

Iveda Solutions, Inc.
Form 10-Q
November 14, 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 September 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 organization)

20-222203
(I.R.S. Employer Identification No.)

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

85210
(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

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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 November 8, 2013
Common stock, \$0.00001 par value	26,437,466

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

IVEDA SOLUTIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2013 AND DECEMBER 31, 2012

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,082,353	\$ 114,462
Restricted Cash	883,630	447,206
Accounts Receivable, net	508,136	1,958,799
Inventory	208,133	123,021
Other Current Assets	391,007	645,728
Total Current Assets	3,073,259	3,289,216
PROPERTY AND EQUIPMENT, Net	451,211	516,981
OTHER ASSETS		
Intangible Assets, Net	151,666	166,666
Goodwill	841,000	841,000
Other Assets	104,026	105,621
Total Other Assets	1,096,692	1,113,287
Total Assets	\$ 4,621,162	\$ 4,919,484
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts and Other Payables	\$ 1,793,682	\$ 2,456,788
Due to Related Parties, net of debt discount	100,000	336,605
Short Term Debt	87,000	802,122
Current Portion of Long-Term Debt	185,338	75,707
Total Current Liabilities	2,166,020	3,671,222
LONG TERM DEBT	64,542	67,695
STOCKHOLDERS' EQUITY		
Preferred Stock	-	-
Common Stock	262	204
Additional Paid-In Capital	21,754,820	16,204,068
Accumulated Comprehensive Income (Loss)	(24,997)	(23,629)
Accumulated Deficit	(19,339,485)	(15,000,076)
Total Stockholders' Equity	2,390,600	1,180,567
Total Liabilities and Stockholders' Equity	\$ 4,621,162	\$ 4,919,484

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, 2013 AND 2012

	Three Months Ended Sept. 30, 2013 (unaudited)	Three Months Ended Sept. 30, 2012 (unaudited)	Nine Months Ended Sept. 30, 2013 (unaudited)	Nine Months Ended Sept. 30, 2012 (unaudited)
REVENUE				
Equipment Sales	\$ 409,222	\$ 212,531	\$ 1,467,044	\$ 1,309,495
Service Revenue	149,578	162,970	476,410	811,591
Other Revenue	10,118	5,672	34,852	31,406
TOTAL REVENUE	568,918	381,173	1,978,306	2,152,492
COST OF REVENUE	471,992	322,824	1,667,665	1,729,001
GROSS PROFIT	96,926	58,349	310,641	423,491
OPERATING EXPENSES	1,645,563	867,958	4,531,718	2,854,794
LOSS FROM OPERATIONS	(1,548,637)	(809,609)	(4,221,077)	(2,431,303)
OTHER INCOME (EXPENSE)				
Foreign Currency Gain (Loss)	(8,611)	(87)	(9,718)	(87)
Loss from conversion of debt	-	-	(44,000)	-
Interest Income	-	6	997	545
Interest Expense	(16,221)	(24,414)	(65,611)	(46,738)
Total Other Income (Expense)	(24,832)	(24,495)	(118,332)	(46,280)
LOSS BEFORE INCOME TAXES	(1,573,469)	(834,104)	(4,339,409)	(2,477,583)
BENEFIT FOR INCOME TAXES	-	-	-	-
NET LOSS	\$ (1,573,469)	\$ (834,104)	\$ (4,339,409)	\$ (2,477,583)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.06)	\$ (0.04)	\$ (0.18)	\$ (0.15)

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

	Three Months Ended Sept. 30, 2013 (unaudited)	Three Months Ended Sept. 30, 2012 (unaudited)	Nine Months Ended Sept. 30, 2013 (unaudited)	Nine Months Ended Sept. 30, 2012 (unaudited)
Net Loss	\$ (1,573,469)	\$ (834,104)	\$ (4,339,409)	\$ (2,477,583)
Other comprehensive income (loss):				
Foreign currency translation adjustment	1,022	14,660	(7,757)	21,486
Comprehensive Loss	\$ (1,572,447)	\$ (819,444)	\$ (4,347,166)	\$ (2,456,097)

