Iveda Solutions, Inc.
Form 10-K/A
May 01, 2014

United States Securities and Exchange Commission

Washington , D.C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the fiscal year ended December 31, 2013

or

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

For the transition period from __________ to ____________

Commission File No. 000-53285

Iveda Solutions, Inc.

(Exact name of registrant as specified in its charter)

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

Mesa, Arizona (Zip code)

(Address of principal executive offices)

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer ¨

Smaller reporting company x

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

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

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

IVEDA SOLUTIONS, INC.

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EXPLANATORY NOTE

Iveda Solutions, Inc. (“Iveda,” “we” or the “Company”) is filing this Amendment No. 1 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as originally filed with the Securities and Exchange Commission (the “SEC”) on March 31, 2014 (the “Original Form 10-K”), to amend Items 11, 12 and 13 in Part III to incorporate by reference certain information contained in the Company’s definitive proxy statement. Additionally, we are revising Item 15 of Part IV to incorporate by reference the exhibit we filed with our Original Form 10-K. There are no other changes to the disclosures in the Original Form 10-K. This Form 10-K/A does not reflect any events that occurred after the date of our Original Form 10-K. No attempt has been made in this Form 10-K/A to modify or update our previously reported financial results or other disclosures as presented in the Original Form 10-K, except for portions of Parts III and IV thereof, as referenced herein.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company’s definitive proxy statement, which will be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K, are incorporated by reference into Part III hereof.

Caution Regarding Forward-Looking Information

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

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

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

PART I

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

ITEM 1 – BUSINESS

General

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

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

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

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

Business Operations

Overview

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

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

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

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

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

MegaSys, Iveda's Taiwanese subsidiary, specializes in deploying video surveillance systems for airports, commercial buildings, government customers, data centers, shopping centers, hotels, banks, and Safe City initiatives in Taiwan and other neighboring countries. MegaSys integrates security surveillance products, software and services to provide integrated security solutions to the end user. Most of MegaSys's revenues are derived from one-time sales, which differs from Iveda's business model of on-going video hosting, remote video storage, and real-time surveillance revenues. MegaSys does not own any proprietary technology or intellectual property other than certain trademarks in China and Taiwan used in its business. MegaSys serves as Iveda's research and development arm, with in-house developers, as well as managing and directing its technology partner. MegaSys also manages relationships with manufacturers to find new devices to enable Iveda's cloud video hosting services.

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

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

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

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

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

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

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

Cloud Video Surveillance Services

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

IvedaEnterprise

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

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

Benefits :

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

IvedaXpress

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

IvedaSentry

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

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

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

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

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

Benefits :

- Proactive versus after-the-fact – With humans behind the cameras assessing situations in real-time, they can call the police when necessary to prevent a crime. Recorded video footage only helps to investigate after a crime has already been committed.
-

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

Problems with Existing Systems

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

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

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

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

IvedaOnBoard

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

IvedaPinpoint

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

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

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

IvedaXchange

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

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

Products

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

VEMO

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

Express Surveillance System (ESS)

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

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

Zee

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

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

Streaming Video Converter (SVC)

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

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

Systems Integration

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

SafeCiti®

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

Surveillance Equipment Installation and System Integration

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

Technology Architecture

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

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

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

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

Getting surveillance video into the cloud can be set up almost immediately in many cases. Plus, upgrades and patches can be achieved remotely for immediate access to enhanced security, features and performance over time.

Access to multiple properties or locations anywhere around the world has never been easier. When surveillance video is in the cloud, the user has full access to it from anywhere with an Internet connection. Also a huge advantage of bringing surveillance video into the cloud is that you never have to worry about bandwidth when multiple users want to access video simultaneously.

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

Features :

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

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

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

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

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

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

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

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

• Rapid visual verification to every alert

• Full escalation to the police

• Automatic notification to clients of serious incidents

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

• Video can be used for evidence in court

• Regular updated site details

• Specially-trained intervention specialists

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

Sentir

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

What's Unique about Sentir

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

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

Sentir is a True Cloud Computing Platform

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

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

Sentir’s Clustered Cloud Storage System

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

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

Pricing Strategy

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

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

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

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

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

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

Video Data Storage.

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

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

Government Contracts

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

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

Private Sector Contracts

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

Customers

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

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

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

- Arcus Capital
- American Security & Investigations
- City of El Mirage
- City of Mesa
- Farnsworth Realty
- Glendale Police, CA
- Green Valley Agriculture and Turf

- Mexican Government
- Pacific Coast Producers
- Porsche Dealership
- San Diego Police Department
- San Joaquin County Public Works
- Sunland Storage
- Sunol Golf Course
- United Road Towing
- Watermark Community
- West Valley Child Crisis

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

- City of Glendale, CA
- Sui Industry
- New Taipei City Police Department
- Taiwan Stock Exchange
- Ystarding
- Taiwan Energy Systems
- Taoyuan County Council
- The Tivoli Cable Engineering
- Zhongxing
- Futai
- Secom Taipei

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Market Segmentation

Iveda views the following markets as its primary target markets:

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

Business Strategy

Iveda is implementing the following business strategy:

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

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

- Infrastructure/Security/Operations/R&D :

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

- International Business Development:
  - o Form business alliances with overseas companies for revenue generation.
  - o Fund customer demo meetings and presentations abroad.
  - o Leverage MEGAsys relationships with developers and manufacturing companies in Asia for cost reductions.

