Iveda Solutions, Inc.
Form 10-K
March 31, 2014

United States Securities and Exchange Commission
Washington , D.C. 20549

FORM 10-K

þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 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 of incorporation)	20-2222203 (I.R.S. Employer Identification No.)
1201 S. Alma School, Suite 8500 Mesa, Arizona (Address of principal executive offices)	85210 (Zip code)

Registrant's telephone number, including area code: (480) 307-8700

Securities registered pursuant to Section 12(b) of the Exchange Act None

Securities registered pursuant to Section 12(g) of the Exchange Act Common Stock - $0.00001 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 x 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 x

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

The aggregate market value of voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold was approximately $32,377,404 as of the last business day of the registrant's most recently completed fiscal quarter.

As of March 14, 2014, 26,757,012 shares of the registrant's common stock were outstanding.

IVEDA SOLUTIONS, INC.

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Caution Regarding Forward-Looking Information

In addition to historical information, this Form 10-K contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). This statement is included for the express purpose of availing Iveda Solutions, Inc. of the protections of the safe harbor provisions of the PSLRA.

All statements contained in this Form 10-K, other than statements of historical facts, that address future activities, events or developments are forward-looking statements, including, but not limited to, statements containing the words “believe,” “expect,” “anticipate,” “intends,” “estimate,” “forecast,” “project,” and similar expressions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new products, services, developments or industry rankings; any statements regarding future *revenue, economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, whether actual results will conform to the expectations and predictions of management is subject to a number of risks and uncertainties described under Item 1A Risk Factors beginning on page 20 below that may cause actual results to differ materially.*

Consequently, all of the forward-looking statements made in this Form 10-K are qualified by these cautionary statements and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations. Readers are cautioned not to place undue reliance on such forward-looking statements as they speak only of the Company's views as of the date the statement was made. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

All references in this Form 10-K to the terms "Iveda Solutions, Inc.," "Iveda," "Company," "we," "us," and "our" refer to I Solutions, Inc. and our predecessors, unless the context otherwise requires.

ITEM 1 BUSINESS

General

Iveda Solutions, Inc. began operations on January 24, 2005, under the name IntelaSight, Inc., a Washington corporation doing business as Iveda Solutions ("IntelaSight"). On October 15, 2009, IntelaSight completed a reverse merger with Charmed Homes, Inc., a Nevada corporation ("Charmed"), pursuant to which IntelaSight became a wholly-owned subsidiary of Charmed and Charmed changed its name to Iveda Corporation.

All Company operations were conducted under the name IntelaSight until December 31, 2010, at which time IntelaSight merged with and into Iveda Corporation and Iveda Corporation changed its name to Iveda Solutions, Inc.

The Company's principal executive offices are located at 1201 S. Alma School Rd., Suite 8500, Mesa, Arizona 85210.

On April 30, 2011, the Company completed its acquisition of Sole-Vision Technologies, Inc. (doing business as MegaSys). MegaSys was incorporated in the Republic of China (Taiwan) on July 5, 1999. MegaSys is in the business of design and manufacturing of central security management system products and providing security integration solutions. MegaSys specializes in deploying new and integrating existing video surveillance systems for airports, commercial buildings, government customers, shopping centers, hotels, banks, and Safe City initiatives in Taiwan and other neighboring countries. MegaSys' headquarters are located at 2F,-15, No. 14, Lane 609, Sec. 5, Chongxin Rd. ,Sanchong City, Taipei County 241, Taiwan (R.O.C.)

Business Operations

Overview

Iveda is an established and innovative company, delivering secure, open source and enterprise class managed video services by leveraging the power of cloud computing. The Company's robust enterprise class video hosting architecture, utilizing data centers, allows scalability, flexibility, and centralized video management, access, and storage, without the burden of buying and maintaining software and equipment. Iveda's customers simply log in online, access their cameras and begin watching live and/or recorded video data from anywhere in the world at any time using any Internet-enabled device. From one camera locally to hundreds around the world, each camera can be accessed from one secure login. Iveda delivers the true essence of video surveillance through cloud computing.

The Company's open-source technology is interoperable with any existing camera system and enables multiple, simultaneous access without degradation of video quality. Utilizing video hosting technology, Iveda revolutionizes the functionality of security cameras, through a proactive real-time surveillance service rather than event or trigger-based system.

There are millions of security cameras in the U.S. today, a great majority of which run unmonitored. Oftentimes, they cannot be used to stop a crime in progress, and are merely observers keeping silent record of any illegal activity. Iveda takes security beyond boundaries by ensuring that each camera in its care remains under expertly-trained eyes. By placing a person behind the lens, a security camera goes from mute witness to active patroller, fully capable of police dispatch and assistance as events unfold. Officers can often be directed to the scene before a criminal has left the premises, leading to a higher arrest rate and greatly increasing the likelihood of recovering any stolen goods.

To management's knowledge, at this time, Iveda is the only major provider of enterprise class real-time video surveillance in the U.S.

Iveda developed Sentir, a revolutionary Software as a Service video management platform, which enables companies such as telecommunications, cable, Internet, and other utility companies with subscribers already paying for monthly services, to offer cloud video surveillance services for additional recurring monthly revenue.

MegaSys, Iveda's 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 China and Taiwan used in its business. MegaSys serves as Iveda's research and development arm, with in-house developers, as well as managing and directing its technology partner. MegaSys also manages relationships with manufacturers to find new devices to enable Iveda's cloud video hosting services.

Historically, Iveda has derived revenues from security systems integration, equipment sales and installation, conversion of analog cameras to digital, and per hour, per camera service fees from video hosting and real-time surveillance. Additional revenues are derived from extended video storage and extended maintenance contracts. Iveda has grown only through direct sales of equipment/installation and video surveillance services through its direct sales team. Since June 2012, Iveda has been developing its indirect sales channel using independent agents and security integrators. Iveda has been in active communication with telecommunications companies in Asia and Africa and expects to sign an agreement with them for reselling of Iveda's cloud video hosting services. Iveda currently has a signed agreement with a Mexico-owned company based in the U.S. As the reseller channel matures, Iveda's channel partners are expected to take over its equipment sales and installation functions, and help drive Iveda's recurring service revenue.

After months of rigorous application and due diligence process, in April 2009, Iveda was approved as a Qualified Anti-Terrorism Technology provider under a formal SAFETY Act Designation by the Department of Homeland Security (DHS). The designation gives the Company, its partners and customers certain liability protection. Iveda is the first and currently the only company, offering real-time IP video hosting and remote surveillance services with a SAFETY Act Designation.

In October 2009, the Company completed a reverse merger with a publicly traded company. The Company's stock is now trading on the Over-The-Counter Bulletin Board (OTCBB) under the trading symbol "IVDA."

In September 2010, Iveda acquired its first international customer. The Company is now providing IvedaOnBoard, its in-vehicle live streaming video service, and remote video storage to a government agency in Mexico.

In April, 2011, Iveda completed the acquisition of MEGAsys Taiwan. MEGAsys designs and manufactures electronic security and surveillance products, software, and services. MEGAsys was founded in 1998 by a group of sales and research and development professionals from Taiwan Panasonic Company. Iveda leverages MEGAsys' relationships with manufacturing and software companies in Asia, potentially reducing costs and improving services and capabilities. The acquisition also opens doors to the Asian market.

In October 2011, Iveda signed a strategic collaboration agreement with Telmex, U.S.A., a subsidiary of the Mexico-based Telmex, the 4th largest telecommunications company in the world. Telmex has presence in the U.S., Latin America, Europe, and Africa. Iveda has developed a product, ideal for Telmex' millions of subscribers in the U.S. and Mexico.

In November 2012, Iveda signed a cooperation agreement with Industrial Technology Research Institute (ITRI). ITRI is a research and development organization based in Taiwan. Iveda and ITRI have been co-developing cloud-video services. ITRI has given Iveda license to some of their patents being used in the development. Iveda will have exclusive rights to the products and services being co-developed.

Cloud Video Surveillance Services

Iveda has multiple recurring revenue streams based on its cloud-video management platform, including video hosting, in-vehicle mobile video streaming, real-time remote surveillance services, and live streaming video mapping service, using a combination of Internet-enabled cameras, a secure IP network infrastructure utilizing robust data centers, and intervention specialists. Iveda's services are all web-based and accessible through any Internet-accessible device (e.g., computer, smartphone, tablets).

IvedaEnterprise

IvedaEnterprise is the Company's managed video hosting platform and is the basis for the Company's cloud-video surveillance products and service offerings. IvedaEnterprise utilizes a robust data center that is capable of hosting a massive number of live and recorded video from IP-enabled security cameras. This capability allows Iveda to offer real-time video surveillance, in-vehicle streaming video, remote simultaneous access, and data archiving services.

Hosting and remote access services are ideal for customers managing multiple locations. The user's video is transmitted to the data center and distributed to an almost unlimited number of users simultaneously. Live and archived video can be accessed using any Internet-enabled device.

Benefits :

- One login, one interface to multiple cameras anywhere in the world
- Interoperable with most IP Cameras & CCTV with Video Encoders
- Anywhere, Anytime from any Internet-accessible Device
- Web-based, 24/7 Remote Live & Archived Video Access
- Centralized, Multiple Simultaneous Access
- Secure, High Reliability & Availability
- Fully Fault-Tolerant Data Center

IvedaXpress

IvedaXpress is a simple surveillance solution for home, office, or small business. It provides an inexpensive and easy to install enterprise-level camera management solution. While DVRs require hours of network setup and upkeep for an experienced IT professional, IvedaXpress is virtually effortless to set up. No software to install, no recording device to set up, and no configuration required. It is a plug and play video surveillance solution.

IvedaSentry

IvedaSentry is the Company's real-time remote video surveillance service, providing remote, real-time surveillance of security cameras. Iveda's remote surveillance facility is designed to be operational 24/7 and houses its highly trained intervention specialists who monitor its customer's properties at any time the customers specify. Using sophisticated software, Iveda's intervention specialists are there as events unfold and they can act accordingly on its customers' behalf. By watching a customer's cameras in real time, Iveda is able to notify the police more quickly than other companies that wait for an alarm to be triggered or only review tapes after-the-fact. Iveda is also able to send police a link to real-time video.

This proactive versus after-the-fact security solution monitors facilities live and analyzes and proactively responds to situations in real time. No waiting for alarms to be triggered. Human intervention behind the technology is a key component and is combined with Iveda's DSR (Daily Surveillance Report), a proprietary reporting system that provides customers a detailed daily report of events. Real-time video surveillance provides live visual verification, eliminating costly false alarms and escalating police response priorities.

Traditional security services are classified into two types: 1) electronic or non-human; and 2) security guard-based, comprised of humans patrolling a site and human surveillance via closed-circuit television (CCTV). While the former is generally considered to be affordable to the greater market, the latter still remains rather expensive. Several factors and market dynamics have contributed to demand for Iveda's products and services, including:

- The recent wide-spread availability of high-bandwidth Internet connections (known as IP-based networks);
- Drastic reductions in digital camera component costs; and
- The introduction of innovative "smart scanning" software.

As a result of these dynamics, management believes that Iveda is able to offer a superior combination of human video surveillance and electronic security systems at a lower price than other currently available human-based security services.

Benefits :

- **Proactive versus after-the-fact** With humans behind the cameras assessing situations in real-time, they can call the police when necessary to prevent a crime. Recorded video footage only helps to investigate after a crime has already been committed.
- **Daily Monitoring Report** Every morning, customers get an activity report in their email box, consisting of time-stamped video footage and a detailed description of events from the previous night.
- **Cost Savings** Savings of up to 75% are possible compared to traditional guard services.
- **Secure Data** Iveda utilizes a third party, highly secure datacenter to process, store, and protect its customers' video footage
- **Live Visual Verification** Several cities nationwide have adopted ordinances that impose a substantial fine for every false alarm. An alarm system may be declared a nuisance for excessive false alarms. Live video verification can reduce or even eliminate false alarms. With live video verification, police departments of some cities escalate response priority, depending on the seriousness of the event.
- **Redundancy** Video data are stored in Iveda's datacenter, remote monitoring facility, and its customers' facilities.

Problems with Existing Systems

Electronic security tends to be extremely error prone. False alarms are so prevalent that cities and counties have sued alarm companies for the unnecessary allocations of available resources. When police officers have to be dispatched or re-directed to provide visual verification of a property that is emitting a false alarm, the cost in time and money becomes exorbitant.

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While electronic security tends to be error prone, human security is often poorly trained and expensive. Unless well-trained security guards are present, human security is not viewed as a credible counter threat to a potential crime. While a security guard can give independent verification, cost can make guards prohibitive. A single security guard cannot be in several locations at the same time, resulting in a need for multiple guards to cover the entire property, at a per guard cost of $15 to $26 per hour.

Traditional security companies are proving to be slow to adapt to high-tech, IP-based networks, simply because their core competency does not include the sophisticated software, hardware, and Internet technology required. Companies that understand the technology are missing the knowledge of the security business and lack expertise in security systems design and the actual management of a crew of intervention specialists.

What management believes has been missing from the industry is a proactive security solution that will deter crime and help the police catch criminals in the act; not merely through using video data as an after-the-fact investigative tool for solving a crime. This security solution requires a company that can competently provide superior security systems and video communications via IP-based networks.

IvedaOnBoard

IvedaOnBoard utilizes any in-car camera available in the market today with our Streaming Video Converter (SVC) and IvedaEnterprise. IvedaOnBoard allows our customers real-time situational assessment of field activities. This untethered surveillance solution utilizes Wide-area data services such as cellular, mesh wireless, and Wi-Fi. Centralized video management of an entire mobile fleet includes high quality real-time streaming video and instant review of footage remotely, thus no need to have a recording device onboard.

IvedaPinpoint

IvedaPinpoint is a live streaming video mapping application and is a video management system (VMS) consolidator and online mapping service that shows location of surveillance cameras on Google Maps(TM) or other third party mapping platforms. Through a single login, users are able to pull live streaming video feeds from a centralized video management platform. IvedaPinpoint is completely web-based, accessible from any Flash-enabled browser on your computer or smartphone.

In collaboration with Pinkerton/Securitas, Iveda conducted a successful pilot of IvedaPinpoint at the 2012 G8/NATO meeting in Chicago. IvedaPinpoint was integrated into Pinkerton's Vigilance incident & trend data monitoring system, its cloud-based, 24/7 situational awareness and risk aggregation service that gathers data and evaluates threats.

Applications for IvedaPinpoint range from safe city, executive protection, facility protection, border protection, supply chain security, transportation, utilities, federal and local governments. When a user clicks on a “Pinpoint” the live video of the camera will appear.

IvedaXchange

IvedaXchange uses cloud-based technology to provide a suite of threat assessment dashboards and alerting capabilities to schools, school districts, government agencies or any organization wishing to upgrade their threat monitoring capability.

IvedaXchange enables school, law enforcement, emergency personnel and others to receive targeted emergency alerts, share key information on potential threats, and locate critical assets students, staff, and buses, in real time.

<u>Products</u>

Iveda's core competency is based on its cloud-video management platform. Iveda focuses on recurring service revenue, but the Company also sells and integrates products to enable Iveda's services.

VEMO

VEMO is an in-vehicle video surveillance system enabled for IvedaOnBoard, the Company's mobile streaming video hosting service. Live and recorded video from vehicles are hosted in the cloud and centrally managed. Videos can be viewed in one dashboard, including a map-based user interface for tracking current location of vehicles using VEMO's GPS. VEMO and IvedaOnBoard are the first fully integrated in-vehicle surveillance system streaming live to the cloud. VEMO is ideal for law enforcement, school buses, commercial transportation, and emergency response vehicles where visibility of ongoing events is crucial. VEMO and IvedaOnBoard was named one of the top 30 2013 Technology Innovations by Security Sales & Integration magazine.

Express Surveillance System (ESS)

The Express Surveillance System (ESS) is a self-contained wireless surveillance unit, equipped with an integrated cellular router for an "always on" Internet connection. The camera is shipped pre-configured and ready for deployment on leading broadband cellular networks. All that is needed is a cellular data card and power.

The ESS is portable and remotely accessible, thus well suited for applications that require temporary high-quality video surveillance, such as special events, stake outs, and construction sites. The unit is bundled with IvedaEnterprise for a complete plug-and-play system, ideal for remote surveillance, where a typical ISP (Internet Service Provider) is not available and a local server or DVR is not practical. ESS enables fast and easy video surveillance deployment.

Zee

Zee cameras are enabled for IvedaXpress cloud-managed video hosting service. These are inexpensive, plug and play IP cameras. Especially designed with consumers and small businesses in mind, IvedaXpress eliminates the many hours of network setup and upkeep. With IvedaXpress, Zee cameras in numerous locations may be accessed on one online dashboard on virtually any Internet-enabled smartphone, tablet or computer, wherever you are in the world. The solution provides an inexpensive and easy to install enterprise-level video surveillance solution for home, office or business. The Zee camera line includes indoor, outdoor, fixed, and PT (Pan/Tilt) cameras. Zee and IvedaXpress are what Iveda offers to telecommunications companies for reselling to their customer base. Contract negotiations are currently in progress with a number of these companies.

A major Taiwanese TV manufacturer, who has the third largest market share in Taiwan, recently partnered with Iveda to bundle Zee and integrate Sentir software into their Smart TVs. The new partner has purchased several hundred Zee cameras for distribution through its 600 franchise dealers. Other distribution channels include TV shopping networks, malls, online stores and retail stores. The Company started in Taiwan and intends to expand in the U.S. and other countries.

Streaming Video Converter (SVC)

The Streaming Video Converter (SVC) is a fully integrated device that combines the functionality of a high performance video encoder and cellular broadband router. This rugged and portable unit was specifically designed for digitizing analog in-vehicle mobile video systems. This digital conversion enables live mobile streaming video using cellular data network for remote access and storage. The SVC is capable of delivering up to four simultaneous video streams.

The device allows for rapid deployment of live mobile streaming video ideal for in-vehicle applications, such as police cars, school buses, taxicabs, delivery trucks, tow trucks, and freight trucks. With the SVC, video footage that is traditionally stored inside the vehicle through a local recording device can now be virtualized and stored remotely at Iveda's fully fault-tolerant data center with no concerns of redundancy, reliability, and lost or damaged data.

Systems Integration

Our core competency is our ability to deliver cloud video management services. We offer our customers a variety of products that enable our services and from which we create customized solutions for our customers. We call these solutions our cloud video validators.

SafeCiti®

SafeCiti is a comprehensive turnkey solution for central management and processing of critical information and surveillance technology throughout an entire metropolitan area. Our SafeCiti solution offers infrastructure owners to effectively bridge the gap between their current technology capabilities with much needed upgrades and expansion of new capabilities. Iveda's cloud technology promotes faster, more affordable public safety and security system implementation and all with much greater sustainability. MegaSys is our expert in SafeCiti deployments, having completed a large project for the New Taipei Police Department in 2010. The police department has awarded MegaSys additional SafeCiti deployments for $2.2 million in January 2012 and $1.3 million in December 2012.

Surveillance Equipment Installation and System Integration

Iveda partners with security integrators with expertise in full deployment of new IP-based video surveillance systems and converting existing analog or CCTV systems to IP-based systems. Iveda designs, recommends, sells video surveillance systems to enable video hosting, real-time surveillance services, and mobile video services and Iveda works with security integrators to install the system.

<u>Technology Architecture</u>

Iveda's infrastructure utilizes the power of cloud computing. Cloud computing refers to applications running on a remote server instead of on a local computer, and the user accesses it via the Internet. Using a web browser, the user logs onto a hosted website to access account information and all computations and data manipulations are done at the server level.

Iveda has applied the same principle to create an IP video hosting platform, which paved the way for other service offerings such as real-time surveillance services and in-vehicle mobile streaming video. By consolidating computing power into a single location at the server level, Iveda creates efficiencies due to economies of scale, and offers more features and flexibility than ever before offered.

Iveda utilizes robust data centers that are capable of centrally hosting live and recorded video from a massive number of IP-enabled security cameras. Our HA (high-availability) IP (Internet Protocol) infrastructure is scalable, redundant, and secure.

Using cloud computing is a better way to consolidate surveillance video, especially if it is coming from disparate geographic locations or facilities. Instead of running multiple digital video recorder (DVR) and software (NVR), the video is centrally hosted at a data center and the user accesses it using a Web browser. This is sometimes referred to as Managed Video as a Service (MVaaS), or Video Surveillance as a Service (VSaaS). When surveillance video is in the cloud, the user logs in through any Internet-accessible device, wherever the user may be. The user does not need to install proprietary software or worry about safety of recorded video. Everything is hosted and recorded remotely and can be accessed 24/7 using a web browser.

Getting surveillance video into the cloud can be set up almost immediately in many cases. Plus, upgrades and patches can be achieved remotely for immediate access to enhanced security, features and performance over time.
Access to multiple properties or locations anywhere around the world has never been easier. When surveillance video is in the cloud, the user has full access to it from anywhere with an Internet connection. Also a huge advantage of bringing surveillance video into the cloud is that you never have to worry about bandwidth when multiple users want to access video simultaneously.

Cloud-based video surveillance reduces capital expenditure. User cost to deploy is captured in a predictable monthly subscription fee.

Features :

- **Internet Access** - Allows customers 24/7 secure, remote access to video.
- **Data Center** - Iveda utilizes data centers equipped with emergency power and redundant bandwidth.
- **VOIP** - Iveda can utilize voice-over-IP to allow a 1-way or 2-way communication between its intervention specialists and suspicious individuals on its customers' properties.
- **Camera Manufacturer Agnostic** - Iveda can monitor security cameras from the majority of manufacturers, whether analog (CCTV) or digital.
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Carrier/ISP Neutral - Iveda can work with customers' current Internet providers as long as minimum bandwidth requirements are met.

