

Iveda Solutions, Inc.  
Form 424B3  
August 14, 2015

**Filed Pursuant to Rule 424(b)(3)**

**Registration No. 333-202787**

**Prospectus Supplement No. 4 dated August 14, 2015**

(To Prospectus dated May 12, 2015)

**17,949,841 Shares**

### **Common Stock**

This Prospectus Supplement supplements and amends the Prospectus dated May 12, 2015 (the “Prospectus”), relating to the resale of up to 17,949,841 outstanding shares of common stock of Iveda Solutions, Inc. (the “Company”) by the selling stockholders identified in the Prospectus.

This Prospectus Supplement is being filed to include the information set forth in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, filed by the Company with the Securities and Exchange Commission on August 14, 2015 (the “Form 10-Q”). The Form 10-Q is attached hereto.

This Prospectus Supplement is not complete without, and may not be delivered or utilized except in connection with the Prospectus, including any supplements and amendments thereto. This Prospectus Supplement should be read in conjunction with the Prospectus, which is to be delivered with this Prospectus Supplement. This Prospectus Supplement is qualified by reference to the Prospectus, except to the extent that the information in this Prospectus

Supplement updates or supersedes the information contained in the Prospectus, including any supplements and amendments thereto.

**See “Risk Factors” beginning on page 5 of the Prospectus to read about factors you should consider before buying shares of our common stock.**

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of the Prospectus. Any representation to the contrary is a criminal offense.**

The date of this Prospectus Supplement is August 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2015**

OR

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Commission File No. 000-53285

**IVEDA SOLUTIONS, INC.**

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of incorporation or organization)

20-2222203

(I.R.S. Employer Identification No.)

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1201 South Alma School Road, Suite 8500      85210  
Mesa, Arizona                                      (Zip Code)  
(Address of principal executive offices)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of August 11, 2015 there were outstanding 27,451,690 shares of the registrant's common stock, \$0.00001 par value.

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

|   | June 30,<br>2015<br>(Unaudited) | December<br>31,<br>2014<br>(Audited) |
|---|---------------------------------|--------------------------------------|
| <b>ASSETS</b>                               |                                 |                                      |
| <b>CURRENT ASSETS</b>                       |                                 |                                      |
| Cash and Cash Equivalents                   | \$684,554                       | \$87,900                             |
| Restricted Cash                             | 539,187                         | 979,095                              |
| Accounts Receivable, Net                    | 1,295,150                       | 358,804                              |
| Inventory, Net                              | 420,823                         | 387,918                              |
| Other Current Assets                        | 567,503                         | 647,659                              |
| Total Current Assets                        | 3,507,217                       | 2,461,376                            |
| <b>PROPERTY AND EQUIPMENT, NET</b>          | 365,693                         | 532,512                              |
| <b>OTHER ASSETS</b>                         |                                 |                                      |
| Intangible Assets, Net                      | 116,666                         | 126,666                              |
| Other Assets                                | 212,444                         | 364,320                              |
| Total Other Assets                          | 329,110                         | 490,986                              |
| Total Assets                                | \$4,202,020                     | \$3,484,874                          |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                                 |                                      |
| <b>CURRENT LIABILITIES</b>                  |                                 |                                      |
| Accounts and Other Payables                 | \$2,224,650                     | \$2,166,246                          |
| Due to Related Parties                      | 430,000                         | 575,000                              |
| Short Term Debt                             | 1,036,713                       | 1,080,500                            |
| Derivative Liability                        | 69,418                          | 112,009                              |
| Current Portion of Long-Term Debt           | -                               | 34,610                               |
| Total Current Liabilities                   | 3,760,781                       | 3,968,365                            |

|   |                 |                 |
|---|-----------------|-----------------|
| <b>LONG-TERM DIVIDENDS PAYABLE</b>  | 463,072         | 272,901         |
| <b>STOCKHOLDERS' EQUITY</b>   |                 |                 |
| Preferred Stock, \$0.00001 par value; 100,000,000 shares authorized   |                 |                 |
| Series A Preferred Stock, \$0.00001 par value; 10,000,000 shares authorized,<br>4,003,592 shares issued and outstanding as of June 30, 2015 and December 31, 2014                       | 40              | 40              |
| Series B Preferred Stock, \$0.00001 par value; 500 shares authorized, 302.5 and -0-<br>shares issued and outstanding as of June 30, 2015 and December 31, 2014,<br>respectively         | -               | -               |
| Common Stock, \$0.00001 par value; 100,000,000 shares authorized; 27,451,690 and<br>27,308,357 shares issued and outstanding as of June 30, 2015 and December 31, 2014,<br>respectively | 275             | 273             |
| Additional Paid-In Capital  | 30,017,724      | 27,261,762      |
| Accumulated Comprehensive Loss  | (33,519 )       | (35,615 )       |
| Less Notes Receivable from Stockholder  | (492,194 )      | (492,194 )      |
| Accumulated Deficit   | (29,514,159)    | (27,490,658)    |
| Total Stockholders' Equity (Deficit)  | (21,833 )       | (756,392 )      |
| <br>Total Liabilities and Stockholders' Equity  | <br>\$4,202,020 | <br>\$3,484,874 |