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

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

Sales Strategy

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

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

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

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

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

Reseller Benefits:

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

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Law Enforcement and Government Contracts

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

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

Marketing Strategy

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

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

Public Relations

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

Co-op Program

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

Website

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

Collateral

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

Online Marketing

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

Social Media

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

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

Tradeshows

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

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

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

Competition

Video Hosting Service

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

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

Real-Time Surveillance Service (IvedaSentry)

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

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

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

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

Available Information

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

ITEM 1A – RISK FACTORS

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

Risk Factors Involving Our Business

Iveda's Financial Statements Contain A Going Concern Opinion.

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

Iveda Needs to Raise Significant Additional Funding.

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

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

Iveda Depends On Certain Key Personnel.

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

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

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

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

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

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

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

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

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

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

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

Revenue from three customers represented approximately 54% of total revenues for the twelve months ended December 31, 2013, and 0% of total accounts receivable at December 31, 2013. If we were to lose a key customer, or experience a delay or cancellation of a significant order, or incur a significant decrease in the level of purchases from a key customer, or experience difficulty in collecting amounts due from a key customer, our net revenues could decline and our operating results could be reduced materially. There can be no guarantee that we will be able to sustain our revenue levels from our key customers. Our Taiwan operations, through MegaSys, have 90% of gross accounts receivables aged over 120 days as of December 31, 2013. The payment terms vary based on the timing of the completion of customer projects. MegaSys generally does not control the time of payment because MegaSys's product is only one component of the larger project. In general, payment takes place within one year of commencing the project, except that 5% of the total payment is retained and released one year after the completion of the project. Excluding such retained amounts, MegaSys provides an allowance for doubtful accounts for any receivables that will not be paid within one year. Management has set up a 57%, or $465,933, allowance for doubtful accounts as of the quarter ended December 31, 2013. Management deems the rest to be collectible based on the nature of the customer contracts and past experience with similar customers.

Rapid Growth May Strain Iveda's Resources.

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

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

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

Risks Associated with the Surveillance and Remote Security Industry

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

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

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

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

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

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

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

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

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

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

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

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

Iveda utilizes third party data centers in Arizona. These data centers are designed to meet the most stringent requirements established by the Telecommunications Industry Association's Telecommunications Infrastructure

Standards for Data Centers, or TIA-942. The data centers transmit data to Iveda’s monitoring system via a dedicated fiber connection, and offers the greatest reliability provided by the industry always-on service level and offers a 100% uptime Service Level Agreement, due to a number of back-up measures. Iveda’s operations are dependent upon its ability to support a complex network infrastructure and avoid damage to both its monitoring center and the data center from fires, earthquakes, floods, hurricaneTD>

Note 14: Subsequent Events

Acquisitions and Investments

On July 31, 2006 (fiscal 2007), the Company announced that it had signed a definitive agreement to acquire substantially all of the assets of the branded meats business of ConAgra Foods, Inc. (ConAgra) for $575.0 million, subject to normal working capital adjustments. The business includes the packaged meats and turkey products sold under the Armour, Butterball, Eckrich, Margherita, Longmont and LunchMakers brands. The brands are marketed to retail grocers, delis, restaurants and other foodservice establishments. The Company intends to separate the Butterball turkey business from the non-turkey packaged meats business. Carolina Turkeys, an existing partnership between the Company and Maxwell Farms, Inc., is expected to acquire and operate the Butterball turkey business. The Company owns 49 percent of Carolina Turkeys, the fourth largest turkey producer in the U.S. The Company intends to allocate $325.0 million of the purchase price to be paid by Carolina Turkeys. To the extent that Carolina Turkeys is unable to finance this portion of the purchase price, the partners in the joint venture intend to contribute cash on a pro-rata basis. The remaining $250.0 million will be paid by the Company. The definitive agreement provides that the Company will pay this amount with $100 million in common stock and the balance in cash. The Company is evaluating various funding alternatives available to it for paying the remaining purchase price in cash, including accessing the debt or equity capital markets, borrowing under the New Credit Agreement or utilizing a combination of these sources. The transaction is subject to customary closing conditions. The Company expects the acquisition to close during its fiscal second quarter which ends October 29, 2006.

In August 2006 (fiscal 2007), the Company completed its investment, through a joint venture with Oaktree Capital Management, LLC called Groupe Smithfield S.L., in the European meats business of Sara Lee Corporation (SLFE) for $575.0 million, plus the assumption of excess pension-related liabilities of approximately $39.0 million. The Company contributed its French operations and cash of 50.0 million (approximately $63.1 million) to the unconsolidated 50/50 joint venture. The Company s French operations had sales of $372.5 million during fiscal 2006. The newly formed joint venture is being financed by a 90-day unsecured credit facility of 329.0 million (approximately $421.0 million) which is guaranteed by the Company. See discussion in Guarantees below.

Discontinued Operations

In August 2006 (fiscal 2007), the Company completed the sale of substantially all of the assets and business of Quik-to-Fix. The Company received net proceeds of approximately $31.4 million.

Debt Issuances

In August 2006 (fiscal 2007), the Company exercised its option to increase the amount committed under the New Credit Agreement by $200.0 million, resulting in a total of $1.2 billion of available borrowings under the New Credit Agreement.

In August 2006 (fiscal 2007), the Company and its subsidiary Smithfield Capital Europe BV (Smithfield Capital Europe), entered into a 300.0 million (approximately $384.0 million) secured revolving credit facility (the European Credit Agreement). The European Credit Agreement terminates in August 2009 unless extended pursuant to its terms. Smithfield Capital Europe may draw down funds as a revolving loan under the facility and the proceeds of any borrowings under the European Credit Agreement may be used for general corporate purposes. The European Credit Agreement is secured by the 12,098,559 shares of stock of Campofrío owned by two subsidiaries of the Company. In addition, the Company and three of its subsidiaries incorporated in Europe have unconditionally guaranteed Smithfield Capital Europe s obligations, including payment obligations, under the European Credit Agreement.

