts Payable and Accrued Expenses	\$ 6,999,798	\$	6,964,264
Due to Related Parties	120,426		100,801
Total Current Liabilities	7,120,224		7,065,065
Total Liabilities	7,120,224		7,065,065
Commitments and Contingencies			
Stockholders' Equity			
Common Stock ( \$0.001 par value, 100,000,000 shares authorized, 74,480,071 and 74,130,071 shares issued and outstanding, respectively)	74,480		74,130
Additional Paid-in Capital	20,016,939		19,917,289
Deficit Accumulated	(7,762,354)		(6,653,429)

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Accumulated Other Comprehensive Income	621,250	611,602
Total Stockholders' Equity	12,950,315	13,949,592
Total Liabilities and Stockholders' Equity	\$ 20,070,539	\$ 21,014,657

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

**ANV Security Group, Inc.****Consolidated Statements of Operations****(Expressed in US dollars)****(Unaudited)**

	For the Three Months Ended	
	March 31, 2012	March 31, 2011
Revenues	\$ 4,127,819	\$ 4,919,525
Cost of Sales	3,413,177	3,914,045
Gross profit	714,642	1,005,480
Operating Expenses		
Selling and Marketing	516,406	413,245
General and Administrative	1,271,414	873,350
Research and Development	306,592	208,064
Total Operating Expenses	2,094,412	1,494,659
Operating Loss	(1,379,770)	(489,179)
Other Income (Expenses)		
Interest Income	15,084	369
Interest Expense	(30,229)	(553)
Others, net	10,700	121,360
Total Other Income (Expense)	(4,445)	121,176
Loss Before Income Tax Expense	(1,384,215)	(368,003)
Income Tax Expense, Net of Income Tax Benefit	275,290	819
Net Loss	\$ (1,108,925)	\$ (367,184)
Other Comprehensive Income (Loss)		
Foreign Currency Translation Adjustment	9,648	108,000
Comprehensive Loss	\$ (1,099,277)	\$ (259,184)
Net Loss Per Share – Basic and Diluted	\$ (0.01)	\$ (0.01)
Weighted Average Number of Shares Outstanding – Basic and Diluted	74,430,071	66,130,071

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





## ANV Security Group, Inc.

## Consolidated Statements of Cash Flows

(Expressed in US dollars)

(Unaudited)

	For the three months ended	
	March 31, 2012	March 31, 2011
<b>Cash flows from operating activities</b>		
Net loss	\$ (1,108,925)	\$ (367,184)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	136,169	124,256
Provision for doubtful accounts	(9,583)	5,156
Provision for obsolete inventories	376,315	(121,183)
Deferred tax	(275,290)	11,226
Changes in operating assets and liabilities ( (net of effects of acquisition):		
Decrease (increase ) in:		
Prepayment and deposit	296,643	11,691
Accounts receivable	231,955	645,899
GST Receivable	10,853	(1,690)
Inventories	283,216	(733,334)
Increase (decrease) in:		
Accounts payable and accrued expenses	(342,707)	(563,685)
Income tax payable	-	(120,721)
Net Cash (Used in) Provided by Operating Activities	(401,354)	(1,109,569)
<b>Cash Flows From Investing Activities</b>		
Purchase of equipment and furniture	(86,842)	(80,025)
Capitalized intangible costs	(1,832)	(1,655)
Net Cash (Used in) Provided by Investing Activities	(88,674)	(81,680)
<b>Cash Flows From Financing Activities</b>		
Proceeds from (repayment to) related parties	49,479	(137,549)
Proceeds from issuance of common stock	100,000	-
Net Cash (Used in) Provided by Financing Activities	149,479	(137,549)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	401	35,508
Net (Decrease) Increase In Cash and Cash Equivalents	(340,148)	(1,293,290)
Cash and Cash Equivalents at Beginning of Period	1,388,743	4,398,282
Cash and Cash Equivalents at End of Period	\$ 1,048,595	\$ 3,104,992
<b>Supplemental Schedule of Cash Flows Disclosures</b>		
Interest paid	\$ 30,229	\$ 553

Income taxes paid	\$	-	\$	120,721
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(The accompanying notes are an integral part of these consolidated financial statements.)

**ANV Security Group, Inc.**

**Notes to Consolidated Financial Statements**

**March 31, 2012**

**1. Company Information**

ANV Security Group, Inc. (the Company) is a Nevada company and was incorporated on December 18, 2006 in Vancouver, BC, Canada. The Company's headquarter is in Shenzhen, China.