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Network Camera IP-Based Technology. Network camera IP-based technology is the core of Iveda's security solution. The cameras Iveda utilizes are not typical Web cams or CCTV. They are all mini computers with enabled Web servers. Each camera has the capability of becoming its own Web site on the Internet, which allows Iveda's intervention specialists to log into each camera and control the cameras' operation. When combined with "PTZ" (pan, tilt, zoom) cameras, the intervention specialist can make the camera pan, tilt, zoom or rotate as needed remotely. Clients can also log into each camera through Iveda's web access tool, and can view the images in real time, 24/7. The software that powers the camera technology is generally open source, which allows Iveda to develop unique applications in the future to service a wide variety of industries and clients.

Security. Iveda anticipates its customers' video networks, which will include a variety of public sector security applications, will be high-value targets for criminals. As a result, Iveda's network security standards must be and are very high, meeting standards used by banks in providing online banking services.

As the leading online surveillance provider, the security of surveillance video is always a priority at Iveda, committed to implementing stringent measures to ensure data stays secure. Multiple layers of network redundancy ensure the security of video assets. Every critical network component within the Iveda' Cloud is redundant; including a second copy of video to ensure stability, uptime, and that video is not lost.

Iveda' networks are protected from external threats by ICSA certified products to block unauthorized external entry. Internal data and network access is controlled by permission and policy based ACLs.

Video security between the camera and the Iveda's Cloud can be secured utilizing the IvedaXpress product which integrates AES 256 bit encryption into the connection between the camera and our Cloud. Video security can also be secured by incorporating encrypted VPNs (Virtual Private Network).

Iveda plans to continue to develop and improve its network security protocol as it rolls out new applications of its services. Of course, any network security measure can fail, and any security breach could result in significant liability for Iveda.

Remote Surveillance Center. Iveda's 24-hour remote surveillance facility is the nerve center of its unique IP-enabled services. It is connected to the data center through a massive pipe of redundant point-to-point broadband bandwidth, which allows streaming video, enabling real-time video surveillance. Iveda has been monitoring cameras since 2005 and has proven the effectiveness, robustness, and reliability of its service. Some of the operational features of the facility include:

• Rapid visual verification to every alert

• Full escalation to the police

• Automatic notification to clients of serious incidents

• Full audit trail including date and time stamped images of every incident securely stored

• Video can be used for evidence in court

• Regular updated site details

• Specially-trained intervention specialists

• Direct visual link can be sent via email to police instantly

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Sentir

Sentir is a Software as a Service (SaaS) video management platform with proprietary video streaming and storage technology. It offers the video surveillance functionality of traditional security industry DVR and NVR, all delivered from the cloud as an application. Most of Sentir's applications run from a Web browser without software installation or download. Sentir eliminates infrastructure management, maintenance, and support because every aspect of IP video system is managed by the service provider from video applications, runtime, middleware, operating system, virtualization, servers, storage, and networking. Sentir provides video surveillance without additional hardware; cameras, power, and an Internet connection are all the user needs.

What's Unique about Sentir

Any camera brand that is enabled for cloud with Sentir will have plug and play capabilities. As everything is web provisioned, camera and account setup and configuration are simple. No more technical or IT guy required.

Unlike traditional NVR software which is conventionally sold as a perpetual license with a large up-front cost, Sentir is priced by application using a revenue share subscription fee, most commonly a monthly or an annual fee per camera or device. Certain feature upgrades and additional duration of storage are available a la carte, providing total end-user flexibility and control of budget.

Sentir is a True Cloud Computing Platform

In recent years, there has been a move by traditional NVR software companies to position their solutions as "Cloud Computing" which generally do not qualify by the true definition of Cloud Computing, also known as cloud-washing.

Similar to other true Cloud Computing solutions, Sentir bears the same generally accepted definitions of Cloud Computing with defined characteristics such as Sentir being commercially accessible over the web, software is managed from a central location, "one to many" delivery model, users are not required to handle software upgrades and patches, and API availability for integration between different pieces of software. Sentir is true Cloud, delivered over the Internet. Customers are provided a license to use Sentir applications on a per device basis, either as a service on demand through a subscription or a pay-as-you-go model. To add another level of uniqueness and differentiation from current industry solutions, Sentir has integrated cloud storage management technology so that customers do not need to add another layer of expense by needing a separate storage solution to manage all their growing video data. Sentir has a built in software-defined storage technology designed with Big Data in mind.

Sentir's Clustered Cloud Storage System

Clustered NAS (network-attached storage) can provide flexible expansion in capacity, even better in synchronously extending system performance and availability. When more nodes in the cluster are added, performance improves, and storage system space increases. Through clustering system and distributed file systems, multiple NAS controller can be combined as a whole. With parallel processing and load balancing mechanisms, best use of processor performance and disk space on all nodes can be achieved.

Due to the characteristics of clustered NAS itself, the system will continue operating even when some of the nodes crash and will not cause the system to shut down. This uninterrupted service storage system will greatly reduce the possibility of data loss. While traditional low-level NAS can only support 50-terabyte file system, clustered NAS file system can support petabyte level of file system, significantly reducing design complexity of the parent application and further improving system availability, stability, and scalability of the upper layer software.

Pricing Strategy

Iveda's cloud video hosting solutions provide a less expensive alternative to typical CCTV/DVR solutions and live security guards. Iveda can affordably upgrade a standard CCTV system to an Internet-based surveillance system, through digital conversion. As a result of all of these factors, Iveda has removed several cost barriers for its customers.

- Less capital expenditure. Other than cameras, no hardware or software to install.
- Less operating expense, reduces overhead. No infrastructure to maintain and replace.
- Reduced false alarm costs that are historically high for alarm-based security solutions.
- No costly Virtual Private Network (VPN) required to link multiple cameras.
- Integrating the customer's existing cameras into its solution, reducing the high cost of purchasing and installing new cameras

Iveda has developed a pricing model for its products and services that will allow its resellers an attractive profit margin from residual revenues while allowing Iveda to garner about 60% profit margin when its video hosting infrastructure is fully utilized.

Equipment Sales and Installation. Iveda has historically realized a gross margin of 10% to 50% on equipment sales. Iveda does not manufacture any of the components used in its video surveillance services business. Due to the general availability of the components, Iveda is able to obtain the components of its systems from a number of different sources and to supply its customers with the latest technology generally available in the industry. Iveda has recently partnered with reputable camera manufacturers in Taiwan, leveraging relationships of its subsidiary in Taiwan, to integrate Iveda's cloud video hosting services. This enables Iveda to offer least expensive camera systems, making it more affordable and therefore enabling Iveda to offer it to more customers, while increasing its gross margin.

Iveda sells equipment directly to end users and utilize integrators or other third parties for installation. Iveda also sells equipment to its resellers at a discount for reselling to the end user.

Cloud Video Hosting and Remote Surveillance. Upon full utilization of the current video hosting infrastructure, gross margin may improve. Software enhancements will enable intervention specialists to monitor more cameras at the same time, and the cost of bandwidth drops with increased usage. Iveda compensates intervention specialists well and has historically attracted and retained high-quality and loyal employees, thus reducing the cost of turnover and training.

Video Data Storage.
One day of video storage is provided free of charge with hosting service and seven days with real-time surveillance. The customer pays an additional fee for each additional day of storage.

Maintenance Agreement. In the past, Iveda charged an additional 25% to 48% of the total equipment cost for an optional maintenance contract, payable upfront. Iveda's maintenance agreement would cover what is not covered by the typical camera manufacturer's 3-year warranty. Government customers typically request this contract.

Government Contracts

Iveda plans to seek government contracts for its products and services. These contracts are typically awarded through a competitive bid process. Iveda intends to grow its business in part by obtaining new government contracts through the competitive bidding process. Sole-Vision has been successful in this arena and the Company has leveraged their expertise in potential Safe City projects in Mexico.

Certain agencies may also permit negotiated contracting. Contracts awarded through a competitive bidding process generally have lower profit margins than negotiated contracts because in a competitive bidding process bidders compete predominantly on price. The U.S. Federal government is the largest procurer of products and services in the world, and the Federal contract market may provide significant business opportunities for Iveda.

Private Sector Contracts

Private sector contracts can be awarded through either a competitive bidding process or a negotiating process. Unlike government contracts, the terms of private sector contracts can vary based on individual client situations. Price is not the only key element in winning contracts with this market segment. Other elements such as service quality, responsiveness and various peripheral services come into consideration. Iveda believes that the private sector represents the Company's largest growth potential. Private sector customers generally privately negotiate contracts for such services, resulting in contracts with higher profit margins because price is not always the primary basis for competition.

Customers

Iveda sells equipment to its resellers at a discount and in turn they sell the equipment to the end user. Businesses that used Iveda's solutions in 2013 included banks, storage facilities, homeowner associations, law enforcement, food processing plants, public pools and parks, and government agencies in Mexico and Asia. In 2013, the New Taipei City police department accounts for 39% of the Company's overall revenue.

There are a large number of industries that could potentially benefit from Iveda's video hosting, in-vehicle mobile video, and real-time surveillance services. As Iveda grows and increases public awareness of its services, it believes that it will acquire customers from a wide variety of industries.

The following is a sample list of the Company's video surveillance service customers over the prior two years.

- Arcus Capital
- American Security & Investigations
- City of El Mirage
- City of Mesa
- Farnsworth Realty
- Glendale Police, CA
- Green Valley Agriculture and Turf
- Mexican Government
- Pacific Coast Producers
- Porsche Dealership
- San Diego Police Department
- San Joaquin County Public Works
- Sunland Storage
- Sunol Golf Course
- United Road Towing
- Watermark Community
- West Valley Child Crisis

The following is a sample list of SafeCiti, equipment sales, and systems integration customers over the prior two years:

- City of Glendale, CA
- Sui Industry
- New Taipei City Police Department
- Taiwan Stock Exchange
- Ystarding
- Taiwan Energy Systems

- Taoyuan County Council
- The Tivoli Cable Engineering
- Zhongxing
- Futai
- Secom Taipei

Market Segmentation

Iveda views the following markets as its primary target markets:

- Consumers and small businesses through their current telecom and data center providers
- Companies who wish to save on traditional security services, while maintaining live surveillance of their properties.
- Customers who wish to integrate or enable an existing video surveillance system for hosted video and remote surveillance.
- Real-time, in-vehicle streaming video accessibility for operational efficiency for transportation management and traffic safety.
- Educational institutions that want to integrate surveillance systems in their facilities.
- Security and remote surveillance of school playground areas, corridors, halls and classrooms.
- Municipalities for Safe City projects.

Business Strategy

Iveda is implementing the following business strategy:

- *Reseller and Distribution Channel*:
  - Actively engage with telecommunications companies in Asia, Mexico, and Africa for fast go-to-market cloud-hosted services
  - Provide assistance to its growing reseller channel distribution to utilize resellers' camera installed base and thereby seek to increase Iveda's video surveillance subscribers.
  - Provide co-op marketing funds to resellers to promote Iveda products and services

- *Marketing:*
  - Expand online marketing and non-traditional viral marketing.
  - Participate in vertical and technology tradeshows.
  - Produce online and printed sales and marketing materials for end users and resellers.
  - Implement and manage PR and marketing campaigns.
  - Work with research firms on independent case studies, industry research, and white papers.
  - Enhance search engine optimization (SEO) of the Company's websites.
  - Expand online marketing, specifically Google Adwords and banner ads on website of tradeshows Iveda will exhibit in.

- *Infrastructure/Security/Operations/R&D* :
  - Develop new products with technology partners in India and Asia to enhance and enable Iveda's video surveillance services.
  - Incorporate another layer of security to Iveda's edge devices to further enhance the value of Iveda's products and services.
  - Fund in-house development of software for Iveda's backend that may be patentable.
  - Fund backend equipment/hardware and software to demonstrate Iveda's system capabilities to prospective enterprise clients (white label demos).
  - Qualify Iveda on safety and cyber security compliance requirements for government standards and expectations as well as fulfill customer commitment to be as secure as possible to garner customer trust and loyalty.
  - Provide a test lab environment which includes dedicated equipment and resources for further customer application testing, development and enhancements as well as new product and/or system evaluation.

- *International Business Development:*
  - Form business alliances with overseas companies for revenue generation.

- Fund customer demo meetings and presentations abroad.
- Leverage MEGAsys relationships with developers and manufacturing companies in Asia for cost reductions.

- o Leverage MEGAsys' acquisition to establish presence and access to the Asian market to implement Iveda's recurring revenue model.

- *Mergers and Acquisition*
  - o Identify companies in Asia with broad market reach.
  - o Explore companies with business and technologies that are complementary to ours.

Sales Strategy

In the last three years, Iveda's activities were geared toward building its global strategy, starting with its acquisition of MEGAsys, which was completed on April 30, 2011. The Company hired a senior vice president of global sales and support to build and manage domestic and international sales.

Historically, Iveda generated sales through its direct sales force. In June 2012, Iveda transitioned to an indirect sales channel using manufacturer's representatives with security integrators that serve as their feet-on-the-street salesforce. Most security technology products are sold through this channel. Iveda believed that rep firms and security integrators would leverage their existing customer base, many of which already have cameras installed, and provide cloud-hosting services. Iveda built necessary sales and marketing tools to support the indirect sales channel including training modules, partner portal, demo program, datasheets, and co-op program. Iveda also transitioned its small direct sales team to channel sales managers and hired new members to the team with expertise in managing and developing indirect sales channel.

In 2013, Iveda carefully evaluated the rep program and decided to cancel the program for non-performance. Iveda is still working with a few security integrators and since then has rebuilt the sales team with direct salesforce. Iveda has also reassigned one of its sales executives to concentrate on sales to government and enterprises and another to concentrate on international sales and distribution. The Company is also actively seeking partnerships with telecommunications companies around the world for faster mass adoption of Iveda's cloud video hosting services. Management believes that once this indirect sales channel matures, it will expedite securing a larger percentage of the market by leveraging its customer base.

The Iveda Reseller Program is designed to build a community of dedicated Iveda partners to help realize its vision, while providing them with additional revenue streams and boosting their competitive edge by offering a security solution that makes sense. Iveda believes that the active partnerships between Iveda and its resellers will assist them in capturing market share before competitors are able to move into the market. The reseller receives a certain discount off MSRP for reselling Iveda's services. The reseller may decide to attain an even higher margin by charging its customers above MSRP.

Resellers are responsible for any issues regarding equipment they installed, including but not limited to: equipment maintenance, replacement, and training. Iveda will only be responsible for video surveillance service issues. It is the reseller's responsibility to make sure that their installation is working properly to enable Iveda's video surveillance services.

Reseller Benefits:

- Derive monthly recurring revenue stream from offering a complimentary service for their line of security products, without having to build network infrastructure for video surveillance services.
- Camera deployments are normally a one-time sell, until it is time for a replacement. With Iveda, installers can offer a new service to their installed base to generate additional revenue from existing customers.
- Leverage Iveda's SAFETY Act Designation
- Boost competitive edge & value proposition

- Expand technology offerings & integration services

Law Enforcement and Government Contracts

In 2013, Iveda sold approximately $26,888 in products and services to law enforcement, cities and municipalities in the U.S. and approximately $1,309,175 in Taiwan. In 2010 Iveda began servicing a government agency in Mexico which has opened doors for Iveda with other law enforcement agencies to implement Iveda's services. Iveda sold $250,241 to this agency in 2013. Iveda has already earned "preferred vendor" status from its existing police department customer as well as from the United States Department of Homeland Security (DHS).

In April 2009, Iveda was granted a Certificate of SAFETY Act Designation by the Department of Homeland Security. The SAFETY Act creates a system of "litigation management" for both Iveda and its customers by imposing important liability limitations for "claims arising out of, relating to, or resulting from an act of terrorism" where Iveda products and services have been deployed. This benefit covers all new customers and current customers dating back to January 1, 2005.

Marketing Strategy

Over the years, Iveda has not sustained ongoing public relations and marketing campaigns due to limited resources. Limited marketing activities have not generated considerable amount of leads for sales. Marketing budget was not sufficient to launch an early-adopter product into the marketplace. In 2013, Iveda participated in vertical and industry tradeshows and conducted local advertising campaign for its small business product offering.

Iveda has a small team of in-house marketing and graphic design professionals. This enables Iveda to produce on demand marketing materials using all kinds of media including print, online, video, and large formats.

Public Relations

Over the years, Iveda has established a powerful brand within the security industry. Its CEO has spoken at security events and have been interviewed by many trade publications and talk shows on television as an expert in security and cloud video surveillance. Iveda continues to generate media interest whenever it sends out a press release, averaging over 200 verbatim clips, over 100 headline clips, and up to 2000 page views. The Company is internally managing its PR efforts, including proactively pitching Iveda products and services to trade magazines and working with partners and customers for joint press releases and case studies. The Company's internal PR efforts have proved to be more effective than utilizing a PR agency. The Company's press room section of its website contains articles, interviews, and other media coverage, which demonstrates the success of its PR efforts.

Co-op Program

As the reseller distribution channel matures, Iveda's marketing strategy is expected to be increasingly concentrated on co-op programs, public relations, and branding instead of lead generation for its direct sales force. This strategy will mobilize resellers and utilize their existing customer base. The resellers will be encouraged to conduct direct marketing campaigns to their existing customers and prospect lists. Iveda will match their marketing spend on any lead-generation activities. Iveda expects its resellers to do the heavy lifting in lead generation.

Website

Iveda's marketing campaign starts with its website, which was redesigned and updated late last year. The Company has laid the groundwork for this strategy by investing a lot of search engine optimization (SEO) development time on the Company's website. As a result, the Company's search ranking on Google and other search engines on certain key words have dramatically climbed to top 5 search results. Monthly average web traffic increased by 200% from 2012 and 97% before the website revamp. A great majority of sales leads come from random searches of people looking for video hosting, cloud-based surveillance, in-vehicle surveillance, or real-time remote surveillance solutions. Iveda will continue to improve and optimize its website.

Collateral

Iveda has developed a wide array of marketing materials to highlight the Company's products, services, technology, and capabilities. The various pieces cater to all kinds of audiences: potential customers, partners, investors, and employees.

Online Marketing

Instead of more traditional print advertising, Iveda invested in online banner advertising on security technology websites and vertical market websites with application-specific messaging and allocated a significant amount of its online marketing budget on Google Adwords pay-per-click campaign. According to a recent study by Performics and ROI Research, 75% of shoppers use search engines to research products and services. The Company has added a feature for web visitors to be able to download datasheets of products and services they are interested in, after they provide their contact information. Iveda will continue to adjust its Google Adwords campaign to maximize its online marketing budget for higher conversions to leads.

Social Media

With the proliferation of social media as a new marketing vehicle, Iveda has established Facebook, Twitter, and Linkedin presence. Iveda uses these social media sites as another distribution channel for its press releases and event participation announcements. Management expects that these sites will generate online buzz about the Company, which will increase the Company's followers, and website traffic. The Company anticipates these activities to fuel lead generation and increase brand awareness. Iveda will also explore webinars which has started to become a popular sales and marketing vehicle to promote products and services.

The Company will continue its internal PR activities, including following editorial calendars of various trade and vertical publications, seeking speaking engagements for the CEO to reach specific captive audience at a tradeshow or event, and writing articles relevant to the Company's interests.

Tradeshows

Iveda intends to allocate approximately 30% of its marketing budget in tradeshow participation. Tradeshows are still very effective in generating hundreds of leads during a 2 or 3-day event, amongst a captive audience who are influencers or decision makers.

Iveda's primary goals for exhibiting at tradeshows are to generate leads for sales and build brand in the process. Iveda will identify vertical tradeshows, where the Company's services may be of high interest to both exhibitors and attendees (e.g., law enforcement, government, self-storage, hospitality). These will be local and regional tradeshows, plus one big national industry tradeshow.

Iveda will exhibit at International Security Convention West (ISC West) in April 2014. The show is the biggest security technology show with over 1000 companies exhibiting. Attendees include security integrators and end users. This is Iveda's second year participating. Iveda has entered VEMO with IvedaOnboard for the New Product Showcase competition. This will provide a lot of exposure for the Company before, during, and after the show. Iveda will also use ISC West to launch Sentir.

In addition, Iveda plans to attend major industry functions and pursue various key speaking opportunities to further spread the cost savings and customer convenience of the services provided by Iveda.

Other Information

Proprietary Rights. Iveda regards certain aspects of its internal operations, products and documentation as proprietary, and relies on a combination of copyright and trademark laws, trade secrets, software security measures, license agreements and nondisclosure agreements to protect proprietary information. The Company does not currently hold any patents, but has certain exclusive right to relevant patents discussed below.

We cannot guarantee that our protections will be adequate, or that our competitors will not independently develop technologies that are substantially equivalent or superior to our system. Nonetheless, the Company intends to vigorously defend its proprietary technologies, trademarks, and trade secrets. The Company has generally and will in the future require existing and future members of management, employees and consultants to sign non-disclosure and invention assignment agreements for work performed on the Company's behalf.

We also intend to secure appropriate national and international trademark protections with the intention of prosecuting any infringements, although we have not historically sought any patent protection, but have solely relied on trade secrets, software security measures and nondisclosure agreements. Iveda has trademark registrations for "Iveda Solutions," "Iveda," the Company's logo, and "SafeCiti" from the U.S. Patent and Trademark Office. We are also seeking to trademark for our product names.

Iveda has developed Cerebro, a proprietary software product used internally by Iveda. Cerebro allows Iveda to manage and track all aspects of its remote monitoring service and generate reports on such items as daily monitoring, reported events, property and contact data, major incident tracking, intervention specialist performance tracking and service performance statistics. It also allows employees to participate in internal message board communications. Iveda has historically relied on trade secret protection for Cerebro, but management may consider applying for patent or copyright protection for this database or related processes in the future.

