

GLOBAL PAYMENTS INC
Form S-3
March 17, 2004
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As filed with the Securities and Exchange Commission on March 17, 2004

Registration No. 333-_____

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

GLOBAL PAYMENTS INC.

(Exact name of Registrant as specified in its charter)

Georgia
(State or other jurisdiction of incorporation or organization)

58-2567903
(I.R.S. Employer Identification No.)

10 Glenlake Parkway

North Tower

Atlanta, Georgia 30328

(770) 829-8234

(Address, including zip code, and telephone number,
including area code, of Registrant's principal executive offices)

Suellyn P. Tornay

General Counsel

Global Payments Inc.

10 Glenlake Parkway

North Tower

Atlanta, Georgia 30328

(770) 829-8250

(Name, address, including zip code, and telephone
number, including area code of agent for service)

Copies of Communications to:

William H. Avery, Esq.

Alston & Bird LLP

One Atlantic Center

1201 West Peachtree Street

Atlanta, Georgia 30309

(404) 881-7000

and

Lee Meyerson, Esq.

Simpson Thacher & Bartlett LLP

425 Lexington Avenue

New York, New York 10017

(212) 455-2000

Approximate Date of Commencement of Proposed Sale to the Public: From time to time after the effective date of this Registration Statement.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities To Be Registered	Amount To Be Registered (1)	Proposed Maximum Offering		Amount Of Registration Fee
		Price Per Unit (2)	Proposed Maximum Aggregate Offering Price (2)	
Common stock, no par value	8,327,755 shares	\$ 43.66	\$ 363,589,783	\$ 46,067

- (1) Shares of common stock held by Canadian Imperial Bank of Commerce through its wholly owned subsidiary CIBC Investments Limited. Pursuant to Rule 416 under the Securities Act, as amended, this registration statement also covers such additional number of shares of common stock as may become issuable under any stock split, stock dividend, or similar transaction.
- (2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) under the Securities Act based on the average high and low trading prices for the registrant's common stock on the NYSE on March 11, 2004.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We have filed a registration statement relating to these securities with the Securities and Exchange Commission. The selling shareholder may not sell these securities until the registration statement is effective. This prospectus is not an offer to sell these securities and it is not a solicitation of an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 17, 2004

PROSPECTUS

8,327,755 SHARES

GLOBAL PAYMENTS INC.

COMMON STOCK

This prospectus relates to the proposed offer and sale of an aggregate of up to 8,327,755 shares of common stock of Global Payments Inc., which are held by Canadian Imperial Bank of Commerce, or CIBC, through its wholly owned subsidiary CIBC Investments Limited, who is referred to in this prospectus as the selling shareholder.

We will not receive any proceeds from the sale of the shares by the selling shareholder. We will pay the expenses of registration of the shares.

Our common stock is listed on the NYSE under the symbol GPN. On March 11, 2004, the per share closing price of our common stock on the NYSE was \$43.61. You should obtain current information as to the market price of our common stock before you invest.

Investing in our common stock involves risks. See Risk Factors on pages 3-7 of this prospectus, in any document incorporated by reference, and in any accompanying prospectus supplement.

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is March 17, 2004.

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SUMMARY

References in this Prospectus to Global Payments, we, our, or us refer to Global Payments Inc., a Georgia corporation, and its consolidated subsidiaries and not to the selling shareholder.

Global Payments Inc.

We are an integrated provider of high volume electronic transaction processing and value-added end-to-end information services and systems to merchants, multinational corporations, financial institutions, and government agencies. We also provide consumer-to-consumer electronic money transfer services through our recent acquisition of Latin America Money Services and its primary operating subsidiary, DolEx Dollar Express, Inc. Including our time as part of National Data Corporation, now known as NDCHealth Corporation, or NDCHealth, we have provided transaction processing services since 1968. During that period, we have expanded our business to include debit card, business-to-business purchasing card, check guarantee, check verification and recovery, and terminal management services, which we collectively include as a component of our merchant service offerings. In addition, we provide funds transfer services to domestic and international financial institutions, corporations, and government agencies in the United States, Canada, and Europe, as well as consumer-to-consumer electronic money transfer services to Latino/Hispanic communities living in the United States and their Latin American beneficiaries abroad. We were incorporated in Georgia as Global Payments Inc. in September 2000.

On November 12, 2003, we acquired Latin America Money Services, LLC, or LAMS, a holding company which directly owns all of the outstanding equity of DolEx Dollar Express, Inc., or DolEx, and indirectly owns all of the outstanding equity of DolEx Envios S.A. de C.V., a Mexican corporation. Following the transaction, DolEx became our wholly-owned, indirect subsidiary. The purchase price was \$192 million. The purchase price was financed under our then existing line of credit, cash on hand, and notes payable. Founded in 1996, DolEx is a leading provider of consumer-to-consumer electronic money transfer services to the Latino/Hispanic community living in the U.S. and their Latin American families abroad. DolEx provides services that allow customers to send money from its network of retail branches in the U.S. to beneficiaries in Latin America. The company has its headquarters in Arlington, Texas, operates hundreds of branches across the U.S. in areas with large Latino/Hispanic populations, and has settlement arrangements with thousands of banks, exchange houses, and retail locations in Latin America.

On February 18, 2004, PGT Capital s.r.o., a Czech limited liability company and our indirect, wholly-owned subsidiary, acquired 52.6% of the outstanding shares of MUZO, a.s., from Komerční banka, a.s., or KB, for \$34.7 million in cash. The transaction was financed using proceeds of our recently announced \$350 million credit facility. MUZO's shares are publicly traded over-the-counter on the RM System in Prague under the symbol BAAMUZO. According to MUZO's public filings, MUZO is the largest indirect payment processor in the Czech Republic holding approximately 50 percent of the market share. Based in Prague, MUZO has served financial institutions since 1992 with a comprehensive package of payment services including credit and debit card transaction processing, sales, installation and servicing of ATM and POS terminals, as well as card issuing services, such as card database management and card personalization. On or prior to April 18, 2004 and pursuant to Czech law, we intend to announce a public tender offer for the remaining shares of MUZO.

The address of our principal executive offices is 10 Glenlake Parkway, North Tower, Atlanta, Georgia 30328. Our telephone number is (770) 829-8234.

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The Offering

Common Stock offered by the selling shareholder	8,327,755 shares
Use of Proceeds	We will not receive any of the proceeds from the offering.
New York Stock Exchange Symbol	GPN

Where You Can Find More Information

We file annual, quarterly, and current reports, proxy statements, and other documents with the Securities and Exchange Commission. You may read and copy such reports, proxy statements, information statements and obtain other information from the Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You should call 1-800-SEC-0330 for more information on the operation of the Public Reference Room. The Commission maintains an Internet site at www.sec.gov where reports, proxy and information statements, and other information regarding issuers that file electronically, including us, may be found.

This prospectus is part of a registration statement that we filed with the SEC and omits certain information contained in the registration statement as permitted by the SEC. Additional information regarding us and our common stock is contained in the registration statement on Form S-3 (of which this prospectus forms a part), including certain exhibits and schedules. You can obtain a copy of the registration statement from the SEC at the street address or Internet site listed above.

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RISK FACTORS

Our revenues from the sale of services to merchants that accept VISA cards and MasterCard cards are dependent upon our continued VISA and MasterCard certification and financial institution sponsorship.

In order to provide our transaction processing services, we must be designated a certified processor by, and be a member service provider of, MasterCard and an independent sales organization of VISA. These designations are dependent upon our being sponsored by member clearing banks of both organizations and our continuing adherence to the standards of the VISA and MasterCard associations. The member financial institutions of VISA and MasterCard, some of which are our competitors, set the standards with which we must comply. If we fail to comply with these standards, our designation as a certified processor, a member service provider or as an independent sales organization could be suspended or terminated. The termination of our member service provider status or our status as a certified processor, or any changes in the VISA and MasterCard rules that prevent our registration or otherwise limit our ability to provide transaction processing and marketing services for the VISA or MasterCard organizations would most likely result in the loss of merchant customers and lead to a reduction in our revenues.

Loss of key Independent Sales Organizations or ISO's could reduce our revenue growth.

Our ISO sales channel, which purchases and resells our end-to-end services to its own portfolio of merchant customers, is a strong contributor to our revenue growth. If an ISO switches to another transaction processor, we will no longer receive new merchant referrals from the ISO. In addition, we risk losing existing merchants that were originally enrolled by the ISO. Consequently, if a key ISO switches to another transaction processor, our revenues and earnings could be negatively affected.

With significant operations in Canada and our recent entry into the consumer electronic money transfer market from the U.S. to the Latin American corridor, we are exposed to significant foreign currency risks. We are also subject to risks from our variable rate credit facility with CIBC that could reduce our earnings and significantly increase our cost of capital.

As a result of acquiring the assets of CIBC's merchant acquiring business and National Bank's merchant acquiring business, we have significant operations in Canada which are denominated in Canadian dollars. The repatriation of our earnings from Canada will subject us to the risk that currency exchange rates between Canada and the United States will fluctuate, resulting in a loss of some of our earnings when such earnings are exchanged into U.S. dollars.

In addition, our consumer money transfer operations subject us to foreign currency exchange risks as our customers deposit U.S. dollars at our branch and agent locations in the United States and we deliver funds denominated in the home country currencies to beneficiaries in Mexico and other Latin American countries.

