

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,<br>2013<br>(Unaudited) | December 31,<br>2012<br>(Audited) |
|--|--------------------------------------|-----------------------------------|
| <b>ASSETS</b>                                |                                      |                                   |
| <b>CURRENT ASSETS</b>                        |                                      |                                   |
| 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                         |
| <br>   |                                      |                                   |
| PROPERTY AND EQUIPMENT, Net                  | 451,211                              | 516,981                           |
| <br>   |                                      |                                   |
| <b>OTHER ASSETS</b>                          |                                      |                                   |
| 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                         |
| <br>   |                                      |                                   |
| Total Assets                                 | \$ 4,621,162                         | \$ 4,919,484                      |
| <br>   |                                      |                                   |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                      |                                   |
| <b>CURRENT LIABILITIES</b>                   |                                      |                                   |
| 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                         |
| <br>   |                                      |                                   |
| LONG TERM DEBT                               | 64,542                               | 67,695                            |
| <br>   |                                      |                                   |
| <b>STOCKHOLDERS' EQUITY</b>                  |                                      |                                   |
| 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                         |
| <br>   |                                      |                                   |
| 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<br>Ended<br>Sept. 30, 2013<br>(unaudited) | Three Months<br>Ended<br>Sept. 30, 2012<br>(unaudited) | Nine Months<br>Ended<br>Sept. 30, 2013<br>(unaudited) | Nine Months<br>Ended<br>Sept. 30, 2012<br>(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  |
| <b>TOTAL REVENUE</b>                    | <b>568,918</b>   | <b>381,173</b>   | <b>1,978,306</b>                                      | <b>2,152,492</b>                                      |
| <b>COST OF REVENUE</b>                  | <b>471,992</b>   | <b>322,824</b>   | <b>1,667,665</b>                                      | <b>1,729,001</b>                                      |
| <b>GROSS PROFIT</b>                     | <b>96,926</b>  | <b>58,349</b>  | <b>310,641</b>  | <b>423,491</b>  |
| <b>OPERATING EXPENSES</b>               | <b>1,645,563</b>                                       | <b>867,958</b>   | <b>4,531,718</b>                                      | <b>2,854,794</b>                                      |
| <b>LOSS FROM OPERATIONS</b>             | <b>(1,548,637)</b>                                     | <b>(809,609)</b>                                       | <b>(4,221,077)</b>                                    | <b>(2,431,303)</b>                                    |
| <b>OTHER INCOME (EXPENSE)</b>           |  |  |   |   |
| 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)  |
| <b>LOSS BEFORE INCOME TAXES</b>         | <b>(1,573,469)</b>                                     | <b>(834,104)</b>                                       | <b>(4,339,409)</b>                                    | <b>(2,477,583)</b>                                    |
| <b>BENEFIT FOR INCOME TAXES</b>         | <b>-</b>   | <b>-</b>   | <b>-</b>  | <b>-</b>  |
| <b>NET LOSS</b>                         | <b>\$ (1,573,469)</b>                                  | <b>\$ (834,104)</b>                                    | <b>\$ (4,339,409)</b>                                 | <b>\$ (2,477,583)</b>                                 |
| <b>BASIC AND DILUTED LOSS PER SHARE</b> | <b>\$ (0.06)</b>                                       | <b>\$ (0.04)</b>                                       | <b>\$ (0.18)</b>                                      | <b>\$ (0.15)</b>                                      |