On June 28, 2009, the Company entered into an agreement and plan of reorganization (the agreement) by and among Dini Products, Inc. (DINP), a Nevada corporation, where each common share of DINP was exchanged on a share-for-share basis for the Company's shares such that after the exchange, DINP has 33,190,071 common shares issued and outstanding, inclusive of 29,860,000 shares issued to the Company's stockholders. Upon the execution of the agreement, the Company changed its name to ANV Security Group, Inc.

The Company specializes in network video surveillance and video alarm service, and conducts new products research & development, software solution and technologies on its current platforms. The Company plans to become a fully integrated developer, designer, manufacturer, marketer, installer and servicer of web-based security systems for residential, commercial and government customers operating in the People's Republic of China.

On February 10, 2011, the Company changed its fiscal year-end from March 31 to December 31 in order to be aligned with the fiscal years of its principal operating subsidiaries in China.

**Note 2- Summary of Significant Accounting Policies**

**a) Basis of Presentation**

These consolidated financial statements are those of the Company and its subsidiaries. All significant intercompany transactions have been eliminated. These financial statements and related notes are presented in accordance with the accounting principles generally accepted in the United States and are expressed in US dollars.

**b) Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and all of its subsidiaries (all subsidiaries are 100% owned by the Company): ANV Security Technology (Taian) Co., Ltd., ANV Security Group (Asia) Co., Ltd., ANV Video Alarm Service Inc., ANV Security Technology (China) Co., Ltd., (formerly known as Shenzhen Angesi Technology Co., Ltd.), and ANV Trading (HK) Limited (formerly known as Flybit International Ltd.). The Company consolidates its subsidiaries in which it has over 50% controlling interests. All significant intercompany accounts, transactions and cash flows have been eliminated on consolidation.

**c) Use of Estimates**

In preparing the Company's consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting periods. Significant estimates made by management include: provision for product returns, allowance for doubtful accounts, inventory provision, useful lives of amortizable intangible assets, and provisions for income taxes and realizability of deferred tax assets. On an ongoing basis, management reviews its estimates to ensure that these estimates appropriately reflect changes in the Company's business and new information as it becomes available. If historical experience and other factors used by management to make these estimates do not reasonably reflect future activity, the Company's consolidated financial statements could be materially impacted.

**d) Reclassification**

Certain account reclassifications have been made to the financial statements of the prior year in order to conform to classifications used in the current year. These changes have no impact on previously stated financial statements of the Company.

**e) Comprehensive Income (Loss)**

In accordance with ASC 220-10-55, comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. The Company's components of comprehensive income for the three months ended March 31, 2012 and 2011 were net loss and the foreign currency translation adjustment.

**f) Cash and Cash Equivalents**

Cash equivalents consist of highly liquid investments that are readily convertible to cash with maturities of three months or less when purchased.

**g) Accounts Receivable**

The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and recorded based on management's assessment of the credit history with the customer and current relationships with them.

**h) Inventories**

Inventories are stated at the lower of cost or replacement cost with respect to raw materials and the lower of cost and net realizable value with respect to finished goods and work in progress. Cost of work in progress and finished goods is generally determined on weighted average cost basis and includes direct material, direct labour and overhead. Net realizable value represents the anticipated selling price less estimated costs of completion and distribution.

**i) GST Receivable**

GST receivable represents tax credit that the Canadian subsidiary receives when the subsidiary pays GST tax for its normal operations. As of March 31, 2012, the Company had a GST tax receivable of \$997.

**j) Prepayment and Deposits**

Prepayment and deposits represent cash paid in advance for purchasing of inventory items from suppliers and the amounts as of March 31, 2012 and December 31, 2011 were \$1,473,898 and \$1,399,787 respectively.

**k) Property, Plant and Equipment**

Property, plant and equipment are recorded at cost. Significant additions and improvements are capitalized, while repairs and maintenance are charged to expenses as incurred. Equipment purchased for specific research and development projects with no alternative uses are expensed. Assets under construction are not depreciated until construction is completed and the assets are ready for their intended use. Gains and losses from the disposal of property, plant and equipment are included in operating income (loss).