Additionally, our credit facility with CIBC carries an interest rate based on Canadian Dollar LIBOR (C\$LIBOR). This rate will fluctuate with market rates, and if it increases, our cost of capital will also increase which will reduce our earnings from operations. The credit facility was scheduled to expire on February 27, 2004 but its expiration date was subsequently extended until April 30, 2004. The credit facility is renewable only at the consent of CIBC. Should CIBC choose not to renew the credit facility, we will have to find alternative financing or fund the Canadian merchants ourselves. We are currently negotiating the syndication of this facility among CIBC and a group of U.S. lenders and expect to receive future monthly extensions until we complete the syndication. We expect to complete the syndication by the end of the fourth quarter

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of fiscal 2004 and expect that the credit facility will have a minimum term of 364 days and will be renewable annually. Alternative financing may carry a higher interest rate which would reduce our earnings from operations. We may not have the cash flow necessary to fund the Canadian merchants ourselves, and we may lose those customers as a result.

Some of our competitors are larger and have greater financial and operational resources than we do which may give them an advantage in our market in terms of the price offered to our customers or our ability to develop new technologies.

We operate in the electronic payments and money transfer industries. Our primary competitors in this industry include other independent processors and electronic money transmitters, as well as certain major national and regional banks, financial institutions and independent sales organizations. According to industry reports such as *The Nilson Report*, First Data Corporation and its affiliates is our largest competitor in both the electronic payments and money transfer industries. First Data and others who are larger than we are, have greater financial and operational resources than we have. This may allow them to offer better pricing terms to customers in the industry, which could result in a loss of our potential or current customers or could force us to lower our prices as well. Either of these actions could have a significant effect on our revenues. In addition, our competitors may have the ability to devote more financial and operational resources than we can to the development of new technologies, including Internet payment processing services that provide improved operating functionality and features to their product and service offerings. If successful, their development efforts could render our product and services offerings less desirable to customers, again resulting in the loss of customers or a reduction in the price we could demand for our offerings.

We are subject to the business cycles and credit risk of our merchant customers.

A recessionary economic environment could affect our merchants through a higher rate of bankruptcy filings resulting in lower revenues and profits for us. Our merchants have the liability for any charges properly reversed by the cardholder. In the event,

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however, that we are not able to collect such amounts from the merchants, due to merchant fraud, insolvency, bankruptcy or another reason, we may be liable for any such charges. Any risks associated with an unexpected recessionary economy that we could not mitigate may result in lower profits and revenues and earnings for us.

In order to remain competitive and to continue to increase our revenues, we must continually update our products and services, a process which could result in increased research and development costs in excess of historical levels and the loss of revenues and customers if the new products and services do not perform as intended or are not accepted in the marketplace.

The electronic payments and consumer money transfer markets in which we compete include a wide range of products and services including electronic transaction processing, consumer money transfer, reporting on transactions and other customer support services. These markets are characterized by technological change, new product introductions, evolving industry standards and changing customer needs. In order to remain competitive, we are continually involved in a number of research and development projects. These projects carry the risks associated with any research and development effort, including cost overruns, delays in delivery and performance problems, but in the electronic payments and consumer money transfer markets these risks are even more acute. Our markets are constantly experiencing rapid technological change. Any delay in the delivery of new products or services could render them less desirable by our customers, or possibly even obsolete. In addition, the products and services we deliver to the electronic payments and consumer money transfer markets are designed to process very complex transactions and deliver reports and other information on those transactions, all at very high volumes and processing speeds. Any performance issue that arises with a new product or service could result in significant processing or reporting errors. As a result of these factors, our research and development efforts could result in increased costs that could reduce our operating profit, a loss of revenue if promised new products are not timely delivered to our customers, or a loss of revenue or possible claims for damages if new products and services do not perform as anticipated.

Security breaches or system failures could harm our reputation and adversely affect future profits.

We collect personal consumer data, such as names, credit and debit account numbers, checking account numbers, and payment history records. We process that data, and deliver our products and services, by utilizing computer systems and telecommunications networks operated both by us and by third party service providers. Although plans and procedures are in place to protect our sensitive data and to prevent failure of, and to provide backup for, our systems, we cannot be certain that our measures will be successful. A security breach or other misuse of our data, or failures of key operating systems and their back-ups, could harm our reputation and deter customers from using our products and services, increase our operating expenses in order to correct the breaches or failures, or expose us to unbudgeted or uninsured liability.

Reduced levels of consumer spending can adversely affect our revenues.

A significant portion of our revenues is derived from fees from processing consumer credit card and debit card transactions. While consumer spending in the U.S. may be recovering, continued sluggishness of the U.S. economy or recession in the international economies where we do business could negatively impact consumer spending and adversely affect our revenues and earnings.

Changes in state, federal and foreign laws and regulations affecting the consumer electronic money transfer industry might make it more difficult for our customers to initiate money transfers which would adversely affect our revenues.

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If state, federal or foreign authorities adopt new legislation or impose new regulations that make it more difficult for our customers to initiate or their beneficiaries to receive electronic money transfers, then our revenues may be negatively affected.

Changes in immigration patterns can adversely affect our revenues from consumer electronic money transfers.

Our consumer electronic money transfer business primarily focuses on customers who immigrate to the United States from Latin American countries in order to find higher paying jobs and then send a portion of their earnings to family members in Latin America. Any changes in federal policies toward immigration may negatively affect the number of immigrants in the United States, which may reduce our customer base and the corresponding revenues related thereto.

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In order for us to continue to grow and increase our profitability, we must continue to expand our share of the existing electronic payments market and also expand into new markets.

Our future growth and profitability depends upon our continued expansion within the electronic payments markets in which we currently operate, the further expansion of these markets, the emergence of other markets for electronic transaction processing, including internet payment systems, and our ability to penetrate these markets. As part of our strategy to achieve this expansion, we are continually looking for acquisition opportunities, investments and alliance relationships with other businesses that will allow us to increase our market penetration, technological capabilities, product offerings and distribution capabilities. We may not be able to successfully identify suitable acquisition, investment and alliance candidates in the future, and if we do, they may not provide us with the benefits we anticipated. Once completed, investments and alliances may not realize the value that we expect.

Our expansion into new markets is also dependent upon our ability to apply our existing technology or to develop new applications to meet the particular service needs of each new payment services market. We may not have adequate financial and technological resources to develop products and distribution channels that will satisfy the demands of these new markets. If we fail to expand into new and existing electronic payments markets, we may not be able to continue to grow our revenues and earnings.

As a result of the ownership by the Canadian Imperial Bank of Commerce, or CIBC, of approximately 22% of our common stock, certain banking regulations limit the types of business in which we can engage.

As a result of CIBC's ownership of approximately 22% of our common stock and in order not to jeopardize CIBC's investment in us, we are subject to the same restrictions on our business activities as are applicable to CIBC. As a general matter, we are able to operate our merchant service and funds transfer businesses as we have historically, but our ability to expand into unrelated businesses may be limited unless they are activities permitted under the Bank Holding Company Act or permitted by the Federal Reserve Board (the primary U.S. federal regulator for CIBC and its U.S.-based subsidiaries). Under U.S. banking law, CIBC may hold more than 5% of the outstanding voting shares of a company only if the company engages in activities that are permissible for CIBC. These restrictions are contained in the Bank Holding Company Act, as recently amended by the Gramm-Leach-Bliley Act. The restrictions on our business activities would also apply to any investments or alliances that we might consider.

The Bank Holding Company Act limits CIBC, its subsidiaries, and the companies in which CIBC holds more than 5% of the outstanding voting shares to activities that are closely related to the business of banking. Under the Gramm-Leach-Bliley amendments, certain well-managed and well-capitalized companies may elect to be treated as financial holding companies, and may thus also engage in certain financial activities such as insurance and securities underwriting. CIBC has elected to be a financial holding company. If CIBC ever fails to maintain its status as a financial holding company, they and we would lose the benefit of the expanded activities provided by the Gramm-Leach-Bliley amendments and may have to divest certain businesses or investments.

If CIBC were to own 25% or more of our common shares, were to control the election of a majority of our directors, were deemed by the Federal Reserve Board to exercise a controlling influence over us, or were able to condition certain transfers of more than 25% of our common stock, we would be treated as a subsidiary of CIBC. In that event, we would be subject to the same activities limitations and would directly be subject to examinations by and regulatory requirements of the Federal Reserve Board.

Additionally, CIBC is subject to Canadian banking regulations, specifically the *Bank Act* (Canada), which among other things limits the types of business which CIBC may conduct, directly or indirectly, and the types of investments which CIBC may make. CIBC's shareholding in our

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company is currently permitted under the *Bank Act*. The *Bank Act*, except as we have discussed, does not otherwise apply to us.

If we undertake businesses inconsistent with the businesses in which CIBC is permitted to hold an interest, CIBC may be required, pursuant to the provisions of the *Bank Act*, to dispose of its shares prior to the expiration of the restrictions on re-sale that we have negotiated with CIBC.

We have agreed with CIBC, in effect, that we will not undertake any business inconsistent with the applicable provisions of the *Bank Act*. Our ability to expand into other businesses will be governed by this undertaking and the applicable provisions of Canadian banking legislation at the relevant time. For a more complete discussion of the banking regulations we are subject to please see *Business Banking Regulations* in our Annual Report on Form 10-K.

We are dependent on NDCHealth Corporation, or NDCHealth, for the provision of critical telecommunications services, network systems and other related services for the operation of our business, and the failure of NDCHealth to provide those services in a satisfactory manner could affect our relationships with customers and our financial performance.

Under the terms of the inter-company systems/network services agreement between NDCHealth and us, NDCHealth provides us with a continuation of the telecommunication services from the carriers who have and will continue to provide telecommunication services to NDCHealth, including engineering and procurement. In addition, NDCHealth supplies us with the necessary network

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systems services, including operations and administrative services and computing hardware and software facilities, technical support for transaction processing, cash management and file transfer and communications hardware and software system services. These services, especially telecommunications services, are an essential communications link between us and our customers and an essential component of the services that we provide. If NDCHealth should not continue to perform these services efficiently and effectively, our relationships with our customers may be adversely affected and customers may terminate their use of our services. If we are not able to successfully develop the capacity to provide these services prior to the expiration of our agreement with NDCHealth or if NDCHealth does not provide such services in an efficient and effective manner during the term of that agreement, we are not certain whether we could locate alternative sources of such services, particularly telecommunications services, or that, if available, such services would be available to us on favorable terms.