In November 2012, Iveda signed a cooperation agreement with Industrial Technology Research Institute (ITRI). ITRI is a research and development organization based in Taiwan. Iveda and ITRI have been co-developing cloud-video services called Sentir. ITRI has given Iveda exclusive license to relevant patents being used in the development. Iveda will have exclusive rights to the products and services being co-developed. Some of these products will be shown at the ISC West Show in April 2014.

We do not believe that our proprietary rights infringe the intellectual property rights of third parties. However, we cannot guarantee that third parties will not assert infringement claims against us with respect to current or future technology or that any such assertion may not require us to enter into royalty arrangements or result in costly litigation. Furthermore, our proposed future products and services may not be proprietary and other companies may already be providing these products and services.

Government Regulation. Various states within the United States require companies performing low voltage equipment installation to be licensed. Iveda maintains active licenses in Arizona and California. Iveda transitioned all installation activities to its security integrator partners with required licenses to install equipment in the states they cover.

Employees. As of the date of this report, Iveda has 33 employees in the US and 17 in Taiwan. The Company's future success will depend, in part, on its ability to attract, retain, and motivate highly qualified security, sales, marketing, technical and management personnel. From time to time, the Company employs independent consultants or contractors to support its development, marketing, sales and support and administrative needs. The Company's employees are not represented by any collective bargaining unit.

Part of our business is labor intensive and, as a result, is affected by the availability of qualified personnel and the cost of labor. Although the security services industry is generally characterized by high turnover, we believe our experience compares favorably with that of the industry. We have not experienced any material difficulty in employing suitable numbers of qualified personnel, and employee turnover is low.

Insurance. We maintain insurance, including comprehensive general liability coverage, key man, and directors' and officers' coverage in amounts and with types of coverage that management believes to be customary in our industry. Special coverage is sometimes added in response to unique customer requirements. We also maintain compliance with applicable state workers' compensation laws. A certificate of insurance, which meets individual contract specifications, is made available to every customer.

Competition

Video Hosting Service

Iveda offers cloud-based enterprise-class and consumer-class video hosting services. Consumer-class video hosting normally provides proprietary cameras and software. Typically, only one streaming video access is allowed at one time. This kind of solution is generally not robust enough for commercial or enterprise-level video hosting solution. Iveda has direct competitors with our consumer-class video hosting service (IvedaXpress) including Genetec, Dropcam, byRemote, Envysion, VueZone, and SmartVue. Iveda differentiates its products and services by using its enterprise-class IP infrastructure, which allows us to manage a large number of cameras, in our consumer service offerings. Our infrastructure features high availability and redundancy. We manage our own datacenter and we have end-to-end level of security from the servers hosting our video to edge devices (i.e., cameras and video encoders).

The Company's enterprise-class video hosting service, IvedaEnterprise, allows centralized management of multiple cameras located anywhere in the world, regardless of camera type. Our open-source IP infrastructure, utilizing world-class data centers, allows hosting of unlimited number of cameras, allowing multiple, simultaneous access by users via a web browser on any Internet-accessible device. Iveda can also centrally host and manage mobile video streams from police cars, delivery trucks, and school buses. Access to remote video recording and extended storage can also be accomplished through a web browser. Iveda's video hosting and surveillance solution reduces capital expenditure for companies by allowing companies to avoid installing servers and software, and hiring IT personnel to maintain the necessary infrastructure. Although the Company is not aware of other companies offering similar cloud-based services, the competitors identified above offer similar services based on proprietary cameras and software to enterprise-class customers.

Real-Time Surveillance Service (IvedaSentry)

Iveda's services are based on its IP network infrastructure and utilize world-class data centers. Management believes the Company's surveillance facility is a competitive strength, as it is capable of performing real-time video surveillance for customers without the need of an electronic alarm that prompts an alarm company to log into a specific camera to view the potential breach.

Management believes that Iveda is the only company providing enterprise-class real-time remote video surveillance in the United States as of the date of this report. The majority of monitoring companies review camera monitors after an electronic alarm has been triggered. Iveda uses specialized software analytics that allow intervention specialists to monitor customer properties and respond to incidents in real time. This technology offers configurable view-zones, programmable movement direction, and pattern-recognition to a particular user. The Company also has an in-house database management system that allows intervention specialists to record every event. This system generates a Daily Surveillance Report (DSR), emailed to the customer at the end of the surveillance shift.

Integrators and central monitoring companies, the Company's closest competitors, provide monitoring services based on electronic alarm triggers. Examples of companies providing these competing services include Westec Interactive, Iverify, Xtreme Surveillance, Viewpoint, byRemote, and Monitoring Partners.

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Some of Iveda's current and future competitors may conduct more extensive promotional activities and may offer lower prices to customers than Iveda, which could allow them to gain greater market share or prevent Iveda from increasing its market share. In the future, Iveda may need to decrease its prices if Iveda's competitors lower their prices. Iveda's competitors may be able to respond more quickly to new or changing opportunities, technologies and customer requirements. To be successful, Iveda must carry out its business plan, establish and strengthen its brand awareness through marketing, effectively differentiate its services from those of its competitors and build its reseller network, while maintaining superior levels of service, which management believes is what will ultimately differentiate Iveda's services from any similar services its competitors may develop in the future.

Available Information

The Company electronically files its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to these reports and other information with the Securities and Exchange Commission (the "SEC"). These reports can be obtained by accessing the SEC's website at www.sec.gov. The public can also obtain copies by visiting the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549 on official business days during the hours of 10:00 am to 3:00 pm or by calling the SEC at 1-800-SEC-0330. The Company has two websites located at www.ivedasolutions.com or www.iveda.com and www.ivedaxpress.com. Information contained on the Company's websites are not a part of this report.

ITEM 1A RISK FACTORS

An investment in our securities is highly speculative and involves a high degree of economic risk. You should carefully consider the following risk factors along with the other matters described in this Annual Report in making an investment decision to buy our securities. If you decide to buy our securities, you should be able to afford the possibility of a complete loss of your investment.

Risk Factors Involving Our Business

Iveda's Financial Statements Contain A Going Concern Opinion.

Iveda's financial statements included with this report were prepared on a "going concern basis" and the audit report contains a "going concern qualification" (see the Audit Report on the Financial Statements for the year ended December 31, 2013 and Note 1 to those Financial Statements). Our financial statements assume we will continue as a going concern, but to be able to do so we will need to raise additional capital to fund our operations until positive operating cash flow is achieved. There can be no assurance that we will be able to raise sufficient additional capital to continue our operations.

Iveda Needs to Raise Significant Additional Funding.

At Iveda's current estimated burn rate, Iveda has sufficient capital to continue its operations for only a short period of time. Accordingly, Iveda must raise capital to continue as a going concern. The Board of Directors approved the Company to engage with an investment banker to act as the Company's financial and capital markets advisor to seek to raise up to $30 million in long term financing. In December 2013, the Board of Directors also approved the Company to raise up to $3.6 million in bridge financing through the sale of Convertible Debentures (the "Debenture Financing") in advance of the long term financing. As of March 14, 2014, the Company has raised $1,735,000 through the Debenture Financing. There can be no assurance that Iveda can raise sufficient funding to continue as a going concern or to operate profitably. Any inability to obtain additional financing when needed could require Iveda to significantly curtail or cease operations.

Even if funding is available to the Company, Iveda cannot assure investors that additional financing will be available on terms that are favorable to the Company's existing shareholders. Additional funding may be accomplished through the issuance of equity or debt securities that could be significantly dilutive to the percentage ownership of Iveda's existing shareholders. In addition, these newly issued securities may have rights, preferences or privileges senior to those of existing shareholders. Accordingly, such a financing transaction could materially and adversely impact the price of our Common Stock.

Iveda Depends On Certain Key Personnel.

Iveda's future success will be dependent on the efforts of key management personnel, particularly David Ly, Iveda's Chairman and CEO, Robert Brilon, Iveda's President and CFO, Luz Berg, Iveda's COO and CMO, Alex Kuo, Chief Strategy Officer, and Richard Gibson, SVP of Global Sales & Support, each of whom is employed at will by Iveda. Mr. Ly's relationships within Iveda's industry are vital to Iveda's continued operations, and if Mr. Ly were no longer actively involved with Iveda, Iveda would likely be unable to continue its operations. Iveda has obtained key man insurance on Mr. Ly in the amount of $1 million. The loss of one or more of Iveda's other key employees could also have a material adverse effect on Iveda's business, results of operations and financial condition.

Iveda also believes that Iveda's future success will be largely dependent on Iveda's ability to attract and retain highly qualified management, sales and marketing personnel. Iveda cannot assure investors that the Company will be able to attract and retain such personnel. Iveda's inability to retain such personnel or to train them rapidly enough to meet Iveda's expanding needs could cause a decrease in the overall quality and efficiency of Iveda's staff, which could have a material adverse effect on Iveda's business, results of operations and financial condition.

Demand For Iveda's Security And Surveillance Products And Services May Be Lower Than Iveda Anticipates.

Iveda has limited resources to undertake extensive marketing activities. Iveda cannot predict with certainty the potential consumer demand for its security and surveillance products or services or the degree to which Iveda will meet that demand. If demand for its security and surveillance products and services does not develop to the extent or as quickly as expected, Iveda might not be able to generate revenue to become profitable.

Iveda is targeting the sale of its security and surveillance products and services to the following primary customer groups: commercial entities, educational facilities, golf courses, gated residential communities, automotive lots, small unattended businesses, construction sites, municipalities, government, and law enforcement. Iveda has based its strategy to target these consumers on a number of assumptions, some or all of which could prove to be incorrect.

Even if markets for its products and services develop, Iveda could achieve a smaller share of these markets than Iveda currently anticipates. Achieving market share will require substantial marketing efforts and expenditure of significant funds to inform customers of the distinctive characteristics and benefits of using Iveda's products and services. Iveda cannot assure investors that its marketing efforts will result in the attainment of sufficient market share to become profitable.

Iveda Believes Industry Trends Support Its Open Source Systems, But If Trends Reverse, Iveda May Experience Decreased Demand.

The security and surveillance industry is characterized by rapid changes in technology and customer demands. Management believes that the existing market preference for open source systems (systems capable of integrating a wide range of products and services through community and private based cooperation, such as the Internet, Linux, and certain cameras used in Iveda's business) is strong and will continue for the foreseeable future.

While Iveda is able to convert closed-circuit television CCTV and analog systems for use with Iveda's monitoring services, certain systems may not be convertible in the future, and to the extent that customers prefer to install these systems, it would be more difficult to sell Iveda's services since customers would be required to spend additional funds to acquire new cameras that Iveda would be able to monitor.

Customer Concentration A Relatively Small Number of Key Customers Account For a Significant Portion of our Revenues.

Historically, a significant portion of our revenue has come from a limited number of key customers. For instance, in 2012, the New Taipei City police department accounted for 69% of the Company's overall revenue.

Revenue from three customers represented approximately 54% of total revenues for the twelve months ended December 31, 2013, and 0% of total accounts receivable at December 31, 2013. If we were to lose a key customer, or experience a delay or cancellation of a significant order, or incur a significant decrease in the level of purchases from a key customer, or experience difficulty in collecting amounts due from a key customer, our net revenues could decline and our operating results could be reduced materially. There can be no guarantee that we will be able to sustain our revenue levels from our key customers. Our Taiwan operations, through MegaSys, have 90% of gross accounts receivables aged over 120 days as of December 31, 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 57%, or $465,933, allowance for doubtful accounts as of the quarter ended December 31, 2013. Management deems the rest to be collectible based on the nature of the customer contracts and past experience with similar customers.

Rapid Growth May Strain Iveda's Resources.
As Iveda continues the commercialization of its security and surveillance products and services, it expects to experience significant and rapid growth in the scope and complexity of its business, which may place a significant strain on the senior management team and Iveda's financial and other resources. The proposed acceleration will expose us to greater overhead, marketing and support costs and other risks associated with growth and expansion. Iveda will need to add staff to monitor additional cameras, market its products and services, manage operations, handle sales and marketing efforts and perform finance and accounting functions. Iveda will be required to hire a broad range of additional personnel in order to successfully advance its operations.

Management has implemented strategies to handle projected growth, including increasing our leased space within Iveda's existing building. Iveda's existing leased space can accommodate up to 15 monitoring stations, with four employees required to monitor each station around the clock and other additional key employees. While maintaining two existing data centers, located in Phoenix and Scottsdale, Arizona, we also leased a new less expensive facility with comparable features. Iveda's ability to manage its rapid growth effectively will require Iveda to continue to improve its operations, to improve its financial and management information systems and to train, motivate and manage its employees.

This growth may place a strain on Iveda's management and operational resources. The failure to develop and implement effective systems, or to hire and retain sufficient personnel for the performance of all of the functions necessary to effectively service and manage Iveda's business, or the failure to manage growth effectively, could have a materially adverse effect on Iveda's business and financial condition. In addition, difficulties in effectively managing the budgeting, forecasting and other process control issues presented by such a rapid expansion could harm Iveda's business, prospects, results of operations and financial condition.

Risks Associated with the Surveillance and Remote Security Industry

As a result of providing its products and services, Iveda is exposed to risks associated with participation in the security and surveillance industry. These risks are summarized below.

Iveda Depends On Third Party Manufacturers And Suppliers For The Products It Sells.

Iveda has relationships with a number of third party manufacturers and suppliers for the supply of all the hardware components of Iveda's products. Iveda has signed reseller and development partner agreements with Axis Communications and Milestone. Iveda also has direct relationship with camera manufacturers in Taiwan for new camera systems introduced in 2013. For customers in Taiwan, its subsidiary purchases equipment locally.and software from its partner company in Hong Kong. Risks associated with Iveda's dependence upon third party manufacturing relationships include: (i) reduced control over delivery schedules; (ii) lack of control over quality assurance; (iii) poor manufacturing yields and high costs; (iv) potential lack of adequate capacity during periods of excess demand; and (v) potential misappropriation of Iveda's intellectual property. Although Iveda depends on third party manufacturers and suppliers for products it sells, risks are minimized because it does not depend on one manufacturer and supplier. It utilizes an open platform, which means that in order to deliver its services, it does not discriminate based on camera brand or manufacturer and its services can be used with a wide array of products.

Iveda does not know if it will be able to maintain third party manufacturing and supply contracts on favorable terms, if at all, or that its current or future third party manufacturers and suppliers will meet its requirements for quality, quantity or timeliness. Iveda's success depends in part on whether its manufacturers are able to fill the orders it places with them in a timely manner. If Iveda's manufacturers fail to satisfactorily perform their contractual obligations or fill purchase orders Iveda places with them, Iveda may be required to pursue replacement manufacturer relationships.

If Iveda is unable to find replacements on a timely basis, or at all, Iveda may be forced to either temporarily or permanently discontinue the sale of certain products and associated services, which could expose it to legal liability, loss of reputation and risk of loss or reduced profit. Management believes that Iveda's present suppliers offer products that are superior to comparable products available from other suppliers. In addition, Iveda has development partner relationships with many of its present suppliers, which provides it with greater control over future enhancements to the off-the-shelf products Iveda sells. Iveda's business, results of operation and reputation would be adversely impacted if Iveda is unable to provide quality products to its customers in a timely manner.

Iveda could also be adversely affected by an increase in its manufacturers' prices for its product components or a significant decline in Iveda's manufacturers' financial condition. If Iveda's relationship with any one of its manufacturers is terminated and Iveda is not successful in establishing a relationship with an alternative manufacturer who offers similar services at similar prices, Iveda's costs could increase, adversely affecting its operations.

Iveda Operates In A Highly-Competitive Industry And its Failure To Compete Effectively May Adversely Affect Its Ability To Generate Revenue.

Although management believes that there is, at this time, no competitor that offers a similar package of services to the package offered by Iveda, management is aware of similar products and services which compete indirectly with Iveda's products and services. In management's opinion, companies providing indirect competition include Westec Interactive, Iverify, Xtreme Surveillance, Viewpoint, byRemote, and Monitoring Partners. Some companies may also be developing similar products and services, including companies that may have significantly greater financial, technical and marketing resources, larger distribution networks, and generate greater revenue and have greater name recognition than Iveda. These companies may develop security products and services that are superior to those offered by Iveda. Such competition may potentially affect Iveda's chances of achieving profitability.

Some of Iveda's current and future competitors may conduct more extensive promotional activities and may offer lower prices to customers than Iveda, which could allow them to gain greater market share or prevent Iveda from increasing its market share. In the future, Iveda may need to decrease its prices if Iveda's competitors lower their prices. Iveda's competitors may be able to respond more quickly to new or changing opportunities, technologies and customer requirements. To be successful, Iveda must carry out its business plan, establish and strengthen its brand awareness through marketing, effectively differentiate its services from those of its competitors and build its reseller network, while maintaining superior levels of service, which management believes is what will ultimately differentiate Iveda's services from any similar services its competitors may develop in the future. To achieve this Iveda may have to substantially increase marketing and development activities in order to compete effectively.

Future Legislation Or Governmental Regulations Or Policies Could Have A Significant Impact On Iveda's Operations.

While Iveda is presently subject only to licensing requirements related to its contracting activities, for which it holds low voltage contractors' licenses in California and Arizona, the security and surveillance industry as a whole is subject to regulation. Iveda may be subject to additional regulation in the future. Future changes in laws or regulations could require Iveda to change the way it operates, which could increase costs or otherwise disrupt operations. In addition, failure to comply with any applicable laws or regulations could result in substantial fines or revocation of any required operating permits and licenses. If laws and regulations change or it fails to comply in the future, Iveda's financial condition, results of operations and cash flows could be materially and adversely affected.

The Failure Of Iveda's Systems Could Result In A Material Adverse Effect.

Iveda utilizes third party data centers in Arizona. These data centers are designed to meet the most stringent requirements established by the Telecommunications Industry Association's Telecommunications Infrastructure Standards for Data Centers, or TIA-942. The data centers transmit data to Iveda's monitoring system via a dedicated fiber connection, and offers the greatest reliability provided by the industry always-on service level and offers a 100% uptime Service Level Agreement, due to a number of back-up measures. Iveda's operations are dependent upon its ability to support a complex network infrastructure and avoid damage to both its monitoring center and the data center from fires, earthquakes, floods, hurricanes, power losses, war, terrorist acts, telecommunications failures, computer viruses, physical and electronic break-ins, and similar natural or manmade events. The occurrence of a natural disaster, intentional or unintentional human error or actions, or other unanticipated problem could cause interruptions in the services provided by Iveda, and resulting losses by Iveda's customers. The property and business interruption insurance Iveda carries may not have coverage adequate to compensate it fully for losses that may occur. Any damage or failure that causes interruptions in the service provided by Iveda could have a material adverse effect on its business, operating results and financial condition.

Iveda has experienced individual camera failures or outages in the past, and will likely experience future individual camera failures or outages that disrupt the monitoring of those cameras. Iveda's revenue depends in large part on maintaining the operability of its surveillance systems. Accordingly, the performance, reliability and availability of Iveda's network, servers for Iveda's corporate operations and infrastructure are critical to Iveda's reputation and Iveda's ability to attract and retain customers.

Iveda is continually expanding and enhancing its technology and network infrastructure and other technologies to accommodate increases in the volume of traffic on its network and the overall size of its customer base. Iveda may be unsuccessful in these efforts or Iveda may be unable to project accurately the rate or timing of these increases. The data centers that Iveda currently uses have significant additional bandwidth available should Iveda need it for expanding its operations. Approximately three to four weeks elapses between signing a new customer and commencing hosting and/or surveillance of that customer's cameras, which provides Iveda with what management believes to be sufficient time to acquire additional bandwidth if needed. However, Iveda's failure, or Iveda's suppliers' failure, to achieve or maintain high data transmission capacity could significantly reduce consumer demand for Iveda's services.

If Iveda's Security Measures Are Breached And Unauthorized Access Is Obtained, Existing And Potential Customers Might Not Perceive Iveda's Services As Being Secure And Might Terminate Or Fail To Purchase Iveda's Services.

Iveda's business involves the monitoring of cameras that may be recording sensitive areas of its customers' facilities, and as a result, Iveda utilizes security measures that are comparable to those used by banks in providing online banking services. Iveda has also partnered with a company in India that specializes in cloud security, adding a layer of security on the actual devices such cameras and video encoders. No security measures are completely secure, however, and, for example, hackers or individuals who attempt to breach its network security could, if successful, cause interruptions in Iveda's services. If Iveda experiences any breaches of its network security or sabotage, Iveda might be required to expend significant capital and resources to protect against or alleviate these problems. Iveda may not be able to remedy any problems caused by hackers or saboteurs in a timely manner, or at all. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, Iveda may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of Iveda's security occurs, the perception of the effectiveness of Iveda's security measures and Iveda's reputation could be harmed and Iveda could lose current and potential customers.

The Timing Of Iveda's Revenues Can Vary Depending On How Long Customers Take To Evaluate Iveda's Services.

It is difficult to forecast the timing of revenues in the security industry because the development period for a customized system or solution may be lengthy, larger customers may need a significant amount of time to evaluate products before purchasing them and, in the case of governmental customers, sales are dependent on budgetary and other bureaucratic processes. The period between initial customer contact and a purchase by a customer varies greatly depending on the customer, and historically has ranged from days to weeks. During the evaluation period, customers may defer or scale down proposed orders of products or systems for various reasons, including (i) changes in budgets and purchasing priorities; (ii) a reduced need to upgrade existing systems; (iii) deferrals in anticipation of enhancements or new products; (iv) introduction of products by competitors; and (v) lower prices offered by competitors.