*See accompanying Notes to Condensed Consolidated Financial Statements*

**IVEDA SOLUTIONS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014**

|   | Three Months<br>Ended<br>June 30, 2015<br>(Unaudited) | Three Months<br>Ended<br>June 30, 2014<br>(Unaudited) | Six Months<br>Ended<br>June 30, 2015<br>(Unaudited) | Six Months<br>Ended<br>June 30, 2014<br>(Unaudited) |
|---|---|---|---|---|
| <b>REVENUE</b>                          |   |   |   |   |
| Equipment Sales                         | \$ 726,695  | \$ 191,705  | \$ 1,141,218  | \$ 402,016  |
| Service Revenue                         | 46,911  | 143,837   | 145,251   | 302,638   |
| Other Revenue                           | 1,955   | 15,720  | 14,915  | 21,472  |
| <b>TOTAL REVENUE</b>                    | <b>775,561</b>  | <b>351,262</b>  | <b>1,301,384</b>                                    | <b>726,126</b>                                      |
| <b>COST OF REVENUE</b>                  | <b>634,857</b>  | <b>313,867</b>  | <b>993,552</b>                                      | <b>524,401</b>                                      |
| <b>GROSS PROFIT</b>                     | <b>140,704</b>  | <b>37,395</b>   | <b>307,832</b>                                      | <b>201,725</b>                                      |
| <b>OPERATING EXPENSES</b>               | <b>967,788</b>  | <b>1,531,084</b>                                      | <b>1,983,727</b>                                    | <b>3,058,814</b>                                    |
| <b>LOSS FROM OPERATIONS</b>             | <b>(827,084 )</b>                                     | <b>(1,493,689 )</b>                                   | <b>(1,675,895 )</b>                                 | <b>(2,857,089 )</b>                                 |
| <b>OTHER INCOME (EXPENSE)</b>           |   |   |   |   |
| Foreign Currency Gain                   | 4,683   | 8,475   | 9,126   | 10,709  |
| Gain on Derivatives and Debt Conversion | 5,659   | 30,401  | 42,591  | 42,001  |
| Loss on Disposal of Assets              | (29,454 )   | -   | (29,454 )   | -   |
| Interest Income                         | 7,594   | 1,874   | 13,677  | 1,877   |
| Interest Expense                        | (28,894 )   | (119,949 )  | (66,925 )   | (175,953 )  |
| Total Other Income (Expense)            | (40,412 )   | (79,199 )   | (30,985 )   | (121,366 )  |
| <b>LOSS BEFORE INCOME TAXES</b>         | <b>(867,496 )</b>                                     | <b>(1,572,888 )</b>                                   | <b>(1,706,880 )</b>                                 | <b>(2,978,455 )</b>                                 |
| <b>(PROVISION) FOR INCOME TAXES</b>     | <b>(12,853 )</b>                                      | <b>(15,879 )</b>                                      | <b>(12,853 )</b>                                    | <b>(15,879 )</b>                                    |
| <b>NET LOSS</b>                         | <b>\$(880,349 )</b>                                   | <b>\$(1,588,767 )</b>                                 | <b>\$(1,719,733 )</b>                               | <b>\$(2,994,334 )</b>                               |
| <b>BASIC AND DILUTED LOSS PER SHARE</b> | <b>\$(0.03 )</b>                                      | <b>\$(0.06 )</b>                                      | <b>\$(0.06 )</b>                                    | <b>\$(0.11 )</b>                                    |
| <b>WEIGHTED AVERAGE SHARES</b>          | <b>27,380,701</b>                                     | <b>26,849,456</b>                                     | <b>27,344,729</b>                                   | <b>26,814,103</b>                                   |

*See accompanying Notes to Condensed Consolidated Financial Statements*





**IVEDA SOLUTIONS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS)**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015 AND 2014**

|  | Three<br>Months<br>Ended<br>June 30,<br>2015<br>(Unaudited) | Three Months<br>Ended<br>June 30, 2014<br>(Unaudited) | Six Months<br>Ended<br>June 30, 2015<br>(Unaudited) | Six Months<br>Ended<br>June 30, 2014<br>(Unaudited) |
|--|---|---|---|---|
| Net Loss   | \$ (880,349 )   | \$ (1,588,767 )                                       | \$ (1,719,733 )                                     | \$ (2,994,334 )                                     |
| Other Comprehensive Loss   |   |   |   |   |
| Change in Equity Adjustment from Foreign Currency<br>Translation, Net of Tax | 565   | 1,834   | 2,096   | 33  |
| Comprehensive Loss   | \$ (879,784 )   | \$ (1,586,933 )                                       | \$ (1,717,637 )                                     | \$ (2,994,301 )                                     |