Increases in credit card association fees may result in the loss of customers or a reduction in our profit margin.

From time to time, VISA and MasterCard increase the fees (interchange fees) that they charge processors such as us. We could attempt to pass these increases along to our merchant customers, but this might result in the loss of those customers to our competitors who do not pass along the increases. If competitive practices prevent our passing along all such increased fees to our merchant customers in the future, we would have to absorb a portion of such increases thereby increasing our operating costs and reducing our profit margin.

Utility and system interruptions or processing errors could adversely affect our operations.

In order to process transactions promptly, our computer equipment and network servers must be functional on a 24-hour basis, which requires access to telecommunications facilities and the availability of electricity. Furthermore, with respect to certain processing services, we are dependent on the systems and services of third party vendors. Telecommunications services and the electricity supply are susceptible to disruption. Computer system interruptions and other processing errors, whether involving our own systems or our third party vendor's system, may result from such disruption or from human error or other unrelated causes. Any extensive or long-term disruptions in our processing services could cause us to incur substantial additional expense, which could have an adverse effect on our operations and financial condition.

Continued consolidation in the banking and retail industries could adversely affect our growth.

As banks continue to consolidate, our ability to successfully offer our services through indirect channels will depend in part on whether the institutions that survive are willing to outsource their credit and debit processing to third-party vendors and whether those institutions have pre-existing relationships with any of our competitors. Larger banks and larger merchants with greater transaction volumes may demand lower fees which could result in lower operating margins for us.

Loss of strategic industries could reduce revenues and earnings.

Although our merchant-acquiring portfolio is well diversified and neither one economic sector nor any customer concentration represents a significant portion of our business, a decrease in strategic industries could cause us to lose significant revenues and earnings. Unexpected and significant declines in particular industries may impact our business and result in decreases in revenues and profits.

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The conviction of our former independent auditors, Arthur Andersen LLP, on federal obstruction of justice charges may adversely affect Arthur Andersen LLP's ability to satisfy any claims arising from the provision of auditing services to us and may impede our access to the capital markets.

Arthur Andersen LLP, which audited our financial statements for the year ended May 31, 2001, was indicted in March 2002 on federal obstruction of justice charges arising from the government's investigation of Enron Corporation. Arthur Andersen was tried on such charges by a jury and found guilty on June 15, 2002. In light of the jury verdict and the underlying events, Arthur Andersen LLP stopped practicing before the Commission. The SEC has stated that, for the time being, it will continue accepting financial statements audited by Arthur Andersen LLP. Arthur Andersen LLP would not have the ability to satisfy any claims arising from its provision of auditing services to us, including claims that could arise out of Arthur Andersen LLP's audit of our financial statements included in our periodic reports, prospectuses or registration statements filed with the SEC.

Should we seek to access the public capital markets, SEC rules will require us to include or incorporate by reference in any prospectus three years of audited financial statements. The SEC's current rules would require us to present audited financial statements for one fiscal year audited by Arthur Andersen LLP and obtain their consent and representations until our audited financial statements for the fiscal year ending May 31, 2004 become available in the first quarter ended August 31, 2004. We would not be able to obtain the necessary consent and representations from Arthur Andersen LLP. As a result, we would not be able to satisfy the SEC requirements for a registration statement or for our periodic reports. Even if the SEC decides to accept financial statements previously audited by Arthur Andersen LLP, but without their current consent and representations, those financial statements would not provide

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us and any underwriters with the same level of protection under the securities laws, as would otherwise be the case. In either of these situations, our access to the capital markets would be impaired unless Deloitte & Touche LLP, our current independent accounting firm, or another independent accounting firm, is able to audit the financial statements originally audited by Arthur Anderson LLP. Any delay or inability to access the public capital markets caused by these circumstances could have a material adverse effect on our business, profitability and growth prospects.

If we lose key personnel or are unable to attract additional qualified personnel as we grow, our business could be adversely affected.

We are dependent upon the ability and experience of a number of our key personnel who have substantial experience with our operation, the rapidly changing transaction processing and money transfer industries, and the selected markets in which we offer our services. It is possible that the loss of the services of one or a combination of our key personnel would have an adverse effect on our operation. Our success also depends on our ability to continue to attract, manage, and retain additional qualified management and technical personnel as we grow. We cannot assure you that we will continue to attract or retain such personnel.

We may become subject to additional U.S. state taxes that cannot be passed through to our merchant customers, in which case our profitability could be adversely affected.

Transaction processing companies like us may be subject to taxation by various U.S. states on certain portions of our fees charged to customers for our services. Application of these taxes is an emerging issue in our industry and the states have not yet adopted uniform regulations on this topic. If we are required to pay such taxes and are not able to pass the tax expense through to our merchant customers, our operating costs will increase, reducing our profit margin.

Anti-takeover provisions of our articles of incorporation and by-laws, our rights agreement and provisions of Georgia law could delay or prevent a change of control that you may favor.

Provisions of our articles of incorporation and by-laws, our rights agreement and provisions of applicable Georgia law may discourage, delay or prevent a merger or other change of control that shareholders may consider favorable. The provisions of our articles and by-laws, among other things,

divide our board of directors into three classes, with members of each class to be elected in staggered three-year terms;

limit the right of shareholders to remove directors;

regulate how shareholders may present proposals or nominate directors for election at annual meetings of shareholders; and

authorize our board of directors to issue preferred shares in one or more series, without shareholder approval.

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Also, under Section 355(e) of the Internal Revenue Code, the spin-off from NDCHealth will be treated as a taxable transaction if one or more persons acquire directly or indirectly 50% or more of our or NDCHealth's stock (measured by vote or value) as part of a plan or series of related transactions that is linked to the spin-off under the rules of Section 355(e). For this purpose, any acquisitions of our stock or NDCHealth stock within two years before or after the spin-off are presumed to be part of such a plan, although NDCHealth or we may be able to rebut that presumption. If such an acquisition of our stock triggers the application of Section 355(e), under the tax sharing agreement, we would be required to indemnify NDCHealth for the resulting tax. This indemnity obligation might discourage, delay or prevent a change of control that shareholders may consider favorable.

We may not be able or we may decide not to pay dividends at a level anticipated by shareholders on our common stock, which could reduce your return on shares you hold.

The payment of dividends is at the discretion of our board of directors and will be subject to our financial results, our working capital requirements, the availability of surplus funds to pay dividends and restrictions under our credit facility. No assurance can be given that we will be able to or will choose to pay any dividends in the foreseeable future.

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INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus information we file with the SEC. This allows us to disclose important information to you by referring to other documents that we filed with the SEC (including documents we file with the SEC after the date of this prospectus) that contain that information. We incorporate by reference the documents listed below as of their respective dates, except to the extent information in those documents differs from information contained in this prospectus:

Annual Report on Form 10-K for the year ended May 31, 2003;

Quarterly Report on Form 10-Q for the quarter ended August 31, 2003;

Quarterly Report on Form 10-Q for the quarter ended November 30, 2003;

Current Report on Form 8-K filed with the SEC on August 12, 2003;

Current Report on Form 8-K filed with the SEC on November 12, 2003;

Current Report on Form 8-K filed with the SEC on November 26, 2003;

Amendment No. 1 on Form 8-K/A, filed with the SEC on January 23, 2004, amending Current Report on Form 8-K filed with the SEC on November 26, 2003; and

The description of our common stock as contained in our amended Registration Statement on Form 10 filed with the SEC on December 28, 2000 and any amendments and reports filed for the purpose of updating that description.

We also incorporate by reference, to the extent not expressly listed above, any filings that we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act between the date of the initial filing of the registration statement of which this prospectus is a part and prior to the effectiveness of such registration statement.

In addition, we incorporate by reference any future filings that we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act. The information contained in the future filings that we make with the SEC will automatically update and supercede the information contained or incorporated by reference in this prospectus. In the event of any conflicting information in these documents, the information in the latest filed document should be considered correct.

You may request a copy of the above documents, at no cost, by written or oral request. We also will provide, upon request and without charge, a copy of our latest Annual Report to Shareholders. Written or telephonic requests should be directed to:

Investor Relations Department

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Global Payments Inc.

10 Glenlake Parkway

North Tower

Atlanta, Georgia 30328

Telephone number: (770) 829-8234

You should only rely on the information incorporated by reference or provided in this prospectus or any supplement. We have not authorized anyone to provide you with information that is different, and, if given or made, such information must not be relied upon as having received our authorization. The selling shareholder cannot offer any of these shares in any state where the offer is not permitted. You should not assume that the information in this prospectus or any supplement is accurate as of any date other than the date on the front of the respective document

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**SPECIAL CAUTIONARY NOTICE REGARDING
FORWARD-LOOKING STATEMENTS**

Some of the statements in this prospectus, and in some of the documents we incorporate by reference in this prospectus contain forward-looking statements concerning our business operations, economic performance and financial condition, including in particular, our business strategy and means to implement our strategy, the amount of future capital expenditures, our success in developing and introducing new products and expanding our business, the successful integration of future acquisitions, and the timing of the introduction of new and modified products or services. You can sometimes identify forward looking-statements by our use of the words may, could, should, would, believe, anticipate, estimate, expect, intend, plan and similar terms and/or expressions. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

Although we believe that the plans and expectations reflected in or suggested by our forward-looking statements are reasonable, those statements are based on a number of assumptions and estimates that are inherently subject to significant risks and uncertainties, many of which are beyond our control, cannot be foreseen, and reflect future business decisions that are subject to change. Accordingly, we cannot guarantee you that our plans and expectations will be achieved. Our actual revenues, revenue growth rates and margins, other results of operation and shareholder values could differ materially from those anticipated in our forward-looking statements as a result of many known and unknown factors, many of which are beyond our ability to predict or control. These factors include, but are not limited to, those set forth on pages 3-7 of this prospectus, those set forth in our Annual Report on Form 10-K, and those set forth in our press releases, reports and other filings made with the SEC. These cautionary statements qualify all of our forward-looking statements and you are cautioned not to place undue reliance on these forward-looking statements.

