

Iveda Solutions, Inc.
Form 10-Q
November 16, 2015

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, 2015

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)

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Nevada
(State or other jurisdiction of
incorporation or organization)

20-2222203
(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 that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant 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 for 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. (Check one):

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

As of November 12, 2015 there were outstanding 27,904,739 shares of the registrant's common stock, \$0.00001 par value.

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PART 1 – FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS.****IVEDA SOLUTIONS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****SEPTEMBER 30, 2015 AND DECEMBER 31, 2014**

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	\$242,796	\$87,900
Restricted Cash	375,239	979,095
Accounts Receivable, Net	539,635	358,804
Inventory, Net	350,029	387,918
Other Current Assets	765,757	647,659
Total Current Assets	2,273,456	2,461,376
PROPERTY AND EQUIPMENT, NET	331,113	532,512
OTHER ASSETS		
Intangible Assets, Net	111,666	126,666
Other Assets	191,099	364,320
Total Other Assets	302,765	490,986
Total Assets	\$2,907,334	\$3,484,874
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts and Other Payables	\$1,957,575	\$2,166,246
Due to Related Parties	798,440	575,000
Short Term Debt	203,850	1,080,500
Derivative Liability	60,626	112,009
Current Portion of Long-Term Debt	-	34,610
Total Current Liabilities	3,020,491	3,968,365
LONG-TERM DIVIDENDS PAYABLE	558,157	272,901

STOCKHOLDERS' EQUITY

Preferred Stock, \$0.00001 par value; 100,000,000 shares authorized Series A Preferred Stock, \$0.00001 par value; 10,000,000 shares authorized, 4,003,592 shares issued and outstanding as of September 30, 2015 and December 31, 2014	40	40
Series B Preferred Stock, \$0.00001 par value; 500 shares authorized, 302.5 and no shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	-	-
Common Stock, \$0.00001 par value; 100,000,000 shares authorized; 27,689,685 and 27,308,357 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	277	273
Additional Paid-In Capital	30,135,163	27,261,762
Accumulated Comprehensive Loss	(42,000)	(35,615)
Less Notes Receivable from Stockholder	(130,000)	(492,194)
Accumulated Deficit	(30,634,794)	(27,490,658)
Total Stockholders' Equity (Deficit)	(671,314)	(756,392)
 Total Liabilities and Stockholders' Equity	 \$2,907,334	 \$3,484,874

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, 2015 AND 2014**

	Three Months Ended Sept. 30, 2015 (Unaudited)	Three Months Ended Sept. 30, 2014 (Unaudited)	Nine Months Ended Sept. 30, 2015 (Unaudited)	Nine Months Ended Sept. 30, 2014 (Unaudited)
REVENUE				
Equipment Sales	\$780,886	\$305,489	\$1,922,104	\$707,505
Service Revenue	41,978	162,966	187,229	465,604
Other Revenue	510	20,554	15,425	42,026
TOTAL REVENUE	823,374	489,009	2,124,758	1,215,135
COST OF REVENUE	633,926	397,173	1,627,478	921,574
GROSS PROFIT	189,448	91,836	497,280	293,561
OPERATING EXPENSES	854,600	1,220,132	2,838,326	4,278,944
LOSS FROM OPERATIONS	(665,152)	(1,128,296)	(2,341,046)	(3,985,383)
OTHER INCOME (EXPENSE)				
Foreign Currency Gain	1,097	1,226	10,223	11,935
Gain on Derivatives and Debt Conversion	8,792	59,443	51,383	101,444
Gain (Loss) on Disposal of Assets	4,642	-	(24,812)	-
Interest Income	6,062	6,365	19,739	8,242
Interest Expense	(309,267)	(140,075)	(376,193)	(316,028)
Total Other Income (Expense)	(288,674)	(73,041)	(319,660)	(194,407)
LOSS BEFORE INCOME TAXES	(953,826)	(1,201,337)	(2,660,706)	(4,179,790)
BENEFIT (PROVISION) FOR INCOME TAXES	120	(38)	(12,733)	(15,917)
NET LOSS	\$(953,706)	\$(1,201,375)	\$(2,673,439)	\$(4,195,707)
BASIC AND DILUTED LOSS PER SHARE	\$(0.03)	\$(0.04)	\$(0.10)	\$(0.16)
WEIGHTED AVERAGE SHARES	27,683,644	27,308,357	27,458,942	26,968,884