Depreciation of property, plant and equipment generally is computed using the straight-line method based on the estimated useful lives of the assets as follows:

Production equipment	5-10 years
Electronic equipment	3-5 years
Vehicle	5-10 years
Leasehold improvement	3-5 years

**l) Impairment of Long-Lived Assets**

Long-lived assets including intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable from the future undiscounted net cash flows expected to be generated by the asset. If the asset is not fully recoverable, an impairment loss would be recognized for the difference between the carrying value of the asset and its estimated fair value based on discounted net future cash flows. There were no impairment adjustments to the carrying value of the long-lived assets for the three months ended March 31, 2012 and the year ended December 31, 2011.

**m) Software Development Costs**

The Company accounts for software development costs in accordance with ASC 985-20, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed . Costs related to establishing the technological



feasibility of a software product are expensed as incurred as a part of research and development in general and administrative expenses. Costs that are incurred to produce the finished product after technological feasibility is established are capitalized and amortized over the estimated economic life of 5 years. The Company performs periodic reviews to ensure that unamortized program costs remain recoverable from future revenue.

**n) Financial Instruments and Concentration of Credit Risks**

**Fair Value of Financial Instruments**

Assets and liabilities subject to fair value measurements are required to be disclosed within a specified fair value hierarchy. The fair value hierarchy ranks the quality and reliability of inputs, or assumptions, used in the determination of fair value and requires assets and liabilities carried at fair value to be classified and disclosed in one of the following categories based on the lowest level input used that is significant to a particular fair value measurement:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets and liabilities in markets that are not active.

Level 3 Unobservable inputs for the asset or liability.

As of March 31, 2012 and December 31, 2011, the Company did not have any Level 2 and 3 financial assets. As of March 31, 2012 and December 31, 2011, the Company did not have financial liabilities measured at fair value on a recurring basis.

The fair values of financial instruments are estimated at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying values of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, short-term loans payable, accounts payable and accrued liabilities, and due from related parties approximate their fair value because of their short term nature. The fair values of loans payable and long-term payable for acquisition of assets are based on the estimated discounted value of future contractual cash flows. The discount rate is estimated using the rates currently offered for debt with similar remaining maturities.

### **Exchange Rate Risks**

The Company operates in China, which may give rise to significant foreign currency risks from fluctuations and the degree of volatility of foreign exchange rates between US dollars and the Chinese RMB.

### **Concentration of Credit Risks**

Financial instruments that potentially subject the Company to concentration of credit risks consist primarily of cash and cash equivalents, accounts receivable, and short-term investments, the balances of which are stated on the consolidated balance sheets which represents the Company's maximum exposure. The Company places its cash and cash equivalents in high credit quality financial institutions. Concentration of credit risks with respect to accounts receivables is linked to the concentration of revenue. To manage credit risk, the Company performs ongoing credit evaluations of customers' financial condition. The Company does not require collateral or other security to support financial instruments subject to credit risks.

**o) Revenue Recognition**

The Company recognizes revenue in accordance with ASC 605, which requires that revenue be recognized when it is earned and either realized or realizable. In general, the Company generates revenue from the sales of surveillance and safety products and systems and revenue is recognized when the following criteria are met:

(i) Persuasive evidence of an arrangement exists The Company requires evidence of an agreement with a customer specifying the terms and conditions of the products to be delivered typically in the form of a signed contract or purchase order;

(ii) Delivery has occurred For product sales, delivery generally takes place when title to the product is transferred, which generally take place when products are shipped to or accepted by the customer, depending on the terms of the contract;

(iii) The fee is fixed or determinable Fees are fixed or determinable based on the contract or purchase order terms; and (iv) Collection is probable The Company performs a credit review of all customers with significant transactions to determine whether a customer is creditworthy and collection is probable.

**p) Income Taxes**

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns using the liability method. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statements and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. A valuation allowance is provided for the portion of deferred tax assets that is more likely than not to remain unrealized. Deferred tax assets and liabilities are measured using enacted tax rates and laws.

The Company adopted the guidance issued by the Financial Accounting Standards Board ( FASB ) Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ), codified in the FASB Accounting Standards Codification ( ASC ) 740, Income Taxes. ASC 740 prescribes a more-likely than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on the recognition and de-recognition of income tax assets and liabilities; classification of current and deferred income tax assets and liabilities accounting for interest and penalties associated with tax positions; accounting for income taxes in interim periods and income tax disclosures.

The tax benefit from an uncertain tax position is recognized only if it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority, based on the technical merits of the position. The tax benefits recognized from such a position are measured based on the amount that is greater than 50% likely of being realized upon settlement. Liabilities associated with uncertain tax positions are classified as long-term unless expected to be paid within one year. Interest and penalties related to uncertain tax positions, if any, are recorded in the provision for income taxes and classified with the related liability on the consolidated balance sheet.