Our forward-looking statements speak only as of the date they are made and should not be relied upon as representing our plans and expectations as of any subsequent date. While we may elect to update or revise forward-looking statements at some time in the future, we specifically disclaim any obligation to publicly release the results of any revisions to our forward-looking statements.

USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the shares. All net proceeds from the sale of the shares of common stock offered by this prospectus will be received by the selling shareholders.

SELLING SHAREHOLDER

The selling shareholder is CIBC, a bank governed by the Bank Act (Canada), through its wholly-owned subsidiary, CIBC Investments Limited.

On March 20, 2001, we purchased CIBC's merchant acquiring business. As a result of this transaction, CIBC acquired beneficial ownership of approximately 26.25% of our outstanding common stock. Pursuant to the terms of the investor rights agreement which was entered into in connection with the transaction, two of its employees were appointed to our Board of Directors. These designees, Richard E. Venn and I. David Marshall, were appointed as directors effective as of March 20, 2001. On August 15, 2002, Mr. Marshall retired from CIBC and therefore resigned from our Board of Directors. CIBC designated another employee, Gillian H. Denham, to replace Mr. Marshall. Both Mr. Venn and Ms.

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Denham resigned from our board of directors effective as of October 24, 2003.

A summary of certain agreements governing our ongoing relationship with CIBC is discussed below.

Transition Services Agreement. CIBC provided transition services to us under an agreement to provide various support services to the merchant acquiring business for a 24-month period commencing on the acquisition date of March 20, 2001. The purpose of the agreement was to facilitate the integration of CIBC's merchant acquiring business into our existing operations. These services included customer service, credit and debit card processing and settlement functions. For fiscal 2003, we incurred expenses of approximately \$6.2 million related to these services.

Credit Facility. We have a credit facility with CIBC that provides a line of credit of up to \$175 million (Canadian dollars) with an additional overdraft facility available to cover larger advances during periods of peak usage of credit and debit cards. This line of credit is secured by a first priority security interest in our accounts receivable from VISA Canada/International, and has been guaranteed by our subsidiaries. The CIBC credit facility, as amended, had a term of 364 days expiring December 9, 2003, and has been subsequently extended until April 30, 2004. We expect to receive future monthly extensions until we complete the syndication for a new facility.

Marketing Alliance Agreement. Under a Marketing Alliance Agreement, CIBC refers all new merchant processing relationships exclusively to us in exchange for a referral fee. CIBC also continues to provide the banking services that we require.

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as part of our merchant processing business and provides us with access to VISA clearing capabilities in Canada. The agreement has an initial term of ten years beginning March 20, 2001. During fiscal 2003, we paid CIBC \$453,204 (Canadian dollars) in connection with this agreement.

As of February 24, 2004, CIBC, through its wholly-owned subsidiary, CIBC Investments Limited, was the beneficial owner of 8,322,055 shares, or approximately 22.1 percent, of our common stock. After this offering, assuming all shares of our common stock registered hereunder are sold, neither CIBC nor CIBC Investments Limited will own any of our common stock.

PLAN OF DISTRIBUTION

The Global Payments common shares offered hereby may be sold from time to time directly by the selling shareholder or, alternatively, through agents, broker-dealers or underwriters. These Global Payments common shares may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of sale, at varying prices determined at the time of sale, or at negotiated prices. Such sales may be effected in transactions (which may involve crosses or block transactions in which the broker or dealer so engaged will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction) (i) on the New York Stock Exchange or any national securities exchange or U.S. inter-dealer quotation system or a registered national securities association on which the shares may be listed or quoted at the time of sale, (ii) in the over-the-counter market, (iii) in other ways not involving market makers or established trading markets, including direct sales to purchasers or sales effected through agents, or (iv) at the market to or through market makers or into an existing market for the shares. The selling shareholder may also sell Global Payments common shares short and deliver the shares offered hereby to close out such short positions. The method of distribution of such Global Payments common shares will be described in the applicable prospectus supplement.

The selling shareholder may also enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by the selling shareholder or borrowed from the selling shareholder or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from the selling shareholder in settlement of those derivatives to close out any related open borrowings of stock. The third party in such sale transactions will be an underwriter and, if not identified in this prospectus, will be identified in the applicable prospectus supplement (or a post-effective amendment).

Some or all of the Global Payments common shares covered by this prospectus may be sold to or through an agent, broker-dealer or underwriter. Any shares sold in that manner will be acquired by the agent, broker-dealer or underwriter for its own account and may be resold at different times in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The Global Payments common shares may be offered to the public through underwriting syndicates represented by one or more managing underwriters or may be offered to the public directly by one or more underwriters. Any public offering price and any discounts or concessions allowed or paid to dealers may be changed at different times. Some of the agents, broker-dealers or underwriters and their associates may be customers of, engage in transactions with and perform services for us or the selling shareholder in the ordinary course of business.

The specific number of shares of Global Payments common stock to be sold, purchase price, public offering price, the names of any agent, broker-dealer or underwriter, and any applicable commission or discount and other terms constituting compensation from the selling shareholder and any other required information with respect to a particular offering will be set forth in an accompanying prospectus supplement. To the extent required, this prospectus may be amended and supplemented from time to time to describe a specific plan of distribution. We will make copies of this prospectus available to the selling shareholder and have informed the selling shareholder of the need for delivery of copies of this prospectus to purchasers at or before the time of any sale of our Global Payment common shares.

EXPERTS

The consolidated financial statements and related financial statement schedule as of May 31, 2003 and 2002 and for the years then ended incorporated in this prospectus by reference from the Annual Report on Form 10-K of Global Payments Inc. for the year ended May 31, 2003 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report (which report expresses an unqualified opinion and includes explanatory paragraphs relating to (i) the Company's change in its method of accounting for goodwill and other intangible assets to conform with Statement of Financial Accounting Standards No. 142 and the Company's change in its method of accounting for costs associated with exit or disposal activities to conform with Statement of Financial Accounting Standards No. 146 and (ii) the application of procedures relating to certain disclosures of financial statement amounts related to the 2001 financial statements that were audited by other auditors who have ceased operations and for which

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Deloitte & Touche LLP has expressed no opinion or other form of assurance other than with respect to such disclosures), which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

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Our consolidated statements of income, changes in shareholders' equity, and cash flows for the year ended May 31, 2001 have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their report dated July 17, 2001.

We could not obtain, after reasonable efforts, the written consent of Arthur Andersen LLP to its being named in this prospectus as having audited our financial statements for the year ended May 31, 2001, as required by Section 7 of the Securities Act. Accordingly, Arthur Andersen LLP may not have any liability under Section 11 of the Securities Act for false or misleading statements or omissions contained in this prospectus, including the financial statements, and any claims against Arthur Andersen LLP related to such false or misleading statements or omissions may be limited.

The combined balance sheets of Certain Operations of Latin America Money Services, LLC as of December 31, 2002 and 2001, and the related combined statements of operations, changes in business equity and comprehensive income (loss), and cash flows for the years then ended incorporated in this prospectus by reference from Amendment No. 1 on Form 8-K/A of Global Payments Inc. filed with the SEC on January 23, 2004 amending the Current Report on Form 8-K filed with the SEC on November 26, 2003 have been audited by KPMG LLP, independent auditors, as stated in their report (which report expresses an unqualified opinion and includes an explanatory paragraph relating to a change in the method of accounting for goodwill and other intangible assets in 2002), which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

LEGAL MATTERS

Alston & Bird LLP has passed upon certain legal matters regarding the shares offered by this prospectus.

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8,327,755 Shares

Prospectus

Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION**

Securities and Exchange Commission Registration Fee	\$ 46,067
Accounting Fees and Expenses	5,000
Legal Fees and Expenses	5,000
Printing Expenses	1,000
Miscellaneous Expenses	1,933
	<hr/>
Total	\$ 59,000

The foregoing items, except for the Securities and Exchange Commission registration fee, are estimated. We will pay all of the above expenses. The selling shareholder will pay its own expenses, including expenses of its own counsel, broker or dealer fees, discounts and expenses, and all transfer and other taxes on the sale of the shares.

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 14-2-202(b)(4) of the Georgia Business Corporation Code provides that a corporation's articles of incorporation may include a provision that eliminates or limits the liability of directors for monetary damages to a corporation or its shareholders for any action taken, or failure to take any action, as a director. The section does not, however, authorize a corporation to eliminate or limit the liability of a director for appropriating, in violation of his or her duties, any business opportunity of the corporation, for acts or omissions which involve intentional misconduct or a knowing violation of law, for any transaction from which the director received an improper personal benefit, or authorizing a dividend, stock repurchase or redemption, distribution of assets or other distribution in violation of Section 14-2-640 of the Georgia Business Corporation Code if it is established that the director did not perform his or her duties in compliance with Section 14-2-832 of the Georgia Business Corporation Code, which sets forth general standards for directors. Section 14-2-202(b)(4) also does not eliminate or limit the right of a corporation or any shareholder to seek an injunction, a rescission or any other equitable (non-monetary) relief for any action taken or not taken by a director. In addition, Section 14-2-202(b)(4) applies only to claims against a director arising out of his or her role as a director and does not relieve a director from liability arising from his or her role as an officer or in any other capacity. Article Nine of our Articles of Incorporation eliminates the personal monetary liability of directors of the Company to the fullest extent allowed by Section 14-2-202(b)(4).