*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<br>Ended<br>Sept. 30, 2013<br>(unaudited) | Three Months<br>Ended<br>Sept. 30, 2012<br>(unaudited) | Nine Months<br>Ended<br>Sept. 30, 2013<br>(unaudited) | Nine Months<br>Ended<br>Sept. 30, 2012<br>(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<br>Sept. 30, 2013<br>(Unaudited) | Nine Months Ended<br>Sept. 30, 2012<br>(Unaudited) |
|--|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                |  |  |
| 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)  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                |  |  |
| Purchase of Property and Equipment   | (89,897)   | (387,064)  |
| Net cash used in investing activities                                      | (89,897)   | (387,064)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                |  |  |
| 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  |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                             | <b>7,377</b>                                       | <b>16,731</b>                                      |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                           | <b>967,891</b>                                     | <b>(104,677)</b>                                   |
| Cash and Cash Equivalents - Beginning of Period                            | 114,462  | 850,364  |
| <b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>                           | <b>\$ 1,082,353</b>                                | <b>\$ 745,687</b>                                  |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                    |  |  |
| 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<br>Ended September, 2013<br>Iveda Solutions, Inc. | Three Months<br>Ended September 30, 2013<br>MegaSys | Condensed<br>Consolidated<br>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<br>Ended September 30,<br>2013<br>Iveda Solutions,<br>Inc. | Nine Months<br>Ended September 30,<br>2013<br>MegaSys | Condensed<br>Consolidated<br>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<br>September 30, |              | Nine Months Ended<br>September 30, |                |
|---------------------------------------|-------------------------------------|--------------|------------------------------------|----------------|
|                                       | 2013                                | 2012         | 2013                               | 2012           |
| <b>Revenues</b>                       |                                     |              |                                    |                |
| 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   |
| <br>                                  |                                     |              |                                    |                |
|                                       | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |                |
|                                       | 2013                                | 2012         | 2013                               | 2012           |
| <b>Operating earnings (loss)</b>      |                                     |              |                                    |                |
| 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) |
| <br>                                  |                                     |              |                                    |                |
|                                       |                                     |              | Nine Months Ended<br>September 30, |                |
|                                       |                                     |              | 2013                               | 2012           |
| <b>Property and equipment</b>         |                                     |              |                                    |                |
| United States                         |                                     |              | \$ 438,686                         | \$ 580,014     |
| Republic of China (Taiwan)            |                                     |              | 12,525                             | 31,095         |
|                                       |                                     |              | \$ 451,211                         | \$ 611,109     |
| <br>                                  |                                     |              |                                    |                |
|                                       |                                     |              | Nine Months Ended<br>September 30, |                |
|                                       |                                     |              | 2013                               | 2012           |
| <b>Additions to long-lived assets</b> |                                     |              |                                    |                |
| United States                         |                                     |              | \$ 86,868                          | 223,705        |
| Republic of China (Taiwan)            |                                     |              | (1,660)                            | 11,884         |
|                                       |                                     |              | \$ 85,208                          | 235,589        |
| <br>                                  |                                     |              |                                    |                |
|                                       |                                     |              | Nine Months Ended<br>September 30, |                |
|                                       |                                     |              | 2013                               | 2012           |
| <b>Inventory</b>                      |                                     |              |                                    |                |
| United States                         |                                     |              | \$ 51,955                          | \$ 810         |
| Republic of China (Taiwan)            |                                     |              | 156,178                            | 106,766        |
|                                       |                                     |              | \$ 208,133                         | \$ 107,576     |





|                            | Nine Months Ended<br>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:

| Range of Exercise Prices | Options Outstanding                  |   | Weighted - Average Exercise Price | Options Exercisable                  |                                   |
|--------------------------|--------------------------------------|---|-----------------------------------|--------------------------------------|-----------------------------------|
|                          | Number Outstanding at Sept. 30, 2013 | Weighted - Average Remaining Contractual Life |                                   | Number Exercisable At Sept. 30, 2013 | Weighted - Average Exercise Price |
| \$ 0.10 - \$1.80         | 4,799,012                            | 8.2 Years                                     | \$ 0.93                           | 3,566,628                            | \$ 1.25                           |

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for options granted.

|                         | 2013  |   |
|-------------------------|-------|---|
| Expected Life           | 5 yrs |   |
| Dividend Yield          | 0     | % |
| Expected Volatility     | 26.28 | % |
| Risk-Free Interest Rate | 0.85  | % |

Expected volatility for 2013 was estimated by using the Dow Jones U.S. Industry indexes sector classification methodology for industries similar to the Company. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the grant date. The expected life of the options is based on management's estimate using historical experience.