The Company has reviewed the tax positions taken, or to be taken, in its tax return for all tax years currently open to examination by a taxing authority in accordance with the recognition and measurement standards of ASC 740. The Company is not under examination by any authority for income tax purposes and has not applied any income tax filing extension.

The Company's taxing jurisdiction is U.S. ANV Video Alarm Service Inc.'s taxing jurisdiction is Canada. ANV Security Group (Asia) Co., Ltd. and ANV Trading (HK) Limited (formerly known as Flybit International Ltd.)'s tax jurisdiction is Hong Kong. ANV Security Technology (Taiwan) Co., Ltd. and ANV Security Technology (China) Co., Ltd., (formerly known as Shenzhen Angesi Technology Co., Ltd.)'s taxing jurisdiction is China.

**q) Segments**

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer. The Company operates exclusively in the network video surveillance sector. The Company's business is considered as operating in one segment based upon the Company's organizational structure, the way in which the operation is managed and evaluated, the availability of separate financial results and materiality considerations.

**r) Foreign Exchange Translation**

The Company's financial information is presented in US dollars. The functional currencies of the Company and its subsidiaries include the United States dollar ( US\$ ), Hong Kong dollar, Canadian dollar and Renminbi ( RMB ).

The financial statements of the Company have been translated into U.S. dollars in accordance with ASC 830-30 *Translation of Financial Statements* . The financial information is first prepared in functional currencies and then is translated into U.S. dollars at period-end exchange rates as to assets and liabilities and average exchange rates as to revenue and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. The effects of foreign currency translation are included as a component of accumulated other comprehensive income in shareholders' equity.

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US dollars at the rates used in translation.

**s) Basic and Diluted Net Income (Loss) Per Share**

The Company computes earnings per share ( EPS ) in accordance with ASC 260 Earnings per Share ( ASC 260 ), and SEC Staff Accounting Bulletin No. 98 ( SAB 98 ). ASC 260 requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as net income divided by the weighted average common shares outstanding for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares (e.g., convertible securities, options and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

Basic net earnings (loss) per share equals net earnings (loss) divided by the weighted average shares outstanding during the year. The computation of diluted net earnings per share does not include dilutive common stock equivalents in the weighted average shares outstanding as they would be anti-dilutive. The Company's common stock equivalents as at March 31, 2012 and 2011 include its outstanding stock options granted.

**t) Stock-based Compensation**

Compensation expense for costs related to all share-based payments, including grants of stock options, is recognized through a fair-value based method. The Company uses the Black-Scholes option-pricing model to determine the fair

value for the awards. The value of the portion of the award that is ultimately expected to vest is recognized on a straight-line basis as expense over the requisite service period in the statement of income.

**u) Recent Accounting Pronouncements**

**New Accounting Standards**

The company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on its results of operations, financial position or cash flows.

**Note 3- Inventory**

Inventories consisted of the following:

	<u>March 31, 2012</u>		<u>December 31, 2011</u>
Raw materials	1,344,796	\$	1,405,438
Work-in-progress	1,892,766		2,112,771
Finished goods	2,405,077		2,401,635
Less: provision	(1,044,448)		(667,066)
	4,598,191	\$	5,252,778

For the three months ended March 31, 2012 and 2011, the Company recorded an inventory valuation provision for lower of net realizable value or cost of \$376,315 and \$(121,183) in the Consolidated Statements of Operations and Comprehensive Income, respectively.

**Note 4- Property, Plant and Equipment**

Property, plant and equipment consisted of the following:

	<u>March 31, 2012</u>		<u>December 31, 2011</u>
Production equipment	\$ 242,723	\$	242,468
Electronic equipment	220,887		212,349
Vehicle	319,191		240,336
Leasehold improvement	191,589		191,388
	974,390		886,541
Less: Accumulated depreciation	(300,558)		(249,754)
	\$ 673,832	\$	636,787

Depreciation expenses for the three months ended March 31, 2012 and 2011 were \$26,482 and \$51,803 respectively.