*See accompanying Notes to Condensed Consolidated Financial Statements*

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

|  | Six Months Ended<br>June 30, 2015<br>(Unaudited) | Six Months Ended<br>June 30, 2014<br>(Unaudited) |
|--|--|--|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                |  |  |
| Net Loss   | \$ (1,719,733                                    | ) \$ (2,994,334 )                                |
| Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities |  |  |
| Depreciation and Amortization  | 109,302  | 110,952  |
| Amortization of Debt Discount  | -  | 13,152   |
| Amortization of Deferred Financing Costs                                   | -  | 41,227   |
| Gain on Derivatives and Debt Conversion                                    | (42,591  | ) (42,001 )                                      |
| Stock Option Compensation  | 84,000   | 195,000  |
| Bad Debt Expense   | 3,085  | 3,936  |
| Loss on Disposal of Assets   | 29,454   | -  |
| Inventory Valuation Allowance  | 1,000  | -  |
| Common Stock Warrants Issued for Interest                                  | 14,826   | -  |
| (Increase) Decrease in Operating Assets and Liabilities                    |  |  |
| Accounts Receivable  | (924,865   | ) (104,288 )                                     |
| Inventory  | (30,715  | ) (193,606 )                                     |
| Other Current Assets   | 93,989   | 9,821  |
| Other Assets   | (7,869   | ) -  |
| Accounts and Other Payables  | (46,905  | ) (271,636 )                                     |
| Net Cash Used in Operating Activities                                      | (2,437,022                                       | ) (3,231,777 )                                   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                |  |  |
| Purchase of Property and Equipment   | (5,055   | ) (214,378 )                                     |
| Proceeds from Sale of Equipment  | 5,353  | -  |
| Net Cash Provided by (Used in) Investing Activities                        | 298  | (214,378 )                                       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                |  |  |
| Changes in Restricted Cash   | 461,896  | 169,834  |
| Proceeds from (Payments on) Short-Term Notes Payable/Debt                  | (68,406  | ) 3,479,750                                      |
| Proceeds from Exercise of Stock Options                                    | -  | 8,636  |
| Proceeds from (Payments to) Due to Related Parties                         | (145,000   | ) 88,000   |
| Proceeds from Long-Term Debt, Net of Payments                              | (35,270  | ) (85,694 )                                      |
| Payments on Capital Lease Obligations                                      | -  | (1,961 )   |
| Payments on Dividends  | (2,956   | ) -  |
| Deferred Finance Costs, Net  | -  | (98,978 )  |
| Series B Preferred Stock Issued, Net of Cost of Capital                    | 2,821,482  | -  |

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|   |            |            |
|---|------------|------------|
| Net Cash Provided by Financing Activities                   | 3,031,746  | 3,559,587  |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>              | 1,632      | 439        |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | 596,654    | 113,871    |
| Cash and Cash Equivalents- Beginning of Period              | 87,900     | 559,729    |
| <b>CASH AND CASH EQUIVALENTS - END OF PERIOD</b>            | \$ 684,554 | \$ 673,600 |

*See accompanying Notes to Condensed Consolidated Financial Statements*

**IVEDA SOLUTIONS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED**

**FOR THE SIX MONTHS ENDED JUNE 30, 2015 AND 2014**

|   | Six Months<br>Ended<br>June 30, 2015<br>(Unaudited) | Six Months<br>Ended<br>June 30, 2014<br>(Unaudited) |
|---|---|---|
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                       |   |   |
| Interest Paid   | \$ 37,422   | \$ 18,339   |
| <b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b> |   |   |
| Discount on Convertible Debt  | \$ -  | \$ 112,784  |
| Establishment of Derivative Liability   | \$ -  | \$ 126,214  |
| Common Stock Issued for Investor Relations                                    | \$ 7,500  | \$ -  |
| Warrants Issued for Interest Expense  | \$ 7,327  | \$ -  |
| Warrants Issued as Deferred Finance Costs                                     | \$ -  | \$ 13,430   |

*See accompanying Notes to Condensed Consolidated Financial Statements*

**IVEDA SOLUTIONS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These statements should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2014. The operating results and cash flows for the six-month period ended June 30, 2015 are not necessarily indicative of the results that will be achieved for the full fiscal year ending December 31, 2015 or for future periods.

The accompanying condensed consolidated financial statements have been prepared without audit and reflect all adjustments, consisting of normal recurring adjustments, which are, in our opinion, necessary for a fair statement of the financial position and the results of operations for the interim periods. Preparing financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, and expenses. Estimates are used for, but not limited to, accounting for the allowance for doubtful accounts, impairment costs, depreciation and amortization, sales returns and discounts, warranty costs, uncertain tax positions and the recoverability of deferred tax assets, stock compensation, contingencies, and the fair value of assets and liabilities disclosed. Actual results and outcomes may differ from our estimates and assumptions. The statements have been prepared in accordance with GAAP and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such SEC rules and regulations.

The balance sheet at December 31, 2014 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

**Consolidation**

Effective April 30, 2011, we completed our acquisition of Sole Vision Technologies (dba MEGAsys), a company based in Taiwan. We consolidate our financial statements with the financial statements of MEGAsys. All intercompany balances and transactions have been eliminated in consolidation.