**NOTE 5 RELATED PARTY TRANSACTIONS**

On November 19, 2012, the Company entered into a convertible debenture agreement with Robert Gillen for \$100,000. Under the original terms of the agreement, Interest is payable at 10% per annum, payable on the maturity date of May 19, 2013. The Company issued warrants to purchase 10,000 shares of the Company Stock, at an exercise price of \$ 1.10. 100,000  
The debenture is convertible into shares of Company Common Stock on or before the Maturity Date, at a conversion rate of \$1.10 per share. On May 19, 2013, the Company extended the maturity date of the convertible debenture to November 19, 2013.

Total Due to Related Parties

\$100,000



**NOTE 6****EARNINGS (LOSS) PER SHARE**

The following table provides a reconciliation of the numerators and denominators reflected in the basic and diluted earnings per share computations.

Basic EPS is computed by dividing reported earnings available to stockholders by the weighted average shares outstanding. The Company had net losses for the three months and nine months ended September 30, 2013 and 2012, and the effect of including dilutive securities in the earnings per common share would have been anti-dilutive. Accordingly, all options and warrants to purchase common shares (totaling 8,127,581 potential shares at September 30, 2013) were excluded from the calculation of diluted earnings per share for the three months and nine months ended September 30, 2013 and 2012.

|                                  | Three Months<br>Ending<br>Sept. 30, 2013 | Three Months<br>Ending<br>Sept. 30, 2012 | Nine Months<br>Ending<br>Sept. 30, 2013 | Nine Months<br>Ending<br>Sept. 30, 2012 |
|----------------------------------|--|--|---|---|
| Basic EPS                        |  |  |   |   |
| Net Loss                         | \$ (1,573,469)                           | (834,104)                                | \$ (4,339,409)                          | (2,477,583)                             |
| Weighted Average Shares          | 25,700,296                               | 19,541,679                               | 24,181,281                              | 15,383,548                              |
| Basic and Diluted Loss Per Share | \$ (0.06)                                | \$ (0.04)                                | \$ (0.18)                               | \$ (0.15)                               |

**NOTE 7 SUBSEQUENT EVENTS**

In October 2013, the Company sold 100,000 shares of Company Common Stock at a purchase price of \$1.10 per share and 20,000 shares at a purchase price of \$1.00 in two private placement transactions with one individual and one trust.

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

*The following discussion should be read in conjunction with the Company's unaudited financial statements and associated notes appearing elsewhere in this Form 10-Q.*

### **Note Regarding Forward-Looking Information**

This Quarterly Report on Form 10-Q, including the following "Management's Discussion and Analysis of Financial Condition and Results of Operations," contains forward-looking statements, which involve risks and uncertainties, including statements regarding our capital needs, business strategy, and expectations. For a discussion of certain risks related to the statements, please see Part I, "Item IA, Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2012 (filed on April 1, 2013). Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "will," "expect," "plan," "intend," "anticipate," "believe," "estimate," "potential," "forecast," "project" or "continue," the negative of such terms or other comparable terminology.

You should not rely on forward-looking statements as predictions of future events or results. Any or all of our forward-looking statements may turn out to be wrong. They can be affected by inaccurate assumptions, risks and uncertainties, and other factors, which could cause actual events or results to be materially different from those expressed or implied in the forward-looking statements. These factors may cause our actual results to differ materially from any forward-looking statement. In addition, new factors emerge from time to time and it is not possible for us to predict all factors that may cause actual results to differ materially from those contained in any forward-looking statements. We disclaim any obligation to publicly update any forward-looking statements to reflect events or circumstances after the date of this report, except as required by applicable law.

Except as otherwise indicated by the context, references in this Quarterly Report on Form 10-Q to "we," "our," "us," "Iveda," and "the Company" refer to the business of Iveda Solutions, Inc.

### **Critical Accounting Policies and Estimates**

Management's Discussion and Analysis of Financial Conditions and Results of Operations is based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires the Company's management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A description of our critical accounting policies and related judgments and estimates that affect the preparation of our financial statements is set forth in Item 7, "Management's Discussion and Analysis of Financial Conditions and Results of Operations," of our Annual Report on Form 10-K for the year ended December 31, 2012. Such policies are unchanged.