**Note 5- Goodwill and other Intangible Assets****a) Goodwill**



The following table summarizes the activities in the Company's goodwill account during the three months ended March 31, 2012 and the year ended December 31, 2011:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Beginning balance	\$ 4,197,256	\$ 6,274,629
Goodwill acquired during the year:		
Jinan Hualutong	-	46,099
Shijiazhuang Huilin	-	46,099
Taian Comins	-	44,601
Shenyang Huasheng	-	44,602
		6,456,030
Goodwill disposed during the year:		
Flybit	-	(2,258,774)
Ending balance	\$ 4,197,256	\$ 4,197,256

**b) Intangible assets**

Intangible assets are summarized by classifications as follows:

	<u>March 31, 2012</u>		<u>December 31, 2011</u>
Software	\$ 2,137,278	\$	2,133,376
Incorporation cost	55,241		55,187
	2,191,519		2,188,563
Less: Accumulated amortization	(582,083)		(495,950)
	\$ 1,610,436	\$	1,692,613

Amortization expenses for the three months ended March 31, 2012 and 2011 were \$109,687 and \$72,453 respectively.

**Note 6- Accounts Payable and Accrued Expenses**

As at March 31, 2012 accounts payable and accrued expenses amounted \$6,999,798 representing trade payables to suppliers and accrued expenses incurred in operations. As at December 31, 2011, accounts payable and accrued expenses amounted \$6,964,264.

**Note 7- Related Party Transactions**

All inter-company accounts, transactions and cash flows have been eliminated on consolidation. As at March 31, 2012 and December 31, 2011, amounts due from/to related parties as below:

The Company has amounts due from individual shareholders in amount of \$147,902 and 177,683 respectively.

The Company owes individual shareholders in amount of \$120,426 and \$100,801 respectively.

During the three months ended March 31, 2012, the Company recognized sales revenue of \$537,500 from Hong Kong AOPVision Tech Co., Limited ( Hong Kong AOPVision ), which accounted for 13% of the consolidated revenue of the corresponding periods. As of March 31, 2012, the amounts in accounts receivable due from Hong Kong AOPVision were \$108,791. Hong Kong AOPVision's sole shareholder is a family member of one of the key management and Company's director & shareholder who holds 5.3% of our equity.

**Note 8- Capital Stock**

As of March 31, 2012, and December 31, 2011, the amount of voting common shares issued and outstanding are 74,480,071 and 74,130,071, respectively.

**Note 9- Stock Options**

On October 1, 2008, the board of directors adopted the Company's Stock Option Plan. The Company has reserved 1,000,000 shares of common stock for issuance upon exercise of options granted from time to time under the stock option plan. The stock option plan is intended to assist the Company in securing and retaining key employees, directors and consultants by allowing them to participate in the Company's ownership and growth through the grant of incentive and non-qualified options. Under the stock option plan, the Company may grant incentive stock options only to key employees and employee directors, or the Company may grant non-qualified options to employees, officers, directors and consultants. The stock option plan is currently administered by the Company's board of directors. Subject to the provisions of the stock option plan, the board will determine who shall receive options, the number of shares of common stock that may be purchased under the options. As at March 31, 2011, the Company has granted 140,000 shares options.

	Shares	Weighted Average Exercise Price
Options outstanding at December 31, 2011	140,000	0.21
Granted	-	-
Options outstanding at March 31, 2012	140,000	\$ 0.21

Range of Exercise Price	Number Outstanding	Options Outstanding Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$ 0.25	40,000	1.67 years	\$ 0.25
\$ 0.20	100,000	1.83 years	\$ 0.20

Number Outstanding	Options Exercisable Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
140,000	1.79 years	\$ 0.21

**Note 10- Income Taxes**

ANV Security Technology (China) Co., Ltd. and ANV Security Technology (Taian) Co., Ltd. are subject to income taxes in China on their taxable income as reported in their statutory accounts at a tax rate in accordance with the relevant income tax laws.

ANV Security Group, Inc. and ANV Video Alarm Service Inc. are U.S. and Canadian companies, respectively, and are subject to taxes in those jurisdictions.

On March 16, 2007, The National People's Congress of China passed The Law of the People's Republic of China on Enterprise Income Tax (the Enterprise Income Tax Law ). The Enterprise Income Tax Law became effective on January 1, 2008. Under the new law, both domestic companies and foreign invested enterprises are subject to a unified income tax rate of 25% starting from 2008.