The Company Is Subject To Certain Risks Inherent In Managing And Operating Businesses In Many Different Foreign Jurisdictions.

The Company has significant international operations, including operations in Mexico and Asia. There are risks inherent in operating and selling products and services internationally, including: different regulatory environments and reimbursement systems; difficulties in enforcing agreements and collecting receivables through certain foreign legal systems; foreign customers who may have longer payment cycles than customers in the United States; fluctuations in foreign currency exchange rates; tax rates in certain foreign countries that may exceed those in the United States and foreign earnings that may be subject to withholding requirements; the imposition of tariffs, exchange controls or other trade restrictions; general economic and political conditions in countries where the Company operates or where the Company's customers reside; government control of capital transactions, including the borrowing of funds for operations or the expatriation of cash; potential adverse tax consequences; security concerns and potential business interruption risks associated with political or social unrest in foreign countries where the Company's facilities or assets are located; difficulties associated with managing a large organization spread throughout various countries; difficulties in enforcing intellectual property rights and weaker intellectual property rights protection in some countries; required compliance with a variety of foreign laws and regulations; and differing customer preferences. The factors described above may have a material adverse effect on the Company's business and results of operations.

Iveda Will Rely On Both Iveda's Internal Sales Force And Resellers To Distribute Its Security Products And Services To Customers.

Iveda relies on both Iveda's internal sales force and resellers to distribute its security products and services to its customers. As of the date of this report, Iveda has signed many resellers and independent agents, and anticipates adding more as Iveda implements its business plan. Iveda plans to continue its internal sales activity for the foreseeable future to market its products and services until its resellers are completely trained and mobilized. If Iveda's relationship with any of its larger resellers is terminated and Iveda is not successful in establishing a relationship with an alternative reseller who offers similar services at similar prices, Iveda's business could decline depending on the level of revenue generated by that reseller.

Government Contracts Generally Contain Rights And Remedies Which Could Reduce The Value Of Such Contracts, Or Result In Losses.

Iveda presently provides its products and services for certain state and local government customers, and obtained certification of SAFETY Act Designation by the Department of Homeland Security under the Support Anti-terrorism by Fostering Effective Technologies Act, or SAFETY Act, in April 2009. Although not significant sources of revenue at this time, government contracts often contain provisions that give the governments that are party to those contracts certain rights and remedies not typically found in private commercial contracts, including provisions enabling the governments to: (i) terminate or cancel existing contracts for convenience; (ii) in the case of the U.S. government, suspend the contracting company from doing business with a foreign government or prevent the company from selling its products in certain countries; (iii) audit and object to the company's contract-related costs and expenses, including allocated indirect costs; and (iv) change specific terms and conditions in the company's contracts, including changes that would reduce the value of its contracts.

In addition, many jurisdictions have laws and regulations that deem government contracts in those jurisdictions to include these types of provisions, even if the contract itself does not contain them. If a government terminates a contract with Iveda for convenience, Iveda may not be able to recover its incurred or committed costs, any settlement expenses or profit on work completed prior to the termination. If a government terminates a contract for default, Iveda may not recover those amounts and, in addition, Iveda may be liable for any costs incurred by a government in procuring undelivered items and services from another source. Further, an agency within a government may share information regarding Iveda's termination with other government agencies. As a result, Iveda's on-going or prospective relationships with such other government agencies could be impaired.

The Estimates Iveda Uses In Placing Bids Could Be Materially Incorrect, Resulting In Possible Losses.

Iveda currently generates, and expects to continue to generate, a significant portion of its revenues for product sales and installation under fixed price contracts. The cost of labor and materials, however, may vary significantly from the costs Iveda originally estimates. Variations from estimated contract costs along with other risks inherent in performing fixed price contracts may result in actual revenue and gross profits for a project differing from those Iveda originally estimated and could result in losses on projects. Depending upon the size of a particular project, variations from estimated contract costs can have a significant impact on Iveda's operating results.

Risks Related to Iveda's Intellectual Property

Iveda Could Incur Substantial Costs Defending Against Claims That Its Products Infringe On The Proprietary Rights Of Others.

Iveda does not have any patents. The scope of any intellectual property rights that Iveda has is uncertain and may not be sufficient to prevent infringement claims against Iveda or claims that Iveda has violated the intellectual property rights of third parties. Iveda was named as a defendant in two patent-related lawsuits, both of which have been settled.

Competitors may have filed applications for or may have been issued patents and may obtain additional patents and proprietary rights relating to products or processes that compete with or are related to Iveda's products and services. The scope and viability of these patents, the extent to which Iveda may be required to obtain licenses under these patents or under other proprietary rights and the cost and availability of licenses are unknown, but these factors may limit Iveda's ability to market its products and services.

Third parties could claim infringement by us with respect to any patents or other proprietary rights that they hold, and Iveda cannot assure investors that Iveda would prevail in any such proceeding as the intellectual property status of its current and future competitors' products and services is uncertain. Any infringement claim against Iveda, whether meritorious or not, could be time-consuming, result in costly litigation or arbitration and diversion of technical and management personnel, or require Iveda to develop non-infringing technology or to enter into royalty or licensing agreements.

Iveda might not be successful in developing or otherwise acquiring rights to non-infringing technologies. Royalty or licensing agreements, if required, may not be available on terms acceptable to Iveda, or at all, and could significantly harm Iveda's business and operating results. A successful claim of infringement against Iveda or Iveda's failure or inability to license the infringed or similar technology could require it to pay substantial damages and could harm its business because Iveda would not be able to continue operating its surveillance products without incurring significant additional expense.

In addition, to the extent Iveda agrees to indemnify customers or other third parties against infringement of the intellectual property rights of others, a claim of infringement could require Iveda to incur substantial time, effort and expense to indemnify these customers and third parties and could disrupt or terminate their ability to use, market or sell Iveda's products. Furthermore, Iveda's suppliers may not provide it with indemnification in the event that their products are found to infringe upon the intellectual property rights of any third parties, and if they do not, Iveda would be forced to bear any resulting expense.

Iveda Depends On its Intellectual Property.

Iveda's success and ability to compete depends in part on Iveda's proprietary database, Cerebro, the security information and reporting web service developed and used by Iveda internally, and on the process by which Iveda integrates existing third party products into a video hosting and monitoring solution. If any of Iveda's competitors copy or otherwise gain access to Iveda's proprietary technology or develop similar technologies independently, Iveda may not be able to compete as effectively. Iveda considers its proprietary database invaluable to its ability to continue to develop and maintain the goodwill and recognition associated with its brand. Iveda does not currently hold any patents. The measures Iveda takes to protect its technologies, and other intellectual property rights, which presently are based upon trade secrets, may not be adequate to prevent their unauthorized use.

If Iveda is unable to protect its intellectual property, Iveda's competitors could use Iveda's intellectual property to market products, services and technologies similar to Iveda's, which could reduce demand for Iveda's products, services and technologies. Iveda may be unable to prevent unauthorized parties from attempting to copy or otherwise obtain and use its products or technology. Policing unauthorized use of Iveda's technology is difficult, and Iveda may not be able to prevent misappropriation of its technology, particularly in foreign countries where the laws may not protect its intellectual property as fully as those in the United States. Others may circumvent the trade secrets, trademarks and copyrights that Iveda currently or in the future owns. Iveda does not have patent protection with respect to its software or systems, although management is considering seeking such protection.

Iveda seeks to protect its proprietary intellectual property, which includes intellectual property that may only be protectable as a trade secret, in part by confidentiality agreements with its employees, consultants and business partners. These agreements afford only limited protection and may not provide us with adequate remedies for any breach or prevent other persons or institutions from asserting rights to intellectual property arising out of these relationships. See " Business *Other Information Proprietary Rights.* "

Iveda Could Incur Substantial Costs Defending its Intellectual Property From Infringement By Others.

Unauthorized parties may attempt to copy aspects of Iveda's proprietary software or to obtain and use its other proprietary information. Litigation may be necessary to enforce Iveda's intellectual property rights, to protect its trade secrets and to determine the validity and scope of the proprietary rights of others. Iveda may not have the financial resources to prosecute any infringement claims that it may have. Any litigation could result in substantial costs and diversion of resources with no assurance of success.

Risks Related to the Debenture Financing

We May Have Difficulty Obtaining The Necessary Funds To Make Cash Payments of the Principal and Interest on the Debentures When Due.

If we are unable to raise new capital or generate a higher level of revenues, we may be unable to repay the Debentures in cash. Although Debentures are convertible into our common stock at a conversion rate of $1.50 per share, the value of our common stock could be substantially lower at the time of a conversion. In addition, if we are unable to repay the Debentures in cash, new investors may be reluctant to fund new capital to the Company. Furthermore, as a result of any conversion in lieu of a cash repayment, the ownership percentage of our then-existing shareholders would be reduced, and the value of the shares held by these shareholders could be diluted, which could adversely affect the price of our stock.

As a Result of the Sale of the Debentures, We Will Have a Substantially Greater Amount of Long Term Debt Than We Have Maintained in the Past.

As a result of the sale of the Debentures, we will have a substantially greater amount of long term debt. Our maintenance of substantial levels of debt could adversely affect our flexibility to take advantage of corporate opportunities and could adversely affect our financial condition and results of operations.

The Conversion of the Debentures and the Exercise of the Warrants Will Dilute the Ownership Interest of Existing Stockholders, Including Holders Who Had Previously Converted Their Debentures or Exercised Their Warrants.

The conversion of some or all of the Debentures and the exercise of some or all of the warrants issued in the Debenture Financing will dilute the ownership interests of existing stockholders, including holders who had previously converted their Debentures or exercised such warrants. Any sales in the public market of any common stock issuable upon such conversion or exercise could adversely affect prevailing market prices of our common stock.

Risk Factors Involved In Being a Public Company

Our Shares Are "Penny Stock."

In general, “penny stock” includes securities of companies which are not listed on the principal stock exchanges and have a bid price in the market of less than $5.00; and companies with net tangible assets of less than $2 million ($5 million if the issuer has been in continuous operation for less than three years), or which have recorded revenues of less than $6 million in the last three years. As “penny stock,” Iveda’s stock is subject to Rule 15g-9, which imposes additional sales practice requirements on broker-dealers which sell such securities to persons other than established customers and “accredited investors” (generally, individuals with net worth in excess of $1 million or annual incomes exceeding $200,000, or $300,000 together with their spouses, or individuals who are the officers or directors of the issuer of the securities). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser’s written consent to the transaction prior to sale. Consequently, this rule may adversely affect the ability of broker-dealers to sell Iveda’s stock, and therefore may adversely affect Iveda stockholders’ ability to sell the stock in the public market.

There Is A Limited Market For Our Common Stock.

Only a very limited trading market currently exists for Iveda’s common stock. As a result, any broker-dealer that makes a market in our stock or other person that buys or sells our stock could have a significant influence over its price at any given time. The Company cannot assure its shareholders that a market for its stock will be sustained. There is no assurance that our shares will have any greater liquidity than shares which do not trade on a public market.

Our Reporting Obligations as a Public Company Are Costly.

Operating a public company involves substantial costs to comply with reporting obligations under federal securities laws. These reporting obligations will increase Iveda’s operating costs significantly from historical norms prior to becoming a public company. Iveda may not reach sufficient size to justify its public reporting status. If it were forced to become a private company, then its shareholders may lose their ability to sell their shares and there would be substantial costs associated with becoming a private company.

ITEM 1B. UNRESOLVED STAFF COMMENTS

As a smaller reporting company, the Company is not required to provide Item 1B disclosure in this Annual Report.

ITEM 2. PROPERTIES

Iveda's executive offices are located at 1201 S. Alma School Rd., Suite 8500, Mesa, Arizona 85210, where the Company currently leases approximately 5,779 square feet of office space for approximately $8,700 per month from Mesa Financial Plaza Investors, LLC. The lease expires in October 2016. The Company is not affiliated with its lessor. Although the Company believes that its current facilities are adequate for the foreseeable future, additional office space may be needed as additional employees are hired. The Company's current building has the fiber necessary for the Company's projected bandwidth requirements and it has significant additional space available for additional employees and remote monitoring stations.

The Company has a three-year data center services agreement with i/o Data Center datacenter (highest industry rating) in Phoenix and Scottsdale, Arizona. The agreement commenced on October 1, 2011. Iveda is not affiliated with i/o Data Center.

The Company also signed a three-year data center services agreement with Phoenix NAP, LLC on March 22, 2012 in Phoenix, Arizona.

The Company's management believes that all facilities occupied by the Company are adequate for present requirements and that the Company's current equipment is in good condition and is suitable for the operations involved.

MegaSys's executive offices are located at 2F, -15, No. 14, Lane 609, Sec. 5 Chongxin Rd., Sanchong City, Taipei, County 241, Taiwan (R.O.C.), where the Company currently leases two suites totaling approximately 4,838 square feet of office space for $2,378 per month. The leases expire in June and July 2014. The Company is not affiliated with its lessor. Although the Company believes that its current facilities are adequate for the foreseeable future, additional office space may be needed as additional employees are hired.

ITEM 3. LEGAL PROCEEDINGS

Not Applicable

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Iveda shares trade on the OTC Bulletin Board under the symbol "IVDA".

Set forth in the table below is information with respect to the high and low bid quotations of our common stock for the periods indicated, as reported by the OTC Bulletin Board. The quotations represent inter-dealer prices without retail mark-ups, mark-downs or commissions, and may not necessarily represent actual transactions. The quotations may be rounded for presentation. There is an absence of an established trading market for Iveda's common stock, as the market is limited, sporadic, and highly volatile, all of which may affect the prices listed below.

2014	High Bid		Low Bid	
Quarter Ended March 31, 2014 (through March 14, 2014)	$	1.80	$	1.50
2013	High Bid		Low Bid	
Quarter Ended December 31, 2013	$	2.30	$	1.50
Quarter Ended September 30, 2013	$	1.80	$	1.01
Quarter Ended June 30, 2013	$	2.25	$	1.01
Quarter Ended March 31, 2013	$	2.00	$	1.30
2012	High Bid		Low Bid	
Quarter Ended December 31, 2012	$	1.25	$	1.00
Quarter Ended September 30, 2012	$	1.20	$	..95
Quarter Ended June 30, 2012	$	1.25	$	..99
Quarter Ended March 31, 2012	$	1.50	$	..97

There is limited trading activity in Iveda's securities, and there can be no assurance that a regular trading market for our common stock will be sustained.

Security Holders

As of March 14, 2014, we had 26,757,012 shares of our common stock outstanding held by 242 shareholders of record, exclusive of shares held in street name. We have no preferred stock outstanding.

Dividends

Iveda has never paid cash dividends on its capital stock. Iveda currently intends to retain all earnings, if any, to finance the growth and development of its business. Iveda does not anticipate paying any cash dividends in the foreseeable future.

Equity Compensation Plans

On October 15, 2009, the Company adopted the 2009 Stock Option Plan (the "2009 Option Plan"), with an aggregate number of shares issuable under the plan of One Million Five Hundred Thousand (1,500,000) shares. The purpose of the 2009 Option Plan was to assume options that were already issued in the 2006 and 2008 Option plans under Iveda Corporation after the merger with Charmed Homes. As of December 31, 2013, options to purchase 927,539 shares were outstanding under the 2009 Option Plan.

On January 18, 2010, the Company adopted the 2010 Stock Option Plan (the "2010 Option Plan"), which allows the Board to grant options to purchase up to 1,000,000 shares of common stock to directors, officers, key employees, and service providers of the Company. In 2011, the 2010 Option Plan was amended to increase the number of shares issuable under the 2010 Option Plan to 3,000,000 shares and in 2012, the plan was further amended to increase the maximum number of shares that may be issued under the 2010 Option Plan to 13,000,000 shares. The shares under the 2010 Option Plan are registered with the SEC under Forms S-8 filed on February 2, 2010, June 24, 2011, and December 4, 2013. As of December 31, 2013, options to purchase 2,922,078 shares were outstanding under the 2010 Option Plan.

The Company has also periodically issued warrants to purchase shares of common stock as equity compensation to officers, directors, employees, and consultants. As of December 31, 2013, warrants to purchase 3,745,005 shares of common stock were outstanding, all of which were issued as equity compensation. Terms of these warrants are comparable to the terms of the outstanding options.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights		Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by shareholders	5,693,322	$	1.07	8,234,217
Equity compensation plans not approved by shareholders	3,745,005	$	..97	-
Total	9,438,327	$	1.03	8,234,217

Recent Sales of Unregistered Securities

During our fiscal year ended December 31, 2013, the Company sold the following equity securities that were not registered under the Securities Act:

From December 12 to December 24, 2013, the Company issued an aggregate of $425,000 of senior convertible debentures ("Debentures"), together with 38,636 warrants to purchase shares of common stock at an exercise price of $1.65 per share ("Warrants"). In connection with this private placement of Debentures and Warrants, the Company paid an aggregate selling commissions of $42,500. The Debentures bear interest at a rate of 9.5% per year; the interest accrues but is not paid until six months after the date of issuance and then is paid monthly thereafter. The Debentures are due and payable three years after the date of issuance. The Debentures may be converted, at any time before maturity, at the option of the holder, into shares of common stock at the conversion price of $1.50 per share. The Warrants are exercisable for five years after the date of issuance. The Company relied on exemptions from registration from the Securities Act provided by Rule 506 of Regulation D thereunder, based on representations and warranties provided by each purchaser in the subscription agreement between the Company and such purchaser. The Company has used the net proceeds from the private placement for working capital and general corporate needs.

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company, the Company is not required to provide Item 6 disclosure in this Annual Report.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our audited and unaudited financial statements and associated notes appearing elsewhere in this report.

Overview

Iveda Solutions, Inc. began operations on January 24, 2005 under the name of IntelaSight, Inc. On October 15, 2009, IntelaSight became a wholly-owned subsidiary of Charmed Homes, Inc., which changed its name to Iveda Corporation. All Company operations were conducted through IntelaSight until December 31, 2010, at which time IntelaSight merged with and into Iveda Corporation and changed its name to Iveda Solutions. On April 30, 2011, the Company completed its acquisition of MegaSys . See “Item 1. Business General.” Unless otherwise noted, all references to “Iveda,” “Company,” “we,” “us” and “our” hereafter in this section refer to the current business of Iveda Solutio Inc.

Iveda installs video surveillance equipment, primarily for security purposes, and provides video hosting, archiving and real-time remote surveillance services to a variety of businesses and organizations. The accompanying financial statements have been prepared assuming that Iveda will continue as a going concern. Iveda generated accumulated losses of approximately $21.8 million through December 31, 2013.

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 as follows:

- The Board of Directors approved the Company to engage with a financial capital markets advisor in connection with a potential capital financial transaction to raise up to $30 million in long-term financing.

- In December 2013, the Board of Directors also approved the Company to raise up to an aggregate amount of $3.6 million in bridge financing through the sale of Convertible Debentures in advance of the long-term financing.

- 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 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.
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 IvedaXchange In collaboration with a technology partner, the Company developed a real-times 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.

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- 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.
- In November 2013, Iveda hired Bob Brilon as our chief financial officer and executive vice president of business development. He has strong ties with the investment community and has extensive experience in mergers and acquisitions, strategic growth planning, and interacting with domestic and foreign institutional investors, which will be instrumental to our market expansion, global distribution of our cloud video hosting platform and services, and raising capital to fund our growth. In February 2014, he was also appointed as the Company's president.
- 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.

Application of Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and any associated risks related to these policies on our business operations are discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations when such policies affect our reported or expected financial results.

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial condition in the preparation of our financial statements in conformity with accounting principles generally accepted in the United States. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

The material estimates for Iveda are that of the stock based compensation recorded for options and warrants issued and the income tax valuation allowance recorded for deferred tax assets. The fair values of options and warrants are determined using the Black-Scholes option-pricing model. Iveda has no historical data on the accuracy of these estimates. The estimated sensitivity to change is related to the various variables of the Black-Scholes option-pricing model stated below. The specific quantitative variables are included in the Notes to the Financial Statements. The estimated fair value of options and warrants is recognized as expense on the straight-line basis over the options' and warrants' vesting periods. The fair value of each option and warrant granted is estimated on the date of grant using the Black-Scholes option-pricing model with the expected life, dividend yield, expected volatility, and risk free interest rate weighted-average assumptions used for options and warrants granted. Expected volatility for 2013 and 2012 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 and warrant is based on the U.S. Treasury yield curve in effect at the grant date. The expected life of options and warrants is based on the average of three public companies offering services similar to Iveda.

Impairment of Long-Lived Assets

We have a significant amount of property and equipment primarily consisting of leased equipment. The Company reviews the recoverability of the carrying value of long-lived assets using the methodology prescribed in ASC 360 “Property, Plant and Equipment.” Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of an asset to the undiscounted future net operating cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying value of the assets exceeds their fair value.

Basis of Accounting and Going Concern

Iveda’s financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. In addition, the accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. The Company generated accumulated losses of approximately $21.8 million through December 31, 2013 and has insufficient working capital and cash flows to support operations. These factors raise substantial doubt about the Company’s 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.

Revenue and Expense Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, title transfer has occurred, the price is fixed or readily determinable, and collectability is reasonably assured. The Company recognizes revenue in accordance with ASC 60, “Revenue Recognition.” Sales are recorded net of sales returns and discounts, which are estimated at the time of shipment based upon historical data. Revenues from monitoring services are recognized when the services are provided. Expenses are recognized as incurred.

Revenues from fixed-price equipment installation contracts are recognized on the percentage-of-completion method. The percentage completed is measured by the percentage of costs incurred to date to estimated total costs for each contract. This method is used because management considers expended costs to be the best available measure of progress on these contracts. Because of inherent uncertainties in estimating costs and revenues, it is at least reasonably possible that the estimates used will change.