## Overview

Iveda Solutions, Inc. began operations on January 24, 2005, under the name InteloSight, Inc., a Washington corporation doing business as Iveda Solutions (“InteloSight”). On October 15, 2009, InteloSight became a wholly-owned operating subsidiary of Iveda Corporation (formerly known as Charmed Homes, Inc.), a Nevada corporation, through a merger. All Company operations were conducted through InteloSight until December 31, 2010, at which time InteloSight merged with and into Iveda Corporation, which changed its name to Iveda Solutions, Inc. On April 30, 2011, the Company completed its acquisition of Sole-Vision Technologies, Inc. (doing business as MegaSys), a corporation organized under the laws of the Republic of China (“MegaSys”). As of April 30, 2011, MegaSys became a wholly owned subsidiary of the Company.

The Company sells and installs video surveillance equipment, primarily for security purposes and secondarily for operational efficiencies and marketing, and provides video hosting in-vehicle streaming video, archiving, and real-time remote surveillance services with a proprietary reporting system, DSR (Daily Surveillance Report), to a variety of businesses and organizations. By consolidating computer power into a single location at the server level, the Company creates efficiencies due to economies of scale leveraging cloud computing, which offers more features and flexibility compared to traditional box systems. The Company has a SAFETY Act Designation by the Department of Homeland Security as an anti-terrorism technology provider. The Company’s principal sources of revenue are derived from our video hosting real-time surveillance and equipment sales and installation.

MegaSys, our Taiwanese subsidiary, specializes in deploying video surveillance systems for airports, commercial buildings, government customers, data centers, shopping centers, hotels, banks, and Safe City initiatives in Taiwan and other neighboring countries. MegaSys integrates security surveillance products, software and services to provide integrated security solutions to the end user. Most of MegaSys’s revenues are derived from one-time sales, which differs from Iveda’s business model of on-going video hosting, remote video storage, and real-time surveillance revenues. MegaSys does not own any proprietary technology or intellectual property other than certain trademarks in Taiwan used in its business.

## 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.

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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.

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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.

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## **Results of Operations**

**Revenue.** We recorded revenue of \$568,918 for the three months ended September 30, 2013, compared to \$381,173 for the three months ended September 30, 2012, an increase of \$187,745 or 49%. In the third fiscal quarter of 2013, our recurring service revenue was \$149,578 or 26% of revenue, and our equipment sales and installation revenue was \$409,222 or 72% of revenue, compared to recurring service revenue of \$129,329 or 34% of revenue, and equipment sales and installation revenue of \$212,531 or 56% of revenue for the same period in 2012.

The increase in revenue was due to a number of new customers, introduction of MyXpressCam hosting service geared toward the consumer and small business market, and dedicated direct salesperson concentrating on MyXpressCam sales.

We recorded revenue of \$1,978,306 for the nine months ended September 30, 2013, compared to \$2,152,492 for the nine months ended September 30, 2012, a decrease of \$174,186 or 8%. In the first nine months of 2013, our recurring service revenue was \$476,410 or 24% of revenue, and our equipment sales and installation revenue was \$1,467,044 or 74% of revenue, compared to recurring service revenue of \$476,391 or 22% of revenue, and equipment sales and installation revenue of \$1,561,238 or 73% of revenue for the same fiscal period in 2012. The decrease in equipment sales and installation revenue was due to a small decrease in U.S. revenues as well as slightly lower revenues from our Taiwan subsidiary.

**Cost of Revenue.** Total cost of revenue was \$471,992 (83% of revenues; gross margin of 17%) for the three months ended September 30, 2013, compared to \$322,824 (85% of revenue; gross margin of 15%) for the three months ended September 30, 2012, an increase of \$149,168 or 46%. The increase of cost of revenue and increase of gross margin was primarily due to the revenue mix being more concentrated on services, where gross margins are higher than on product sales.