As permitted by the Georgia Business Corporation Code, our bylaws provide for the indemnification of both directors and officers for liability incurred by them in connection with any threatened, pending or contemplated civil, criminal, administrative, arbitrative or investigative action, suit or proceeding in which they may become involved by reason of their capacities as director and officers. The bylaws also provide such indemnity for directors and officers who, at our request, act as directors, officers, partners, trustees, employees or agents of another corporation, partnership, joint venture, trust, employee benefit plan or other entity. The bylaws prohibit indemnification if a director or officer is adjudged liable to the corporation or is subjected to injunctive relief in favor of the corporation for any appropriation in violation of his or her duties, of any business opportunity of the corporation, for acts or omissions which involve intentional misconduct or a knowing violation of law; for the types of liability set forth in Section 14-2-832 of the Georgia Business Corporation Code; or for any transaction from which he or she receives an improper personal benefit.

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Sections 14-2-852 and 14-2-857 of the Georgia Business Corporation Code provide that directors and officers who are wholly successful in the defense of any proceeding to which he or she was a party because her or she was an officer or a director of the corporation are entitled to indemnification against reasonable expenses as of right. On the other hand, if the charges made in any action are sustained, the determination of whether the required standard of conduct has been met will be made, in accordance with the provisions of Georgia Business Corporation Code Section 14-2-855, by either the Board of Directors or a committee thereof, acting by disinterested members, by special legal counsel or by the shareholders, but shares owned by or voted under the control of directors seeking indemnification may not be voted.

ITEM 16. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following exhibits are filed as part of this registration statement.

<u>Exhibit Number</u>	<u>Description</u>
4.1	Amended and Restated Articles of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K, dated January 31, 2001)
4.2	Fourth Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ending August 31, 2003)

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4.3	Shareholder Protection Rights Agreement, dated January 26, 2001 between the Registrant and SunTrust Bank (Incorporated by reference to Exhibit 99.1 to the Registrant's Current Report on Form 8-K, dated January 26, 2001)
4.4	Form of Certificate representing the Registrant's Common Stock, as amended (Incorporated by reference to Exhibit 4.4 to the Registrant's First Amendment to the Registration Statement on Form 10, dated December 28, 2000)
5.1	Opinion and Consent of Alston & Bird LLP
23.1	Consent of Deloitte & Touche LLP
23.2	Consent of KPMG LLP
24	Power of Attorney (included in signature page to this registration statement)

ITEM 17. UNDERTAKINGS

A. Rule 415 Offering

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

- i. To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;
- ii. To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of Securities offered (if the total dollar value of Securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and
- iii. To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

provided, however, that paragraphs (A)(1)(i) and (A)(1)(ii) do not apply if the registration statement is on Form S-3, Form S-8 or Form F-3, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the Commission by the registrant pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

B. Incorporating Subsequent Exchange Act Documents by Reference

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the Securities offered therein, and the offering of such Securities at that time shall be deemed to be the initial bona fide offering thereof.

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C. Disclosure of Commission Position on Securities Act Liabilities

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Table of Contents**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Atlanta, State of Georgia, on March 17, 2004.

GLOBAL PAYMENTS INC.
(Registrant)

By: /s/ Paul R. Garcia

Paul R. Garcia

Chairman of the Board, Chief Executive Officer, and President
(Principal Executive Officer)

By: /s/ James G. Kelly

	(274,820)	(145,000)
Proceeds from Long-Term Debt, Net of Payments	73,085	(35,270)
Payments on Dividends	-	(2,956)
Sale of Common Stock, Net of Cost of Capital	813,999	-
Series B Preferred Stock Issued, Net of Cost of Capital	-	2,821,482
Net Cash Provided by Financing Activities	1,060,026	3,031,746
EFFECT OF EXCHANGE RATE CHANGES ON CASH	7,467	1,632
NET INCREASE (DECREASE) IN CASH AND CASH	752,608	596,654

EQUIVALENTS

Cash and Cash Equivalents- Beginning of Period	206,925	87,900
CASH AND CASH EQUIVALENTS \$ - END OF PERIOD	959,533	\$684,554

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, 2016 AND 2015

	Six Months Ended June 30, 2016 (Unaudited)	Six Months Ended June 30, 2015 (Unaudited)
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest Paid	\$ 14,384	\$ 37,422
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Common Stock Issued for Investor Relations	\$ -	\$ 7,500
Warrants Issued for Interest Expense	\$ 3,000	\$ 7,327
Dividends Converted to Common Stock	\$ 148,211	\$ -
Common Stock Issued for Finance Costs	\$ 15,000	\$ -

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, 2015. The operating results and cash flows for the six-month period ended June 30, 2016 are not necessarily indicative of the results that will be achieved for the full fiscal year ending December 31, 2015 or for future periods.

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

The balance sheet at December 31, 2015 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, 2015 contained a going concern qualification. Since inception, we have generated an accumulated deficit from operations of approximately \$33 million at June 30, 2016 and have used approximately \$0.3 million in cash to fund operations through the six months ended June 30, 2016. As a result, a significant risk exists regarding our ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from this uncertainty.

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

We developed Sentir, our cloud-based video management platform, and began executing on our strategy to license its use as a VSaaS offering to partners, as of March 2014, such as telecommunications companies, ISPs, data centers, and cable companies in order to gain access to their existing subscriber bases.

We introduced the ZEE® line of cloud, plug-and-play cameras in September 2013. The camera line includes two indoor cameras, one outdoor camera, and one pan/tilt P/T camera. We utilize contract manufacturers for our cloud cameras and other cloud-enabled devices. The Sentir-enabled cameras simplify service providers' VSaaS offering to end users.

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

We introduced IvedaHome for shipments beginning 2016, cloud-based home security and automation systems.

We signed an exclusive reseller agreement in November 2015 with a local group in Vietnam that will sell to the Vietnam Telecom and Integrator market under the name Iveda Vietnam. Our initial shipment of ZEE cameras was sent in February 2016 for delivery to Vietnam Posts and Telecommunications (VNPT) for distribution to its customers.

IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

We closed \$500,000 strategic investment transaction with the new majority owner of Iveda Vietnam. The new majority owner is expected to fund the working capital requirements for deposits and final payment before we ship cameras and other Sentir-enabled devices, through our contract manufacturing relationships in Asia. This role is key in facilitating business with large telecom customers on terms acceptable in Vietnam.

We are actively collaborating with certain telecommunications companies in other countries to resell our products and services in their respective countries. Our initial shipments of ZEE cameras were sent in June and August 2014 for delivery to Filcomserve as reseller to the Philippine Long Distance Company (“PLDT”) for distribution to its customers.

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 its direct project-based sales channel and all costs related to project-based sales as well as our real time monitoring services 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. In February 2014, Mr. Brilon was appointed as our President. Mr. Brilon has strong ties with the investment community and has extensive experience with domestic and foreign institutional investors, which may be instrumental in raising capital to fund our growth. Mr. Brilon has also been instrumental in restructuring the business model reducing the workforce and implementing relevant cost reductions in 2014, 2015 and 2016.

Concentrations

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

Substantially all cash is deposited in two financial institutions, one in the United States and one in Taiwan. At times, amounts on deposit in the United States may be in excess of the Federal Deposit Insurance Corporation (“FDIC”) insurance limit. Deposits in Taiwan financial institutions are insured by Central Deposit Insurance Corporation (“CDIC”) with maximum coverage of NTD 3 million. At times, amounts on deposit in Taiwan may be in excess of the CDIC insurance limit.

Accounts receivable are unsecured, and we are at risk to the extent such amount becomes uncollectible. We perform periodic credit evaluations of our customers' financial condition and generally do not require collateral. U.S.-based segment revenue from one customer represented approximately 78% of total revenue for the six months ended June 30, 2016, and three customers represented approximately 52% of the total U.S.-based segment accounts receivable at June 30, 2016. Taiwan-based segment revenue from two customers represented approximately 81% of total revenue for the six months ended June 30, 2016, and four customers represented approximately 84% of total Taiwan-based segment accounts receivable at June 30, 2016.

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, 2016. Future amortization of trademarks is as follows:

2016	\$10,000
2017	20,000
2018	20,000
2019	20,000
Thereafter	26,666
Total	\$96,666

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, 2016 and December 31, 2015. 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, 2016	
	Net	Net Assets
	Revenue	(Liabilities)
United States	\$247,621	\$(1,900,840)
Republic of China (Taiwan) MEGAsys	\$503,520	\$(138,464)

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.

Statements of operations for the three and six months ended June 30, 2016 for each of our reporting segments are provided below.