Contract costs include all direct material, subcontractors, labor costs, and equipment costs and those indirect costs related to contract performance. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Changes in estimated job profitability resulting from job performance, job conditions, contract penalty provisions, claims, change orders, and settlements are accounted for as changes in estimates in the current period. Profit incentives are included in revenues when their realization is reasonably assured. Claims are included in revenues when realization is probable and the amount can be reliably estimated.

The liability, “Billings in excess of costs and estimated earnings on uncompleted contracts,” represents billings in excess of revenues recognized.

Stock-Based Compensation

On January 1, 2006, the Company adopted the fair value recognition provisions of ASC 718, *Share-Based Payment* , which requires the recognition of an expense related to the fair value of stock-based compensation awards. The Company elected the modified prospective transition method as permitted by ASC 718. Under this transition method, stock-based compensation expense for the years ended December 31, 2011 and 2010 includes compensation expense for stock-based compensation granted on or after the date ASC 718 was adopted based on the grant-date fair value estimated in accordance with the provisions of ASC 718. The Company recognizes compensation expense on a straight-line basis over the requisite service period of the award. The fair value of stock-based compensation awards granted prior to, but not yet vested as of December 31, 2010 and 2009, were estimated using the “minimum value method” as prescribed by original provisions of ASC 718, *Accounting for Stock-Based Compensation* , therefore, no compensation expense is recognized for these awards in accordance with ASC 718. The Company recognized $221,177 and $248,072 of stock-based compensation expense for the years ended December 31, 2013 and 2012, respectively.

Acquisition of MegaSys

On April 30, 2011, the Company acquired Sole-Vision Technologies, Inc. (doing business as MegaSys), a corporation organized under the laws of the Republic of China (“MegaSys”), pursuant to the share exchange agreement (the “Agreement”) dated March 21, 2011 and a related side agreement of even date (the “Side Agreement”), by and among the Company, MegaSys, and the shareholders of MegaSys (the “MegaSys Shareholders”). Pursuant to the Agreement (i) the Company acquired 100% of the issued and outstanding shares of MegaSys Common Stock in exchange for the issuance to the MegaSys Shareholders of 1,700,000 shares of Common Stock of the Company (the “Exchange”), and (ii)

MegaSys became a wholly owned subsidiary of Iveda. The Side Agreement provided that the MegaSys Shareholders were entitled to receive up to an additional 2,000,000 shares of Common Stock of the Company upon achievement by MegaSys of certain financial milestones set forth therein. Those financial milestones were not achieved, therefore, the additional 2,000,000 shares will not be issued. The Exchange was approved by Taiwan's Foreign Investment Commission Agency.

MegaSys is a Taiwanese company specializing 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 monitoring revenues. MegaSys does not own any proprietary technology or intellectual property other than certain trademarks in China and Taiwan used in its business.

Management believes that the acquisition of MegaSys provides the following potential benefits to the Company's business:

- MegaSys has an established presence and credibility in, and provides the Company with access to, the Asian market.

- Management believes that the Company will be able to leverage MegaSys's relationships in Asia for cost-effective research and development of new product offerings and cost reduction of current product offerings.

- Management is able to source products directly using MegaSys's product sourcing expertise to enhance the Company's custom integration capabilities.

- The Company benefits from cost reductions for infrastructure equipment (servers, storage devices, network switches, and Super Wifi technologies) through a direct OEM relationship.

- Management believes that MegaSys enhances the global distribution potential for Iveda's products and services.

- MegaSys benefits from the Company's expertise in cloud-based video surveillance and access to the U.S. markets for its products.

The Company does not expect to derive significant revenues from prior MegaSys customer installations. However, the prior MegaSys customer base helps to establish credibility for the Company to market its products and services in the Taiwanese and other Asian marketplaces. There can be no assurance that the Company will generate material future revenue from MegaSys's customers at the time of the Exchange.

Results of Operations for the Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012

Net Revenue. We recorded net consolidated revenue of $3,345,217 for the year ended December 31, 2013, compared to $3,608,998 for the year ended December 31, 2012, a decrease of $263,781 or 7%. In fiscal 2013, our recurring service revenue was $495,585 or 15% of consolidated net revenue, and our equipment sales and installation revenue was $2,691,915 or 80% of net revenue, compared to 605,840 or 17% of net revenue for recurring service and $2,815,150 or 78% of net revenue for equipment sales and installation revenue in 2012. Revenues in our U.S. operations were primarily derived from our recurring monthly service revenue, which represents 67% of U.S. net income. This decrease in total revenue in 2013 compared to the same period in 2012 is attributable primarily to reduced equipment sales from MegaSys.

Cost of Revenue. Total cost of revenue was $2,729,350 (82% of revenues; gross margin of 18%) for the year ended December 31, 2013, compared to $3,230,495 (89% of revenues; 11% gross margin) for the year ended December 31, 2012, a decrease of $501,145 or 16%. The decrease in cost of revenue and increase of gross margin was primarily due to the more favorable gross margins associated to the approximately 96% of MegaSys' revenue, derived from equipment sales and installation.

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Operating Expenses. Operating expenses were $7,415,682 for the year ended December 31, 2013, compared to $4,223,455 for the year ended December 31, 2012, an increase of $3,192,227 or 76%. The significant increase in operating expenses was largely due to an impairment charge to goodwill during 2013 of $841,000. Without the goodwill charge in 2013 compared to 2012, operating expenses increased by $2,351,227, or 56%. This increase was attributable primarily to additional professional sales personnel and increased salaries and benefits, increased spending for sales and marketing collateral and tradeshows, increased sales consulting expenses, increased travel expenses for sales personnel including international travel, and increased costs for product and software development. Significant operating expense and effort was expended in 2013 related to potential sales opportunities that are expected to be recognized during 2014.

Loss from Operations. Loss from operations increased to $6,799,815 for the year ended December 31, 2013, compared to $3,844,952 for the year ended December 31, 2012, an increase of $2,954,863 or 77%. A majority portion of this increase was due to the one-time goodwill impairment charge of $841,000 in 2013. The remaining increase in loss of $2,113,863 was primarily due to the increased operating expenses of additional professional sales personnel and increased salaries and benefits, increased spending for sales and marketing collateral and tradeshows, increased sales consulting expenses, increased travel expenses for sales personnel including international travel, and increased costs for product and software development. The majority of the loss, $6,325,892, was from our U.S. operations and the remaining $473,923 was from our operations in Taiwan.

Other Expense-Net. Other expense-net was $71,235 for the year ended December 31, 2013, compared to $79,477 for the year ended December 31, 2012, a decrease of $8,242 or 10%. The expense-net decrease is primarily in which relates to a gain on foreign currency exchange of $10,496.

Net Loss. Net loss was $6,801,714 for the year ended December 31, 2013, compared to $3,841,927 for the year ended December 31, 2012 The increase of $2,959,787 or 77% in net loss was caused by a significant increase in operating expenses coupled with a slight decrease in overall revenues. Significant operating expenses and effort was expended in 2013 related to potential sales opportunities that are expected to be recognized during 2014.

Liquidity and Capital Resources

As of December 31, 2013, we had cash and cash equivalents of $210,515 in our domestic business and $349,214 in our foreign business, compared to $42,920 in our domestic business and $71,542 in our foreign business as of December 31, 2012. This increase in our cash and cash equivalents is primarily a result of financing activities. 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 year ended December 31, 2013 was $3,570,922 and during the year ended December 31, 2012 was $3,327,703. Cash used in operating activities for the year ended December 31, 2013 consisted primarily of the net loss offset by approximately $336,402 in non-cash stock option compensation and $222,206 in non-cash compensation. . Cash used in operating activities for the year ended December 31, 2012 consisted primarily of the net loss offset by approximately $248,072 in non-cash stock option compensation and $123,940 in non-cash compensation.

Net cash used by investing activities for the year ended December 31, 2013 was $157,230. Net cash used by investing activities during the year ended December 31, 2012 was $338,825. .

Net cash provided by financing activities for the year ended December 31, 2013 was $4,179,185 and during the year ended December 31, 2012 was $2,918,602. Net cash provided in both periods consisted primarily of net proceeds from the sale of stock and proceeds from short-term borrowings, which were partially offset by principal payments on short term debt note obligations.

At December 31, 2013, we had approximately $17,000,000 in net operating loss carryforwards available for federal income tax purposes. We did not recognize any benefit from these operating loss carryforwards, which federal operating loss carryforwards will expire beginning in 2025 through 2033. State net operating loss carryforwards have begun to expire in 2013.

We have experienced significant operating losses since our inception. Our capital expenditures and working capital requirements will increase and other adjustments to our operating plan will be needed to respond to changes in competition or unexpected events.

We believe that our cash on hand at December 31, 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 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 capital markets No assurance can be given that the Company raise sufficient funding to continue as a going concern or to operate profitably.

Two customers in 2013 represented approximately 54% of total revenue and one customer in 2012 represented approximately 69% of total revenue. The accounts receivable from this customer/s was approximately 0% of total accounts receivable as of December 31, 2013. No other customers represented greater than 10% of total revenues in 2013 and 2012.

Our U.S. operation has 8% of gross accounts receivable aged over 120 days at the year ended December 31, 2013. The terms for payment for our U.S. operations are "due upon receipt". Therefore, we have established an allowance for doubtful accounts of $31,594 to be recorded with respect to our U.S. operations.

Our Taiwan operations, through MegaSys, have 90% of gross accounts receivables aged over 180 days at December 31, 2013. The payment terms vary based on the timing of the completion of the 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 57%, or $465,933, allowance for doubtful accounts as of the year ended December 31, 2013. Management deems the rest to be collectible based on the nature of the customer contracts and past experience with similar customers.

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.

The Company leases its office facilities under a non-cancelable operating lease expiring October 2016 that requires minimum monthly payments ranging from $8,669 to $10,836. Rent expense was $106,362 and $107,885 for the years ended December 31, 2013 and 2012, respectively. The Company also has two non-cancellable data center service agreements for approximately $7,517 and $2,518 per month, expiring September 2014. The Company has a third non-cancellable data center service agreement for approximately $6,117, expiring March 2015. Data center services expense was $192,181 and $170,776 for the years ended December 31, 2013 and 2012, respectively, and is included as a component of Cost of Revenue in the Statement of Operations.

Future minimum lease payments under these leases are as follows:

2014	$ 330,451
2015	$ 144,563
2016	$ 113,835

The Company has no off-balance sheet arrangements.

Inflation

Management does not believe that the current levels of inflation in the United States have had a significant impact on the operations of the Company. Likewise, management does not believe that the current levels of inflation in Taiwan have had a significant impact on the operations of MegaSys.

Recent Accounting Standards

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. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

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. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The objective of the measure is to reduce the cost and complexity associated with performing an impairment test for indefinite-lived intangible assets and to make the impairment test similar to the recent changes for testing goodwill for impairment (ASU 2011-08). ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

ITEM 7A . QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, Iveda is not required to provide Item 7A disclosure in this Annual Report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The required accompanying financial statements begin on page F-1 of this Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. 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) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2013. Based on our evaluation, our management has concluded that our disclosure controls and procedures are effective to ensure that the reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that the information required to be disclosed by us in such reports is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. 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 effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control Integrated Framework* , our management concluded that our internal control over financial reporting was not effective as of December 31, 2013.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was enacted into law. The Dodd-Frank Act provides non-accelerated filers with a permanent exemption from the requirement to obtain an external audit on the effectiveness of internal financial reporting controls provided in Section 404(b) of the Sarbanes-Oxley Act.

Changes in Internal Control over Financial Reporting

In December 2013, we hired a new CFO who has experience in SEC reporting and disclosures. The Companynowhas two employees knowledgeable in SEC accounting and reporting.. The Company has plans for hiring additional financial personnel and implementing additional controls and processes involving both of our financial personnel in order to ensure all transactions are accounted for and disclosed in an accurate and timely manner. There have not been any other 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 business operations.

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.

Identified Material Weakness

Oversight of Subsidiary Operations: As of December 31, 2013, the Company needs to hire additional staff at MegaSys that are knowledgeable in SEC accounting and reporting. Increased staffing at the subsidiary level will provide daily oversight of MegaSys operations and minimize the likelihood of any material error in reporting the subsidiary’s results. . Action plans are in place to address this staffing need during 2014.

Management's Remediation Initiatives

As our resources allow, we plan to add financial personnel at the subsidiary level to properly provide accurate and timely financial reporting.

ITEM 9B. OTHER INFORMATION

During 2013, the Company raised $5,339,500 in a private placement of shares at $1.00 per share and $723,000 at $1.10 per share. Costs associated with this raise totaled $606,320. The mix of investors includes 51 individuals, 12 trusts and 24 corporations.

During the fourth quarter of 2013, the Company raised $425,000 in Convertible Debentures with warrants.

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.

There were no other items required to be disclosed in a report on Form 8-K during the fourth quarter of the fiscal year ended December 31, 2013 that have not been already disclosed on a Form 8-K filed with the SEC.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Each member of the Company’s Board serves a one-year term and is subject to reelection at the Company’s Annual Meeting of Shareholders held each year.

Board Committees

The Board has established an Audit Committee consisting of James Staudohar (Chairman), Joseph Farnsworth and Robert Gillen; a Compensation Committee consisting of Joseph Farnsworth (Chairman), James Staudohar, Gregory Omi, Alex Kuo and Alejandro Franco; and a Nominating Committee consisting of Gregory Omi (Chairman), Joseph Farnsworth, Alex Kuo and Alejandro Franco. No other committees have been formed.

Audit Committee

The Audit Committee was established on February 18, 2010, although the Board had previously adopted a Charter which was amended on April 13, 2010. The Audit Committee Charter lists the purposes of the Audit Committee as overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company, and providing assistance to the Board in monitoring the (i) integrity of the Company’s financial statements; (ii) Company’s compliance with legal and regulatory requirements; (iii) independent auditor’s qualifications and independence; and (4) performance of the Company’s internal audit function, if any, and independent auditor.

The Board has determined that Mr. Staudohar is an “audit committee financial expert” as defined in Item 407(d)(5) of Regulation S-K promulgated by the SEC. The Board’s conclusions regarding the qualifications of Mr. Staudohar as an audit committee financial expert were based on his service as a chief financial officer of numerous companies in various industries, his experience as a certified public accountant, and his degree in accounting.

Directors, Executive Officers and Key Employees . The executive officers, directors and other key employees serving the Company as of the date of this report were as follows:

Name	Age	Position
David Ly	38	Chairman of the Board, CEO
Robert Brilon	53	President, CFO, Treasurer
Luz Berg	51	Secretary, COO, CMO
Richard Gibson	61	Sr. Vice President of Global Sales & Support
Chen-Ho (Alex) Kuo	50	Director
Joseph Farnsworth	54	Director
Gregory Omi	52	Director
James D. Staudohar	76	Director
Robert D. Gillen	59	Director
Alejandro Franco	61	Director

David Ly Mr. Ly founded Iveda and has served as a director and as Chairman of the Board and Chief Executive Officer since inception. He has held positions with several major corporations, including Applications Engineer at Metricom, Inc. (from 1998 to 2001), Corporate Sales at Nextel Communications (from 2001 to 2002), Market Manager at Door To Door Storage (from 2001 to 2002), and B2B Sales Manager at T-Mobile USA (from 2002 to 2004). While at T-Mobile, his last position before founding Iveda Solutions, he was awarded the prestigious sales award of President's Club Top Salesman. Mr. Ly received his B.S. in Civil Engineering, with a minor in International Business, from San Francisco State University. Mr. Ly's day-to-day leadership as our Chief Executive Officer provides him with detailed knowledge of our business and operations. Among other professional experiences, qualifications, and skills, Mr. Ly brings in depth knowledge and understanding of the video surveillance industry, as well as business and engineering expertise and management skills that have been critical to formulating the Company's short and long-term strategies.

Luz Berg Luz Berg joined Iveda Solutions in 2004, prior to its incorporation as the VP of Marketing. She was promoted to Senior VP of Operations & Marketing in 2007, and was further promoted to Chief Operating Officer and Chief Marketing Officer in 2009. Ms. Berg also serves as the Corporate Secretary. Ms. Berg has over 20 years of business experience in a variety of industries, with a proven track record in building a startup company from the ground up. She has been working alongside the CEO since inception, making sure that the Company remains focused on its goals and the founder's vision realized. Ms. Berg manages the Company's day-to-day operation, formulating policies and procedures. Ms. Berg has extensive experience in developing and implementing results-driven marketing communications plans for lead/sales generation, building brand, brand revitalization, and customer retention in a wide-range of industries. She has been instrumental in the Company's messaging and image building. Ms. Berg served as the Director of Marketing at Cygnus Business Media from 2003 to 2004 and at Penton Media from 2001 to 2003. She has also worked in the high-tech industry at Metricom, serving as Marketing Programs/Channel Marketing Manager from 1999 to 2001, and Spectra-Physics Lasers, serving as Marketing Communications Specialist from 1991 to 1999. Ms. Berg received her B.A. in Management from St. Mary's College in California.

Robert (Bob) Brilon Bob is a senior executive with over 30 years of experience as a Chief Financial Officer (CFO) and Chief Executive Officer (CEO) for both private and public companies. Most recently, Bob served as CFO and EVP of Business Development for Brain State Technologies, a leading system for Brainwave Optimization®. During his tenure there, he was successful in raising capital while also providing leadership in financial operations, technology licensing programs, and channel development. Prior to that, Bob held CFO positions for various companies that required his expertise including MD Helicopters and Iveda (2008 to 2010). He was instrumental in Iveda becoming a fully reporting public company and subsequently structuring the transaction that led to the acquisition of MEGAsys, Iveda's subsidiary in Taiwan. Bob served as the CEO and CFO for InPlay Technologies (NASDAQ:NPLA), formerly Duraswitch (NASDAQ:DSWT) patent holder and global licensor of magnetic switches, from 1998 to 2007. Other positions held include CFO at Gietz Master Builders, Corporate Controller at Rental Service Corp. (NYSE:RRR) and CFO and Vice President of Operations at DataHand Systems, Inc. Bob was also CFO at Go-Video (AMEX:VCR), manufacturer of the first dual-deck VCR. Prior to his career in the corporate world, Bob obtained CPA certification and accumulated four years of audit and tax experience with such "Big Four" CPA firms as McGladrey & Pullen, Ernst & Young, and Deloitte & Touche. Bob oversees the financial well-being of the Company and all aspects of accounting and finance, administration, and human resources functions. He develops and manages banking/vendor relationships, financial reports, budgets, and internal control systems. Bob is also in charge of investor relations and capital strategies to support the company's growth. Bob received his B.S. Degree in Business Administration from University of Iowa.

Richard Gibson - Richard Gibson joined Iveda in October 2011 as Senior Vice President of Global Sales & Support. Mr. Gibson comes to Iveda with 30 years' experience in IT, networks, and security. He has held leadership positions in large companies such as IBM and Motorola, as well as in several smaller companies. From 2008 up to just before Mr. Gibson joined Iveda in October 2011, he was Senior Vice President of Sales and Service at SEER Technology, Inc. From 2005 to 2008, Mr. Gibson provided consulting services in sales, marketing, start-up funding, and business plan development to small technology companies. Mr. Gibson worked at CYBERAIR Technologies, Inc. from 2003 to 2005 as Senior Vice President of Sales and Marketing. From 1999 to 2003, he worked for Motorola Global Infrastructure Solutions as Director of Business Development. From 1997 to 1999, Mr. Gibson worked for NETSAFE and INTERCELL in sales and marketing executive roles. Mr. Gibson held sales and marketing management positions at Motorola Government Electronics from 1992 to 1997. He started his professional career at IBM as Senior Market Representative from 1988 to 1992 and Systems Engineer from 1979 to 1988. Mr. Gibson is managing Iveda's strategic sales initiatives overseas. Mr. Gibson is in charge of establishing and enhancing new sales and customer service methodologies, systems, and organization. Mr. Gibson received his MBA degree at Thunderbird School of International Management in Glendale, Arizona, specializing in the Asia region. He earned his undergraduate Bachelor of Science in International Relations degree from the University of Minnesota in Minneapolis, Minnesota, graduating summa cum laude. He also completed IBM's Internal Graduate School program at IBM Systems Research Institute.

Joseph Farnsworth Mr. Farnsworth was appointed to Iveda's Board in January 2010. Mr. Farnsworth has over 25 years of experience in the real estate industry. Since 1995, Mr. Farnsworth has served as President and a director of Farnsworth Realty & Management Co., an Arizona based privately held real estate company. He has also served on the Board of Farnsworth Development, a closely held real estate developer, since 1995, and on the Board of Farnsworth Companies since 2008. From 1987 to 1991, Mr. Farnsworth served as President of Farnsworth International, a real estate investment company based in Taipei, Taiwan, and from 1990 to 1995, Mr. Farnsworth served as President of Alfred's International, a company with operations in China and Korea. He serves on the Board of Directors of Arizona Brain Food, an organization providing food to lower income school children, and is actively involved with the La Masita, a homeless shelter. He has previously served on the Board of Adjustment for the City of Mesa, Arizona, and also previously served on the City Planning and Zoning Board for the City of Mesa, Arizona. Mr. Farnsworth is a graduate of Brigham Young University with a B.S. in real estate finance and is a licensed Arizona real estate broker. Among other professional experiences, qualifications, and skills, Mr. Farnsworth has substantial knowledge of the usefulness of the Company's services in the real estate industry and has extensive contacts in the industry. In addition, Mr. Farnsworth has extensive experience in managing companies, as well as a strong background in finance, all of which are vital to the overall success of the Company.