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

	Nine Months Ended Sept. 30, 2013 (Unaudited)	Nine Months Ended Sept. 30, 2012 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$ (4,339,409)	\$ (2,477,583)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities		
Depreciation and Amortization	169,164	181,456
Loss from Conversion of Debt	44,000	-
Stock Compensation	126,813	96,573
Common Stock Issued for Services	222,206	110,562
(Increase) Decrease in Operating Assets:		
Accounts Receivable	1,410,678	245,307
Inventory	(86,424)	(24,686)
Other Current Assets	56,312	(243,041)
Accounts and Other Payables	(438,889)	(113,204)
Net cash used in operating activities	(2,835,549)	(2,224,616)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(89,897)	(387,064)
Net cash used in investing activities	(89,897)	(387,064)
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in Restricted Cash	(441,724)	(46,903)
Proceeds from (Payments on) Short-Term Notes Payable/Debt	(586,514)	431,662
Proceeds from Exercise of Stock Options	244,574	-
Proceeds from (Payments to) Related Parties	(236,605)	352,892
Proceeds from (Payments on) Long-Term Debt	-	(35,839)
Payments on Capital Lease Obligations	(6,987)	(8,561)
Common Stock Issued, net of Cost of Capital	4,913,216	1,797,021
Net cash provided by financing activities	3,885,960	2,490,272
EFFECT OF EXCHANGE RATE CHANGES ON CASH	7,377	16,731
NET INCREASE IN CASH AND CASH EQUIVALENTS	967,891	(104,677)
Cash and Cash Equivalents - Beginning of Period	114,462	850,364
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$ 1,082,353	\$ 745,687
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 66,203	\$ 46,738

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 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, 2012. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) have been condensed or omitted. The operating results and cash flows for the nine-month period ended September 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. All intercompany balances and transactions have been eliminated in consolidation.

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 \$19.3 million at September 30, 2013 and has used approximately \$2.8 million in cash from operations through the current nine months ended September 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 is seeking additional financing and has engaged an investment bank to serve as placement agent. The financing may be in the form of sales of equity securities, debt convertible into equity securities and non-convertible debt, which may either be secured or unsecured.

In the third quarter of 2013, the Company launched two new camera lines in collaboration with MegaSys, its Taiwan subsidiary and Industrial Technology Research Institute (ITRI), its nonprofit research and development partner in Taiwan. These products are enablers of the Company's video hosting services.

The Company has also recently developed two other standalone services:

- o IvedaMobile a cloud-hosting service that turns any smartphone or tablet into a mobile, cloud video streaming device. This was developed with ITRI.
- o IvedaXchange In collaboration with a technology partner, the Company developed a real-time situational awareness dashboard to enable organizations instant access to vital and filtered information such as emergency situations, location of critical assets, video monitoring, and local news. IvedaXchange is well-suited for law enforcement agencies and schools.

The Company launched a new website to highlight new products and services with corresponding applications.

The Company launched a second website allowing for direct web-sales, geared toward the residential and small-to-medium sized businesses.

The Company intends to continue to participate in industry and vertical tradeshows to launch new products, generate leads, solicit resellers and other sales channels, and identify potential technology partners.

The Company intends to continue advertising on selected trade magazines and running Google Adwords to generate leads.

The Company has evaluated its reseller distribution channel and eliminated non-performing components of the channel.

The Company is in active collaboration with certain telecommunications companies in other countries to resell the Company's products and services in their respective countries.