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2016	Condensed Consolidated
	Iveda Solutions, Inc.	MEGAsys	Total
Revenue	\$ 120,053	\$ 218,571	\$ 338,624
Cost of Revenue	84,612	171,640	256,252
Gross Profit	35,441	46,931	82,372
Depreciation and Amortization	26,531	-	26,531
General and Administrative	426,681	71,235	497,916
Gain (Loss) from Operations	(417,771)	(24,304)	(442,075)
Foreign Currency Gain	-	-	-
Gain on Derivatives	(4,272)	-	(4,272)
Gain on Disposal of Asses, Net	7,313	-	7,313
Interest Income	-	183	183
Interest Expense	(19,131)	(2,016)	(21,147)
Gain (Loss) Before Income Taxes	(433,861)	(26,137)	(459,998)
Benefit (Provision) for Income Taxes	-	(16,711)	(16,711)

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenue				
United States	\$ 120,053	\$ 48,912	\$ 247,621	\$ 148,235
Republic of China (Taiwan)	218,571	726,649	503,520	1,153,149
	\$ 338,624	\$ 775,561	\$ 751,141	\$ 1,301,384

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Operating Earnings (Loss)				
United States	\$(417,771)	\$(845,216)	\$(949,259)	\$(1,740,396)
Republic of China (Taiwan)	(24,304)	18,132	(59,656)	64,501
	\$(442,075)	\$(827,084)	\$(1,008,915)	\$(1,675,895)

	Six Months Ended June 30,	
	2016	2015
Property and Equipment, Net		
United States	\$ 131,721	\$ 354,218
Republic of China (Taiwan)	10,121	11,475
	\$ 141,842	\$ 365,693

	Six Months Ended June 30,	
	2016	2015
Additions (Disposals) to Long-Lived Assets		
United States	\$-	\$(3,883)
Republic of China (Taiwan)	(793)	(1,172)
	\$(793)	\$(5,055)

IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	Six Months Ended June 30,	
	2016	2015
Inventory, Net		
United States	\$67,289	\$262,880
Republic of China (Taiwan)	112,808	157,943
	\$180,097	\$420,823

	Six Months Ended June 30,	
	2016	2015
Total Assets		
United States	\$814,458	\$1,659,937
Republic of China (Taiwan)	1,580,327	2,542,083
	\$2,394,785	\$4,202,020

Reclassification

Certain amounts in 2015 may have been reclassified to conform to the 2016 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:

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	June 30, 2016	December 31, 2015
Loan from Bank SinoPac at 2.95% interest rate per annum. Due at June 2016 - December 2016.	\$154,600	\$ -
Loan from Hua Nan Bank at 2.88% interest rate per annum. Due at February 2016 - August 2016.	\$154,600	\$ -
Loan from shareholder at 9.5% interest rate per annum. Originated February 2016 with initial term to March 31, 2016, then due upon demand, repaid in July 2016.	\$100,000	\$ -
Loan from Shanghai Bank at 3.24% interest rate per annum. Due at July 2015 - March 2016.	\$-	\$ 53,025
Balance at end of period	\$409,200	\$ 53,025

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 April 22, 2016, conversion price was adjusted to \$0.86 as a result of Series B Tranche A warrants exercised by certain shareholders, at an adjusted exercise price of \$0.35 per share. 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.

During the six months ended June 30, 2016, we issued 72,204 shares of common stock for conversion of Series A preferred shares.

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.

IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 April 22, 2016, conversion price was adjusted to \$0.35 as a result of Series B Tranche A warrants exercised by certain shareholders, at an adjusted exercise price of \$0.35 per share. 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.

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.

During the six months ended June 30, 2016, we issued 362,473 shares of common stock in payment of dividends to Series B preferred stockholders.

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, 2016, we issued 362,473 shares of common stock in payment of dividends to Series B preferred stockholders.

During the six months ended June 30, 2016, we issued 89,690 shares of common stock for exercised options to purchase common stock.

During the six months ended June 30, 2016, we issued 1,088,570 shares of common stock for exercised warrants to purchase common stock.

IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

During the six months ended June 30, 2016, we issued 72,204 shares of common stock for conversion of Series A preferred shares.

During the six months ended June 30, 2016, we issued 11,000 shares of common stock for origination fees for a \$100,000 short term loan.

During the six months ended June 30, 2016, we issued 628,571 shares of common stock (with 800,000 warrants at \$0.35 exercise price) for \$500,000 strategic investment.

During the six months ended June 30, 2016, we issued 60,000 shares of common stock for the referral of the \$500,000 strategic investment.

Notes Receivable from Stockholder

In September 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. At September 30, 2015, a prepayment discount was negotiated amending the total outstanding to \$230,000. \$100,000 was received on September 30, 2015, and \$130,000 was received on October 20, 2015.

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

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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, 2016 were as follows:

	Six months ended June 30, 2016	
	Shares	Weighted-Average Exercise Price
Outstanding at Beginning of Year	6,037,754	\$ 0.96
Granted	30,000	0.65
Exercised	(89,690)	0.10
Forfeited or Canceled	(158,500)	0.94
Outstanding at End of Period	5,819,564	0.97
Options Exercisable at End of Period	5,767,439	\$ 0.98
Weighted-Average Fair Value of Options Granted During the Period		\$0.14

IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Information with respect to stock options outstanding and exercisable as of June 30, 2016 is as follows:

Range of Exercise Prices	Options Outstanding		Weighted- Average Exercise Price	Options Exercisable	
	Number Outstanding at June 30, 2016	Weighted- Average Remaining Contractual Life		Number Exercisable at June 30, 2016	Weighted- Average Exercise Price
\$0.10 - \$1.75	5,819,564	6.5	\$ 0.97	5,767,439	\$ 0.98

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:

	2016
Expected Life	6.25 yrs
Dividend Yield	0 %
Expected Volatility	18.07 %
Risk-Free Interest Rate	2.18 %

Expected volatility for 2016 and 2015 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.

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As of June 30, 2016, warrants to purchase 7,453,016 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, 2016 were as follows:

Outstanding at December 31, 2015	7,417,302
Granted	1,484,999
Exercised	(624,286)
Forfeited or Canceled	(824,999)
Warrants Redeemable at June 30, 2016	7,453,016

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IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 RELATED PARTY TRANSACTIONS

June 30,
2016

During June 2015 MEGAsys entered into an unsecured loan agreement with two of its directors, Mr. Cheung and Mr. Shiau for \$18,180 and \$36,360, respectively. During July 2015 MEGAsys entered into additional unsecured loans from Mr. Cheung for \$315,120. All of the loans are at maximum of 8.8% interest per annum and matured December 30, 2015. We paid the \$284,820 principal balance and accrued interest on January 31, 2016.

-

On December 30, 2014, we entered into a debenture agreement with Mr. Farnsworth, a member of our Board of Directors, for \$10,000, at 9.5% interest per annum with interest and principal payable on January 31, 2015. 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 Mr. Gillen, a member of our Board of Directors, for \$100,000, at 9.5% interest per annum with interest and principal payable on January 5, 2015. Mr. Gillen also received a warrant to purchase 25,000 shares of our common stock at an exercise price of \$1.00 per share. As consideration for agreeing to extend the maturity date of the debenture, we granted Mr. Gillen options to purchase 10,000 shares of our common stock at an exercise price of \$0.77 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. Joe Farnsworth, a member of our Board of Directors, for \$35,000, at 9.5% interest per annum with interest and principal payable on February 5, 2015. 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 Mr. 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.

30,000

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.

100,000

On August 28, 2014, we entered into a debenture agreement with Mr. Gregory Omi, a member of our Board of Directors of the company for \$200,000, at 9.5% interest per annum with interest and principal

200,000

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payable on the extended maturity date of Decemer 31, 2016. As consideration for the extension of the debenture, we granted Mr. Omi options to purchase 20,000 shares of our common stock with an exercised price of \$0.77 per share. This debenture was extended to December 31, 2016 and as consideration for agreeing to extend the maturity date of the debenture, we granted Mr. Omi options to purchase 20,000 shares of common stock at an exercised price of \$0.65 per share.

On November 19, 2012, we entered into a convertible debenture agreement with Mr. Robert Gillen, a member of our Board of Directors, for \$100,000 (the "Gillen I Debenture"), 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. Gillen I 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 common stock at an exercised price of \$0.77 per share This debenture was extended to December 31, 2016 and as consideration for agreeing to extend the maturity date of the debenture, we granted Mr. Gillen options to purchase 10,000 shares of common stock at an exercised price of \$0.65 per share. 100,000

On April 1, 2016, we entered into a debenture agreement with Mr. Joe Farnsworth, a member of our Board of Directors, for \$10,000, at 9.5% interest per annum with interest and principal payable on July 1, 2016. \$ 10,000

Total Due to Related Parties	\$440,000
Less Current Portion	(440,000)
Less: Debt Discount	-
Total Long-Term	\$-

IVEDA SOLUTIONS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Related Party Transactions –

During 2016 MEGAsys conducted business with a Taiwan based system integrator, Iwei Da System Ltd. and has one of MEGAsys directors as a common director also less than 2% shareholder of Iveda. The sales to the system integrator for the six-month period ended June 30, 2016 was \$168,654, at June 30, 2016 there was accounts receivable balance of \$166.

In May 2016 we abandoned our prior lease at 1201 S Alma School Road, Suite 8500, Mesa, Arizona and subleased on a month to month basis approximately 2,500 square feet of office space at 460 S. Greenfield, Suite 5, Mesa, Arizona from Farnsworth Realty & Management Company for \$3,000 per month. One of our directors, Joe Farnsworth, is 70% stakeholder in Farnsworth Realty & Management Company.

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, 2015 and 2014 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, 2016 and 2015 and six months ended June 30, 2016 and 2015. Total common stock equivalents that could be convertible into common stock were 26,499,901 and 22,127,032 for June 30, 2016 and 2015, respectively.

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Basic EPS				
Net Loss	\$ (476,709)	\$ (880,349)	\$ (1,059,553)	\$ (1,719,733)

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Weighted Average Shares	29,267,353	27,380,701	28,673,883	27,344,729
Basic and Diluted Loss Per Share	\$(0.02)	\$(0.03)	\$(0.04)	\$(0.06)

NOTE 7 SUBSEQUENT EVENTS

We have evaluated subsequent events from the balance sheet date through the date the condensed consolidated financial statements were issued and determined that there are no additional items to disclose.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and associated notes appearing elsewhere in this Quarterly Report Form 10-Q and with our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Note Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q contains forward looking statements that involve risks and uncertainties. All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q, including statements regarding future events, our future financial performance, business strategy, and plans and objectives for future operations, are forward-looking statements. In many cases, you can identify forward-looking statements by terminology such as “anticipates,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “predicts,” “should,” or “will” or the negative of these terms or other comparable terminology. Although we do not make forward looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy. These statements are only predictions and involve known and unknown risks, uncertainties, and other factors, including the risks outlined under “Risk Factors”, “Liquidity and Capital Resources” with respect to our ability to continue to generate cash from operations or new investments, or elsewhere in this Quarterly Report on Form 10-Q or discussed in our Annual Report on Form 10-K for the year ended December 31, 2015, which may cause our or our industry’s actual results, levels of activity, performance, or achievements to differ materially from those expressed or implied by these forward-looking statements. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time, and it is not possible for us to predict all risk factors, nor can we address the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause our actual results to differ materially from those contained in any forward-looking statements.