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, 2015 AND 2014

	Three Months Ended Sept. 30, 2015 (Unaudited)	Three Months Ended Sept. 30, 2014 (Unaudited)	Nine Months Ended Sept. 30, 2015 (Unaudited)	Nine Months Ended Sept. 30, 2014 (Unaudited)
Net Loss	\$ (953,706)	\$ (1,201,375)	\$ (2,673,439)	\$ (4,195,707)
Other Comprehensive Loss				
Change in Equity Adjustment from Foreign Currency Translation, Net of Tax	(8,481)	(5,490)	(6,385)	(5,457)
Comprehensive Loss	\$ (962,187)	\$ (1,206,865)	\$ (2,679,824)	\$ (4,201,164)

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**

	Nine Months Ended Sept. 30, 2015 (Unaudited)	Nine Months Ended Sept. 30, 2014 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	\$(2,673,439)	\$(4,195,707)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities		
Depreciation and Amortization	148,630	165,248
Amortization of Debt Discount	-	24,946
Amortization of Deferred Financing Costs	-	54,830
Gain on Derivatives and Debt Conversion	(51,383)	(101,444)
Stock Option Compensation	100,500	242,000
Bad Debt Expense	3,085	4,699
Loss on Disposal of Assets	24,812	-
Common Stock Warrants Issued for Interest	14,826	1,285
Prepayment Discount on Stockholder Note Receivable	262,194	-
(Increase) Decrease in Operating Assets		
Accounts Receivable	(208,781)	35,706
Inventory	33,580	(108,424)
Other Current Assets	(139,910)	(259,517)
Other Assets	2,727	-
(Decrease in) Accounts and Other Payables	(195,950)	(94,203)
Net Cash Used in Operating Activities	(2,679,109)	(4,230,581)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(7,457)	(245,437)
Proceeds from Sale of Equipment	11,325	1,292
Net Cash Provided by (Used in) Investing Activities	3,868	(244,145)
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in Restricted Cash	593,300	5,287
Proceeds from (Payments on) Short-Term Notes Payable/Debt	(855,430)	922,627
Proceeds from Short-Term Debt, Related Party	-	330,000
Proceeds from Exercise of Stock Options	114	8,636
Proceeds from (Payments to) Due to Related Parties	223,440	88,000
Proceeds from Stockholder Note Receivable	100,000	-
Proceeds from (Payments on) Long-Term Debt, Net of Payments	(34,940)	2,960,663

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Payments on Capital Lease Obligations	-	(2,536)
Payments on Dividends	(2,956)	-
Deferred Finance Costs, Net	-	(98,978)
Common Stock Issued, Net of (Cost of Capital)	-	(21,084)
Series B Preferred Stock Issued, Net of Cost of Capital	2,811,667	-
Net Cash Provided by Financing Activities	2,835,195	4,192,615
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(5,058)	(1,918)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	154,896	(284,029)
Cash and Cash Equivalents- Beginning of Period	87,900	559,729
CASH AND CASH EQUIVALENTS - END OF PERIOD	\$242,796	\$275,700

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**

	Nine Months Ended September 30, 2015 (Unaudited)	Nine Months Ended September 30, 2014 (Unaudited)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 56,956	\$ 31,456
Income Tax Paid	\$ 5,043	\$ -
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Discount on Convertible Debt	\$ -	\$ 113,474
Establishment of Derivative Liability	\$ -	\$ 126,904
Common Stock Issued for Investor Relations	\$ 7,500	\$ -
Warrants Issued for Interest Expense	\$ 7,327	\$ -
Warrants Issued as Deferred Finance Costs	\$ -	\$ 13,430
Accrued Interest Rolled into Convertible Debentures	\$ -	\$ 78,860
Exercise of Stock Options	\$ 114	\$ -
Deferred Finance Costs Allocated to APIC	\$ 313,334	\$ -
Conversion of Preferred Stock to Common Stock	\$ 1	\$ -
Dividends Converted to Common Stock	\$ 2	\$ -

See accompanying Notes to Condensed Consolidated Financial Statements

IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2014. The operating results and cash flows for the nine-month period ended September 30, 2015 are not necessarily indicative of the results that will be achieved for the full fiscal year ending December 31, 2015 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 our opinion, necessary for a fair statement of the financial position and the results of operations for the interim periods. Preparing financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Estimates are used for, but not limited to, 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 our estimates and assumptions. The statements have been prepared in accordance with accounting principles generally accepted in the United States (“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, 2014 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, we completed our acquisition of Sole Vision Technologies (dba MEGAsys), a company based in Taiwan. We consolidate our financial statements with the financial statements of MEGAsys. All intercompany balances and transactions have been eliminated in consolidation.