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 three customers represented approximately 59% of total revenues for the nine months ended September 30, 2013, and approximately 17% of total accounts receivable at September 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 September 30, 2013. Future amortization of Intangible Assets is as follows:

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Trademarks	
2013	\$5,000
2014	20,000
2015	20,000
2016	20,000
Thereafter	86,666
Total	\$151,666

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 September 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 during the 9 months ended September 30, 2013 are as follows:

	Net Revenues	Net Assets
United States	\$ 378,222	\$ 2,349,594
Asia	\$ 1,404,127	\$ 41,006
Mexico	\$ 195,957	-

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 as 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 September, 2013 Iveda Solutions, Inc.	Three Months Ended September 30, 2013 MegaSys	Condensed Consolidated Total
Revenue	\$ 203,942	\$ 364,976	\$ 568,918
Cost of Revenue	209,195	262,797	464,603
Gross Profit	(5,253)	102,179	96,926
Depreciation and Amort.	53,181	2,634	55,815
General and Administrative	1,375,451	214,297	1,589,748
(Loss) from Operations	(1,433,885)	(114,752)	(1,548,637)
Foreign Currency Gain (Loss)	(8,611)	-	(8,611)
Loss from the conversion of debt	-	-	-
Interest Income	-	-	-
Interest Expense	11,676	4,545	16,221
(Loss) Before Income Taxes	(1,454,172)	(119,297)	(1,573,469)
(Provision) For Income Taxes	-	-	-
Net Loss	\$ (1,454,172)	\$ (119,297)	\$ (1,573,469)

	Nine Months Ended September 30, 2013 Iveda Solutions, Inc.	Nine Months Ended September 30, 2013 MegaSys	Condensed Consolidated Total
Revenue	\$ 574,179	\$ 1,404,127	\$ 1,978,306
Cost of Revenue	565,258	1,102,407	1,667,665
Gross Profit	8,921	301,720	310,641
Depreciation and Amortization	161,157	8,007	169,164
General and Administrative	3,758,437	604,117	4,362,554
(Loss) from Operations	(3,910,673)	(310,404)	(4,221,077)
Foreign Currency Gain (Loss)	(9,718)	-	(9,718)
Loss from the conversion of debt	(44,000)	-	(44,000)
Interest Income	-	997	997
Interest Expense	51,670	13,941	65,611
(Loss) Before Income Taxes	(4,016,061)	(323,348)	(4,339,409)
(Provision) For Income Taxes	-	-	-
Net Loss	\$ (4,016,061)	\$ (323,348)	\$ (4,339,409)

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.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
United States	\$ 203,943	\$ 148,226	\$ 574,179	\$ 601,230
Republic of China (Taiwan)	364,975	232,947	1,404,127	1,551,262
	\$ 568,918	\$ 381,173	\$ 1,978,306	\$ 2,152,492
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Operating earnings (loss)				
United States	\$ (1,433,885)	\$ (713,160)	\$ (3,910,673)	\$ (2,216,260)
Republic of China (Taiwan)	(114,752)	(96,449)	(310,404)	(215,043)
	\$ (1,548,637)	\$ (809,609)	\$ (4,221,077)	\$ (2,431,303)
			Nine Months Ended September 30,	
			2013	2012
Property and equipment				
United States			\$ 438,686	\$ 580,014
Republic of China (Taiwan)			12,525	31,095
			\$ 451,211	\$ 611,109
			Nine Months Ended September 30,	
			2013	2012
Additions to long-lived assets				
United States			\$ 86,868	223,705
Republic of China (Taiwan)			(1,660)	11,884
			\$ 85,208	235,589
			Nine Months Ended September 30,	
			2013	2012
Inventory				
United States			\$ 51,955	\$ 810
Republic of China (Taiwan)			156,178	106,766
			\$ 208,133	\$ 107,576

	Nine Months Ended September 30,	
	2013	2012
Total Assets		
United States	\$ 2,467,126	\$ 1,898,479
Republic of China (Taiwan)	2,154,036	1,924,128
	\$ 4,621,162	\$ 3,822,607

Reclassification

Certain amounts in 2012 may have been reclassified to conform to the 2013 presentation.