You should not place undue reliance on any forward-looking statement, each of which applies only as of the date of this Quarterly Report on Form 10-Q. Except as required by law, we undertake no obligation to update or revise publicly any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform our statements to actual results or changed expectations.

Critical Accounting Policies and Estimates

Management’s Discussion and Analysis of Financial Conditions and Results of Operations is based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements

requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A description of our critical accounting policies and related judgments and estimates that affect the preparation of our financial statements is set forth in Item 7, “Management’s Discussion and Analysis of Financial Conditions and Results of Operations,” of our Annual Report on Form 10-K for the year ended December 31, 2015. Such policies are unchanged.

Overview

We developed Sentir®, a video surveillance management platform with big data storage technology for flexible and scalable distribution of hosted video surveillance services to end users. Sentir has an enterprise-class video hosting architecture, utilizing robust data centers. Sentir is ideal for service providers such as telecommunications companies, Internet service providers (“ISPs”), data centers, and cable companies with an existing physical infrastructure that are looking to add video surveillance services to their customer offerings. Sentir allows scalability, flexibility, and centralized video management, access, and storage. The advantage this platform offers end users is that there is no need to buy and maintain video surveillance software and hardware. This platform enables real-time viewing and recorded playback of video on computers and mobile devices with push notifications and alerts. Our expertise allows us to enable large service providers to offer cloud-based plug-and-play video surveillance using our Sentir platform.

Historically, we sold and installed video surveillance equipment, primarily for security purposes and secondarily for operational efficiencies and marketing. We also provided video hosting, in-vehicle streaming video, archiving, and real-time remote surveillance services to a variety of businesses and organizations. Our principal sources of revenue were derived from monthly fees from video hosting and real-time surveillance services and one-time fees for equipment sales and installation.

In 2014, we shifted our revenue model from direct project-based sales to licensing Sentir and selling Sentir-enabled plug-and-play cloud cameras to service providers such as telecommunications companies, ISPs, data centers, and cable companies already providing services to an existing customer base. Partnering with service providers that have an existing loyal subscriber base allows us to focus on our customers, the service providers, and leverage their end-user infrastructure to sell, bill, and provide customer service for the Sentir cloud video surveillance offering. This business model provides dual revenue streams – one from camera sales to the service providers and the other from monthly Sentir licensing fees on a per-camera activation basis.

In April, 2011, we completed our acquisition of MEGAsys®, a company founded in 1998 by a group of sales and research and development professionals from Taiwan Panasonic Company. MEGAsys, our subsidiary in Taiwan, specializes in deploying new, and integrating existing, 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 combines security surveillance products, software, and services to provide integrated security solutions to the end user. Through MEGAsys, we have access not only to Asian markets but also to Asian manufacturers and engineering expertise. MEGAsys is our research and development arm, working with a team of developers and managing our relationship with the Industrial Technology Research Institute (“ITRI”) in Taiwan. MEGAsys also houses the application engineering team that supports Sentir implementation for our service provider customers in Asia. The acquisition of MEGAsys provided the following benefits to our business:

An established presence and credibility in Asia and access to the Asian market.

Relationships in Asia for cost-effective research and development of new product offerings and securing the best pricing for end user devices.

Sourcing of products directly using MEGAsys’s product sourcing expertise to enhance our custom integration capabilities.

Enhancements to the global distribution potential for our products and services.

In April 2009, the Department of Homeland Security (“DHS”) approved us as a Qualified Anti-Terrorism Technology provider under a formal SAFETY Act Designation. The designation gives us, our partners, and our customers certain liability protection. We became the first company to offer real-time Internet Protocol (“IP”) video hosting and remote surveillance services with a SAFETY Act Designation. Our SAFETY Act Designation was renewed in October 2014.

In January 2016, after thoroughly reviewing the analysis of the DHS Office of SAFETY Act, the Deputy Under Secretary of Science and Technology has determined that our technology satisfies the criteria set forth in Section 442(d)(s) of the SAFETY Act and in Section 25.8(a) of the Regulations and officially issued a Certification. A Certificate of Conformance of Technology was issued and our video surveillance products and services were placed on “Approved Products List for Homeland Security.”

In November 2012, we signed a cooperation agreement with ITRI, a research and development organization based in Taiwan. Together with ITRI, we have developed cloud-video services. Pursuant to the cooperation agreement, we received the right to license some of ITRI’s patents that were used in the development. We also have exclusive rights to license the products and services we develop in cooperation with ITRI.

In June and August 2014, in collaboration with our local partner in the Philippines, we shipped our ZEE® cloud plug-and-play cameras for delivery to the Philippine Long Distance Telephone Company (“PLDT”) for distribution to its customers with a cloud video surveillance service offering, utilizing our Sentir platform.

In December 2014, we entered into a Framework Agreement with Vietnam Posts and Telecommunications Group (VNPT), the largest telecommunications company in Vietnam to install Sentir at its data centers and conduct technical testing for mass distribution of our ZEE cameras to its existing customer base. In June 2015, Sentir was installed at four of VNPT's data centers. After technical testing, in July 2015, VNPT issued a thorough report validating Sentir.

In November 2015, we signed an agreement with Nguyen Business & Investment Co., Ltd. as our exclusive reseller in Vietnam with a committed \$1 Million prepaid Sentir licenses. Since then, they formed Iveda Vietnam Co., Ltd. to be the operating entity to license the Sentir platform and resell Sentir-enabled devices (e.g., ZEE, IvedaHome). On June 30, 2016, we completed a strategic investment transaction with the new majority owner of Iveda Vietnam and for cash consideration of \$500,000, we sold 628,571 shares of our unregistered common stock and a warrant exercisable at \$0.35 per share to purchase 800,000 shares of our unregistered common stock with a 5-year term. Prior to the closing of the strategic investment, Iveda Vietnam had paid \$435,000 to the Company, of which \$50,000 was allocated to Sentir server hardware shipped in December 2015 and \$385,000 to prepaid license fees. In conjunction with the \$500,000 strategic investment into the Company from the new majority owner, we agreed to amend the exclusive reseller agreement to accept the \$435,000 payment as full execution of the terms of the agreement.

New Accounting Standards

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

Results of Operations

Net Revenue. We recorded net consolidated revenue of \$338,624 for the three months ended June 30, 2016, compared to \$775,561 for the three months ended June 30, 2015, a decrease of (\$436,937), or (56%). In the three months ended June 30, 2016, our recurring service revenue was \$25,907, or 8% of net consolidated revenue, and our equipment sales and installation revenue was \$307,109, or 91% of net consolidated revenue, compared to recurring service revenue of \$46,911, or 6% of net consolidated revenue, and equipment sales and installation revenue of \$726,695, or 94% of net consolidated revenue, for the same period in 2015. Our U.S.-based segment saw an increase of \$71,141 in net consolidated revenue during the three months ended June 30, 2016, while our Taiwan-based segment revenue decreased by (\$508,078) during the same period. The increase in U.S.-based segment revenue was due to equipment sales to our Vietnam Reseller, of Sentir-enabled plug-and-play cloud cameras. The decrease in Taiwan-based segment revenue was primarily due to delays on long-term contracts awarded and started during 2015.

We recorded net consolidated revenue of \$751,141 for the six months ended June 30, 2016, compared to \$1,301,384 for the six months ended June 30, 2015, a decrease of (\$550,243) or (42%). In the six months ended June 30, 2016, our recurring service revenue was \$50,390 or 7% of revenue, and our equipment sales and installation revenue was \$692,308 or 92% of revenue, compared to recurring service revenue of \$145,251 or 11% of revenue, and equipment sales and installation revenue of \$1,141,218 or 88% of revenue for the same period in 2015. The decrease in revenue was due to delays in significant long-term contracts that were awarded and began in 2015 in Taiwan.. The increase in U.S.-based segment revenue was due to equipment sales to our Resellers of Sentir-enabled plug-and-play cloud cameras.

Cost of Revenue. Total cost of revenue was \$256,252 (76% of revenue, representing a gross margin of 24%) for the three months ended June 30, 2016, compared to \$634,857 (82% of revenue; representing a gross margin of 18%) for same period in 2015, a decrease of (\$378,605), or (60%). The U.S.-based segment increase in cost of revenue corresponds with increased sales through our Vietnam reseller. The Taiwan-based segment decreased cost of revenue and were primarily due to reduced revenues caused by the delay on significant long-term contracts awarded and began in 2015.

Total cost of revenue was \$586,662 (78% of revenues; gross margin of 22%) for the six months ended June 30, 2016, compared to \$993,552 (76% of revenues; representing a gross margin of 24%) for the six months ended June 30, 2015, a decrease of (\$406,809) or (41%). The decrease of cost of revenue and decrease of gross margin was primarily due to delays in large project revenues in Taiwan during the six months ended June 30, 2016.

Operating Expenses. Operating expenses were \$524,447 for the three months ended June 30, 2016, compared to \$967,788 for the same period in 2015, a decrease of (\$443,341), or (46%). The decrease in operating expenses was primarily related to a continued decrease in US based administrative, sales and technical support personnel, project-based marketing and sales expenses that has been shifted to our resellers, consulting, and research and development expenses.

Operating expenses were \$1.2 million for the six months ended June 30, 2016, compared to \$2.0 million for the six months ended June 30, 2015, a decrease of (\$810,333) or (41%). The decrease in operating expenses in 2016 over 2015 was primarily related to a continued decrease in salaried personnel, direct project-based marketing and sales expenses, consulting, and research and development expenses.