Going Concern

The accompanying condensed consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. Our Audit Report on the Consolidated Financial Statements for the year ended December 31, 2014 contained a going concern qualification. Since inception, we have generated an accumulated deficit from operations of approximately \$30.6 million at September 30, 2015 and have used approximately \$2.7 million in cash to fund operations through the nine months ended September 30, 2015. As a result, a significant risk exists regarding our ability to continue as a going concern. The condensed consolidated 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.

We adopted a multi-step plan to enable us to continue to operate and begin to report operating profits. The highlights of that plan are as follows:

We developed Sentir[®], our cloud-based video management platform, and began executing on our strategy to license its use as a Video Surveillance as a Service (“VSaaS”) offering to partners such as telecommunications companies, Internet Service Providers (“ISPs”), data centers, and cable companies in order to gain access to their existing subscriber bases. Sentir was officially launched in April 2014.

We introduced the ZEE[®] line of cloud, plug-and-play cameras. The camera line includes three wireless indoor cameras, one of which is a pan/tilt (“P/T”) camera, two outdoor cameras, and a dome camera. We utilize contract manufacturers for our cloud cameras and other cloud-enabled devices. The Sentir-enabled cameras simplify service providers’ VSaaS offering to end users.

We developed IvedaMobile[®], a cloud-hosting service that turns any smartphone or tablet into a mobile, cloud video streaming device.

IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

In August 2015, we launched IvedaHome, a cloud-based home automation system, enabled for Sentir. The system is wireless and simple to install for the telco's residential and small business customers.

We are actively collaborating with certain foreign telecommunications and manufacturing companies to resell our products and services in their respective countries and are actively engaged in such sales processes with other similar companies. We are licensing Sentir and selling the ZEE line of cameras.

In December 2014, we entered into an agreement (the "Debenture and Warrant Amendment") with the holders of certain debentures (the "2013 Debentures") and certain warrants (the "2013 Warrants"), pursuant to which the holders agreed to cancel the 2013 Debentures and convert them into an aggregate of 3,600,000 shares of our newly issued Series A Preferred Stock. As inducement to enter into the Debenture and Warrant Amendment, we issued to the holders additional warrants to purchase shares of our common stock.

As of the final closing of a private placement on March 13, 2015, we raised approximately \$3.1 million through the sale of Series B Preferred Stock.

During July 2014 we launched a new website highlighting our licensing business model, which focuses on telecommunications companies, data centers, ISPs, cable companies, and other similar organizations.

We reduced our U.S.-based segment operating costs by eliminating our direct project-based sales channel and all costs related to project-based sales and operations to focus our activities and resources on licensing Sentir.

In November 2013, we hired Bob Brilon as our Chief Financial Officer and Executive Vice President of Business Development. Mr. Brilon has strong ties with the investment community and has extensive experience with strategic growth planning and domestic and foreign institutional investors, which have been and will continue to be instrumental to our market expansion, global distribution of our cloud video surveillance and data management platform, and raising capital to fund our growth. In February 2014, Mr. Brilon was appointed as our President.

Concentrations

Financial instruments, which potentially subject us 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 Federal Deposit Insurance Corporation ("FDIC") insurance limit. Deposits in Taiwan financial institutions are insured by Central Deposit Insurance Corporation

("CDIC") 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 we are at risk to the extent such amount becomes uncollectible. We perform periodic credit evaluations of our customers' financial condition and generally do not require collateral. U.S.-based segment revenue from two customers represented approximately 28% of total revenue for the nine months ended September 30, 2015, and four customers represented approximately 91% of the total U.S.-based segment accounts receivable at September 30, 2015. Taiwan-based segment revenue from three customers represented approximately 79% of total revenue for the nine months ended September 30, 2015, and four customers represented approximately 96% of total Taiwan-based segment accounts receivable at September 30, 2015.

IVEDA SOLUTIONS, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****Intangible Assets**

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 nine months to ten years. Other intangible assets are fully amortized at September 30, 2015. Future amortization of trademarks is as follows:

2015	\$5,000
2016	20,000
2017	20,000
2018	20,000
Thereafter	46,666
Total	\$111,666

Fair Value of Financial Instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to us as of September 30, 2015 and December 31, 2014. 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, and amounts due to related parties. Fair values were assumed to approximate carrying values for these financial instruments because either they are short-term in nature and their carrying amounts approximate their fair values or they are receivable or payable on demand.