The Company has structured its business and operations on an international basis. The Company's history is that they have also been involved in a number of business combinations. As a result the Company could be involved in various investigations, claims and tax reviews that arise in the ordinary course of business activities. The tax effect of temporary differences that give rise to significant components of the deferred tax assets are as follows:

	<u>March 31, 2012</u>	<u>December 31, 2011</u>
Deferred tax assets / (liabilities):		
Provision for bad debts	\$ 748,947	\$ 750,625
Inventories	272,327	177,981
Property, plant and equipment	47,000	46,951
Losses carryforwards	1,209,177	999,734
Total deferred tax assets	2,277,451	1,975,291
Less: Valuation allowance	(603,193)	(578,024)
Net deferred tax assets	\$ 1,674,258	\$ 1,397,267

The valuation allowance is reviewed periodically. When circumstance changes and this causes a change in management's judgment about the realizability of deferred tax assets, the impact of the change on the valuation allowance is generally reflected in current income.

The Company has non-capital losses carried forward of approximately \$1,829,233 in Canada, expiring through year 2018. The Company also has non-capital losses carried forward of approximately \$450,000 in the US expiring through year 2031. Deductibility of the losses and period of expiration is subject to the normal review by taxation authorities.

All income and taxes are attributable to foreign operations. A reconciliation of the federal statutory income tax, at the statutory rate of 35% to the Company's effective income tax rate, for the three months ended March 31, 2012 and 2011 are as follows:

	<u>Three months ended</u>	<u>Three months ended</u>
	<u>March 31, 2012</u>	<u>March 31, 2011</u>
Loss from operations before taxes	\$ (1,384,215)	\$ (368,003)
Statutory tax rate	35%	35%
Income tax expense at statutory tax rate	(484,475)	(128,801)
Foreign tax rate differential	151,402	72,212
	97,095	27,380

Expenses not deductible (recoverable) for  
income tax purpose

Change in valuation allowance and others	(39,312)	28,390
Income tax expense (benefit)	\$ (275,290)	\$ (819)

Undistributed loss of the Company's non-US subsidiaries amounted to approximately \$7,312,355 and \$6,203,430 as of March 31, 2012 and December 31, 2011, respectively. The Company has not provided any additional U.S. federal or state income taxes or foreign withholding taxes on the undistributed earnings as such earnings have been indefinitely reinvested in the business as defined in ASC Topic 740. The determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings is not practicable because of the complexities associated with its hypothetical calculation.

**Note 11- Concentrations & Risks**

58% and 41% of the Company's revenues for the three months ended March 31, 2012 and 2011, respectively, were derived from customers located in China mainland. Sales to the Company's largest customer accounted for approximately 13% and 47% of the Company's sales for the three months ended March 31, 2012 and 2011, respectively.

Condensed information with respect to sales from different geographical areas for the three months ended March 31, 2012 and 2011 is as follows:

	For three months ended March 31, 2012		For three months ended March 31, 2011	
	Amount	Percentage	Amount	Percentage
China Mainland	\$ 2,374,709	58%	\$ 2,027,716	41%
China Hong Kong	537,500	13%	2,299,850	47%
South America	678,157	16%	413,241	8%
North America	251,016	6%	29,198	1%
Asia	188,277	5%	98,346	2%
Europe	87,694	2%	51,174	1%
Other areas	10,466	0%	0	0%
Total	\$ 4,127,819	100%	\$ 4,919,525	100%

The majority of the Company's assets, liabilities, revenues and expenses are denominated in Renminbi, which was tied to the US Dollar and is now tied to a basket of currencies of China's largest trading partners, is not a freely convertible currency. The appreciation of the Renminbi against the US Dollar would result in an increase in the assets, liabilities, revenues and expenses of the Company and a foreign currency gain included in comprehensive income. Conversely, the devaluation of the Renminbi against the US Dollar would result in a decrease in the assets, liabilities, revenues and expenses of the Company and a foreign currency loss included in comprehensive income. As at March 31, 2012, approximately US\$770,856 of the cash and cash equivalents (December 31, 2011: US\$802,207) were held in Renminbi.

**Note 12- Commitments and Contingencies****a) Lease Commitments**

The Company leases its headquarter office in Shenzhen, China. The lease commenced on January 14, 2011 and expires on January 13, 2014. Its total monthly rental fee is RMB 97,759 (US\$15,531).



The Company leases its principal manufacturing and showroom facility in Shenzhen, China. The lease expires on January 20, 2013. Its total monthly rental fee is RMB 82,583 (US\$13,120).