Total cost of revenue was \$1,667,665 (84% of revenues; gross margin of 16%) for the nine months ended September 30, 2013, compared to \$1,729,001 (80% of revenues; gross margin of 20%) for the nine months ended September 30, 2012, an increase of \$61,336 or 4%. The decrease in gross margin for the nine months ended September 30, 2013 was due to the revenue mix being more concentrated on product sales, where our margins are lower than on services revenues.

**Operating Expenses.** Operating expenses were \$1,645,563 for the three months ended September 30, 2013, compared to \$867,958 for the three months ended September 30, 2012, an increase of \$777,605 or 90%.

Operating expenses were \$4,531,718 for the nine months ended September 30, 2013, compared to \$2,854,794 for the nine months ended September 30, 2012, an increase of \$1,676,924 or 59%. The large increase in operating expenses in 2013 is primarily the increase in marketing efforts through tradeshows and advertising to spur and support further growth in the company's future.

The increase in operating expenses both in Q3 2013 and YTD 2013 over comparable periods in 2012 was primarily related to investments in meeting the Company's long-term corporate strategic goals, primarily in research and development combined with increased marketing expenses.

**Loss from Operations.** As a result of the increases in operating expenses, the loss from operations increased to \$1,548,637 for the three months ended September 30, 2013, compared to \$809,609 for the three months ended September 30, 2012, an increase in loss of \$739,028 or 91%.

As a result of the overall increase in operating expenses and decrease in gross margin, the loss from operations increased to \$4,221,077 for the nine months ended September 30, 2013, compared to \$2,431,303 for the nine months ended September 30, 2012, an increase in loss of \$1,789,774 or 74%.

**Other Expense-Net.** Other expense-net was \$24,832 for the three months ended September 30, 2013, compared to \$24,495 for the three months ended September 30, 2012, an increase of \$337 or 1%.

Other expense-net was \$118,332 for the nine months ended September 30, 2013, compared to \$46,280 for the nine months ended September 30, 2012, an increase of \$72,052 or 1.55%. This is due to the loss from conversion of debt in 2013.

**Net Loss.** The increase of \$739,365 or 89% in the net loss to \$1,573,469 for the three months ended September 30, 2013, from \$834,104 for the three months ended September 30, 2012, was primarily the effect of decreased revenue and increased operating expenses in 2013.

The increase of \$1,861,826 or 75% in the net loss to \$4,339,409 for the nine months ended September 30, 2013, from \$2,477,583 for the nine months ended September 30, 2012, was primarily the effect of reduced gross profit and increased in operating expenses.

## Liquidity and Capital Resources

On September 30, 2013, we had cash and cash equivalents of \$773,739 in our domestic business and \$308,614 on September 30, 2013 in our foreign business. The increase in cash from \$114,462 as of December 31, 2012 was due to approximately \$5.5 million in equity raise funding. There are no legal or economic factors that materially impact our ability to transfer funds between our domestic and foreign businesses.

Net cash used in operating activities during the nine months ended September 30, 2013, and for the nine months ended September 30, 2012, was \$2,835,549 and \$2,224,616 respectively. Cash used in operating activities for those periods consisted primarily of the net loss from operations.

Net cash used in and provided by investing activities for the nine months ended September 30, 2013, and the nine months ended September 30, 2012, was \$89,897 and \$387,064 respectively. The large use of cash in investing activities in 2012 was due to increased capital expenditures to expand our infrastructure for a new major customer.

We have experienced significant operating losses since our inception. At December 31, 2012, we had approximately \$19.3 million in net operating loss carry forwards available for federal and state income tax purposes. We did not recognize any benefit from these operating loss carry forwards for the year ended 2012 or through the third quarter of 2013. Our operating loss carry forwards expire starting in 2025 and continuing through 2032.

We believe that our cash on hand as of September 30, 2013 is sufficient to meet our anticipated cash needs for working capital and capital expenditures for the near term. However, the Company has limited liquidity and has not yet established a stabilized source of revenues sufficient to cover operating costs over an extended period of time. As a result, risk exists regarding the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to generate greater revenues through increased sales and/or its ability to raise additional funds through the capital markets. The Company has engaged Source Capital, Inc. to serve as placement agent in connection with a private placement of up to \$3.0 million in principal amount of Senior Convertible Debentures. No assurance can be given that the Company will be successful in these efforts.