Guarantees

In August 2006 (fiscal 2007), the Company and Tarvalón S.L. (Tarvalón) entered into an interim facility letter with Citigroup Global Markets Limited and The Royal Bank of Scotland plc (as Arrangers) and Citibank International Plc and The Royal Bank of Scotland plc (as Underwriters). Pursuant to the terms of the interim facility letter, the Company is the guarantor of an up to 90-day unsecured loan facility of 329.0 million (approximately $421.0 million) for Tarvalón. The Company and Tarvalón entered into the interim facility letter in order for Tarvalón to complete the acquisition of SLFE. The Company subsequently contributed Tarvalón to Groupe Smithfield S.L. The Company expects that Tarvalón will replace the interim facility letter with a credit facility that will not require the Company s guarantee within 60 days of closing the SLFE acquisition.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

This discussion of management s views on the financial condition and results of operations of the Company should be read in conjunction with the audited consolidated financial statements and the related notes for the three-year period ended April 30, 2006, which are included in the Company s Annual Report on Form 10-K for the fiscal year ended April 30, 2006.

The Company conducts its business through six reporting segments, Pork, Beef, International, Hog Production (HP), Other and Corporate, each of which is composed of a number of subsidiaries.

The Pork segment consists mainly of U.S. fresh pork and processed meats subsidiaries and the Company s interests in processed meats operations. The Beef segment is composed mainly of U.S. beef processing subsidiaries and the Company s cattle feeding operations and interest in cattle feeding operations. The International segment is composed of international meat processing operations, mainly in France, Poland and Romania and the Company s interests in international meat processing operations, mainly in Mexico and Spain. The HP segment consists mainly of hog production operations located in the U.S., Poland and Romania. The Other segment is mainly composed of the Company s turkey production operations, its interests in turkey processing operations, and the Company s alternative fuels subsidiary. Each of the segments has certain joint ventures and other investments in addition to their main operations.

RESULTS OF OPERATIONS

Overview

General Factors Affecting the Results of Operations

The HP segment operating profit continued to be strong during the first quarter. Strong live hog prices, combined with the control of the Company s raising costs, continued to drive very solid profitability for the HP segment during the first quarter of fiscal 2007. During the quarter, the Company had a four percent increase in raising costs mainly as a result of the impact of the circo virus at certain hog farms in the Company s eastern operations and to a lesser degree in the Midwest.

Pork segment operating profits increased significantly over the prior year period. The current period includes $6.5 million of gains on open commodity positions that did not qualify as effective hedges under applicable accounting rules. Fresh pork, although improved over the prior year, remains depressed and the Company believes that significant capacity in the marketplace will result in continued pressure on fresh pork prices. Processed meats continue to be profitable but the Company believes that processed meats margins may be improved through on-going efforts to implement production and capacity efficiencies. The Company saw significant improvements over the prior year in several categories, including spiral hams, lunchmeat, dry sausage, precooked sausage and precooked ribs.

In fiscal 2004, a case of Bovine Spongiform Encephalopathy (BSE) was discovered in the State of Washington. In response to this discovery, many foreign countries, including Japan, South Korea, and other key Asian markets imposed bans on beef imports from the U.S. Japan lifted the ban on U.S. beef imports in December 2005 but reinstated it six weeks later when a single shipment of veal from the U.S. was determined to violate certain agreed-upon protocols. In June 2006 (fiscal 2007), the U.S. and Japan announced a new agreement to move towards restarting partial trade in U.S. beef from animals 20 months and younger. Efforts are also underway to reopen trade in U.S. beef with South Korea. However, even when partial trade in U.S. beef is resumed, the majority of U.S. beef will remain ineligible for export to Japan, South Korea and other key Asian markets due to the age limitation on cattle. It is not known at this time when remaining restrictions on U.S. beef exports will be lifted.

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During the first quarter of fiscal 2006, the Company s Polish operations temporarily shut down a red meat plant in connection with media reports on food safety and related issues. The Company voluntarily shut down the plant for ten days and recalled some previously shipped product. The shutdown and returns resulted in approximately $5 million of operating losses during the first quarter of fiscal 2006. In addition, since the voluntary shutdown, the Company has experienced a sharp reduction in processed meats volumes from its Polish operations and has incurred increased marketing and promotion expenditures in the areas affected by the product recall in order to attempt to improve processed meats volumes.

Acquisition

In April 2006 (fiscal 2006), the Company completed the acquisition of substantially all of the assets of Cook s Hams, Inc. (Cook s) in the Pork segment for approximately $260.3 million plus a $41.0 million working capital adjustment. Cook s, based in Lincoln, Nebraska, is a producer of traditional and spiral sliced smoked bone-in hams, corned beef and other smoked meat items sold to supermarket chains and grocers throughout the U.S. and Canada.

Disposition

During the first quarter of fiscal 2007, the Company recorded an after-tax write down on the assets of Quik-to-Fix, Inc. (Quik-to-Fix) totaling $10.4 million, net of tax of $5.9 million, in anticipation of the sale of substantially all of the assets and business of Quik-to-Fix. Sales of Quik-to-Fix were $17.0 million and $26.2 million for the 13 weeks ended July 30, 2006 and July 31, 2005, respectively. Quik-to-Fix had an after tax loss of $3.9 million, net of tax of $2.2 million, for the 13 weeks ended July 30, 2006 and was approximately break even for the 13 weeks ended July 31, 2005. In August 2006 (fiscal 2007), the Company completed the sale of substantially all of the assets and business of Quik-to-Fix. The Company received net proceeds of approximately $31.4 million.