**Going Concern**

The accompanying condensed consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. Our Audit Report on the Consolidated Financial Statements for the year ended December 31, 2014 contained a going concern qualification. Since inception, we have generated an accumulated deficit from operations of approximately \$29.5 million at June 30, 2015 and have used approximately \$2.4 million in cash to fund operations through the six months ended June 30, 2015. As a result, a significant risk exists regarding our ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from this uncertainty.

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

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

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

We developed IvedaMobile<sup>®</sup> – a cloud-hosting service that turns any smartphone or tablet into a mobile, cloud video streaming device.

**IVEDA SOLUTIONS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

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

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

**Concentrations**

Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of cash and cash equivalents and trade accounts receivable.

Substantially all cash is deposited in two financial institutions, one in the United States and one in Taiwan. At times, amounts on deposit in the United States may be in excess of the 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 we are at risk to the extent such amount becomes uncollectible. We perform periodic credit evaluations of our customers’ financial condition and generally do not require collateral. U.S.-based segment revenue from two customers represented approximately 31% of total revenue for the six months ended June 30, 2015, and two customers represented approximately 83% of the total U.S.-based segment accounts receivable at June 30, 2015. Taiwan-based segment revenue from two customers represented approximately 72% of total revenue for the six months ended June 30, 2015, and two customers represented approximately 51% of total Taiwan-based segment accounts receivable at June 30, 2015.

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

Intangible assets consist of trademarks and other intangible assets associated with the purchase price allocation of MEGAsys. Such assets are being amortized over their estimated useful lives ranging from six months to ten years. Other intangible assets are fully amortized at June 30, 2015. Future amortization of trademarks is as follows:

|            |            |
|------------|------------|
| 2015       | \$ 10,000  |
| 2016       | 20,000     |
| 2017       | 20,000     |
| 2018       | 20,000     |
| Thereafter | 46,666     |
| Total      | \$ 116,666 |

**Fair Value of Financial Instruments**

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

**Derivative Financial Instruments**

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

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

**Segment Information**

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

|                            | June 30, 2015 |                          |
|----------------------------|---------------|--------------------------|
|                            | Net Revenue   | Net Assets (Liabilities) |
| United States              | \$ 148,235    | \$ 141,230               |
| Republic of China (Taiwan) | \$ 1,153,149  | \$ (163,063 )            |

Furthermore, due to operations in various geographic locations, we are susceptible to changes in national, regional, and local economic conditions, demographic trends, consumer confidence in the economy, and discretionary spending priorities that may have a material adverse effect on our future operations and results.

**IVEDA SOLUTIONS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

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

|                                 | Three Months<br>Ended June 30, 2015<br>Iveda | Three Months<br>Ended June 30, 2015<br>MEGAsys | Condensed<br>Consolidated<br>Total |
|---------------------------------|--|--|------------------------------------|
| Revenue                         | \$ 48,912                                    | \$ 726,649                                     | \$ 775,561                         |
| Cost of Revenue                 | 28,562                                       | 606,295  | 634,857                            |
| Gross Profit                    | 20,350                                       | 120,354  | 140,704                            |
| Depreciation and Amortization   | 48,067                                       | 4,111  | 52,178                             |
| General and Administrative      | 817,499                                      | 98,111   | 915,610                            |
| Gain (Loss) from Operations     | (845,216 )                                   | 18,132   | (827,084 )                         |
| Foreign Currency Gain           | 3,460  | 1,223  | 4,683                              |
| Gain on Derivatives             | 5,659  | -  | 5,659                              |
| Loss on Disposal of Assets, Net | (29,454 )                                    | -  | (29,454 )                          |
| Interest Income                 | 6,136  | 1,458  | 7,594                              |
| Interest Expense                | (18,818 )                                    | (10,076 )                                      | (28,894 )                          |
| Gain (Loss) Before Income Taxes | (878,233 )                                   | 10,737   | (867,496 )                         |
| Provision for Income Taxes      | -  | (12,853 )                                      | (12,853 )                          |
| Net Income (Loss)               | \$ (878,233 )                                | \$ (2,116 )                                    | \$ (880,349 )                      |

|                                 | Six Months<br>Ended June 30, 2015<br>Iveda | Six Months<br>Ended June 30, 2015<br>MEGAsys | Condensed<br>Consolidated<br>Total |
|---------------------------------|--|--|------------------------------------|
| Revenue                         | \$ 148,235                                 | \$ 1,153,149                                 | \$ 1,301,384                       |
| Cost of Revenue                 | 129,043                                    | 864,509                                      | 993,552                            |
| Gross Profit                    | 19,192                                     | 288,640                                      | 307,832                            |
| Depreciation and Amortization   | 101,130                                    | 8,172  | 109,302                            |
| General and Administrative      | 1,658,457                                  | 215,967                                      | 1,874,424                          |
| Gain (Loss) from Operations     | (1,740,396 )                               | 64,501                                       | (1,675,895 )                       |
| Foreign Currency Gain           | 7,715                                      | 1,411  | 9,126                              |
| Gain on Derivatives             | 42,591                                     | -  | 42,591                             |
| Loss on Disposal of Assets, Net | (29,454 )                                  | -  | (29,454 )                          |
| Interest Income                 | 12,205                                     | 1,472  | 13,677                             |
| Interest Expense                | (48,512 )                                  | (18,413 )                                    | (66,925 )                          |
| Gain (Loss) Before Income Taxes | (1,755,851 )                               | 48,971                                       | (1,706,880 )                       |
| Provision for Income Taxes      | -  | (12,853 )                                    | (12,853 )                          |