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. No other customers represented greater than 10% of total revenues in the three months ended September 30, 2013. There are some customer receivables that have aged over 120 days. These customers have been identified and an adequate allowance for doubtful accounts has been set up to offset the risk of uncollectibility.

Our U.S. operation has no new customer receivables aged over 120 days. The terms for payment for our U.S. operations are "due upon receipt". Therefore, no allowance for doubtful accounts for this receivables was recorded this quarter with respect to our U.S. operations.

Our Taiwan operations through MegaSys have 93% of gross accounts receivables aged over 120 days as of September 30, 2013. The payment terms vary based on the timing of the completion of customer projects. MegaSys generally does not control the time of payment because MegaSys's product is only one component of the larger project. In general, payment takes place within one year of commencing the project, except that 5% of the total payment is retained and released one year after the completion of the project. Excluding such retained amounts, MegaSys provides an allowance for doubtful accounts for any receivables that will not be paid within one year. Management has set up a 47%, or \$363,954, allowance for doubtful accounts as of the quarter ended September 30, 2013. Management deems the rest to be collectible based on the nature of the customer contracts and past experience with similar customers.



The Company has a convertible debenture agreement with a maturity date of November 19, 2013 for \$100,000. See Note 5.

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.

## Recent Developments

In October 2013, the Company engaged Source Capital, Inc. to serve as placement agent in connection with a planned private placement of up to \$3.0 million in principal amount of Senior Convertible Debentures (the “Debenture Offering”). The Company intends to conduct the Debenture Offering in accordance with the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended, and Rule 506 of Regulation D promulgated thereunder. There can be no assurance that the Company will be successful in raising proceeds from the Debenture Offering.

In October 2013, the Company sold 100,000 shares of Company Common Stock at a purchase price of \$1.10 per share and 20,000 shares at a purchase price of \$1.00 in two private placement transactions with one individual and one trust.

These issuances were made pursuant to Section 4(2) of the Securities Act of 1933, as amended, Regulation D, and Rule 506 promulgated thereunder. The facts relied upon by the Company to use this exemption were the following: (a) the Company did not use general solicitation or advertising to market the securities; (b) the issuances were only made to accredited investors; and (c) the Company informed the investors that they would receive “restricted” securities.

*Off Balance Sheet Arrangements* . During the reporting period, the Company had no off-balance sheet arrangements, as such term is defined in Item 303(a)(4) of Regulation S-K.

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

As a smaller reporting company, the Company is not required to provide Part I, Item 3 disclosures in this Quarterly Report.

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

#### **Evaluation of Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the design and operation of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of September 30, 2013. Based on our evaluation, our principal executive officer and our principal financial officer concluded that the design and operation of our disclosure controls and procedures were not effective as of September 30, 2013.

#### **Changes in Internal Control over Financial Reporting**

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting for our U.S. operations. We are in the process of evaluating our internal controls over financial reporting for MegaSys.

#### **Limitations on the Effectiveness of Controls**

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control

systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Iveda have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or Board override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

### **Segregation of Duties**

As of September 30, 2013, the Company had two employees knowledgeable in SEC accounting and reporting. As a result, there is proper segregation of duties necessary to insure that all transactions are accounted for accurately and in a timely manner. In addition, as our resources allow, we plan to add financial personnel to our management team in order to ensure proper segregation of the duties necessary for accurate and timely financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1.**

### **LEGAL PROCEEDINGS.**

See “Part I, Item 3. Legal Proceedings” of the Company’s Annual Report on Form 10-K filed on April 1, 2013, which is incorporated herein by reference.

### **ITEM 1A.**

### **RISK FACTORS.**

As a smaller reporting company, the Company is not required to provide Part II, Item 1A disclosures in this Quarterly Report.

### **ITEM 2.**

### **UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

During the reporting period, pursuant to a \$3 million private placement, the Company received a total of \$1,502,000 and issued 1,502,000 shares of Common Stock in twenty three private placement transactions with a mix of investors including ) thirteen individuals, eight corporations and two trusts. All issuances were at \$1 per share.