Derivative Financial Instruments

We do not use derivative instruments to hedge exposures to cash flow, market, or foreign currency risks. We evaluate all of our financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at the reporting date, with changes in the fair value reported in the consolidated statements of operations. For stock-based derivative financial instruments, we use the Black-Scholes option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as

liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date. Our derivative liability relates to the 2013 Warrants issued in connection with the 2013 Debentures (subsequently converted to Series A Preferred Stock on December 9, 2014). These warrants contain a ratchet provision, which allows the exercise price to adjust downward based on certain events.

Segment Information

We conduct operations in various geographic regions. The operations conducted and the customer bases located in the foreign countries are similar to the operations conducted and the customer bases located in the United States. The net revenue and net assets (liabilities) for other significant geographic regions are as follows:

	September 30, 2015	
	Net	Net Assets
	Revenue	(Liabilities)
United States	\$201,032	\$ (553,187)
Republic of China (Taiwan)	\$1,923,726	\$ (118,127)

IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Furthermore, due to operations in various geographic locations, we are 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 our future operations and results.

We are required to collect certain taxes and fees from customers on behalf of government agencies and remit them back to the applicable governmental agencies on a periodic basis. The taxes and fees are legal assessments to the customer, for which we have a legal obligation to act as a collection agent. Because we do not retain the taxes and fees, we do not include such amounts in revenue. We record a liability when the amounts are collected and relieve the liability when payments are made to the applicable governmental agencies.

We operate two reportable business segments as defined in ASC 280, "Segment Reporting." We have a U.S.-based segment, Iveda, and a Taiwan-based segment, MEGAsys. Each segment has a chief operating decision maker and management personnel who review their respective segment's performance as it relates to revenue, operating profit, and operating expenses.

IVEDA SOLUTIONS, INC.**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Statements of operations for the three and nine months ended September 30, 2015 for each of our reporting segments are provided below.

	Three Months Ended Sept. 30, 2015 Iveda	Three Months Ended Sept. 30, 2015 MEGAsys	Condensed Consolidated Total
Revenue	\$52,797	\$770,577	\$823,374
Cost of Revenue	37,546	596,380	633,926
Gross Profit	15,251	174,197	189,448
Depreciation and Amortization	36,236	3,092	39,328
General and Administrative	683,358	131,914	815,272
Gain (Loss) from Operations	(704,343)	39,191	(665,152)
Foreign Currency Gain	929	168	1,097
Gain on Derivatives	8,792	-	8,792
Gain on Disposal of Assets, Net	4,642	-	4,642
Interest Income	6,068	(6)	6,062
Interest Expense	(300,071)	(9,196)	(309,267)
Gain (Loss) Before Income Taxes	(983,983)	30,157	(953,826)
Benefit (Provision) for Income Taxes	-	120	120
Net Income (Loss)	\$(983,983)	\$30,277	\$(953,706)
	Nine Months Ended Sept. 30, 2015 Iveda	Nine Months Ended Sept. 30, 2015 MEGAsys	Condensed Consolidated Total
Revenue	\$201,032	\$1,923,726	\$2,124,758
Cost of Revenue	166,589	1,460,889	1,627,478
Gross Profit	34,443	462,837	497,280
Depreciation and Amortization	137,366	11,264	148,630
General and Administrative	2,341,815	347,881	2,689,696
Gain (Loss) from Operations	(2,444,738)	103,692	(2,341,046)
Foreign Currency Gain	8,644	1,579	10,223

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Gain on Derivatives	51,383	-	51,383
Loss on Disposal of Assets, Net	(24,812)	-	(24,812)
Interest Income	18,273	1,466	19,739
Interest Expense	(348,584)	(27,609)	(376,193)
Gain (Loss) Before Income Taxes	(2,739,834)	79,128	(2,660,706)
Benefit (Provision) for Income Taxes	-	(12,733)	(12,733)
Net Income (Loss)	\$(2,739,834)	\$66,395	\$(2,673,439)

IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Revenue as shown below represents sales to external customers for each segment. Intercompany revenue is immaterial and has been eliminated.

Additions to long-lived assets as presented in the following table represent capital expenditures.

Inventories and property and equipment for operating segments are regularly reviewed by management and are therefore provided below.

	Three Months Ended September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Revenue				