Iveda Solutions, Inc.
Form 10-K
April 01, 2013

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, 2012

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	20-2222203
(State of incorporation)	(I.R.S. Employer Identification No.)
1201 S. Alma School, Suite 8500	85210
Mesa, Arizona	(Zip code)

(Address of principal executive offices)

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 o 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 o 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 o

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 o

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. o

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 o   Accelerated filer o   Non-accelerated filer o

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 o 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 $15,044,892 as of the last business day of the registrant's most recently completed fiscal quarter.

As of March 15, 2013, 22,611,048 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 19 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 Iveda 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 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'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"). 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 Solutions, Inc. 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 Solutions' 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 Solutions delivers the true essence of video surveillance through cloud computing, like no other.

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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 Solutions 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 Solutions 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 Solutions is the only major provider of enterprise class real-time video surveillance in the U.S.

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

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. In June 2012, Iveda began transition from direct to indirect sales channel by signing up independent representative agents and their network of security integrators. Iveda is building its reseller distribution channels to to sell predominantly through resellers. 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 Solutions 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 Solutions 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 Solutions 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 Solutions 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 Solutions 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 Solutions 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. Telmex will collaborate with Iveda Solutions to build cloud-based video surveillance infrastructure in the markets they are in and resell Iveda Solutions' services.

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).

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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.

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· **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.

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 able to competently offer 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 Solutions 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.

Products

Iveda's core competency is based on its cloud-video management platform. Iveda focuses on recurring service revenue, but we also sell and integrate products to enable Iveda services.

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.

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. With these integrators, Iveda designs, recommends, sells, and installs camera systems to enable video hosting, real-time surveillance services, and mobile video services.

<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 video recording devices (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.

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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.

· **Carrier/ISP Neutral -** Iveda can work with customers' current Internet providers as long as minimum bandwidth requirements are met.

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 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. We are 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

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• 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

Below is a diagram of how the Iveda system works.

Pricing Strategy

Iveda's cloud video hosting solutions provide a less expensive alternative to typical CCTV/DVR solutions and live human 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. 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 40% 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 is not dependent on any single source for its supplies and components and has not experienced any material shortages in the past. Typically, the Company does not maintain inventory of equipment.

In distribution channel sales, Iveda sells equipment to its resellers and integrators, who in turn sell the equipment to the end user. In certain select large corporate account sales, Iveda will sell the equipment directly to the large accounts, and in turn utilize integrators or other third parties for installation activities.

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Cloud Video Hosting and Remote Surveillance. Upon full utilization of the current video hosting infrastructure, Iveda has implemented a pricing structure for its services at approximately a 60% gross margin. Gross margin may improve with software enhancements to enable intervention specialists to monitor more cameras at the same time, and when 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 a minimal 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 camera manufacturer's 3-year warranty. Government customers typically request this contract. A recent new customer in Mexico has agreed to sign up for this service, along with video hosting, and extended video storage.

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's customers in 2012 included data centers, banks, storage facilities, homeowner associations, food processing plants, public pools and parks, and government agencies in Mexico and Asia. In 2012, the New Taipei City police department account for 69% 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.

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

- American Security & Investigations

- City of El Mirage

- City of Mesa

- Farnsworth Realty

- Glendale Police, CA

- Green Valley Agriculture and Turf

- Helix Properties

- i/o Data Center

- Leisure World

- Mexican Government

- Pacific Coast Producers

- Porsche Dealership

- San Diego Police Department

- San Joaquin County Public Works

- Sun Eagle Corporation

- 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:

·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.

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Business Strategy

Iveda is implementing the following business strategy:

· *Reseller Sales:*

o Provide assistance to its growing reseller channel distribution to utilize resellers' camera installed base and thereby seek to increase Iveda's video surveillance subscribers.

Build a high-caliber indirect channel sales team to support reps and integrators.

o Provide co-op marketing funds to resellers to promote Iveda products and services on our behalf utilizing their customer and prospect lists.

o Fund demo units for product seeding of Iveda's services in sales opportunities.

o Fund road shows for live customer demos.

o Build indirect sales channel to support

· *Marketing:*

o Conduct regional marketing campaigns in Iveda's existing markets, while strategically launching in other key markets.

o Expand online marketing and non-traditional viral marketing.

o Participate in vertical and technology tradeshows.

o Produce online and printed sales and marketing materials for end users and resellers.

o Implement and manage PR and marketing campaigns.

o Work with research firms on independent case studies, industry research, and white papers.

o Enhance search engine optimization (SEO) of the Company's websites.

· *Infrastructure/Security/Operations/R&D* :

o Develop new products with technology partners in India and Asia to enhance and enable Iveda's video surveillance services.

o Incorporate another layer of security to Iveda's edge devices to further enhance the value of our products and services.

o Fund in-house development of software for Iveda's backend that may be patentable.

o Further develop Cerebro, Iveda's proprietary centralized security reporting system.

o Fund backend equipment/hardware and software to demonstrate Iveda's system capabilities to prospective enterprise clients (white label demos).

o 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.

o 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.

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· *International Business Development* :

o Form business alliances with overseas companies for revenue generation.

o Fund customer demo meetings and presentations abroad.

o 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 two 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 began its transition to a reseller distribution channel program in the U.S. Iveda believes that leveraging resellers' existing customer base, many of which already have cameras installed, provides a more effective strategy to grow the number of cameras the company hosts and monitors. Over the last few months, Iveda has 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.

Management believes that once this indirect sales channel is fully trained and mobilized, it will expedite securing a larger percentage of the market by leveraging its channel partners' customer base. This is also a potentially faster way to make Iveda a national provider of video surveillance services compared to relying solely on internal sales efforts. In October 2011, the Company signed an agreement with a large telecommunications company for them to resell Iveda's products and services in the U.S. and Latin America. In 2012, Iveda has also signed ten independent manufacturers'

representatives which provide coverage to 42 states, the Carribean, and Canada. The names of the partner firms that have signed a partner agreement are as follows: Coaxial Systems Associates, Inc., GP Marketing, HMR Associates, IDMC Associates, Intech Sales, Langbaum & Associates, Milsk Company, R.W. Kunz & Associates, Warren Associates and SECURaGLOBE Solutions, Inc. Each rep firm has a network of security integrators that serve as their feet-on-the-street salesforce.

The Iveda Reseller Program is designed to build a community of dedicated Iveda partners to help realize its vision, while providing them wi