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|                   |               |             |                |
|-------------------|---------------|-------------|----------------|
| Net Income (Loss) | \$ (1,755,851 | ) \$ 36,118 | \$(1,719,733 ) |
|-------------------|---------------|-------------|----------------|

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

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

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

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

|                            | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|----------------------------|--------------------------------|-----------|------------------------------|-----------|
|                            | 2015                           | 2014      | 2015                         | 2014      |
| Revenue                    |                                |           |                              |           |
| United States              | \$48,912                       | \$318,459 | \$148,235                    | \$521,769 |
| Republic of China (Taiwan) | 726,649                        | 32,803    | 1,153,149                    | 204,357   |
|                            | \$775,561                      | \$351,262 | \$1,301,384                  | \$726,126 |

|                            | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |               |
|----------------------------|--------------------------------|---------------|------------------------------|---------------|
|                            | 2015                           | 2014          | 2015                         | 2014          |
| Operating Earnings (Loss)  |                                |               |                              |               |
| United States              | \$(845,216)                    | \$(1,484,040) | \$(1,740,396)                | \$(2,795,377) |
| Republic of China (Taiwan) | 18,132                         | (9,649)       | 64,501                       | (61,712)      |
|                            | \$(827,084)                    | \$(1,493,689) | \$(1,675,895)                | \$(2,857,089) |

|                             | Six Months Ended<br>June 30, |           |
|-----------------------------|------------------------------|-----------|
|                             | 2015                         | 2014      |
| Property and Equipment, Net |                              |           |
| United States               | \$354,218                    | \$544,092 |
| Republic of China (Taiwan)  | 11,475                       | 40,791    |
|                             | \$365,693                    | \$584,883 |

|   | Six Months Ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2015                         | 2014      |
| Additions to (Deletions from) Long-Lived Assets |                              |           |
| United States                                   | \$(3,883)                    | \$198,888 |
| Republic of China (Taiwan)                      | (1,172)                      | 15,490    |
|   | \$(5,055)                    | \$214,378 |





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

|                            | Six Months Ended<br>June 30, |           |
|----------------------------|------------------------------|-----------|
|                            | 2015                         | 2014      |
| Inventory                  |                              |           |
| United States              | \$262,880                    | \$376,076 |
| Republic of China (Taiwan) | 157,943                      | 149,246   |
|                            | \$420,823                    | \$525,322 |

|                            | Six Months Ended<br>June 30, |             |
|----------------------------|------------------------------|-------------|
|                            | 2015                         | 2014        |
| Total Assets               |                              |             |
| United States              | \$1,659,937                  | \$1,955,088 |
| Republic of China (Taiwan) | 2,542,083                    | 2,133,558   |
|                            | \$4,202,020                  | \$4,088,646 |

**Reclassification**

Certain amounts in 2014 may have been reclassified to conform to the 2015 presentation.

**New Accounting Standards**

There were no new standards recently issued which would have an impact on our operations or disclosures.

**NOTE 2 SHORT-TERM DEBT**

The short term debt balances were as follows:

|  | June 30, 2015 | December 31,<br>2014 |
|--|---------------|----------------------|
|  | \$ 494,073    | \$ 325,500           |

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|  |              |              |
|--|--------------|--------------|
| Loan from Shanghai Bank at 3.24% interest rate per annum. Due July - December 2015.    |              |              |
| Loan from Hua Nan Bank at 3.26% interest rate per annum. Due November - December 2015. | 323,000      | 315,000      |
| Loan from SinoPac Bank at 3.26% interest rate per annum. Due July 2015.                | 161,500      | 315,000      |
| Loans from unrelated individuals in MEGAsys management. Due December 2015              | 58,140       | -            |
| KTV Holding, LLC at 9.5% interest rate per annum. Paid January 26, 2015.               | -            | 75,000       |
| A&A Property Investments, Inc. at 9.5% interest rate per annum. Paid January 26, 2015  | -            | 50,000       |
| Balance at end of period   | \$ 1,036,713 | \$ 1,080,500 |

**IVEDA SOLUTIONS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 EQUITY**

**Preferred Stock**

We are currently authorized to issue up to 100,000,000 shares of preferred stock, par value \$0.00001 per share, 10,000,000 shares of which are designated as Series A Preferred Stock and 500 shares of which are designated as Series B Preferred Stock. Our Articles of Incorporation authorize the issuance of shares of preferred stock with designations, rights, and preferences determined from time to time by our Board of Directors. Accordingly, our Board of Directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting, or other rights which could adversely affect the voting power or other rights of the stockholders of our common stock. In the event of issuance, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying, or preventing a change in control of our company.

