

Iveda Solutions, Inc.
Form 10-Q/A
March 07, 2012

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1 TO 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 September 30, 2011

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
organization)

20-2222203
(I.R.S.
Employer
Identification
No.)

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1201 South Alma School Road, Suite 4450, 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 September 30, 2011
Common stock, \$0.00001 par value	17,009,229

Explanatory Note

This Amendment No. 1 to Form 10-Q for the quarter ended September 30, 2011 includes revised disclosure in Note 1 of Condensed Consolidated Financial Statements and in the Management's Discussion and Analysis of Financial Condition and Results of Operations.

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PART I – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

IVEDA SOLUTIONS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2011 AND DECEMBER 31, 2010

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 466,966	\$ 355,343
Accounts Receivable, net	959,457	361,686
Note Receivable	17,693	-
Advances to Suppliers	16,420	-
Deposits	220,512	-
Inventory	143,037	4,651
Prepaid Expenses and Other Current Assets	85,506	4,532
Total Current Assets	1,909,591	726,212
PROPERTY AND EQUIPMENT		
Office Equipment	228,450	212,040
Furniture and Fixtures	56,291	27,805
Software	42,544	47,966
Leased Equipment	252,145	247,792
Leasehold Improvements	36,964	36,964
Total Property and Equipment	616,394	572,567
Less: Accumulated Depreciation	308,140	262,490
Property and Equipment, Net	308,254	310,077
OTHER ASSETS		
Deposits	9,015	10,214
Restricted Cash	62,848	-
Trademarks	200,000	-
Other Intangible assets	130,000	-
Less: Accumulated Amortization	(19,167)	-
Goodwill	1,796,710	-

Total Assets	\$ 4,397,251	\$ 1,046,503
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	September 30, 2011 (Unaudited)	December 31, 2010
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts Payable	\$ 212,148	\$ 180,352
Accrued Expenses	109,389	77,576
Current Portion of Capital Lease Obligations	11,411	48,395
Due to Related Parties, net of debt discount	28,091	197,000
Bank Loans –Short Term	334,597	-
Income Tax Payable	9,433	-
Notes Payable, net of debt discount	91,107	-
Deferred Tax Liability	47,475	-
Deferred Revenue	87,128	11,618
Total Current Liabilities	930,779	514,941
LONG-TERM LIABILITIES		
Capital Lease Obligations, Net of Current Portion	9,946	13,609
Total Liabilities	940,725	528,550
STOCKHOLDERS' EQUITY		
Preferred Stock, \$0.00001 par value; 100,000,000 shares authorized; no shares outstanding as of September 30, 2011 and December 31, 2010		
Common Stock, \$0.00001 par value; 100,000,000 shares authorized; 19,009,229 (includes 2,000,000 shares reserved for issuance) and 13,664,257 shares issued and outstanding, as of September 30, 2011 and December 31, 2010, respectively	190	137
Additional Paid-In Capital	12,492,433	7,212,914
Accumulated Comprehensive Income (Loss)	(50,837) -
Accumulated Deficit	(8,985,260	) (6,695,098)
Total Stockholders' Equity	3,456,526	517,953
Total Liabilities and Stockholders' Equity	\$ 4,397,251	\$ 1,046,503

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

	Three Months Ended September 30, 2011 (unaudited)	Three Months Ended September 30, 2010 (unaudited)	Nine Months Ended September 30, 2011 (unaudited)	Nine Months Ended September 30, 2010 (unaudited)
REVENUE	\$ 588,339	\$ 182,416	\$ 1,447,410	\$ 488,600
COST OF REVENUE	472,211	115,817	1,110,875	337,425
GROSS PROFIT	116,128	66,599	336,535	151,175
OPERATING EXPENSES	778,287	604,597	2,611,916	1,630,024
LOSS FROM OPERATIONS	(662,159)	(537,998)	(2,275,381)	(1,478,849)
OTHER INCOME (EXPENSE)				
Miscellaneous Income (Expense)	968	-	1,615	-
Interest Income	40	302	525	933
Interest Expense	(1,503)	(1,760)	(21,808)	(13,003)
Total Other Income (Expense)	(495)	(1,458)	(19,668)	(12,070)
LOSS BEFORE INCOME TAXES	(662,654)	(539,456)	(2,295,049)	(1,490,919)
BENEFIT FOR INCOME TAXES	-	-	4,887	-
NET LOSS	\$ (662,654)	\$ (539,456)	\$ (2,290,162)	\$ (1,490,919)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.04)	\$ (0.04)	\$ (0.15)	\$ (0.10)