Results of Operations for the 13 Weeks ended July 30, 2006 and July 31, 2005

The following table presents sales by reportable segment for the fiscal periods indicated:

	13 Weeks Ended		
(In millions)	**July 30, 2006**	**July 31, 2005**	**$ Change**
Pork	$ 1,735.7	$ 1,828.9	$ (93.2)
Beef	623.7	721.0	(97.3)
International	281.8	284.3	(2.5)
Hog Production	458.4	473.5	(15.1)
Other	44.0	36.9	7.1
	3,143.6	3,344.6	(201.0)
Intersegment sales	(370.7)	(415.1)	44.4
Total sales	$ 2,772.9	$ 2,929.5	$ (156.6)

Total sales decreased $156.6 million, or five percent, to $2,772.9 million for the 13 weeks ended July 30, 2006 from $2,929.5 million for the 13 weeks ended July 31, 2005.

Pork segment sales decreased $93.2 million, or five percent, to $1,735.7 million for the 13 weeks ended July 30, 2006 from $1,828.9 million for the 13 weeks ended July 31, 2005. Including the acquisition of Cook s, total pork volumes decreased seven percent with fresh pork volumes decreasing twelve percent and processed meats volumes increasing one percent. Excluding the acquisition of Cook s, total pork volumes decreased nine percent with fresh pork volumes decreasing twelve percent and processed meats volumes decreasing four percent. The decrease in fresh pork volume was part of the Company s overall strategy to shift to further processed products. The volume decreases were partially offset by a two percent increase in the average unit selling price.

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Beef segment sales decreased $97.3 million, or 13%, to $623.7 million for the 13 weeks ended July 30, 2006 from $721.0 million for the 13 weeks ended July 31, 2005. The decrease in Beef segment sales was due primarily to the prior year sell off of $127.8 million of Company owned cattle. The Beef segment also had a seven percent increase in processing volumes.

International segment sales decreased $2.5 million, or one percent, to $281.8 million for the 13 weeks ended July 30, 2006 from $284.3 million for the 13 weeks ended July 31, 2005. Total meat volumes in the International segment increased two percent with fresh pork volumes decreasing five percent and processed meats volumes increasing eight percent. Also contributing to the decrease, average unit selling price decreased two percent mainly due to changes in product mix from last year s quarter.

Hog Production segment sales decreased $15.1 million, or three percent, to $458.4 million for the 13 weeks ended July 30, 2006 from $473.5 million for the 13 weeks ended July 31, 2005. The decrease in HP segment sales was primarily due to a three percent decrease in head sold in the United States.

Other segment sales increased $7.1 million, or 19%, to $44.0 million for the 13 weeks ended July 30, 2006 from $36.9 million for the 13 weeks ended July 31, 2005. The Company s bioenergy operations, which began limited production in the fourth quarter of fiscal 2006, contributed $4.0 million to the increase, with the remainder due to strong sales in the Company s turkey operations.

Gross profit increased $4.0 million, or one percent, to $277.7 million for the 13 weeks ended July 30, 2006 from $273.7 million for the 13 weeks ended July 31, 2005. The increase was mainly the result of increased profitability in the Pork segment.

Selling, general and administrative expenses increased $2.4 million, or one percent, to $173.2 million for the 13 weeks ended July 30, 2006 from $170.8 million for the 13 weeks ended July 31, 2005. This increase was mainly due to selling, general and administrative expenses of Cook s as well as a general increase in advertising and promotional expenses.

Equity in income of affiliates decreased $13.9 million, to a loss of $6.1 million for the 13 weeks ended July 30, 2006 from income of $7.8 million for the 13 weeks ended July 31, 2005. The decrease was mainly due to the Company s investments in cattle feeding, which experienced lower cattle market prices in the first quarter of fiscal 2007 than in the first quarter of fiscal 2006. Also contributing to the decrease was lower income from the HP segment s investments in Mexico and Brazil.

The following table presents operating profit by reportable segment for the fiscal periods indicated:

	13 Weeks Ended		
(In millions)	**July 30, 2006**	**July 31, 2005**	**$ Change**
Pork	$ 19.3	$ 9.6	$ 9.7
Beef	4.9	7.3	(2.4)
International	(0.1)	(5.2)	5.1
Hog Production	90.0	115.0	(25.0)
Other	5.4	7.3	(1.9)
Corporate	(21.1)	(23.3)	2.2
Total operating profit	$ 98.4	$ 110.7	$ (12.3)

Total operating profit decreased $12.3 million, or 11%, to $98.4 million for the 13 weeks ended July 30, 2006 from $110.7 million for the 13 weeks ended July 31, 2005.

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Pork segment operating profit increased $9.7 million to $19.3 million for the 13 weeks ended July 30, 2006 from $9.6 million for the 13 weeks ended July 31, 2005. The Pork segment benefited from improved fresh pork market conditions in spite of relatively high hog prices and a $6.5 million pre-tax mark-to-market gain on open commodity positions.

Beef segment operating profit decreased $2.4 million, or 33%, to $4.9 million for the 13 weeks ended July 30, 2006 compared to operating profit of $7.3 million for the 13 weeks ended July 31, 2005. Improved results in beef processing on lower cattle costs and higher demand were more than offset by losses related to the Company s cattle feeding investments. As a result of the lower cattle markets, the Company s cattle feeding investments reported a loss of $8.4 million versus a profit of $5.6 million in the prior year quarter.