**Series A Preferred Stock**

We are authorized to issue up to 10,000,000 shares of Series A Preferred Stock. Each share of Series A Preferred Stock accrues cumulative dividends at a rate of 9.5% per annum on the original issue price of \$1.00 per share. Accrued but unpaid dividends are payable by us, either in cash or in shares of our common stock, upon the occurrence of a Liquidation Event (as defined in our Articles of Incorporation) or upon conversion of the shares into shares of our common stock. In addition, in the event of any liquidation, dissolution, or winding up of our company, the holders of Series A Preferred Stock are entitled to receive distributions of any of the assets of our company prior and in preference to the holders of our common stock, but after distribution of any assets of our company to the holders of our Series B Preferred Stock in an amount equal to the Series B Preferred Stock's original issue price plus any accrued but unpaid dividends.

Each share of Series A Preferred Stock is convertible at the option of the holder, at any time, into shares of our common stock equal to the original issue price divided by an adjusted conversion price of \$0.97 per share of Series A Preferred Stock, subject to certain adjustments. On June 30, 2017, all shares of Series A Preferred Stock not already converted will automatically convert into shares of our common stock at the then-applicable conversion price.

The holders of Series A Preferred Stock have the same voting rights as, and vote as a single class with, the holders of our common stock. Each holder of our Series A Preferred Stock is entitled to the number of votes equal to the number of shares of our common stock into which such shares of Series A Preferred Stock may be converted. In addition, in the event we sell, grant, or issue any Common Stock Equivalent (as defined in our Articles of Incorporation) at a price per share that is lower than the then-applicable conversion price for the Series A Preferred Stock, the conversion price for the Series A Preferred Stock will be adjusted to account for the dilutive issuance. If we effectuate a stock split or subdivision of our common stock or our Board of Directors declares a dividend payable in our common stock, the conversion price for the Series A Preferred Stock will be appropriately decreased to protect the Series A Preferred Stock holders from any dilutive effect of the stock split, subdivision, or stock dividend. Similarly, if the number of shares of our common stock outstanding decreases due to a reverse stock split or other combination of the outstanding shares of our common stock, then the applicable conversion price of the Series A Preferred Stock will increase in order to proportionately decrease the number of shares issuable upon conversion. Holders of our Series A Preferred Stock have no sinking fund or redemption rights.

### **Series B Preferred Stock**

We are authorized to issue up to 500 shares of Series B Preferred Stock. Each share of Series B Preferred Stock accrues dividends at a rate of 9.5% per annum on the original issue price of \$10,000 per share. Dividends on the Series B Preferred Stock accrue daily and compound annually. All accrued but unpaid dividends on the Series B Preferred Stock must be paid, declared, or set aside prior to the declaration of any dividend on any class of stock that is junior in preference to the Series B Preferred Stock. Dividends on the Series B Preferred Stock are paid quarterly, beginning on July 1, 2015 in either cash or shares of our common stock. In addition, all accrued but unpaid dividends are payable by us, either in cash or in shares of our common stock, upon the occurrence of a Liquidation Event (as defined in our Articles of Incorporation) or upon the conversion of the shares into shares of our common stock.

In the event of any liquidation, dissolution, or winding up of our company, the holders of Series B Preferred Stock are entitled to receive distributions of any of the assets of our company equal to 100% of the original issue price plus all accrued but unpaid dividends prior and in preference to the holders of Series A Preferred Stock and holders of our common stock. We also have the option to redeem all, but not less than all, of the Series B Preferred Stock, provided that certain conditions have been met. Should we choose to redeem the outstanding shares of our Series B Preferred Stock, we are required to pay the original purchase price plus all accrued but unpaid dividends. Each share of Series B Preferred Stock is convertible at the option of the holder, at any time, into shares of our common stock equal to the original issue price divided by an initial conversion price of \$0.75 per share of Series B Preferred Stock, subject to certain adjustments. On December 31, 2017, all shares of our Series B Preferred Stock not already converted will automatically convert into shares of our common stock at the then-applicable conversion price.

**IVEDA SOLUTIONS, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The holders of Series B Preferred Stock have no voting rights, except as are expressly provided in our Articles of Incorporation or required by law. Without the approval of at least a majority of the outstanding Series B Preferred Stock, we may not authorize or issue (i) any additional or other shares of capital stock that are of senior rank to the shares of Series B Preferred Stock in respect of the preferences as to dividends, distributions, or payments upon the liquidation, dissolution, and winding up of our company, (ii) any additional or other shares of capital stock that are of equal rank to the shares of Series B Preferred Stock in respect of the preferences as to dividends, distributions, or payments upon the liquidation, dissolution, and winding up of our company, or (iii) any capital stock junior in preference to the Series B Preferred Stock having a maturity date that is prior to the maturity date of the Series B Preferred Stock. Furthermore, if we consummate a Fundamental Transaction (as defined in our Articles of Incorporation) while shares of our Series B Preferred Stock are outstanding, then the holders of those outstanding shares have the right to receive, upon conversion of the Series B Preferred Stock, the same amount and kind of securities, cash, or property as they would have received if they would have been holders of the number of shares of common stock issuable upon conversion in full of all shares of our Series B Preferred Stock immediately prior to the Fundamental Transaction.