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010**

	Nine Months Ended September 30, 2011 (Unaudited)	Nine Months Ended September 30, 2010 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (2,290,162	) \$ (1,490,919
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities		
Depreciation and Amortization	96,631	57,550
Stock Compensation	704,005	217,160
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(55,858	) (46,508
Notes Receivable	(5,342) -
Prepaid Expense	(924	) (18,260
Inventory	(24,496	) (2,041
Deposit	6,131	-
Other Current Assets	(22,561) -
Accounts Payable	(145,945	) (286,174
Notes Payable	21,672	-
Tax Payable	(219,627) -
Other Payable	9,486	-
Deferred Revenue	48,459	1,810
Net cash used in operating activities	(1,878,531	) (1,566,932
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Acquired in Acquisition	740,561	-
Purchase of Property and Equipment	(51,869	) (91,583
Net cash provided by (used) in investing activities	688,692	(91,583
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (Payments to) Related Parties	176,406	(134,000
Payments on Capital Lease Obligations	(45,000	) (49,449
Common Stock Issued, net of Cost of Capital	1,239,750	2,208,577
Net cash provided by financing activities	1,371,156	2,025,128
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(69,694) -
NET INCREASE IN CASH AND CASH EQUIVALENTS	111,623	366,613
Cash and Cash Equivalents - Beginning of Period	355,343	17,672

CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 466,966	\$ 384,285
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Taxes Paid	\$ 224,702	\$ -
Debt Converted to Stock	\$ -	\$ 50,000
Interest Paid	\$ 21,808	\$ 11,243
Property and Equipment Purchased via Capital Lease	\$ 4,353	\$ 5,300
Issuance of Common Stock for Acquisition	\$ 3,302,000	-

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

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, 2010. 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 nine-month period ended September 30, 2011, are not necessarily indicative of the results that will be achieved for the full fiscal year ending December 31, 2011 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, 2010 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, 2011). 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 \$9 million at September 30, 2011 and has used approximately \$1.9 million in cash from operations through the current nine months ended September 30, 2011. 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 may evaluate and consider merger and/or acquisition activities.

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 two customers represented approximately 42% (25% and 17%) of total revenues for the nine months ended September 30, 2011, and approximately 77% of total accounts receivable at September 30, 2011.

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 five to ten years. Future amortization of Intangible Assets is as follows:

Trademarks	
2011	\$5,000
2012	20,000
2013	20,000
2014	20,000
2015	20,000

Thereafter	106,667
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Other Intangibles

2011	\$6,500
2012	26,000
2013	26,000
2014	26,000
2015	26,000
Thereafter	8,667

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.

Fair Value of Financial Instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of September 30, 2011. 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	\$ 475,850	\$2,505,296
Asia	\$ 682,106	\$951,230
Mexico	\$ 289,454	-

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 who review their company's performance as it relates to revenue, operating profit and operating expenses.

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Segment Reporting	Three Months	Three Months
	Ending	Ending
	Sept. 30, 2011	Sept. 30, 2011
	Iveda Solutions	Megasys
Revenue	\$287,296	\$ 301,043
Cost of Revenue	166,767	305,444
Gross Profit (Loss)	120,529	(4,401)
Operating Expenses	644,360	134,422
Net Loss	\$(523,831	) \$ (138,823)

Reclassification

Certain amounts in 2010 may have been reclassified to conform to the 2011 presentation.

NOTE 2 BANK LOANS—SHORT TERM

The Company has short term loans with two banks in Asia. The loans bear interest at 3.2% and 3.6% and are due in October and December 2011. The company has chosen not to use its excess cash to pay off these loans early since the interest rate is relatively low and they are due in the near future.

NOTE 3 NOTES PAYABLE

Promissory note payable, due in September 2012,	\$45,000
Interest payable in 45,000 warrants	
Non-Interest-Bearing notes, maturity dates ranging from October 2011 to August 2012	\$63,016
Unamortized debt discount	\$(16,909)