New Accounting Pronouncements

In March 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-05, Foreign Currency Matters (Topic 830). This ASU resolve the diversity in practice about whether Subtopic 810-10, Consolidation Overall, or Subtopic 830-30, Foreign Currency Matters Translation of Financial Statements, applies to the release of the cumulative translation adjustment into net income when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business (other than a sale of in substance real estate or conveyance of oil and gas mineral rights) within a foreign entity. In addition, the amendments in this Update resolve the diversity in practice for the treatment of business combinations achieved in stages (sometimes also referred to as step acquisitions) involving a foreign entity. This ASU is the final version of Proposed Accounting Standards Update EITF11Ar Foreign Currency Matters (Topic 830), which has been deleted. The amendments in this Update are effective prospectively for fiscal years (and interim reporting periods within those years) beginning after December 15, 2013. For nonpublic entities the amendments in this Update are effective prospectively for the first annual period beginning after December 15, 2014, and interim and annual periods thereafter. The amendments should be applied prospectively to derecognition events occurring after the effective date. Prior periods should not be adjusted. Early adoption is permitted. If an entity elects to early adopt the amendments, it should apply them as of the beginning of the entity's fiscal year of adoption.

In February 2013, FASB issued Accounting Standards Update (ASU) No. 2013-03, Financial Instruments (Topic 825). This ASU clarifies the scope and applicability of a disclosure exemption that resulted from the issuance of Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The amendment clarifies that the requirement to disclose "the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)" does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position, but for which fair value is disclosed. This ASU is the final version of Proposed Accounting Standards Update 2013-200 Financial Instruments (Topic 825) which has been deleted. The amendments are effective upon issuance.

In February 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU improves the transparency of reporting these reclassifications. Other comprehensive income includes gains and losses that are initially excluded from net income for an accounting period. Those gains and losses are later reclassified out of accumulated other comprehensive income into net income. The amendments in this ASU do not change the current requirements for reporting net income or other comprehensive income in financial statements. All of the information that this ASU requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP.

The new amendments will require an organization to:

Present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income - but only if the item reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period.

Cross-reference to other disclosures currently required under U.S. GAAP for other reclassification items (that are not required under U.S. GAAP) to be reclassified directly to net income in their entirety in the same reporting period. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is initially transferred to a balance sheet account (e.g., inventory for pension-related amounts) instead of directly to income or expense.

The amendments apply to all public and private companies that report items of other comprehensive income. Public companies are required to comply with these amendments for all reporting periods (interim and annual). A private company is required to meet the reporting requirements of the amended paragraphs about the roll forward of accumulated other comprehensive income for both interim and annual reporting periods. However, private companies are only required to provide the information about the effect of reclassifications on line items of net income for annual reporting periods, not for interim reporting periods. The amendments are effective for reporting periods beginning after December 15, 2012, for public companies and are effective for reporting periods beginning after December 15, 2013, for private companies. Early adoption is permitted.

In January 2013, FASB has issued Accounting Standards Update (ASU) No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This ASU clarifies that ordinary trade receivables and receivables are not in the scope of ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. Specifically, ASU 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the FASB Accounting Standards Codification(TM) (Codification) or subject to a master netting arrangement or similar agreement. The FASB undertook this clarification project in response to concerns expressed by U.S. stakeholders about the standard's broad definition of financial instruments. After the standard was finalized, companies realized that many contracts have standard commercial provisions that would equate to a master netting arrangement, significantly increasing the cost of compliance at minimal value to financial statement users. An entity is required to apply the amendments in ASU 2013-01 for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The effective date is the same as the effective date of ASU 2011-11.

In October 2012, FASB has issued Accounting Standards Update (ASU) No. 2012-04, Technical Corrections and Improvements. This ASU make technical corrections, clarifications, and limited-scope improvements to various Topics throughout the Codification. The amendments in this ASU that will not have transition guidance will be effective upon issuance for both public entities and nonpublic entities. For public entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2012. For nonpublic entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2013.