In addition, in the event we sell, grant, or issue any Common Stock Equivalent (as defined in our Articles of Incorporation) at a price per share that is lower than the then-applicable conversion price for the Series B Preferred Stock (the “Effective Price”), the conversion price for the Series B Preferred Stock will be adjusted to the Effective Price.

If we effectuate a stock split or subdivision of our common stock or our Board of Directors declares a dividend payable in our common stock, the conversion price for the Series B Preferred Stock will be appropriately decreased to protect the Series B Preferred Stock holders from any dilutive effect of the stock split, subdivision, or stock dividend. Similarly, if the number of shares of our common stock outstanding decreases due to a reverse stock split or other combination of the outstanding shares of our common stock, then the applicable conversion price of the Series B Preferred Stock will increase in order to proportionately decrease the number of shares issuable upon conversion. Holders of our Series B Preferred Stock have no sinking fund rights.

**Common Stock**

We are authorized to issue up to 100,000,000 shares of common stock, par value \$0.00001 per share. All outstanding shares of our common stock are of the same class and have equal rights and attributes. The holders of our common stock are entitled to one vote per share on all matters submitted to a vote of the stockholders of our company. Our common stock does not have cumulative voting rights. Persons who hold a majority of the outstanding shares of our

common stock entitled to vote on the election of directors can elect all of the directors who are eligible for election. Holders of our common stock are entitled to share equally in dividends, if any, as may be declared from time to time by our Board of Directors. In the event of liquidation, dissolution, or winding up of our company, subject to the preferential liquidation rights of any series of preferred stock that we may from time to time designate, the holders of our common stock are entitled to share ratably in all of our assets remaining after payment of all liabilities and preferential liquidation rights. Holders of our common stock have no conversion, exchange, sinking fund, redemption, or appraisal rights (other than such as may be determined by the Board of Directors in its sole discretion) and have no preemptive rights to subscribe for any of our securities.

During the six months ended June 30, 2015 we issued 10,000 shares of common stock in partial payment for investor relations services.

### **Notes Receivable from Stockholder**

In June 2014, an advisor/stockholder of our company exercised warrants to purchase 200,000 and 300,000 shares of common stock, granted at an exercise price of \$1.02 and \$1.00 per share, respectively, in exchange for 5% promissory notes totaling \$504,000 due at the extended maturity date of June 30, 2017. Early payments have been received and \$11,806 has been applied to the principal.

**IVEDA SOLUTIONS, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****NOTE 4 STOCK OPTIONS AND WARRANTS****Stock Options**

We have granted non-qualified stock options to employees, contractors and directors as equity compensation and to debenture holders for the extension of debenture maturity dates. All non-qualified options are generally issued with an exercise price no less than the fair market value of the common stock on the date of the grant as determined by our Board of Directors. Options may be exercised up to ten years following the date of the grant, with vesting schedules determined by us upon grant. Vesting schedules vary by grant, with some fully vesting immediately upon grant and others vesting ratably over a period of time up to four years. Standard vested options may be exercised up to three months following the date of termination of the relationship with the employee, contractor or director unless alternate terms are specified at grant. 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.

Stock option transactions during the six months ended June 30, 2015 were as follows:

|  | Six months ended June 30, 2015 |                                 |
|--|--------------------------------|---------------------------------|
|  | Shares                         | Weighted-Average Exercise Price |
| Outstanding at Beginning of Year                                 | 5,953,227                      | \$ 1.03                         |
| Granted  | 291,000                        | 0.77                            |
| Exercised  | -                              | -                               |
| Forfeited or Canceled  | (161,208 )                     | 1.41                            |
| Outstanding at End of Period                                     | 6,083,019                      | 1.01                            |
| Options Exercisable at End of Period                             | 6,017,894                      | \$ 1.02                         |
| Weighted-Average Fair Value of Options Granted During the Period | \$ 0.77                        |                                 |

Information with respect to stock options outstanding and exercisable as of June 30, 2015 is as follows:

| Range of Exercise Prices | Options Outstanding                 |   |                                 | Options Exercisable                 |                                 |
|--------------------------|-------------------------------------|---|---------------------------------|-------------------------------------|---------------------------------|
|                          | Number Outstanding at June 30, 2015 | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | Number Exercisable at June 30, 2015 | Weighted-Average Exercise Price |
| \$0.10 - \$1.75          | 6,083,019                           | 7   | \$ 1.01                         | 6,017,894                           | \$ 1.02                         |



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

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:

|                         |          |   |
|-------------------------|----------|---|
|                         | 2015     |   |
| Expected Life           | 6.25 yrs |   |
| Dividend Yield          | 0        | % |
| Expected Volatility     | 18.35    | % |
| Risk-Free Interest Rate | 1.99     | % |

Expected volatility for 2015 and 2014 was estimated by using the Dow Jones U.S. Industry Indices sector classification methodology for industries similar to that in which we operate. 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**

We have periodically issued warrants to purchase shares of common stock as equity compensation to officers, directors, employees, and consultants. We have also issued warrants as incentive in connection with the purchase of debt and equity securities.