Gregory Omi Mr. Omi has been a director since 2005. Mr. Omi has been working as a senior programmer for Zynga since November 2009, writing online games in Flash for Facebook. From January 2009 to November 2009, Mr. Omi worked at Monkey Gods, LLC, a video game provider, designing Facebook applications as a programmer. From October 2006 to January 2009, Mr. Omi worked at Flektor, Inc., focused on Flash 9 / Flex 2 / Action Script 3, C, XML and Ruby programming for a web application, including video and image processing. Flektor was acquired by FOX Interactive Media in 2007. From October 1996 to June 2006, Greg held the position of Senior Programmer with Naughty Dog, a computer game company, which was acquired by Sony. He has also held programming positions with 3DO (from 1992 to 1996), TekMagic (during 1992), Epyx (from 1986 to 1992), Atari (during 1991), Nexa (from 1982 to 1983 and 1985 to 1986) and HES (during 1983). Mr. Omi assists the Company in overseeing all software development activities and improvements to its technologies including development of a web-based executive dashboard to gather information and functionalities for cameras, video services, digital video recorders and access control. Mr. Omi attended DeVry Institute in Phoenix, Arizona from 1979 to 1980 where he studied industrial electronics engineering. Among other professional experiences, qualifications, and skills, Mr. Omi's expertise and skills in computer programming, software development, and writing code are instrumental to the development of our products.

James D. Staudohar - Mr. Staudohar was appointed to Iveda's Board in January 2010. Since 2003, Mr. Staudohar has served as President of Lakeview Enterprises, LLC, providing business advisory and consulting services to companies throughout the Phoenix metropolitan area. From 2007 to 2009, Mr. Staudohar served as the Chief Financial Officer and as a director of Veritest International Corporation, a startup company that raised approximately $2.8 million dollars for the development of a drug screening device. From 1994 to 2002, Mr. Staudohar served as Vice Chairman and Chief Financial Officer of RSI Enterprises, Inc., a multi-million dollar profitable asset recovery business located in Phoenix, Arizona. Prior to 1994, Mr. Staudohar held a number of financial positions, including serving as Vice President and Corporate Controller of Modern Merchandising, Inc. from 1981 until its acquisition by Best Products, Inc. in 1983, when Mr. Staudohar was promoted to Chief Financial Officer and Senior Vice President of Best Products, a $3 billion retail organization, positions he held until 1989. Mr. Staudohar also served from 1973-1981 as Vice President and Controller of B. Dalton Bookseller during a period when the retail chain grew from 66 to 650 stores.

In addition to his financial experience, Mr. Staudohar previously served on the Board of Directors of Smith & Wesson Holding Corporation, the publicly traded parent company of the gun manufacturer from 2002 to 2004. He also served as the Chair of Smith & Wesson's Audit Committee and as a member of the Nominating Committee. Mr. Staudohar presently serves on the Board of Directors and on multiple committees of the Phoenix Sister Cities Commission, a not for profit company. Mr. Staudohar holds a B.A. from the University of Minnesota. Among other professional experiences, qualifications and skills, Mr. Staudohar's knowledge and understanding of the capital markets and his in-depth experience in corporate finance and business management will provide valuable assistance to the Company in oversight of financial management, internal controls, and strategic planning. Mr. Staudohar also serves as Chairman of the Company's Audit Committee.

Robert D. Gillen Mr. Gillen was appointed to Iveda's Board in November 2011. Mr. Gillen is the president of the Law Offices of Robert D. Gillen, Ltd., a law firm assisting clients with domestic and international planning, with offices located in Scottsdale, Arizona and Naperville, Illinois. Mr. Gillen is an international speaker and has extensive experience in advising businesses and professionals on tax and legal matters. Mr. Gillen graduated from the University of Illinois in 1976 with a Bachelor of Science in Business Administration and from IIT Chicago Kent College of Law in 1979 with a Juris Doctor Degree with Honors. Mr. Gillen has been active in the cellular industry since its inception and has assisted in the development of the cellular network. Mr. Gillen has served on various boards of directors and advisory committees for growing companies, as well as donating his time and expertise on not-for-profit boards. Mr. Gillen has also authored many articles on business, tax and legal matters.

Chen-Ho (Alex) Kuo - Mr. Kuo was appointed to Iveda's Board in November 2011. In 2009, Alex Kuo was hired by Iveda as a consultant to facilitate the acquisition of MEGAsys Taiwan. Shortly after the completion of the acquisition, in May 2011, Iveda hired Mr. Kuo as Senior Vice President of Global Strategies Asia, and he was recently promoted to Chief Strategy Officer. Mr. Kuo has 20 years of executive experience at Acer Group. Prior to Acer, he was General Manager at Servex/Anextek from 2001 to 2007. He also held Vice President and Senior Vice President positions at China Security and Surveillance Technology (NYSE:CSR), FalconStor Software (NASDAQ: FALC), and Global Data SolutionsLimited from 2007 to 2010. Mr. Kuo also serves as an instructor at the Cloud Computing Industry Association of Taiwan. Mr. Kuo received his Masters of Science and Technology Innovation Management from George Washington University and his undergraduate degree from National Taiwan University.

Alejandro Franco Mr. Franco was appointed to Iveda's Board in November 2011. Mr. Franco has been serving Iveda as a consultant for two years, with respect to business development and strategic partnership opportunities in Mexico. He has been advising and facilitating the Company's negotiations with a telecommunications company in Mexico. Mr. Franco has 26 years of cross-industry experience and accomplishment with leading start-up and high-growth companies. He is known for delivering strong and sustainable revenue and profit gain in highly competitive markets throughout China, Taiwan, USA, Mexico, and Brazil. He has extensive experience in leading large-scale, complex, global operations in China, Taiwan, Latin America, and the U.S. Mr. Franco is the president and founder of Amextel in Mexico. He also founded and was president of TVM, Inc., in Mexico from 1985 to 1988 and Bela Corp. in the U.S. from 1988 to 2000. Mr. Franco has a degree in Economics from UNAM University, Mexico, a degree in Industrial Design from IBERO University, Mexico, and Masters in Theology from Oblate University, San Antonio Texas.

Iveda's directors, as named above, will serve until the next annual meeting of Iveda's shareholders or until their successors are duly elected and qualified. Directors will be elected for one-year terms at the annual shareholders meeting. There is no arrangement or understanding between any of the directors or officers of Iveda and any other person pursuant to which any director or officer was or is to be selected as a director or officer, and there is no arrangement, plan or understanding as to whether non-management shareholders will exercise their voting rights to continue to elect the current directors to Iveda's board. There are also no arrangements, agreements or understandings between non-management shareholders that may directly or indirectly participate in or influence the management of Iveda's affairs.

There are no agreements or understandings for any officer or director to resign at the request of another person, and none of the officers or directors are acting on behalf of, or will act at the direction of, any other person. There are no family relationships among our executive officers and directors.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires Iveda's directors and executive officers, and persons who beneficially own more than ten percent of a registered class of our equity securities, to file with the SEC initial reports of beneficial ownership and reports of changes in beneficial ownership of our common stock. The rules promulgated by the SEC under Section 16(a) of the Exchange Act require those persons to furnish us with copies of all reports filed with the SEC pursuant to Section 16(a). The information in this section is based solely upon a review of Forms 3, 4, and 5 received by us.

We believe that Iveda's executive officers, directors and 10% shareholders timely complied with their filing requirements during the year ended December 31, 2013, with the following exceptions: 1) On June 5, 2013, Mr. Joe Farnsworth filed an untimely Form 4 with respect to an acquisition of shares acquired on January 23, 2013.

Code of Ethics

We have adopted a Code of Ethics, which was amended and restated on April 13, 2010. We adopted a Code of Conduct and Ethics (filed as Exhibit 14.1 to Form 10-K, filed on April 15, 2010) that applies to all of our officers, directors, and employees, and a separate Code of Ethics (filed as Exhibit 14.2 to Form 10-K, filed on April 15, 2010) for our Chief Executive Officer and Senior Financial Officers that supplements our Code of Conduct and Ethics. Each of these policies comprises written standards that are reasonably designed to deter wrongdoing and to promote the behavior described in Item 406 of Regulation S-K promulgated by the SEC.

Nominating Procedures

There have been no material changes to the procedures by which our shareholders may recommend nominees to the Board of Directors during our last fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Philosophy and Overview

The Company believes that it is important to design a compensation program that supports the Company's business strategy. As a result, our compensation program emphasizes performance-based compensation and is designed to support the Company's business goals, promote short- and long-term growth, and attract, retain, and motivate key talent. The compensation program has three components:

(1) base salary;

(2) bonus awards; and

(3) long-term performance incentives.

The Company believes that our executive officers and other key employees should have a portion of their potential annual compensation tied to our profitability and other Company goals. Additionally, we seek to align the ability to earn long-term incentives directly with the interests of our shareholders through the use of equity-based incentives. The Company strives to ensure compensation is competitive with companies similar to Company; however, the

Company acknowledges that base salaries are currently below market.

SUMMARY COMPENSATION TABLE

The following summary compensation table sets forth information concerning compensation for services rendered in all capacities during our past two fiscal years awarded to, earned by, or paid to each of the individuals listed in the Summary Compensation Table below. Salary and other compensation for these officers and former officers were set by the Board. Iveda has historically suffered severe shortages in cash and has structured its compensation policies to minimize salaries and focus instead on reward of equity.

Name and Principal Position	Year		Salary		Bonus			Option Awards			Total
David Ly Chairman, CEO	2013	$	188,965	$	0		$	19,335	(2)	$	208,300
	2012	$	135,225	$	60,000	(1)	$	13,491	(2)	$	208,716
Luz Berg COO, CMO, Secretary	2013	$	164,427	$	0		$	9,667	(2)	$	174,094
	2012	$	130,225	$	45,000	(1)	$	6,746	(2)	$	181,971
Robert Brilon CFO, Treasurer(4)	2013	$	9,087	$	0		$	116,790	(2)	$	125,877
Brian Duling, Former CFO & Treasurer(3)	2013	$	136,364		0			0		$	136,364
	2012	$	38,827	$	15,000	(1)	$	52,560	(2)	$	106,387

(1) Gross bonuses accrued in 2012, paid in 2013
(2) See Note 7 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K, filed in this report, for information regarding assumptions underlying the valuation of equity awards.
(3) Mr. Duling resigned as the Company's CFO and Treasurer, effective November 18, 2013.

(4) Mr. Brilon was hired as the Company's CFO and Treasurer on December 1, 2013 and appointed to serve as President of the Company, effective as of February 10, 2014. Mr. Brilon received an annual salary of $157,500 and received options to purchase 300,000 shares of the Company's common stock upon hire. Once promoted to President, he began receiving $180,000 annual salary and received options to purchase 100,000 shares of the Company's common stock.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Number of Securities Underlying Unexercised Options/ Warrants (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)		Option Exercise Price ($)	Option Expiration Date
David Ly, Chairman and CEO	300,000 (5)					
	(options) 50,000 (7)	-	-	$	1.00	6/20/21

	(options)	-	-	$ 1.10	12/18/22
	50,000 (8) (options)	-	-	$ 1.75	12/31/23
Luz Berg, COO, CMO, & Secretary	256,140 (1) (warrants)	-	-	$ 0.10	12/30/16
	240,331 (2) (warrants)	-	-	$ 0.10	9/10/17
	425,712 (3) (options)	-	-	$ 0.10	4/01/18
	500,000 (4) (options)	-	-	$ 1.00	6/20/21
	25,000 (7) (options)	-	-	$ 1.10	12/18/22
	25,000 (8) (options)	-	-	$ 1.75	12/31/23
Robert Brilon, President,CFO & Treasurer	300,000 (6)	-	-	$ 1.80	11/30/23
	6,818 (9)	-	-	$ 1.65	12/20/18

(1) The warrants became fully vested on December 30, 2006.
(2) The warrants became fully vested on September 10, 2007.
(3) The options became fully vested on April 10, 2008.
(4) The options became fully vested on June 20, 2011.
(5) 300,000 options were canceled as of December 31, 2011 for failing to exercise options as indicated on the 2010 Option Plan.
(6) The options become fully vested on December 1, 2015
(7) The options became fully vested on December 18, 2012
(8) The options became fully vested on December 31, 2013
(9) The warrants were issued with convertible debt purchase on 12/20/13 and are fully vested.

Director Compensation

Directors have received stock compensation for their service on the Board, and are reimbursed for attendance of meetings for all non-employee directors. For the year ended December 31, 2013, all directors listed below received stock awards in the forms of options. Joseph Farnsworth, James Staudohar, Gregory Omi, Robert Gillen, Alex Kuo and Alejandro Franco received 50,000 options each.

Name	Fees earned or paid in cash ($)	Stock Awards ($)	Options Awards ($) (7)		Non-Equity Incentive Plan Compensation	Nonqualified deferred compensation earnings ($)	All Other Compensation ($)	Total ($)
Joseph Farnsworth	-	-	$ 19,335	(1)	-	-	-	$ 19,335
James Staudohar	-	-	$ 19,335	(2)	-	-	-	$ 19,335
Gregory Omi	-	-	$ 19,335	(3)	-	-	-	$ 19,335
Alex Kuo	-	-	$ 19,335	(4)	-	-	-	$ 19,335
Robert Gillen	-	-	$ 19,335	(5)	-	-	-	$ 19,335
Alejandro Franco	-	-	$ 19,335	(6)	-	-	-	$ 19,335

(1) As of December 31, 2013, Mr. Farnsworth had 280,000 options outstanding.
(2) As of December 31, 2013, Mr. Staudohar had 205,000 options outstanding.
(3) As of December 31, 2013, Mr. Omi had 280,000 options outstanding.
(4) As of December 31, 2013, Mr. Kuo had 250,000 options outstanding.
(5) As of December 31, 2013, Mr. Gillen had 150,000 options outstanding.
(6) As of December 31, 2013, Mr. Franco had 150,000 options outstanding.
(7) See Note 7 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K, filed in this report, for information regarding assumptions underlying the valuation of equity awards.

Compensation Policies and Risk Management

The Board has reviewed the Company’s compensation policies and practices for all of its employees and has determined that such policies and practices do not encourage risk taking to a degree that is reasonably likely to have a material adverse effect on the Company.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information regarding the beneficial ownership of Iveda’s common stock as of March 14, 2014, for (i) each person known by Iveda to be a beneficial owner of five percent or more of the outstanding common stock of Iveda; (ii) each executive officer and director; and (iii) all directors and executive officers of Iveda as a group. As of March 14, 2014 Iveda had 26,757,012 shares of common stock outstanding, options to purchase 5,693,322 shares of common stock outstanding, and warrants to purchase 3,745,005 shares of common stock outstanding.

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Name of Beneficial Owner	Position	Amount of Shares of Common Stock	Options or Warrants to Purchase Common Stock	Total Beneficial Ownership [(1)]	Percent of Class [(1)]
David Ly [(2)]	Chairman & CEO	3,185,181	400,000	3,585,181	7.9
Luz Berg [(2)]	COO, CMO & Secretary	-	1,472,183	1,472,183	3.2
Robert Brilon [(2)]	President, CFO & Treasurer		411,363	411,363	..9
Joseph Farnsworth [(2)]	Director	104,958	327,500	432,458	1.0
Gregory Omi [(2)]	Director	903,859	300,000	1,203,859	2.6
James D.Staudohar [(2)]	Director	0	205,000	205,000	..4
Robert Gillen [(2)]	Director	1,301,140	245,000	1,546,140	3.4
Chen-Ho (Alex) Kuo [(2)]	Director	300,000	250,000	550,000	1.2
Alejandro Franco [(2)]	Director	-	150,000	150,000	..3
All directors and officers as a group		5,995,138	3,761,046	9,556,184	20.9
William A. Walsh [(3)]		2,100,000	0	2,100,000	4.6

(1) Reflects ownership of securities of Iveda on a fully-diluted basis.
(2) The address for each of these individuals is c/o Iveda Solutions, 1201 S. Alma School Road, Suite 8500, Mesa, AZ 85210.
(3) The address for Mr. Walsh is 117 North 2 nd Avenue, Sterling, Colorado 80751.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

On June 7, 2012, the Company entered into a debenture agreement with one of its Board Members for $200,000. Interest is payable at 10% per annum, payable on the maturity date of July 6, 2012. The Company issued warrants to purchase 20,000 shares of the Company stock, at an exercise price of $1.10. Accordingly, the Company recognized a discount of $15,179 on the principal value of the $200,000 and this discount is fully amortized by June 30, 2012.

On June 20, 2012, the Company entered into a separate debenture agreement with a different Board Member for $200,000. Interest is payable at 12% per annum, payable on the maturity date of June 20, 2013. The Company issued warrants to purchase 20,000 shares of the Company stock, at an exercise price of $1.00. Accordingly, the Company recognized a discount of $16,789 on the principal value of the $200,000 and is amortizing the discount over the 12 month term of the debenture.

On March 4, 2014, Mr. Brilon, the Company’s President and Chief Financial Officer, purchased a 9.5% Senior Convertible Debenture (the “Debenture”) in the principal amount of $50,000. The Debenture is due and payable three years after the date of issuance and the principal and unpaid interest thereunder is convertible into shares of the Company’s Common Stock at the election of the holder any time prior to the maturity date at a conversion price equal to $1.50 per share, subject to adjustment upon the occurrence of certain events as provided in the Debenture. In connection with the purchase of the Debenture, Mr. Brilon received a warrant to purchase 4,545 shares of Common

Stock. The warrant has a term of five years from date of issuance and the exercise price is subject to adjustment upon the occurrence of certain events as provided in the warrant.

Director Independence

Using the standards of the NYSE Amex (to which rules and regulations Iveda is not subject), Iveda's Board has determined that Mr. Farnsworth, Mr. Omi, Mr. Staudohar, Mr. Gillen, and Mr. Franco each qualify as an independent director and as a member of the Audit Committee, Nominating and Compensation Committees, as applicable. No other directors are independent under these standards. Iveda did not consider any relationship or transaction between itself and these independent directors not already disclosed in this report in making this determination.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

On October 17, 2011, Iveda Solutions, Inc. (" Iveda "), with the approval of the Audit Committee of the Board of Directors, appointed Albert Wong & Co. (" AW ") as Iveda's principal accounting firm. Since 2008, AW has served as the principal accounting firm for Sole Vision Technologies (" MegaSys "), a Taiwanese corporation acquired by Iveda in April 2011. Due to the larger business comprised by the MegaSys subsidiary, Iveda decided to replace its former principal accounting firm, Farber Hass Hurley LLP (" FHH "), with AW in order to increase efficiencies and reduce costs in its auditing procedures. FHH will continue to assist AW with the audit of the U.S. operations of Iveda.

The Company paid or accrued the following fees in each of the prior two fiscal years to Albert Wong & Co. and Farber Hass Hurley LLP:

	Year ended December 31, 2013		Year ended December 31, 2012	
Audit fees	$	113,000	$	66,000
Audit-related fees	$	3,860	$	15,448
Tax fees	$	0	$	0
All other fees	$	0	$	0

Audit fees include fees for the audit of our annual financial statements, reviews of our quarterly financial statements, and related consents for documents filed with the SEC.

As part of its responsibility for oversight of the independent registered public accountants, the Audit Committee has established a pre-approval policy for engaging audit and permitted non-audit services provided by our independent registered public accountants, Farber Hass Hurley LLP and Albert Wong & Company. In accordance with this policy, each type of audit, audit-related, tax and other permitted service to be provided by the independent auditors is specifically described and each such service, together with a fee level or budgeted amount for such service, is pre-approved by the Audit Committee. The Audit Committee has delegated authority to its Chairman to pre-approve additional non-audit services (provided such services are not prohibited by applicable law) up to a pre-established aggregate dollar limit. All services pre-approved by the Chairman of the Audit Committee must be presented at the next Audit Committee meeting for review and ratification. All of the services provided by Albert Wong & Co. and Farber Hass Hurley LLP described above were approved by the Audit Committee for 2011.

Iveda's principal accountant, Albert Wong & Co., and Farber Hass Hurley LLP, did not engage any other persons or firms other than their respective full-time, permanent employees .

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(Except as otherwise indicated, all exhibits were previously filed)

Exhibit Number	Description of Exhibits
2.1	Agreement and Plan of Merger, 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 the Form 10-K/A filed on 2/9/2012)
3.1	

	Articles of Incorporation of Charmed Homes Inc. (Incorporated by reference to the Form SB-2 filed on 4/27/2007)
3.2*	Bylaws of Iveda Solutions, Inc.

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3.3	Amendment to Articles of Incorporation, filed with the Nevada Secretary of State on September 9, 2009 (Incorporated by reference to the Form 8-K filed on 10/21/2009)
3.4	Articles of Merger filed with the Secretary of State of Nevada on December 28, 2010, and dated effective December 31, 2010 (Incorporated by reference to the Form 8-K filed on January 4, 2010)
4.1	Specimen Stock Certificate (Incorporated by reference to the Form SB-2 filed on 4/27/2007)
4.2	Form of Stock Option Agreement under the IntelaSight, Inc. 2008 Stock Option Plan (Incorporated by reference to the 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 the Form S-4/A1 filed on 7/10/2009)
4.4	2009 Stock Option Plan, dated October 15, 2009 (Incorporated by reference to the 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 the Form 8-K filed on 10/21/2009)
4.6	2010 Stock Option Plan, dated January 18, 2010 (Incorporated by reference to the Form S-8 filed on 2/4/2010)
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 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 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 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 the Form S-4/A2 filed on 8/2/2009)
10.2	Partner Agreement dated January 30, 2007 by and between Milestone Systems, Inc. and IntelaSight, Inc. (Incorporated by reference to the 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 the 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 the 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 the Form 8-K filed on 10/21/2009)
10.6	Subscription Agreement, dated July 26, 2010 (Incorporated by reference to Form 10-Q filed on November 12, 2010)
10.7	Line of Credit Promissory Note, dated September 15, 2010 (Incorporated by reference to Form 10-Q filed on November 12, 2010)
10.8	Agreement for Service, dated October 20, 2010 (Incorporated by reference to Form 10-Q filed on November 12, 2010)
10.9	Consulting Agreement, dated October 25, 2010 (Incorporated by reference to Form 10-Q filed on November 12, 2010)
10.10	Operating Level Agreement, dated October 25, 2010 (Incorporated by reference to Form 10-Q filed on November 12, 2010)
10.11	Side Letter, 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 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 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 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 Form 10-K/A filed on 5/11/2012).