International segment operating loss decreased $5.1 million to $0.1 million for the 13 weeks ended July 30, 2006 from $5.2 million for the 13 weeks ended July 31, 2005. The decrease was mainly due to $5.0 million in operating losses in the prior year quarter related to the temporary shutdown and product recall at the Company s Constar plant in Poland. Excluding the prior year charges, International results from operations were relatively flat. The Company s Polish operations continued to suffer from weak demand for white meat and results in France declined, due primarily to lower volumes and higher costs.

Hog Production segment operating profit decreased $25.0 million, or 22%, to $90.0 million for the 13 weeks ended July 30, 2006 from $115.0 million for the 13 weeks ended July 31, 2005. The decrease was mainly due to higher raising costs, lower volumes and a $4.2 million impairment charge in connection with the pending sale of the Company s Brazilian hog production operation. Live hog prices of $51 per hundredweight remained about the same as the first quarter of last year. In the United States, however, volume was down three percent from a year ago and raising costs increased to $41.50 per hundredweight from $40.00 per hundredweight last year.

Other segment operating profit decreased $1.9 million, or 26%, to $5.4 million for the 13 weeks ended July 30, 2006 from $7.3 million for the 13 weeks ended July 31, 2005. Results from the Company s joint venture turkey operations were down slightly from a year ago while the Company s bioenergy operation continued to experience startup losses.

Corporate expenses decreased $2.2 million, or nine percent, to $21.1 million for the 13 weeks ended July 30, 2006 from $23.3 million for the 13 weeks ended July 31, 2005. The decrease is primarily due to lower variable compensation.

Interest expense increased $3.5 million, or nine percent, to $40.9 million for the 13 weeks ended July 30, 2006 from $37.4 million for the 13 weeks ended July 31, 2005. The increase was mainly due to increased debt and higher rates on variable rate debt. The increase in debt was mainly used to fund acquisitions and other investments.

The effective income tax rate decreased to 32% for the 13 weeks ended July 30, 2006 as compared to 33% for the 13 weeks ended July 31, 2005. The decrease is mainly due to increased utilization of tax credits.

During the first quarter of fiscal 2007, the Company recorded an after-tax write down on the assets of Quik-to-Fix totaling $10.4 million, net of tax of $5.9 million, in anticipation of the sale of substantially all of the assets and business of Quik-to-Fix. Quik-to-Fix had a loss totaling $3.9 million, net of tax of $2.2 million, for the 13 weeks ended July 30, 2006 and was approximately break even for the 13 weeks ended July 31, 2005.

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LIQUIDITY AND CAPITAL RESOURCES

The Company has available a variety of sources of liquidity and capital resources, both internal and external. These resources provide funds required for current operations, acquisitions, debt retirement and other capital requirements.

The meat processing industry is characterized by high sales volume and rapid turnover of inventories and accounts receivable. Because of the rapid turnover rate, the Company considers its meat inventories and accounts receivable highly liquid and readily convertible into cash. The HP segment also has rapid turnover of accounts receivable. Although inventory turnover in the HP segment is slower, mature hogs are readily convertible into cash. Borrowings under the Company s credit facilities are used, in part, to finance increases in the levels of inventories and accounts receivable resulting from seasonal and other market-related fluctuations in raw material costs.

Cash Flows from Operating Activities

Cash used in operations was $22.7 million for the 13 weeks ended July 30, 2006 as compared to cash provided by operations of $99.7 million for the 13 weeks ended July 31, 2005. The change is mainly due to increased working capital in the current year period mainly resulting from a buildup of cattle inventory in the Company s Beef segment as compared to a sell off of company owned cattle in the prior year quarter and the timing of cash receipts and payments partially offset by higher pension plan contributions in the prior year period.

Cash Flows from Investing Activities

Cash used in investing activities was $110.0 million for the 13 weeks ended July 30, 2006 and $135.2 million for the 13 weeks ended July 31, 2005. The decrease was mainly due to the Company s investment in its cattle feeding joint venture in the prior year quarter partially offset by increased capital expenditures in the current year quarter.

During the first quarter of fiscal 2006, the Company contributed $74.3 million of its $104.3 million cash investment in Five Rivers Ranch Cattle Feeding LLC (Five Rivers). The contributions were funded initially from the Company s revolving credit facility and subsequently from cash flow generated from the sale of cattle inventory which was not contributed to Five Rivers.

Capital expenditures in the 13 weeks ended July 30, 2006 totaled $106.5 million, as compared to $66.0 million in the 13 weeks ended July 31, 2005. Capital expenditures are related mainly to processed meats expansion, plant improvement projects and additional hog production facilities. As of July 30, 2006, the Company had approved capital expenditures of $342.9 million mainly for processed meats and foreign farm expansion as well as Romanian plant renovation and production efficiency projects. These commitments are expected to be funded over the next several years.

In August 2006 (fiscal 2007), the Company completed its investment, through a joint venture with Oaktree Capital Management, LLC (Oaktree) called Groupe Smithfield S.L., in the European meats business of Sara Lee Corporation (SLFE) for $575.0 million, plus the assumption of excess pension-related liabilities of approximately $39.0 million. The Company contributed its French operations and cash of 50.0 million (approximately $63.1 million) to the unconsolidated 50/50 joint venture. The Company s French operations had sales of $372.5 million during fiscal 2006. The newly formed joint venture is being financed by a 90-day unsecured credit facility of 329.0 million (approximately $421.0 million) which is guaranteed by the Company. It is expected that the joint venture will enter into a stand-alone, non-recourse credit facility within 60 days of closing the acquisition, at which time the guarantee will be released.