In October 2013, the Company sold 100,000 shares of Company Common Stock at a purchase price of \$1.10 per share and 20,000 shares at a purchase price of \$1.00 in two private placement transactions with one individual and one trust.

These issuances were made pursuant to Section 4(2) of the Securities Act of 1933, as amended, Regulation D, and Rule 506 promulgated thereunder. The facts relied upon by the Company to use this exemption were the following: (a) the Company did not use general solicitation or advertising to market the securities; (b) the issuances were only made to accredited investors; and (c) the Company informed the investors that they would receive only “restricted” securities.

### **ITEM 3.**

### **DEFAULT ON SENIOR SECURITIES.**

None.

**ITEM 4. MINE SAFETY DISCLOSURES.**

None.

**ITEM 5. OTHER INFORMATION.**

None.

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**ITEM 6.**

**EXHIBITS.**

| Exhibit<br>Number | Description  |
|-------------------|--|
| 2.1               | Share Exchange Agreement, dated March 21, 2011, by and among Iveda Solutions, Inc., a Nevada corporation, Sole-Vision Technologies, Inc. (doing business as MegaSys), a corporation organized under the laws of the Republic of China, and the shareholders of MegaSys (Incorporated by reference to Form 10-K/A filed on 2/9/2012). |
| 3.1               | Articles of Incorporation of Charmed Homes Inc. (Incorporated by reference to Exhibit 3.1 to Form SB-2 filed on 4/20/2007).  |
| 3.2               | Bylaws of Charmed Homes Inc. (Incorporated by reference to Exhibit 3.2 to Form SB-2 filed on 4/20/2007).   |
| 3.3               | Amendment to Bylaws of Charmed Homes Inc. (Incorporated by reference Exhibit 3.1 to Form 8-K/A filed on 12/15/2008).   |
| 3.4               | Amendment to Articles of Incorporation, filed with the Nevada Secretary of State on September 9, 2009 (Incorporated by reference to Exhibit 3.4 to Form 8-K filed on 10/21/2009).  |
| 4.1               | Specimen Stock Certificate (Incorporated by reference to Exhibit 4.1 to Form SB-2 filed on 4/20/2007).   |
| 4.2               | Form of Stock Option Agreement under the Intelasight, Inc. 2008 Stock Option Plan (Incorporated by reference to Exhibit 4.2 to Form S-4/A1 filed on 7/10/2009).  |
| 4.3               | Form of Common Stock Purchase Warrant issued by Intelasight, Inc. (Incorporated by reference to Exhibit 4.3 to Form S-4/A1 filed on 7/10/2009).  |
| 4.4               | 2009 Stock Option Plan, dated October 15, 2009 (Incorporated by reference to Exhibit 4.4 to Form 8-K filed on 10/21/2009).   |
| 4.5               | Form of Common Stock Purchase Warrant issued by Iveda Corporation in conjunction with the Merger (Incorporated by reference to Exhibit 4.5 to Form 8-K filed on 10/21/2009).   |
| 4.6               | Iveda Solutions, Inc. 2010 Stock Option Plan, as amended (Incorporated by reference to Appendix A to the Definitive Proxy Statement on Schedule 14A filed on 5/2/2011).  |
| 4.7               | Form of Notice of Grant of Stock Option under the Iveda Solutions, Inc. 2010 Stock Option Plan, as amended (Incorporated by reference to Exhibit 4.2 to Form S-8 filed on 6/24/2011).  |
| 4.8               | Form of Stock Option Agreement under the Iveda Solutions, Inc. 2010 Stock Option Plan, as amended (Incorporated by reference to Exhibit 4.3 to Form S-8 filed on 6/24/2011).   |
| 4.9               | Form of Stock Option Exercise Notice under the Iveda Solutions, Inc. 2010 Stock Option Plan, as amended (Incorporated by reference to Exhibit 4.4 to Form S-8 filed on 6/24/2011).   |
| 10.1              | Application Development Service Agreement dated July 14, 2006 by and between Axis Communications AB and Intelasight, Inc. (Incorporated by reference to Exhibit 10.4 to Form S-4/A2 filed on 8/5/2009).  |
| 10.2              | Partner Agreement dated January 30, 2007 by and between Milestone Systems, Inc. and Intelasight, Inc. (Incorporated by reference to Exhibit 10.5 to Form S-4/A1 filed on 7/10/2009).   |
| 10.3              | Solution Partner Agreement dated March 13, 2008 by and between Milestone Systems A/S and Intelasight, Inc. (Incorporated by reference to Exhibit 10.6 to Form S-4/A1 filed on 7/10/2009).  |
| 10.4              | Channel Partner Program Membership Agreement Gold Solution Partner Level dated June 23, 2009 by and between Axis Communications Inc. and Intelasight, Inc. (Incorporated by reference to Exhibit 10.9 to Form S-4/A1 filed on 7/10/2009).  |
| 10.5              | Stock Purchase Agreement, dated October 15, 2009, by and among Iveda Corporation, Intelasight, Inc., Ian Quinn and Kevin Liggins (Incorporated by reference to Exhibit 10.10 to Form 8-K filed on 10/21/2009).   |