	<u>RMB</u>	<u>USD</u>
Within 1 year	1,916,355	304,459
Within 1-2 years	879,831	139,782
Thereafter	-	-

**b) Litigation**

As at March 31, 2012, there were no actions, suits, proceedings or claims pending against the Company, which if adversely determined, would have a material adverse effect on the financial condition of ANV.

**Note 13- Subsequent Events**

On April 24, 2012, the Company signed an agreement to sell substantially all of the assets and business of ANV Security Technology (China) Co., Ltd. ( Shenzhen Factory ) to Hong Kong AOPVISION Tech Co., Limited ("Purchaser"). Pursuant to the terms of the agreement entered into, the Company agreed to sell Shenzhen Factory for RMB18 million, and the Purchaser agreed to return 9.55 million restricted shares of the Company (equivalently RMB13 million) that were originally used by the Company to acquire Shenzhen Factory (Angesi) in 2010, and the remainder is RMB5 million in cash. This agreement will be subject to regulatory approval in China and United States.

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

**Forward Looking Statements**

This Quarterly Report on Form 10-Q contains "forward-looking" statements as such term is defined in the Private Securities Litigation Reform Act of 1995 and information relating to the Company that is based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or Company management, are intended to identify forward-looking statements. Such statements reflect the current risks, uncertainties and assumptions related to certain factors including, without limitations, competitive factors, general economic conditions, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in other filings made by the Company with the Securities and Exchange Commission. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements.

**OVERVIEW**

ANV Security Group, Inc. and its subsidiaries (the Company or ANVS ) is specialized in new product research & development, software solutions, technologies for network video surveillance and video alarm service platforms.

ANVS has developed products of IP camera and digital video server ( DVS ), as well as NVR, DVR, CCTV camera, etc. It has also developed the first automatic video alarm platform in the world: [www.usci8.com](http://www.usci8.com). A patent for this platform was officially approved by the US Patent and Trademark Office ( USPT ) on October 22, 2009 with patent number US2009/0265747A1. This platform performs instant notification to the owner via SMS, e-mail, telephone or cellular phone when an alarm is triggered worldwide in any time zone and captures the event images in user accessible video surveillance servers.

In 2010, the Company completed the acquisition of 100% shares of Flybit International Ltd and 100% shares of Shenzhen Angesi Technology Co., Ltd. In 2011, the Company completed the acquisitions of four companies to increase its marketing and sales capacity. These acquired wholly owned subsidiaries have substantially contributed the China operations to the Company with its strong research & development, equipped manufacturing facilities and effective marketing of video cameras throughout the Greater China.

**RESULTS OF OPERATIONS****Financial Performance Highlights of Three Months Ended March 31, 2012 and 2011**

The following table sets forth key components of our results of operations for the three months ended March 31, 2012 and 2011, in dollars and as a percentage of revenues. (All amounts, other than percentages, in millions of U.S. dollars)

	For the Three Months Ended			
	March 31, 2012		March 31, 2011	
Revenues	\$ 4,127,819	100%	\$ 4,919,525	100%
Cost of Sales	3,413,177	83%	3,914,045	80%
Gross profit	714,642	17%	1,005,480	20%
Operating Expenses				
Selling and Marketing	516,406	13%	413,245	8%
General and Administrative	1,271,414	31%	873,350	18%
Research and Development	306,592	7%	208,064	4%
Total Operating Expenses	2,094,412	51%	1,494,659	30%
Operating Loss	(1,379,770)	-33%	(489,179)	-10%
Other Income (Expenses)				
Interest Income	15,084	0%	369	0%
Interest Expense	(30,229)	-1%	(553)	0%
Others, net	10,700	0%	121,360	2%
Total Other Income (Expense)	(4,445)	0%	121,176	2%
Loss Before Income Tax Expense	(1,384,215)	-34%	(368,003)	-7%

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Income Tax Expense, Net of Income Tax Benefit		275,290	7%		819	0%
Net Loss	\$	(1,108,925)	-27%	\$	(367,184)	-7%

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## **Revenues**

Our revenues are primarily generated from sales of surveillance and safety products. Revenues was \$4,127,819 for the three months ended March 31, 2012, a decrease of \$791,706 (or 16%) as compared to the same period in 2011. This decrease was primarily due to the decrease of sales prices due to market competition which, in turn, decreased sales volume.

## **Cost of goods sold**

Cost of goods sold is primarily comprised of the costs of our raw materials, labor and overhead. Cost of goods sold was \$3,413,177 for the three months ended March 31, 2012, a decrease of \$500,868 as compared to the same period in 2011. This decrease in cost of goods sold was primarily due to the decrease of revenues amount.