In August 2006 (fiscal 2007), the Company completed the sale of substantially all of the assets and business of Quik-to-Fix. The Company received net proceeds of approximately $31.4 million.

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On July 31, 2006 (fiscal 2007), the Company announced that it had signed a definitive agreement to acquire substantially all of the assets of the branded meats business of ConAgra Foods, Inc. (ConAgra) for $575.0 million, subject to normal working capital adjustments. The business includes the packaged meats and turkey products sold under the Armour, Butterball, Eckrich, Margherita, Longmont and LunchMakers brands. The brands are marketed to retail grocers, delis, restaurants, and other foodservice establishments. The Company intends to separate the Butterball turkey business from the non-turkey packaged meats business. Carolina Turkeys, an existing partnership between the Company and Maxwell Farms, Inc., is expected to acquire and operate the Butterball turkey business. The Company owns 49 percent of Carolina Turkeys, the fourth largest turkey producer in the U.S. The Company intends to allocate $325.0 million of the purchase price to be paid by Carolina Turkeys. To the extent that Carolina Turkeys is unable to finance this portion of the purchase price, the partners in the joint venture intend to contribute cash on a pro-rata basis. The remaining $250.0 million will be paid by the Company. The definitive agreement provides that the Company will pay this amount with $100 million in common stock and the balance in cash. The Company is evaluating various funding alternatives available to it for paying the remaining purchase price in cash, including accessing the debt or equity capital markets, borrowing under the New Credit Agreement or utilizing a combination of these sources. The transaction is subject to customary closing conditions. The Company expects the acquisition to close during its fiscal second quarter which ends October 29, 2006.

Cash Flows from Financing Activities

Cash provided by financing activities was $132.8 million for the 13 weeks ended July 30, 2006 and $51.3 million for the 13 weeks ended July 31, 2005. The increase is mainly due to higher borrowings on the Company s revolving credit facility.

In August 2005 (fiscal 2006), the Company entered into a $1.0 billion secured revolving credit agreement (the New Credit Agreement) that replaced the Company s then existing credit facility (the Old Credit Agreement). The New Credit Agreement matures in August 2010. The Company may draw down funds as a revolving loan or a swingline loan and obtain letters of credit under the New Credit Agreement. The proceeds of any borrowings under the New Credit Agreement may be used to finance working capital needs and for other general corporate purposes of the Company.

In August 2006 (fiscal 2007), the Company exercised its option to increase the amount committed by $200 million, resulting in $1.2 billion of available borrowings under the New Credit Agreement. In connection with this increase, the Company elected to prepay $17.5 million of variable interest senior notes which would have matured in 2011 and the Company repaid, at maturity, $101.5 million of senior notes. The amount committed under the New Credit Agreement may be increased up to $1.35 billion at the Company s request under certain conditions.

In August 2006 (fiscal 2007), the Company and its subsidiary Smithfield Capital Europe BV (Smithfield Capital Europe), entered into a 300.0 million (approximately $384.0 million) secured revolving credit facility (the European Credit Agreement). The European Credit Agreement terminates in August 2009 unless extended pursuant to its terms. Smithfield Capital Europe may draw down funds as a revolving loan under the facility and the proceeds of any borrowings under the European Credit Agreement may be used for general corporate purposes. The European Credit Agreement is secured by the 12,098,559 shares of stock of Campofrío owned by two subsidiaries of the Company. In addition, the Company and three of its subsidiaries incorporated in Europe have unconditionally guaranteed Smithfield Capital Europe s obligations, including payment obligations, under the European Credit Agreement.

As of July 30, 2006 the Company had aggregate credit facilities totaling $1,045.6 million including unused capacity of $342.7 million, of which $326.4 million represents unused capacity under the New Credit Agreement. The Company had net borrowings of $151.7 million on the New Credit Agreement during the 13 weeks ended

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July 30, 2006 and had net borrowings of $9.0 million on the Old Credit Agreement during the 13 weeks ended July 31, 2005. As of August 24, 2006, the Company had aggregate credit facilities totaling $1,629.7 million including $512.7 million of unused capacity, of which $432.4 million represents unused capacity under the New Credit Agreement and $64.0 million represents unused capacity under the European Credit Agreement.

The Company has been authorized to repurchase up to 20.0 million shares of its common stock. During the first quarter of fiscal 2006, the Company repurchased 230,000 shares of its common stock at an average price of $29.52 per share. As of July 30, 2006, the Company had 2,873,430 shares of common stock remaining under the share repurchase program.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the federal securities laws. The forward-looking information includes statements concerning the Company s outlook for the future, as well as other statements of beliefs, future plans and other strategies or anticipated events, and similar expressions concerning matters that are not historical facts. The Company s forward-looking information and statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in, or implied by, the statements. These risks and uncertainties include the availability and prices of live hogs and cattle, raw materials, fuel and supplies, food safety, livestock disease, live hog production costs, product pricing, the competitive environment and related market conditions, the timing and extent to which beef export markets are reopened, hedging risk, operating efficiencies, changes in interest rate and foreign currency exchange rates, access to capital, the investment performance of the Company s pension plan assets and the availability of legislative funding relief, the cost of compliance with environmental and health standards, adverse results from on-going litigation, actions of domestic and foreign governments, the ability to make effective acquisitions and successfully integrate newly acquired businesses into existing operations and other risks and uncertainties described in the Company s Annual Report on Form 10-K for fiscal 2006 and in Item 1A Risk Factors in this Quarterly Report on Form 10-Q. Readers are cautioned not to place undue reliance on forward-looking statements because actual results may differ materially from those expressed, or implied, by the statements. Any forward-looking statement that the Company makes speaks only as of the date of such statement, and the Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performances, unless expressed as such, and should only be viewed as historical data.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For quantitative and qualitative disclosures about market risk affecting the Company, see Item 7A Qualitative and Quantitative Disclosures About Market Risk of the Company s Annual Report on Form 10-K for the fiscal year ended April 30, 2006. The Company s exposure to market risk has not changed materially since April 30, 2006.