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14.1	Code of Conduct and Ethics (Incorporated by reference to the Form 10-K filed on 4/15/2010)
14.2	Code of Ethics for Chief Executive Officer and Senior Financial Officers (Incorporated by reference to the Form 10-K filed on 4/15/2010)
21	Subsidiaries of the Registrant (Incorporated by reference to Form 10-K filed on 3/30/2012).
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Chief Executive Officer
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Chief Financial Officer
32.1**	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Chief Executive Officer
32.2**	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 Chief Financial Officer
101.1**	The following financial information from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets as of December 31, 2012 and December 31, 2011, (ii) Condensed Consolidated Statements of Operations for the years ended December 31, 2012 and 2011, (iii) Condensed Consolidated Statements of Stockholders' Equity for the years ended December 31, 2012 and 2011, (iv) Condensed Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011, and (iv) the Notes to Condensed Consolidated Financial Statements.

*	Filed herewith
**	Furnished herewith

IVEDA SOLUTIONS, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

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ALBERT WONG

B.Soc., Sc., ACA., LL.B., C.P.A.(Practising)

To: The board of directors and stockholders of
Iveda Solutions, Inc. ("the Company")

Report of Independent Registered Public Accounting Firm

We have audited the accompanying consolidated balance sheet of Iveda Solutions, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We were not engaged to examine management's assertion about the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 and 2012 included in the Company's Item 9A "Controls and Procedures" in the Annual Report on Form 10-K and, accordingly, we do not express an opinion thereon.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Iveda Solutions, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations and has a significant accumulated deficit. In addition, the Company continues to experience negative cash flows from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Hong Kong, China
March 28, 2014

Albert Wong & Co.
Certified Public Accountants

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

	2013		2012	
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	$	559,729	$	114,462
Restricted Cash		1,160,688		447,206
Accounts Receivable, Net		372,587		1,958,799
Inventory		331,437		123,021
Other Current Assets		295,205		645,728
Total Current Assets		2,719,646		3,289,216
PROPERTY AND EQUIPMENT, Net		471,182		516,981
OTHER ASSETS				
Intangible Assets, Net		146,666		166,666
Goodwill		-		841,000
Other Assets		341,752		105,621
Total Other Assets		488,418		1,113,287
Total Assets	$	3,679,246	$	4,919,484
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts and Other Payables	$	2,358,702	$	2,456,788
Due to Related Parties, net of debt discount		100,000		336,605
Short Term Debt		60,291		802,122
Derivative Liability		39,804		-
Current Portion of Long-Term Debt		164,156		75,707
Total Current Liabilities		2,722,953		3,671,222
LONG-TERM DEBT AND CONVERTIBLE DEBENTURES, Net of Discount		364,370		67,695
DUE TO RELATED PARTY, Net of discount		70,114		-
STOCKHOLDERS' EQUITY				
Preferred Stock, $0.00001 par value; 100,000,000 shares		-		-
Common Stock, $0.00001 par value; 200,000,000 shares Authorized; 26,722,012 and 20,458,048 shares issued and outstanding as of December 31, 2013 and 2012, respectively		267		204
Additional Paid-In Capital		22,354,002		16,204,068
Accumulated Comprehensive Income (Loss)		(30,670)		(23,629)
Accumulated Deficit		(21,801,790)		(15,000,076)
Total Stockholders' Equity		521,809		1,180,567

Total Liabilities and Stockholders' Equity	$	3,679,246	$	4,919,484

See accompanying Notes to Financial Statements.

IVEDA SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013		2012	
REVENUE				
Equipment Sales	$	2,691,916	$	2,815,150
Service Revenue		608,157		731,908
Other Revenue		45,144		61,940
Total Revenue		3,345,217		3,608,998
COST OF REVENUE		2,729,350		3,230,495
GROSS PROFIT		615,867		378,503
OPERATING EXPENSES:				
General & Administrative		6,574,682		4,223,455
Impairment of Goodwill		841,000		-
LOSS FROM OPERATIONS		(6,799,815)		(3,844,952)
OTHER INCOME (EXPENSE)				
Foreign Currency Gain (Loss)		10,496		(524)
Loss on derivatives		(241)		-
Interest Income		2,135		806
Interest Expense		(83,625)		(79,759)
Total Other Income (Expense)		(71,235)		(79,477)
LOSS BEFORE INCOME TAXES		(6,871,050)		(3,924,429)
BENEFIT (PROVISION) FOR INCOME TAXES		69,336		82,502
NET LOSS	$	(6,801,714)	$	(3,841,927)
BASIC AND DILUTED LOSS PER SHARE	$	(0.27)	$	(0.20)
WEIGHTED AVERAGE SHARES		24,735,921		19,077,341

See accompanying Notes to Financial Statements.

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IVEDA SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31, 2013		Year Ended December 31, 2012	
Net loss	$	(6,801,714)	$	(3,841,927)
Change in equity adjustment from foreign currency translation, net of tax		(7,041)		22,978
Comprehensive loss		(6,808,755)		(3,819,649)

See accompanying Notes to Financial Statements.

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IVEDA SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2013 AND 2012

	Shares		Amount		Additional Paid-in-Capital		Accumulated Deficit		Accumulated Other Comprehensive Income (loss)		Total Stockholder's Equity (Deficit)
BALANCE AT DECEMBER 31, 2011	18,031,729		180		13,642,892		(11,158,149)		(45,907)		2,439,016
Common Stock Issued for Cash	2,426,319		24		2,426,295						2,426,319
Costs of Capital					(317,465)						(317,465)
Stock Based Compensation					248,072						248,072
Debt Discount					40,200						40,200
Common Stock Issued for Services	-		-		164,074						164,074
Net Loss							(3,841,927)				(3,841,927)
Comprehensive Loss									22,278		22,278
BALANCE AT DECEMBER 31, 2012	20,458,048	$	204	$	16,204,068	$	(15,000,076)	$	(23,629)	$	1,180,567
Common Stock Issued for Cash	5,764,774		58		5,816,741						5,816,799
Costs of Capital					(606,320)						(606,320)
Stock Based Compensation					336,402						336,402
Conversion of Debt to Stock	167,000		2		175,698						175,700
Common Stock Issued for Services	80,000		-		182,072						182,072
Exercise of options	252,190		3		245,341						245,344
Net Loss							(6,801,714)				(6,801,714)
Comprehensive Loss									(7,041)		(7,041)
BALANCE AT DECEMBER 31, 2013	26,722,012	$	267	$	22,354,002	$	(21,801,790)	$	(30,670)	$	521,809

See accompanying Notes to Financial Statements.

IVEDA SOLUTIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$ (6,801,714)	$ (3,841,927)
Adjustments to Reconcile Net Loss to Net Cash		
Used by Operating Activities		
Depreciation and Amortization	221,902	218,229
Amortization of Debt Discount	9,096	-
Stock Compensation	336,402	248,072
Bad Debt Expense	349,202	38,166
Common stock issued for services	222,206	123,940
Impairment of Goodwill	841,000	-
Provision for obsolete inventory	-	28,480
(Increase) Decrease in Operating Assets:		
Accounts Receivable	1,183,456	(1,008,503)
Inventory	(212,921)	(68,375)
Other Current Assets	(126,551)	(516,905)
Accounts and Other Payables	366,506	1,451,120
Net cash used in operating activities	(3,611,416)	(3,327,703)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash Acquired in Acquisition	-	-
Purchase of Property and Equipment	(157,230)	(338,825)
Net cash (used in) investing activities	(157,230)	(338,825)
CASH FLOWS FROM FINANCING ACTIVITIES		
Changes in Restricted Cash	(736,970)	(385,112)
Proceeds from (Payments on) Short-term Notes Payable/Debt	(57,511)	604,856
Proceeds from (Payments to) Related Parties	(245,002)	456,989
Proceeds from (Payments on) Long-term Debt	(35,004)	52,680
Deferred Finance Costs, Net	(161,657)	-
Proceeds from Exercise of Stock Options	245,344	-
Common Stock Issued, net of Costs of Capital	5,210,479	2,189,189
Net cash provided by financing activities	4,219,679	2,918,602
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(5,766)	12,024
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	445,267	(735,902)
Cash and Cash Equivalents - Beginning of Year	114,462	850,364
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 559,729	$ 114,462
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Common Stock issued for convertible debt and interest	$ 147,500	$ -
Interest Paid	$ 80,863	$ 79,758

Establishment of derivative liability	$	39,804	$	-
Discount on convertible debt	$	27,608	$	-
Issuance of common stock as consideration for payment of Loan payable	$	30,000	$	-
Common Stock warrants issued as deferred finance costs	$	11,955	$	-

See accompanying Notes to Financial Statements.

IVEDA SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Iveda Solutions, Inc. (formerly Iveda Corporation) (the "Company") began operations on January 24, 2005, under the name IntelaSight, Inc., a Washington corporation doing business as Iveda Solutions ("IntelaSight"). On October 15, 2009, IntelaSight completed a reverse merger with Charmed Homes, Inc., a Nevada corporation ("Charmed") pursuant to which IntelaSight became a wholly-owned subsidiary of Charmed and Charmed changed its name to Iveda Corporation. Prior to the reverse merger, Charmed was a shell company and did not have any operations.

All Company operations were conducted through IntelaSight until December 31, 2010, at which time IntelaSight merged with and into Iveda Corporation and Iveda Corporation changed its name to Iveda Solutions, Inc.

The Company installs video surveillance equipment, primarily for security purposes, and provides video hosting, archiving and real-time remote surveillance services to a variety of businesses and organizations throughout the United States.

On April 30, 2011, the Company completed its acquisition of Sole-Vision Technologies, Inc (doing business as MegaSys) ("MegaSys"). MegaSys was incorporated in the Republic of China (Taiwan) on July 5, 1999. MegaSys designs and integrates electronic security and surveillance products, software, and services.

Consolidation

The consolidated financial statements include the accounts of the Company and MegaSys through December 31, 2013. 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. The Company generated accumulated losses of approximately $21.8 million from January 2005 through December 31, 2013 and has insufficient working capital and cash flows to support operations. These factors raise substantial doubt about the Company's 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:

- In December 2013, the Board of Directors also approved the Company to raise up to an aggregate amount of $3.6 million in bridge financing through the sale of Convertible Debentures in advance of the long-term financing.

- The Company successfully raised $1,735,000 through March 14, 2014 in convertible debentures and warrants in a private placement memorandum offering and will continue efforts of this nature during 2014 as deemed necessary.

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The Board of Directors approved the Company to engage with a financial capital markets advisor in connection with a potential capital financial transaction to raise up to $30 million (“Long Term Financing”).

- 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 recently developed two other standalone services:
  - IvedaMobile a cloud-hosting service that turns any smartphone or tablet into a mobile, cloud video streaming device. This was developed with ITRI.

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 IvedaXchange In collaboration with a technology partner, the Company developed a real-times 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.

- In November 2013, Iveda hired Bob Brilon as our chief financial officer and executive vice president of business development. He has strong ties with the investment community and has extensive experience in mergers and acquisitions, strategic growth planning, and interacting with domestic and foreign institutional investors, which will be instrumental to our market expansion, global distribution of our cloud video hosting platform and services, and raising capital to fund our growth. In February 2014, he was also appointed as the Company’s president.

- 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.

IVEDA SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

Impairment of Long-Lived Assets

The Company has a significant amount of property and equipment primarily consisting of leased equipment. The Company reviews the recoverability of the carrying value of long-lived assets using the methodology prescribed in ASC 360 "Property, Plant and Equipment." The Company reviews our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of long-lived assets to be held and used is measured by a comparison of the carrying amount of an asset to the undiscounted future net operating cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying value of the assets exceeds their fair value. The Company did not make any impairment for the years ended December 31, 2013 and 2012.

Basis of Accounting

The Company’s financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Revenue and Expense Recognition

Company recognizes revenue when persuasive evidence of an arrangement exists, title transfer has occurred, the price is fixed or readily determinable, and collectability is reasonably assured. The Company recognizes revenue in accordance with ASC 605, "Revenue Recognition." Sales are recorded net of sales returns and discounts, which are estimated at the time of shipment based upon historical data.

Revenues from services are recognized when the services are provided. Expenses are recognized as incurred.

Revenues from fixed-price equipment installation contracts are recognized on the percentage-of-completion method. The percentage completed is measured by the percentage of costs incurred to date to estimated total costs for each contract. This method is used because management considers expended costs to be the best available measure of progress on these contracts. Because of inherent uncertainties in estimating costs and revenues, it is at least reasonably possible that the estimates used will change.

IVEDA SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

Contract costs include all direct material, subcontractors, labor costs, and equipment costs and those indirect costs related to contract performance. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Changes in estimated job profitability resulting from job performance, job conditions, contract penalty provisions, claims, change orders, and settlements are accounted for as changes in estimates in the current period. Profit incentives are included in revenues when their realization is reasonably assured. Claims are included in revenues when realization is probable and the amount can be reliably estimated.

Comprehensive loss

Comprehensive loss is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income are required to be reported in a financial statement that is presented with the same prominence as other financial statements. The Company’s current component of other comprehensive income is the foreign currency translation adjustment.

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. Two customers in 2013 represented approximately 54% of total revenues and one customer in 2012 represented approximately 69% of total revenues. The net accounts receivable from this customer was approximately 0% of total accounts receivable as of December 31, 2013. No other customers represented greater than 10% of total revenues in 2013 and 2012.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

IVEDA SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

Accounts Receivable

The Company provides an allowance for doubtful collections which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. For our US operation, receivables past due more than 120 days are considered delinquent. For our Taiwan operation, receivables over one year are considered delinquent. Delinquent receivables are written off based on individual credit valuation and specific circumstances of the customer. As of December 31, 2013 and 2012 respectively, an allowance for uncollectible accounts of $31,594 and $22,554 was deemed necessary for our US Operation. As of December 31, 2013 and 2012, respectively, an allowance of $465,933 and $116,315 was established against the receivables in our foreign corporation. The Company does not generally charge interest on past due receivables.

Trade receivables, net are comprised of the following:

	2013		2012	
Trade receivables, gross	$	870,114	$	2,097,668
Allowance for doubtful accounts		(497,527)		(138,869)
Trade receivables, net	$	372,587	$	1,958,799

Other Current Assets

Other current assets are comprised of the following:

	2013		2012	
Notes receivables	$	3,413	$	6,255
Restricted cash		1,160,688		447,206
Deposits-current		135,727		415,108
Prepaid expenses and other current assets		156,065		224,365
Other current assets	$	1,455,893	$	1,092,934

Notes Receivable

Notes receivable represents post-dated checks collected from customers in Taiwan. The Company provides an allowance for doubtful accounts which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. For our Taiwan operation, notes receivables over 90 days are considered delinquent. Delinquent receivables are written off based on individual credit valuation and specific circumstances of the customer. As of December 31, 2013 and 2012, no allowance for doubtful accounts was deemed necessary for our Taiwan operation. The company does not generally charge interest on notes receivable.

Deposits Current

The Company's current deposits represent tender deposits placed with local governments and major customers in Taiwan during the bidding process for new proposed projects.

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets represent cash paid in advance to insurance companies and vendors for service coverage extending into 2014. It also includes some other receivables as the result of travel advances due from employees.

Inventories

Inventories consists of equipment purchased for installation projects and is recorded at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment are stated at cost. Depreciation is computed primarily using the straight-line method over the estimated useful lives of three to seven years. Expenditures for routine maintenance and repairs are charged to expense as incurred. Depreciation expense for the years ended December 31, 2013 and 2012 was $201,298 and $197,557, respectively.

IVEDA SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

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 of six months to ten years. Other intangible assets are fully amortized at December 31, 2013. Future amortization of Trademarks is as follows:

Trademarks	
2014	$ 20,000
2015	$ 20,000
2016	$ 20,000
2017	$ 20,000
Thereafter	$ 66,667

Goodwill represents the excess of the purchase price of MegaSys over the net assets acquired.

We allocate goodwill to reporting units based on the reporting unit expected to benefit from the business combination. We evaluate our reporting units on an annual basis and, if necessary, reassign goodwill using a relative fair value allocation approach. Goodwill is tested for impairment at the reporting unit level on an annual basis and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. These events or circumstances could include a significant change in the business climate, legal factors, operating performance indicators, competition, or sale or disposition of a significant portion of a reporting unit.

Application of the goodwill impairment test requires judgment. We first assess qualitative factors to determine whether it is more likely than not that goodwill is impaired. If the more likely than not threshold is met, we perform a quantitative impairment test. At December 31, 2013, the Company determined that goodwill was impaired and has recorded an impairment of $841,000.

Other Assets

Other assets are comprised of the following:

	2013		2012	
Deposits- long-term	$	10,836	$	10,836
Deferred tax assets		160,198		94,785
Deferred Finance Costs (Net of Amortization)		170,718		-
Other assets	$	341,752	$	105,621

Deposits- long-term

Long-term deposits consists of our security deposit held by Landlord under the First Amendment to Lease effective July 1, 2011 for our domestic office space.

IVEDA SOLUTIONS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2013 AND 2012

Income Taxes

Deferred income taxes are recognized in the financial statements for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts based on enacted tax laws and statutory tax rates. Temporary differences arise from sales cut-off, depreciation, deferred rent expense, and net operating losses. Valuation allowances are established when necessary to reduce deferred tax assets to the amount that represents the Company's best estimate of such deferred tax assets that, more likely than not, will be realized. Income tax expense is the tax payable for the year and the change during the year in deferred tax assets and liabilities. During 2013, the Company reevaluated the valuation allowance for deferred tax assets and determined that no current benefits should be recognized for the year ended December 31, 2013 for our U.S. operation. However, a benefit of $160,198 is recorded on the balance sheet for our Taiwan business. See Note 9 for more information.

The Company is subject to U.S. federal income tax as well as state income tax.

The Company’s U.S. income tax returns are subject to review and examination by federal, state, and local authorities. The U.S. tax returns for the years 2010 to 2012 are open to examination by federal, local, and state authorities.

The Company’s Taiwan tax returns are subject to review and examination by Taiwan Ministry of Finance. The Taiwan tax return for the years 2008 to 2012 are open to examination of Ministry of Finance.

Restricted cash

Restricted cash represents time deposits on account to secure short-term bank loans in our foreign operation.

Accounts and Other Payables

Accounts and other payables are comprised of the following:

	2013		2012	
Accounts Payable	$	688,130	$	673,173
Accrued Expenses		1,651,419		1,674,258
Income Tax Payable		2,183		53,784
Deferred Revenue		16,970		55,573
Accounts and Other Payables	$	2,358,702	$	2,456,788

Deferred Revenue

Deposits received from customers on future installation projects are recorded as deferred revenue.

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Stock-Based Compensation

On January 1, 2006, the Company adopted the fair value recognition provisions of ASC 718, *Share-Based Payment* , which requires the recognition of an expense related to the fair value of stock-based compensation awards. The Company elected the modified prospective transition method as permitted by ASC 718. Under this transition method, stock-based compensation expense for the years ended December 31, 2012 and 2011 includes compensation expense for stock-based compensation granted on or after the date ASC 718 was adopted based on the grant-date fair value estimated in accordance with the provisions of ASC 718. The Company recognizes compensation expense on a straight-line basis over the requisite service period of the award. The fair value of stock-based compensation awards granted prior to, but not yet vested as of December 31, 2013 and 2012, were estimated using the “minimum value method” as prescribed by original provisions of ASC 718, *Accounting for Stock-Based Compensation* , therefore, no compensation expense is recognized for these awards in accordance with ASC 718. The Company recognized $336,402 and $248,072 of stock-based compensation expense for the years ended December 31, 2013 and 2012, respectively.

Fair Value of Financial Instruments

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of December 31, 2013 and 2012. The respective carrying value 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 they are short term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand.

Segment Information

The Company conducts operations in various geographic regions outside the United States. The operations and the customer base conducted in the foreign countries are similar to the United States operations. The net revenues and net assets (liabilities) for other significant geographic regions outside the United States are as follows:

	Net Revenues		Net Assets	
United States	$	487,475	$	562,264
Asia	$	2,607,501	$	(40,455)
Mexico	$	250,241	$	-

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.

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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 company has a chief operating decision maker and management personnel which review their company’s performance as it relates to revenue, operating profit and operating expenses.

	Twelve Months Ending Dec. 31, 2013 Iveda Solutions, Inc.		Twelve Months Ending Dec. 31, 2013 MegaSys		Condensed Consolidated Total	
Revenue	$	737,716	$	2,607,501	$	3,345,217
Cost of Revenue		731,770		1,997,580		2,729,350
Gross Profit		5,946		609,921		615,867
Depreciation and Amort.		210,787		11,115		221,902
General & Administrative		5,464,288		888,492		6,352,780
Impairment of Goodwill		841,000		-		841,000
(Loss) from Operations		(6,510,129)		(289,686)		(6,799,815)
Other Income (Expense)		(76,686)		5,451		(71,235)
(Loss) Before Income Taxes		(6,586,815)		(284,235)		(6,871,050)
Benefit For Income Taxes		-		69,336		69,336
Net Loss	$	(6,586,815)	$	(214,899)	$	(6,801,714)

Revenues as shown below represent sales to external customers for each segment. Intercompany revenues have been eliminated and are immaterial for separate disclosure.