## **Gross profit and gross margin**

Gross profit was \$714,642, or 17% of revenues for three months ended March 31, 2012 compared to \$1,005,480, or 20% of revenues for the same period in 2011. The decrease in gross profit percentage was primarily attributable to market competition, especially the export market.

## **Operating expenses**

Operating expenses was \$2,094,412, or 51% of revenues for three months ended March 31, 2012 compared to \$1,494,659, or 30% of revenues for the same period in 2011. The increase in operating expenses was primarily due to an increase of \$0.5 million in inventory valuation provision for lower of net realizable value or cost.

## **Operation loss**

Operating loss was \$1,379,770, or 33% of revenues for three months ended March 31, 2012 compared to \$489,179, or 10% of revenues for the same period in 2011.

## **Other Income (Expenses)**

Other income (expense) was \$(4,445) for three months ended March 31, 2012 compared to \$121,176 for the same period in 2011. In the first quarter of 2011, the Company recorded \$111,627 of gain from written-off of certain accounts payables.

## **Net Loss**

Net loss was \$1,108,925 for the three months ended March 31, 2012, compared to \$367,184 for the same period in 2011.

## **LIQUIDITY AND CAPITAL RESOURCES**

We had cash and cash equivalents of \$1,048,595 as of March 31, 2012, as compared to \$1,388,743 as of December 31, 2011, a decrease of \$340,148. The decrease of cash and cash equivalents during the three months ended March 31, 2012 was primarily attributable to cash used in operations of \$401,354 and purchases of equipment and furniture of \$86,842.

Net cash used in operating activities was \$401,354 for the three months ended March 31, 2012, as compared to net cash used in operating activities \$1,109,569 for the three months ended March 31, 2011. The cash used in operating activities was primarily attributable to our net loss, as well as changes in working capital for the three months ended March 31, 2012 and 2011.

Net cash used in investing activities was \$88,674 for the three months ended March 31, 2012, as compared to \$81,680 for the three months ended March 31, 2011. Main components of cash flows from investing activities for the three months ended March 31, 2012 included cash of \$86,842 used in purchases of equipment and furniture. Main components of cash flows from investing activities for the three months ended March 31, 2011 included cash of \$80,025 used in purchases of equipment and furniture.

Net cash provided by financing activities was \$149,479 for the three months ended March 31, 2012 as compared to net cash used in financing activities of \$137,549 for the three months ended March 31, 2011. Main components of cash flows from financing activities for the three months ended March 31, 2012 included \$100,000 of proceeds from issuance of common stock and \$49,479 of net proceeds from related parties. Cash flows from financing activities for the three months ended March 31, 2011 included net repayment to related parties of \$137,549.

We have funded our activities to date primarily through the sales of surveillance and safety products and systems and the issuance of equity securities. Our working capital resources should be sufficient for our operation within the year, and we are seeking additional bank lines and placement of equity. However, we can give no assurance we will be successful in these efforts.



### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Foreign Exchange Risk**

Our reporting currency is the U.S. dollar. Except for the U.S. holding company, the majority of our consolidated revenues, consolidated costs and expenses, and our assets are denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between the U.S. dollars and the RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues, earnings and assets as expressed in our U.S. dollar financial statements will decline. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and equity is translated at historical exchange rates. Any resulting translation adjustments are not included in determining net income but are included in determining other comprehensive income, a component of equity. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. Since July 2005, the Renminbi has not been pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

#### **Inflation**

Inflationary factors such as increases in the cost of our materials and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenues if the selling prices of our products do not increase with these increased costs.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **(a) Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of March 31, 2012, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Principal Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

### **(b) Changes in Internal Controls**

There were no changes in our internal controls and procedures in internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We continue to rely on the members of the Board of Directors to provide assurance that our entity-level controls remain effective and we believe our process-level controls remain effective.

**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are not party to any material legal proceeding.

**Item 1A. Risk Factors**

There are no material changes from the risk factors previously disclosed in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2011, filed with the SEC on March 30, 2012.

**Item 2. Changes in Securities**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certifications of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certifications of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ANV SECURITY GROUP, INC.

By: /S/ Weixing Wang  
Weixing Wang  
Chief Executive Officer (Principal Executive Officer)

By: /S/ Kevin Su  
Kevin Su  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

May 10, 2012