Item 4. Controls and Procedures

The Company s management, including the Company s principal executive officer and principal financial officer, have evaluated the effectiveness of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon their evaluation, the Company s management, including the principal executive officer and principal financial officer, concluded that the Company s disclosure controls and procedures are effective. There were no changes in the Company s internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

Smithfield Packing operates a meat processing and packaging facility in Bedford, Virginia. The facility has experienced three recent, distinct chemical releases to the environment. A system malfunction in March 2006 (fiscal 2006) led to an airborne release of ammonia from the facility. A contractor discharged an ammonia/water mixture from an accumulator tank in May 2006 (fiscal 2007), and another contractor was responsible for a spill of an industrial cleaning chemical in July 2006 (fiscal 2007). Federal, state and local officials have investigated all of the releases and the EPA has issued formal information requests regarding the May and July 2006 releases. As a result of these investigations, the EPA and the Virginia Department of Environmental Quality have raised concerns over whether the Company fully complied with the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA), the Emergency Planning and Community Right-to-Know Act (EPCRA), the federal Clean Water Act and the State Water Control Law with respect to these releases. The Company does not know whether a legal proceeding will be initiated by any governmental authority with respect to any of the releases. If any such legal proceeding is commenced, depending on the results of the investigations, then the Company could face potential monetary penalties. However, management believes that any ultimate liability with respect to these matters would not have a material adverse effect on the Company s financial position or results of operations. As previously announced, the Company is closing its Bedford, Virginia facility as part of its east coast restructuring plan.

Item 1A. Risk Factors

The Company s Annual Report on Form 10-K for fiscal 2006 includes a listing of risk factors to be considered by investors in the Company s securities. Appearing below are an update of one of the risk factors in the Form 10-K and an additional risk that investors may wish to consider.

Our level of indebtedness and the terms of our indebtedness could adversely affect our business and liquidity position.

At July 30, 2006, we had:

- approximately $2,712.7 million of indebtedness,
- guarantees of up to $98.0 million for the financial obligations of certain unconsolidated joint ventures and hog farmers, and
- aggregate revolving credit facilities totaling $1,045.6 million, with unused capacity under these credit facilities of $326.4 million.

Since July 30, 2006, our level of indebtedness and borrowing capacity have increased. In August 2006, we guaranteed an up to 90-day interim unsecured loan facility of 329.0 million (approximately $421.0 million) for Tarvalón S.L., a joint venture entity that acquired the European meats business of Sara Lee Corporation in which we have a 50% interest. We expect that Tarvalón will replace the interim facility with a credit facility that will not require our guarantee within 60 days of closing the acquisition; however, we can not assure you that this will occur. Also in August 2006, the amount committed under the New Credit Agreement was increased from $1.0 billion to $1.2 billion and we entered into a new 300 million (approximately $384 million) secured revolving credit facility which we refer to as the European Credit Agreement under which one of our European subsidiaries may borrow for general corporate purposes.

We expect our indebtedness, including borrowings under the New Credit Agreement and the European Credit Agreement, may increase from time to time in the future for various reasons, including fluctuations in operating results, capital expenditures and possible acquisitions. Our consolidated indebtedness level could significantly affect our business because:

- it may significantly limit or impair our ability to obtain financing in the future,

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a downgrade in our credit rating could restrict or impede our ability to access capital markets at attractive rates and increase our borrowing costs,

it may reduce our flexibility to respond to changing business and economic conditions or to take advantage of business opportunities that may arise, and

a portion of our cash flow from operations must be dedicated to interest payments on our indebtedness and is not available for other purposes, which amount would increase if prevailing interest rates rise.

In addition, our credit agreements and senior secured note agreements contain financial covenants tied to leverage, interest coverage and working capital. Our debt agreements also restrict the payment of dividends to shareholders and under certain circumstances may limit additional borrowings, investments, the acquisition or disposition of assets, mergers and transactions with affiliates.

As currently structured, a breach of a covenant or restriction in any of these agreements could result in a default that would in turn cause a default under other agreements, allowing the affected lenders to accelerate the repayment of principal and accrued interest on their outstanding debt, if they choose, and, in the case of the credit agreements, terminate their commitments to lend additional funds. The future ability of us and our operating subsidiaries to comply with financial covenants, make scheduled payments of principal and interest, or refinance existing borrowings depends on future business performance that is subject to economic, financial, competitive and other factors including the other risks described in our Annual Report on Form 10-K for fiscal 2006.

We have significant credit exposure to certain customers.

Our ten largest customers represented approximately 25% of net sales for fiscal year 2006. We do not have long-term sales agreements (other than to certain third-party hog customers) or other contractual assurance as to future sales to these major customers. In addition, continued consolidation within the retail industry, including among supermarkets, warehouse clubs and food distributors, has resulted in an increasingly concentrated retail base. To the extent these trends continued to occur, our net sales and profitability may be increasingly sensitive to a deterioration in the financial condition of or other adverse developments in our relationship with one or more customers.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number Of Shares Purchased as Part Of Publicly Announced Plans Or Programs	Maximum Number Of Shares that May Yet Be Purchased Under the Plans or Programs(2)
May 1 to May 28, 2006	1,199(1)	$ 27.42		2,873,430
May 29 to July 2, 2006		n/a	n/a	2,873,430
July 3 to July 30, 2006		n/a	n/a	2,873,430
Total	1,199(1)	$ 27.42	n/a	2,873,430

(1) The purchases were made in open market transactions and the shares are held in a rabbi trust under the Smithfield Foods, Inc. 2005 Non-Employee Directors Stock Incentive Plan (the Directors Plan) to mirror deferred stock grants and fee deferrals. The Directors Plan

was approved by the Company s shareholders on August 26, 2005 and authorizes 300,000 shares for distribution to non-employee directors under its terms.