As of June 30, 2015, warrants to purchase 7,883,303 shares of common stock were outstanding, all of which were issued either as equity compensation or in connection with financing transactions. Vesting schedules vary by grant, with some fully vesting immediately upon grant and others vesting ratably over a period of time up to four years. The warrants expire during a range from two to ten years following the date of the grant. 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.

Warrant transactions during the six months ended June 30, 2015 were as follows:

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|                                      |            |
|--------------------------------------|------------|
| Outstanding at December 31, 2014     | 3,749,550  |
| Granted                              | 4,369,162  |
| Exercised                            | -          |
| Forfeited or Canceled                | (235,409 ) |
| Warrants Redeemable at June 30, 2015 | 7,883,303  |

**NOTE 5 RELATED PARTY TRANSACTIONS**

On December 30, 2014, we entered into a debenture agreement with Joe Farnsworth, a member of our Board of Directors, for \$10,000, at 9.5% interest per annum. We paid the principal and accrued interest on the Farnsworth debenture in full on January 26, 2015.

On December 9, 2014, we entered into a debenture agreement with Robert Gillen, a member of our Board of Directors, for \$100,000, at 9.5% interest per annum and a warrant to purchase 25,000 shares of our common stock at an exercise price of \$1.00 per share, with interest and principal payable on January 5, 2015. On January 5, 2015, Mr. Gillen received another warrant to purchase 25,000 shares of our common stock at an exercise price of \$1.00 per share. We paid the principal and accrued interest on the Gillen debenture in full on February 4, 2015.

On October 14, 2014, we entered into a debenture agreement with Mr. Farnsworth, a member of our Board of Directors, for \$35,000, at 9.5% interest per annum. We paid the principal and accrued interest on the Farnsworth debenture in full on February 4, 2015.

On September 10, 2014, we entered into a debenture agreement with Alex Kuo, a member of the Board of Directors, for \$30,000, through his wife, Li-Min Hsu, at 9.5% interest per annum with interest and principal payable on the extended maturity date of December 31, 2015. As consideration for the extension of the debenture, we granted Mrs. Hsu options to purchase 3,000 shares of our common stock with an exercise price of \$0.77 per share.

On September 8, 2014, we entered into a debenture agreement with Mr. Kuo's wife, Li-Min Hsu, for \$100,000, at 9.5% interest per annum with interest and principal payable on the extended maturity date of December 31, 2015. As consideration for the extension of the debenture, we granted Mrs. Hsu options to purchase 10,000 shares of our common stock with an exercise price of \$0.77 per share.

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

On August 28, 2014, we entered into a debenture agreement with Gregory Omi, a member of the Board of Directors of the Company, for \$200,000, at 9.5% interest per annum with interest and principal payable on the extended maturity date of December 31, 2015. As consideration for the extension of the debenture, we granted Mr. Omi options to purchase 20,000 shares of our common stock with an exercise price of \$0.77 per share.

On November 19, 2012, we entered into a convertible debenture agreement with Mr. Gillen, a member of our Board of Directors, for \$100,000, under his company Squirrel-Away, LLC. Under the original terms of the agreement, interest is payable at 10% per annum and became due on December 19, 2014. The debenture was extended to January 5, 2015. On June 20, 2013, interest of \$5,000 was paid on the debenture. As consideration for agreeing to extend the maturity date of the debenture to December 31, 2015, we granted Mr. Gillen options to purchase 10,000 shares of our common stock at an exercise price of \$0.77 per share.

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

The following table provides a reconciliation of the numerators and denominators reflected in the basic and diluted earnings per share computations, as required by ASC No. 260, "Earnings per Share."

Basic earnings per share ("EPS") is computed by dividing reported earnings available to stockholders by the weighted average shares outstanding. We had net losses for the years ended December 31, 2014 and 2013 and the effect of including dilutive securities in the earnings per common share would have been anti-dilutive for the purpose of calculating EPS. Accordingly, all options, warrants, and shares potentially convertible into common shares were excluded from the calculation of diluted earnings per share for the quarters ended June 30, 2015 and 2014 and six months ended June 30, 2015 and 2014. Total common stock equivalents that could be convertible into common stock were 22,127,032 and 11,807,271 for June 30, 2015 and 2014, respectively.

|           | Three Months<br>Ended | Three Months<br>Ended | Six Months<br>Ended | Six Months<br>Ended |
|-----------|-----------------------|-----------------------|---------------------|---------------------|
|           | June 30, 2015         | June 30, 2014         | June 30, 2015       | June 30, 2014       |
| Basic EPS |                       |                       |                     |                     |
| Net Loss  | \$ (880,349 )         | \$ (1,588,767 )       | \$ (1,719,733 )     | \$ (2,994,334 )     |