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- 10.6 Subscription Agreement, dated July 26, 2010 (Incorporated by reference to Exhibit 10.10 to Form 10-Q filed on 11/12/2010).
- 10.7 Line of Credit Promissory Note, dated September 15, 2010 (Incorporated by reference to Exhibit 10.11 to Form 10-Q filed on 11/12/2010).
- 10.8 Agreement for Services, dated October 20, 2010 (Incorporated by reference to Exhibit 10.12 to Form 10-Q filed on 11/12/2010).
- 10.9 Consulting Agreement, dated October 25, 2010 (Incorporated by reference to Exhibit 10.13 to Form 10-Q filed on 11/12/2010).
- 10.10 Operating Level Agreement, dated October 25, 2010 (Incorporated by reference to Exhibit 10.14 to Form 10-Q filed on 11/12/2010).
- 10.11 Side Letter, dated March 21, 2011, by and among Iveda Solutions, Inc., Sole-Vision Technologies, Inc. (doing business as MegaSys), and the shareholders of MegaSys (Incorporated by reference to Exhibit 10.15 to Form 10-K filed on 3/30/2011).
- 10.12 Non-Exclusive Strategic Collaboration Agreement between Iveda Solutions, Inc. and Telmex, U.S.A., LLC, dated October 28, 2011 (Incorporated by reference to Exhibit 10.12 to Form 10-Q/A filed on 3/7/2012).
- 10.13 2010 Digital Video Remote Monitoring Recording System Procurement Contract between Sole-Vision Technology, Inc. and New Taipei City Police Department Purchasing Authority, dated January 9, 2012 (Incorporated by reference to Exhibit 10.13 to Form 10-K filed on 3/30/2012).
- 10.14 Consulting Agreement between Iveda Solutions, Inc. and Amextel S.A. de C.V. dated November 2, 2011 (Incorporated by reference to Exhibit 10.14 to Form 10-K/A filed on 5/10/2012).
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*.
- 31.2 Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002\*.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*\*.
- 32.2 Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\*\*.
- 101.1 The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets (Unaudited) as of March 31, 2013 and December 31, 2012, (ii) Condensed Consolidated Statements of Operations (Unaudited) for the three months ended March 31, 2013 and 2012, (iii) Condensed Consolidated Statements of Cash Flows (Unaudited) for the three months ended March 31, 2013 and 2012, and (iv) the Notes to Condensed Consolidated Financial Statements (Unaudited).\*\*

\* Filed herewith

\*\* Furnished herewith

**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.

**IVEDA SOLUTIONS, INC.  
(Registrant)**

Date: November 14, 2013

BY: /s/ David Ly  
David Ly  
*President, Chief Executive Officer, and  
Chairman (Principal Executive Officer)*

BY: /s/ Brian Duling  
Brian Duling  
*CFO (Chief Financial Officer)*