In August 2012, FASB has issued Accounting Standards Update (ASU) No. 2012-03, Technical Amendments and Corrections to SEC Sections. This ASU amends various SEC paragraphs pursuant to SAB 114, SEC Release No. 33-9250, and ASU 2010-22, which amend or rescind portions of certain SAB Topics.

In July 2012, the FASB has issued Accounting Standards Update (ASU) No. 2012-02, Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. This ASU states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Codification Subtopic 350-30, Intangibles-Goodwill and Other General Intangibles Other than Goodwill. Under the guidance in this ASU, an entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments in this ASU are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.

NOTE 2

SHORT-TERM DEBT

The Company has short term loans with two banks in Asia that bear interest from 3.24% to 5.82% During the third quarter, all short-term bank loans were paid off.

Note Payable, 10% interest per annum, maturing on December 7, 2013	\$77,000
Note Payable, 10% interest per annum, maturing on December 20, 2013	10,000
Total Short-Term Debt	\$87,000

The holder of the \$77,000 note is entitled to subscribe for a purchase 7,000 warrant shares at an exercise price of \$1.50 per share. The holder of the \$10,000 note is entitled to subscribe for a purchase 909 warrant shares at an exercise price of \$1.50 per share.

During the three months ended June 30, 2013, a \$50,000 debenture was converted into shares of the Company's common stock at a price of \$1.00 per share. As a result, the Company recorded a loss on conversion of debt totaling \$27,500.

During the three months ended March 31, 2013, a \$45,000 note was extinguished, with \$15,000 of principal being paid in cash and \$30,000 of principal being converted into shares of the Company's common stock at a price of \$1.00. As a result, the Company recorded a loss from conversion of debt totaling \$16,500.

NOTE 3

EQUITY

Preferred Stock

The Company is authorized to issue 100,000,000 shares of \$0.00001 par value preferred stock. No shares have been issued, and the rights and privileges of this class of stock have not been defined.

Common Stock

During the nine months ended September 30, 2013, the Company raised \$5,459,501 in a private placement of shares ranging from \$1.00 to a \$1.10 per share. Costs associated with this raise totaled \$540,150.

During the nine months ended September 30, 2013, the Company issued 80,000 shares of its common stock to consultants for services. The fair market value of these shares on their respective date of issuances totaled \$122,000. As a result, the Company recorded non-cash compensation expense of \$122,000.

During the nine months ended September 30, 2013, the Company issued a warrant to purchase 100,000 shares of its common stock at an exercise price of \$1.65 per share. The warrant became fully vested at the time of issuance and expires ten years from the date of issuance. Using the Black Scholes pricing model, the warrant was valued at \$60,075. As a result, the Company recorded non-cash compensation expense of \$60,075.

NOTE 4

STOCK OPTION PLAN

The Company has also granted non-qualified stock options to employees and contractors. All non-qualified options are generally issued with an exercise price equal to the closing price of the Common Stock on the date of the grant. Options may be exercised up to ten years following the date of the grant, with vesting schedules determined by the Company upon grant. Vesting periods range from 100% fully vested upon grant to a range of four to five years. Vested options may be exercised up to three months following date of termination of the relationship. The fair values of options are determined using the Black-Scholes option-pricing model. The estimated fair value of options is recognized as an expense on the straight-line basis over the options' vesting periods.

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Stock option transactions during the nine months ended September 30, 2013 were as follows:

	Nine months ended September 30, 2013	
	Shares	Weighted - Average Exercise Price
Outstanding at Beginning of Year	5,038,512	\$ 0.91
Granted	160,000	1.63
Exercised	(244,500)	-
Forfeited or Canceled	(155,000)	1.09
Outstanding at End of Period	4,799,012	0.93
Options Exercisable at Period-End	3,566,628	1.25
Weighted-Average Fair Value of Options Granted During the Period	\$ 0.27	

Information with respect to stock options outstanding and exercisable as of September 30, 2013 is as follows:

Options Outstanding Number Outstanding	Weighted - Average	Options Exercisable Number
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