Loss from Operations. As a result of the decrease in operating expenses, loss from operations decreased to (\$442,075) for the three months ended June 30, 2016, compared to (\$827,084) for the same period in 2015, a decrease in loss of (\$385,009), or (47%).

Primarily as a result of the decrease in operating expenses the loss from operations decreased to \$1.0 million, for the six months ended June 30, 2016, compared to \$1.7 million for the six months ended June 30, 2015, a decrease in loss of (\$666,980) or (40%).

Other Expense-Net. Other expense-net was \$17,923 for the three months ended June 30, 2016, compared to \$40,412 for the same period in 2015, a decrease of (\$22,489), or (56%). The change is primarily due to the decrease in interest expense.

Other expense-net was \$33,927 for the six months ended June 30, 2016, compared to \$30,985 for the six months ended June 30, 2015, an increase of \$2,942 or 9% primarily related to the decrease in gain on derivatives and the decreased loss on disposal of assets..

Net Loss. Net loss was (\$476,709) for the three months ended June 30, 2016, compared to (\$880,349) for the same period in 2015. The decrease of (\$403,640), or (46%), was primarily due to a decrease in operating expenses which was primarily related to a continued decrease in sales and technical support personnel, project-based marketing and sales expenses that has been shifted to our resellers, consulting, and research development expenses.

The decrease of (\$660,179) or (38%) in the net loss to \$1.0 million for the six months ended June 30, 2016, from \$1.7 million for the six months ended June 30, 2015, was primarily the effect of a decrease in operating expenses.

Liquidity and Capital Resources

As of June 30, 2016, we had cash and cash equivalents of \$463,917 in our U.S.-based segment and \$495,616 in our Taiwan-based segment, compared to \$115,568 in our U.S.-based segment and \$91,357 in our Taiwan-based segment as of December 31, 2015. This increase in our cash and cash equivalents is primarily a result of the \$380,000 Warrant Exercise to Common Stock and the sale of \$500,000 of Common Stock during the quarter ended June 30, 2016. There are no legal or economic factors that materially impact our ability to transfer funds between our U.S.-based and Taiwan-based segments.

Net cash used in operating activities during the six months ended June 30, 2016 was \$0.3 million compared to \$2.4 million during the six months ended June 30, 2015. Net cash used in operating activities for the six months ended June 30, 2016 consisted primarily of the net loss offset by approximately \$624,000 in collection of accounts receivable.

Cash used in operating activities for the six months ended June 30, 2015 consisted primarily of the net loss and approximately \$925,000 increase in accounts receivable offset by approximately \$84,000 in non-cash stock option compensation.

Net cash used in investing activities for the six months ended June 30, 2016 was \$793. Net cash provided by investing activities during the six months ended June 30, 2015 was \$298.

Net cash provided by financing activities for the six months ended June 30, 2016 was \$1.1 million compared with \$3.0 million during the six months ended June 30, 2015. Net cash provided by financing activities in 2016 is primarily a result of the \$380,000 Warrant Exercise to Common Stock and the sale of \$500,000 of Common Stock during the quarter ended June 30, 2016. Net cash provided by financing activities in 2015 consisted primarily of proceeds from the sale of Series B Preferred Stock, short-term debt proceeds, and related party short-term debt proceeds.

We have experienced significant operating losses since our inception. At June 30, 2016, we had approximately \$26 million in net operating loss carryforwards available for federal income tax purposes, which will begin to expire in 2025. We did not recognize any benefit from the federal net operating loss carryforwards in 2015. We also had approximately \$18.0 million in state net operating loss carryforwards, which began to expire in 2014.

We have limited liquidity and have not yet established a stabilized source of revenue sufficient to cover operating costs, based on our current estimated burn rate. Accordingly, our continuation as a going concern is dependent upon our ability to generate greater revenue through increased sales and/or our ability to raise additional funds through the capital markets. No assurance can be given that we will be successful in future financing and revenue-generating efforts. Even if funding is available, we cannot assure investors that it will be available on terms that are favorable to our existing stockholders. Additional funding may be achieved through the issuance of equity or debt securities that

could be significantly dilutive to the percentage ownership of our existing stockholders. In addition, these newly issued securities may have rights, preferences, or privileges senior to those of our existing stockholders. Accordingly, such a financing transaction could materially and adversely impact the price of our common stock.

Substantially all of our 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.

Our accounts receivable are unsecured, and we are at risk to the extent such amounts become uncollectible. Although we perform periodic evaluations of our customers’ credit and financial condition, we generally do not require collateral in exchange for our products and services provided on credit. U.S.-based segment revenue from three customers represented approximately 63% of total revenue for the quarter ended June 30, 2016, and U.S.-based segment accounts receivable from two customers represented approximately 83% of total U.S.-based segment accounts receivable at June 30, 2016. Taiwan-based segment revenue from three customers represented approximately 83% of total revenue for the quarter ended June 30, 2016, and Taiwan-based segment accounts receivable from two customers represented approximately 51% of total Taiwan-based segment accounts receivable at June 30, 2016. No other customers represented greater than 10% of total revenue in the quarter ended June 30, 2016.

We provide an allowance for doubtful collections, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Payment terms for our U.S.-based segment require prepayment for our ZEE cameras before they are shipped and monthly Sentir licensing fees, which are due in advance on the first day of each month. For our U.S.-based segment, accounts receivable that are more than 120 days past due are considered delinquent. Payment terms for our Taiwan-based segment vary based on our agreements with our customers. Generally, we receive payment for our products and services within one year of commencing the project, except that we retain 5% of the total payment amount and release such amount one year after the completion of the project. Although our Taiwan-based segment had 34% of gross accounts receivables aged over 180 days at June 30, 2016, we provide an allowance for doubtful accounts for any receivables that will not be paid within one year, which excludes such retained amounts. For our U.S.-based segment, we set up doubtful accounts receivable allowances of \$0 and \$2,736 for the quarters ended June 30, 2016 and 2015, respectively. For our Taiwan-based segment, we set up doubtful accounts receivable allowances of \$351,192 and \$468,030 for the quarters ended June 30, 2016 and 2015, respectively. We deem the rest of our accounts receivable to be collectible based on certain factors, including the nature of the customer contracts and past experience with similar customers. Delinquent receivables are written off based on individual credit valuation and specific circumstances of the customer, and we generally do not charge interest on past due receivables.

Effects of Inflation

For the periods for which financial information is presented, we do not believe that the current levels of inflation in the United States have had a significant impact on our operations. Likewise, we do not believe that the current levels of inflation in Taiwan have had a significant impact on the operations of MEGAsys.

Off Balance Sheet Arrangements

We do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. In addition, we do not have any undisclosed borrowings or debt, and we have not entered into any synthetic leases. We are, therefore, not materially exposed to any financing, liquidity, market, or credit risk that could arise if we had engaged in such relationships.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer, as of June 30, 2016, concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act was recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

In December 2013, we hired a new Chief Financial Officer who has experience in SEC reporting and disclosures. We now have two employees knowledgeable in SEC accounting and reporting. We have plans to hire additional financial personnel and to implement additional controls and processes involving both of our financial personnel in order to ensure all transactions are accounted for and disclosed in an accurate and timely manner. There have not been any other changes in our internal control over financial reporting identified by management's evaluation pursuant to Rule 13a-15(d) or 15d-15(d) of the Exchange Act during the most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, misstatements, errors, and instances of fraud, if any, within our company have been or will be prevented or detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management or Board override of the control.

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

Identified Material Weakness

As of June 30, 2016, we need to hire additional employees at MEGAsys that are knowledgeable in SEC accounting and reporting. Increased staffing at the subsidiary level will provide daily oversight of MEGAsys's operations and minimize the likelihood of any material error in reporting the subsidiary's results. Action plans are in place to address this staffing need during 2016 as resources permit.

Management's Remediation Initiatives

As our resources allow, we plan to add financial personnel at the subsidiary level to properly provide accurate and timely financial reporting and in the interim we have a GAAP knowledgeable independent local contractor in Taiwan that reports to U.S. headquarters and performs review and analysis as requested.

Segregation of Duties

As of June 30, 2016, we had two employees knowledgeable in SEC accounting and reporting. Our management has put in place policies and procedures designed, to the extent possible, to segregate the duties of initiating transactions, maintaining custody over assets, and recording transactions. Due to our size and limited resources, segregation of all conflicting duties may not always be possible and may not be economically feasible.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

We may be subject to legal proceedings in the ordinary course of business. As of the date of this Quarterly Report on Form 10-Q, we are not aware of any legal proceedings to which we are a party that we believe could have a material adverse effect on us.

ITEM 1A. RISK FACTORS.

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the reporting period, the Company issued 6,000 common shares to a shareholder for origination points for \$100,000 short term loan.

During the reporting period, the Company issued 628,571 unregistered common shares and 800,000 warrants to purchase common shares at \$0.35 to a shareholder for a \$500,000 strategic investment.

During the reporting period, the Company issued 60,000 unregistered common shares to our independent contractor in Vietnam for referring the \$500,000 strategic investor.

The issuances were effected pursuant to an exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended.

ITEM 3. DEFAULT UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

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ITEM 6. EXHIBITS.

Exhibit	Description
31.1	Certificate of Principal Executive Officer Pursuant to Exchange Act Rule 15d-14(a)
31.2	Certificate of Principal Financial Officer Pursuant to Exchange Act Rule 15d-14(a)
32.1	Certificate of Principal Executive Officer Pursuant to Section 1350
32.2	Certificate of Principal Financial Officer Pursuant to Section 1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

IVEDA SOLUTIONS, INC.

Date: August 16, 2016 /s/ David Ly

David Ly

Chief Executive Officer and Chairman (Principal Executive Officer)

/s/ Robert J. Brilon

Robert J. Brilon

President and Chief Financial Officer (Principal Financial and Accounting Officer)