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.

	December 31, 2013		2012	
Revenues				
United States	$	737,715	$	767,841
Republic of China (Taiwan)		2,672,928		2,843,889
Elimination of intersegment revenues		(65,426)		(2,732)
	$	3,345,217	$	3,608,998

	December 31, 2013		2012	
Operating earnings (loss)				
United States	$	(6,510,129)	$	(3,348,419)
Republic of China (Taiwan)		(289,686)		(495,830)
Elimination of intersegment profit		-		(703)
	$	(6,799,815)	$	(3,844,952)

	December 31, 2013		2012	
Property and equipment				
United States	$	437,410	$	488,648
Republic of China (Taiwan)		33,772		28,333
	$	471,182	$	516,981

	December 31, 2013	2012	
Additions to long-lived assets			
United States	$ 129,222	$	333,432
Republic of China (Taiwan)	28,008		5,393
	$ 157,230	$	338,825

	December 31, 2013		2012	
Inventory				
United States	$	126,403	$	26,794

Republic of China (Taiwan)		205,034		96,227
	$	331,437	$	123,021

	December 31, 2013		2012	
Total Assets				
United States	$	1,175,874	$	1,727,017
Republic of China (Taiwan)		2,503,372		3,192,467
	$	3,679,246	$	4,919,484

Reclassification

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

New Accounting Standards

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. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

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. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, Intangibles Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. The objective of the measure is to reduce the cost and complexity associated with performing an impairment test for indefinite-lived intangible assets and to make the impairment test similar to the recent changes for testing goodwill for impairment (ASU 2011-08). ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 and early adoption is permitted. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

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NOTE 2 RELATED PARTIES

	2013	2012
On June 20, 2012, the Company entered into a convertible debenture agreement with a Board Member for $200,000. Interest is payable at 12% per annum, payable on the maturity date of June 20, 2013. The Company issued warrants to purchase 20,000 shares of the Company Stock, at an exercise price of $ 1.00. Accordingly, the Company recognized a discount of $16,789 on the principal value of the $200,000 and is amortizing the discount over the 12 month term of the debenture. The debenture is convertible into shares of Company Common Stock on or before the Maturity Date, at a conversion rate of $1.00 per share. On June 20, 2013, the Company paid off, in full, this debenture which totaled $200,000 plus $24,000 interest.	-	$ 200,000
On September 26, 2011, the Company entered into a $45,000 promissory note agreement with one of its shareholders. Interest on the note will be payable in 45,000 warrants at a $1.10 exercise price, exercisable within three years of issuance. On October 24, 2011, the Board of Directors approved the issuance of the warrants. Accordingly, the Company recognized a discount of $16,909 on the principal value of the $45,000 note payable and is amortizing the discount over the 12 month life of the note. On September 25, 2012 a Promissory Note Extension Agreement was signed to extend the maturity date of one of the $45,000 notes to March 25, 2013. On May 14, 2013, the Company paid off, in full, this promissory note which totaled $45,000 plus $3,417.53 interest.	-	$ 45,000
On November 19, 2012, the Company entered into a separate convertible debenture agreement with a different Board Member for $100,000. 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. 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.	100,000	$ 100,000
On December 20, 2013, the Company entered into a Convertible Debenture with an officer for $75,000 which includes warrants to purchase 6,818 shares of the Company stock , at an exercise price of $1.65. Accordingly, the Company recognized a discount of $4,886 on the principal value of $75,000 and is amortizing the discount over the three year term of the debenture.	75,000	-
Total Due to Related Parties	175,000	345,000
Less Current Portion	(100,000)	(336,605)
Less: Debt Discount	(4,886)	(8,395)
Total Long-Term	$ 70,114	$ -

NOTE 3 SHORT-TERM DEBT

Two short-term bank loans were initiated on September 28, 2012 and November 26, 2012, due and payable on May 31, 2014 and November 26, 2014 respectively. The short-term debt balances were as follows:

	2013	2012
Loan from Shanghai Commercial & Savings at an interest rate at 5.5% per annum, due on November 26, 2014	$ 60,291	$ 132,097
Loan from Chailease Bank at various interest rates ranging from 1% per annum to 3.24%. Due on May 31, 2014	-	488,025
Notes Payable	-	182,839
Balance at end of year	$ 60,291	$ 802,122

NOTE 4 CONVERTIBLE DEBENTURES

In December 2013, the Company sold $425,000 5 year debentures, convertible at any time into common stock at $1.50 per share. The debentures bear interest at 9.5% interest payable in cash or stock, at maturity. The debentures included 38,636, 5-year warrants exercisable at $1.65. The Company paid $111,657 in cash and issued 38,636 warrants (equal to $3,313 on the issue date) for financing costs; these deferred costs have been capitalized to Other assets in the accompanying balance sheets, and are being amortized to interest expense using the effective interest method over the 5 year life of the debt. The fair value of the conversion option and warrants on the date issued to the debenture holders totaled $27,608, is discounted from the carrying value of the debenture and amortized into interest expense over the 5 year life of the debt using the effective interest method. At December 31, 2013, the carrying value of the Convertible debentures totaled $397,852, net of the $27,148 debt discount, and accrued interest totaled $2,096. The company expects to amoritize approximately $49,500 into interest expense in each of the next 5 years reducing the related deferred costs and debt discount. Principal and all accrued interest is due at maturity, but can be repaid at any time with no penalty.

The fair value of the conversion option and detachable warrants is carried on the face of of the accompanying Balance Sheet as Derivative Liability and totaled $39,804 as of December 31, 2013. Any change in fair value of the derivative liability is reported as a gain or loss on derivative liability in the accompanying statement of operations. The company recognized a loss on the derivative of $241 during the year ended December 31. 2013.

In conjuntion with the debenture offering, the Company accrued contingent payments due to third parties totaling $50,000 in cash and 100,000 warrants (with a fair value of $8,642 at December 31, 2013) due if certain funding levels are achieved.

NOTE 5 FAIR VALUE MEASUREMENTS

We apply fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is estimated by applying the following hierachy, which prioritizes the inputs used to measure the fair value into three levels and bases the categorization within the hierarchy upon the lowest l evel of input that is available and significant to the fair value measurements.

Level I - Quoted prices in an active market for identical assets or liabilities

Level II - Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets and liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level III - Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

The carrying amounts for cash, accounts payable, accrued expenses, short term debt, approximate their fair values due to the short period of time until maturity.

The fair value of the convertible option and debenture warrants are measured by using the Black-Scholes option-pricing model. As of December 31, 2013, the assumptions used to measure fair value of the liability embedded in our debenture included a conversion price of $1.50, and our freestanding debenture warrants included a warrant exercise price of $1.65 per share, a common share price of $1.10, a discount rate of 1.75%, December 2018 maturity, and a volatility of 20.76%.

The following table sets forth, by level within the fair value hierarchy, our financial instrument liabilities as of December 31, 2013:

	Level I Quoted Prices	Level II Observable Inputs	Level III Unobservable Inputs	Total
Derivative liability	$ -	$ -	$ 39,804	$ 39,804

No financial instrument liabilities were present as of December 31, 2012.

The following table sets forth a summary of changes in the fair value of our Level 3 financial instrument liability for the year ended December 31, 2013.

Beginning Balance	$ -
Issued	39,563
(Gains) losses during the period	241
Settlements	-
Ending Balance	$ 39,804

NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following:

	2013	2012

Loan from Chailease Finance Co., Ltd. with an interest rate at 5% per annum, due on May 30, 2015	$	135,208		-
Loan from Taipei Fubon Bank with an interest rate at 5.5% per annum, due on November 26, 2014		62,942	$	140,764
Other loan		2,638		2,638
Convertible debenture		350,000		-
		550,788		143,402
Less: Current portion		(164,156)		(75,707)
Less: Debt discount		(22,262)		-
	$	364,370	$	67,695

The future principal payments under the bank loans are as follows:

For the year ended December 31,	
2014	$ 164,156
2015	36,632
2016	350,000
Total	$ 550,788

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NOTE 7 OPERATING LEASES

The Company leases its office facilities under a non-cancelable operating lease expiring October 2016 that requires minimum monthly payments ranging from $8,669 to $10,836. Rent expense was $107,885 and $95,635 for the years ended December 31, 2012 and 2011, respectively. The Company also has two non-cancellable data center service agreements for approximately $7,298 and $2,575 per month, expiring September 2014. The company has a third non-cancellable data center service agreement for approximately $5,826, expiring March 2015. Data center services expense was $192,181 and $170,776 for the years ended December 31, 2013 and 2012, respectively, and is included as a component of Cost of Revenue in the Statement of Operations.

Future minimum lease payments under these leases are as follows:

2014	$	330,451
2015		144,563
2016		113,835
Total	$	588,849

NOTE8 PREFERRED STOCK

The Company has the authority to issue 100 million shares of preferred stock with a par value of $0.00001 per share and may be divided into and issued in series. The Board of Directors is authorized, within any limitations prescribed by law and the Company's Article of Incorporation to fix and determine the designations, rights, qualifications, preferences, limitations and terms of the shares of any series of Preferred Stock.

NOTE 9 EQUITY

Common Stock

During 2012, the Company raised $2,426,319 in a private placement of shares at $1.00 per share. Costs associated with this raise totaled $317,465. The mix of investors include 21 individuals, 3 trusts and 4 corporations.

During 2013, the Company raised $5,093,799 in a private placement of shares at $1.00 per share and $723,000 at $1.10 per share. Costs associated with this raise totaled $606,320. The mix of investors includes 51 individuals, 12 trusts and 24 corporations.

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NOTE 10 STOCK OPTION PLAN AND WARRANTS

Stock Options

On October 15, 2009, the Company adopted the 2009 Stock Option Plan (the “2009 Option Plan”), pursuant to which it may grant equity awards to eligible persons. The 2009 Option Plan allows the Company’s Board of Directors (the “Board”) to grant options to purchase up to 1,500,000 shares of common stock to directors, officers, key employees, and service providers of the Company. As of December 31, 2013, options to purchase 938,039 shares were outstanding under the 2009 Option Plan.

On January 18, 2010, the Company adopted the 2010 Stock Option Plan (the “2010 Option Plan”), which allows the Board to grant options to purchase up to 1,000,000 shares of common stock to directors, officers, key employees, and service providers of the Company. In 2011, the 2010 Option Plan was amended to increase the number of shares issuable under the 2010 Option Plan to 3,000,000 shares. The shares under the 2010 Option Plan are registered with the SEC under Forms S-8 filed on February 2, 2010 and June 24, 2011. As of December 31, 2013, options to purchase 4,755,283 shares were outstanding under the 2010 Option Plan.

Stock options may be granted as either incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), or as options not qualified under Section 422 of the Code. All options are issued with an exercise price at or above the fair market value of the common stock on the date of the grant as determined by the Company's Board of Directors. Incentive stock option plan awards of restricted stock are intended to qualify as deductible performance-based compensation under Section 162(m) of the Code. Incentive Stock Option awards of unrestricted stock are not designed to be deductible to the Company under Section 162(m). Under the Plan, stock options will terminate on the tenth anniversary date of the grant or earlier if provided in the grant.

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The Company has also granted non-qualified stock options to employees and contractors. All non-qualified options are generally issued with an exercise price that may not be less than the fair value of the common stock on the date of the grant as determined by the Company's Board of Directors. 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 up to four 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 expense on the straight-line basis over the options' vesting periods. The Company has unrecognized stock-based compensation with a weighted-average term of approximately 3 years of $486,750 at December 31, 2013.

Stock option transactions during 2013 and 2012 were as follows:

	2013		2012	
	Shares	Weighted - Average Exercise Price	Shares	Weighted - Average Exercise Price
Outstanding at Beginning of Year	5,038,512	$ 0.91	3,663,179	$ 0.81
Granted	1,169,500	1.74	1,529,333	1.16
Exercised	(252,190)	..97	-	-
Forfeited or Canceled	(262,500)	1.08	(154,000)	1.01
Outstanding at End of Year	5,693,322	1.07	5,038,512	0.91
Options Exercisable at Year-End	4,449,986	1.37	3,748,003	1.22
Weighted-Average Fair Value of Options Granted During the Year	$ 0.37		$ 0.28	

Information with respect to stock options outstanding and exercisable at December 31, 2013 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at December 31, 2013	Weighted - Average Remaining Contractual Life	Weighted - Average Exercise Price	Number Exercisable At December 31, 2013	Weighted - Average Exercise Price
$0.10 - $1.80	5,693,322	7.5 Years	$ 1.07	4,449,986	$ 1.37

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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		2012	
Expected Life	5 Years		5 Years	
Dividend Yield	0	%	0	%
Expected Volatility	25	%	26	%
Risk-Free Interest Rate	1.36	%	..80	%

Expected volatility for 2013 and 2012 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 the actual expiration date of the grant.

Warrants

The Company has also periodically issued warrants to purchase shares of common stock as equity compensation to officers, directors, employees, and consultants.

As of December 31, 2013, warrants to purchase 3,883,641 shares of common stock were outstanding, all of which were issued either as equity compensation or in connection with financing transactions. Warrants may be exercised between a range of two to ten years following the date of the grant, with vesting schedules determined by the Company upon issue. Vesting periods range from 100% fully vested upon grant to four years. The fair value of warrants is determined using the Black-Scholes option-pricing model. The estimated fair value of warrants is recognized as expense on the straight-line basis over the warrants' vesting periods.

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Stock warrant transactions for 2013 and 2012 were as follows:

	2013		2012	
	Shares	Weighted - Average Exercise Price	Shares	Weighted - Average Exercise Price
Outstanding at Beginning of year	2,797,219	$ 1.33	1,612,778	$ 0.77
Granted	1,086,422	1.24	1,434,441	1.07
Exercised	-	0.00	-	0.00
Forfeited or Canceled	-	0.00	(250,000)	1.00
Outstanding at end of Year	3,883,641	1.00	2,797,219	1.33
Warrants Redeemable at End of Year	3,883,641	1.00	2,797,219	1.33
Weighted-Average Fair Value of Warrants Issued During the Year	$ 0.33		$ 0.31	

Information with respect to warrants outstanding and exercisable at December 31, 2013 is as follows:

	Warrants Outstanding			Warrants Redeemable	
Range of Exercise Prices	Number Outstanding at December 31, 2013	Weighted - Average Remaining Contractual Life	Weighted - Average Redemption Price	Number Redeemable at December 31, 2013	Weighted - Average Redemption Price
$0.10 - $1.65	3,883,641	2.6 Years	$ 1.00	3,883,641	$ 1.00

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

	2013		2012	
Expected Life	3.8		3.8	
Dividend Yield	0	%	0	%
Expected Volatility	21	%	24	%
Risk-Free Interest Rate	1.25	%	1.65	%

Expected volatility 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 warrants is based on the average of three public companies offering services similar to the Company.

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NOTE 11 INCOME TAXES

U.S. FEDERAL CORPORATE INCOME TAX

Temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities and tax credit and operating loss carryforwards that create deferred tax assets and liabilities are as follows:

	2013		2012	
Tax Operating Loss Carryforward - USA	$	6,830,000	$	4,665,000
Accelerated Depreciation USA		(61,300)		(57,900)
Valuation Allowance - USA		(6,768,700)		(4,607,100)
	$	-	$	-

The valuation allowance increased approximately $2,100,000, primarily as a result of the increased net operating losses of the operation in the USA.

As of December 31, 2013, the Company has federal net operating loss carryforwards for income tax purposes of approximately $17,000,000 which will begin to expire in 2025. The Company also has Arizona, California and Minnesota net operating loss carryforwards for income tax purposes of approximately $9,624,000, $1,890,000 and $105,000 which will begin to expire in 2013. These carryforwards have been utilized in the determination of the deferred income taxes for financial statement purposes. The following table accounts for federal net operating loss carryforwards only.

Year Ending December 31,	Net Operating Loss:		Year of Expiration:
2013	$	5,600,000	2033
2012		2,850,000	2032
2011		2,427,000	2031
2010		1,799,000	2030
2009		1,750,000	2029
2008		1,308,000	2028
2007		429,000	2027
2006		476,000	2026
2005		414,000	2025
	$	17,053,000	

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The tax provision differs from the expense that would result from applying Federal statutory rates to income before income taxes due to the effect of state income taxes and because certain expenses are deducted for financial reporting that are not deductible for tax purposes.

	2013		2012	
Tax Benefit of 34%	$	(2,300,000)	$	(1,148,400)
Increase (Decrease) in Income Taxes Resulting from:				
State Income Tax Benefit, Net of Federal Tax		(245,631)		(134,458)
Nondeductible Expenses		1,126,943		175,851
Valuation Allowance		1,418,688		1,107,007
Total	$	-	$	-

TAIWAN (REPUBLIC OF CHINA) CORPORATE TAX

Sole-Vision Technologies, Inc. is a subsidiary of the Company which is operating in Taiwan as a profit-seeking enterprise. Its applicable corporate income tax rate is 17%. In addition, Taiwan’s corporate tax system allows the government to levy a 10% profit retention tax on undistributed earnings for the prior year. This tax will not be provided if the company distributed the earnings before the ended of the fiscal year.

According to the Taiwan corporate income tax (“TCIT”) reporting system, the TCIT sales cut-off base is concurrent with the business tax classified as value-added type (“VAT”) which will be reported to the Ministry of Finance (“MOF”) on a bi-monthly basis. Since the VAT and TCIT are accounted for on a VAT tax basis that recorded all sales on business tax on a VAT tax reporting system, the Company is bound to report the TCIT according to the MOF prescribed tax reporting rules. Under the VAT tax reporting system, sales cut-off did not take the accrual base but rather on a VAT taxable reporting basis. Therefore, when the company adopted US GAAP on accrual basis, the sales cut-off TCIT timing difference which derived from the VAT reporting system will create a temporary sales cut-off timing difference and this difference is reflected in the deferred tax assets or liabilities calculations on the income tax estimation reported in the Form 10-K.

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Temporary differences between financial statement carrying amounts and the tax basis of assets and liabilities and VAT tax reporting system and operating loss carryforwards that create deferred tax assets and liabilities are as follows:

		December 31, 2013 US Dollar
Tax Operating Income	Taiwan	$ (21,267)
Temporary Difference:		
VAT reporting system	Sales cut-off	(63,123)
VAT reporting system	Cost & expenses cut-off	(87,192)
Provision of Bad Debt		(109,106)
Research & Development		(183,387)
Permanent Difference:		
Non-deductible expenses		(4,397)
Adjusted Net Loss Before Tax	Taiwan	$ (468,472)

Income tax expense (benefits) for the years ended December 31, 2013 and 2012 is summarized as followings:

	2013	2012
Current:		
Provision for Federal Income Tax (34%)	$	$
Provision for TCIT (17%)		6,007
Provision for Undistributed Earnings Tax (10%)		
Increase (Decrease) in Income Taxes Resulting from:		
Pre-acquisition TCIT		
Temporary Difference	1,580	(88,509)
Income Tax Expenses (Benefit)	$ 1,580	$ (82,502)

RECONCILIATION OF DEFERRED TAX ASSET/(LIABILITIES)

Deferred Tax Assets	2013
Balance at Beginning of Year	$ 94,785
Temporary Difference	(1,580)
Foreign currency difference	66,993
Balance at End of Year	$ 160,198

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NOTE 12 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, as required by ASC No. 260, "Earnings Per Share" ("EPS").

Basic EPS is computed by dividing reported earnings available to stockholders by the weighted average shares outstanding. The Company had net losses for the years ended December 31, 2013 and 2012 and the effect of including dilutive securities in the earnings per common share would have been anti-dilutive. Accordingly, all options, warrants and shares potentially convertible into common shares were excluded from the calculation of diluted earnings per share for the years ended December 31, 2013 and 2012. Total common stock equivalents that could be convertible into common stock were 9,860,296 and 7,835,731 for 2013 and 2012 , respectively.

	2013		2012	
Basic EPS				
Net Loss	$	(6,801,714)	$	(3,841,927)
Weighted Average Shares		24,735,921		19,077,341
Basic Loss Per Share	$	(0.27)	$	(0.20)

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NOTE 13 CONTINGENT LIABILITIES

As part of the terms of contracts with New Taipei City for projects performed during 2013, MegaSys is required to provide after-project services in accordance with the contract terms. If MegaSys were to fail provide these after-project services in the future, other parties of the related contract would have recourse. The financial exposure to MegaSys in the event of failure to provide after-project services in the future total $2,041,571.

NOTE 14 SUBSEQUENT EVENTS (UNAUDITED)

Since January 1, 2014 through March 14, 2014 the Company has raised $1,310,000 through a private placement memorandum of Convertible Debentures with warrants that began in December 2013.

The Company has evaluated subsequent events from the balance sheet date through the date the financial statements were issued and determined that there are no additional items to disclose.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on March 31, 2014.

IVEDA SOLUTIONS, INC.

By: /s/ David Ly
David Ly
Chief Executive Officer,
(Principal Executive Officer)

Pursuant to the requirements of Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 31, 2014.

/s/ David Ly David Ly	Chief Executive Officer and Director (Principal Executive Officer)
/s/ Robert Brilon Robert Brilon	Chief Financial Officer, President and Treasurer (Principal Financial and Accounting Officer)
/s/ Joseph Farnsworth Joseph Farnsworth	Director
/s/ Gregory Omi Gregory Omi	Director
/s/ James D. Staudohar James D. Staudohar	Director
/s/ Chen-Ho (Alex) Kuo Chen-Ho (Alex) Kuo	Director
/s/ Robert Gillen Robert Gillen	Director
/s/ Alejandro Franco Alejandro Franco	Director