(2) As of July 30, 2006, the Company s board of directors had authorized the repurchase of up to 20,000,000 shares of the Company s common stock. The original repurchase plan was announced on May 6, 1999 and increases in the number of shares the Company may repurchase under the plan were authorized on December 15, 1999, January 20, 2000, February 26, 2001, February 14, 2002 and June 2, 2005.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

In Item 1 Business of the Company s Annual Report on Form 10-K for the fiscal year ended April 30, 2006, the Company disclosed a labor proceeding involving the Company s plant in Wilson, North Carolina. Although the following is not information required to be disclosed in a Current Report on Form 8-K, the Company makes the following update regarding that proceeding:

The Company has recently been involved in a proceeding regarding union representation of employees at its Wilson, North Carolina processing facility. On August 31, 2006, the National Labor Relations Board (the NLRB) overturned an administrative law judge s order that a bargaining order be entered against the Company. The NLRB has ordered, among other things, that a new election be held at the plant. Although either party may appeal, Smithfield plans to comply with the order and is in the process of doing so. If and when the NLRB schedules another representation election at the Wilson plant, the Company will participate in the election process. The outcome of the election, if and when it takes place, will determine whether approximately 450 employees at the Wilson plant will be unionized.

Item 6. Exhibits

Exhibit 2.1	Agreement, dated June 26, 2006, among the Company, Sara Lee Corporation and Tarvalón, S.L. (incorporated by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K filed with the SEC on June 30, 2006).
Exhibit 2.2	Asset Purchase Agreement, dated July 31, 2006, between ConAgra Foods Packaged Foods Company, Inc. and the Company (incorporated by reference to Exhibit 2.1 to the Company s Current Report on Form 8-K filed with the SEC on August 4, 2006).
Exhibit 3.1	Articles of Amendment effective August 29, 2001 to the Amended and Restated Articles of Incorporation, including the Amended and Restated Articles of Incorporation of the Company, as amended to date (incorporated by reference to Exhibit 3.1 to the Company s Amendment No. 1 to Form 10-Q Quarterly Report filed with the SEC on September 12, 2001).
Exhibit 3.2	Amendment to the Bylaws adopted May 30, 2001, including the Bylaws of the Company, as amended to date (incorporated by reference to Exhibit 2 to the Company s Registration Statement on Form 8-A filed with the SEC on May 30, 2001).
Exhibit 4.1	Multicurrency Revolving Facility Agreement dated August 22, 2006 between Smithfield Foods, Inc., Smithfield Capital Europe BV, the subsidiary guarantors party thereto, the lenders party thereto, BNP Paribas and Societe Generale Corporate & Investment Banking as lead arrangers, and Societe Generale as facility agent and security agent relating to a 300,000,000 secured revolving credit facility (incorporated by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed with the SEC on August 28, 2006).

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Exhibit 10.1	Compensation for Named Executive Officers for fiscal 2007 (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the SEC on June 15, 2006).
Exhibit 10.2	Interim Facility Letter, dated as of August 4, 2006, from Citigroup Global Markets Limited and The Royal Bank of Scotland plc (as Arrangers) and from Citibank International Plc and The Royal Bank of Scotland plc (as Underwriters) to Tarvalón, S.L. and to the Company (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the SEC on August 10, 2006).
Exhibit 10.3	Contribution Agreement, dated June 29, 2006, among Tarvalón, S.L., SFDS Global Holdings BV (a wholly-owned subsidiary of the Company), OCM Luxembourg EPOF SARL (a wholly-owned subsidiary of Oaktree Capital Management LLC), and the Company (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the SEC on June 30, 2006).
Exhibit 10.4	Amended and Restated Contribution Agreement, dated as of August 7, 2006, by and among Tarvalón, S.L., Groupe Smithfield S.L. (then known as Bacarreto, S.L.), SFDS Global Holdings BV, OCM Luxembourg EPOF Meats Holdings SARL, OCM Luxembourg OPPS Meats Holdings SARL, OCM Luxembourg EPOF SARL, and the Company (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed with the SEC on August 10, 2006).
Exhibit 10.5	Earn-Out Agreement, dated as of August 7, 2006, by and among OCM Luxembourg EPOF Meats Holdings SARL, OCM Luxembourg OPPS Meats Holdings SARL, SFDS Global Holdings BV, and Groupe Smithfield S.L. (then known as Bacarreto, S.L.) (incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed with the SEC on August 10, 2006).
Exhibit 10.6	Stockholders Agreement, dated as of August 7, 2006, among Groupe Smithfield S.L. (then known as Bacarreto, S.L.), SFDS Global Holdings BV, OCM Luxembourg EPOF Meats Holdings SARL, and OCM Luxembourg OPPS Meats Holdings SARL (incorporated by reference to Exhibit 10.4 to the Company s Current Report on Form 8-K filed with the SEC on August 10, 2006).
Exhibit 10.7	Compensation for Named Executive Officers for fiscal 2007, as amended (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed with the SEC on September 6, 2006).
Exhibit 10.8	Consulting Agreement, dated August 30, 2006, by and between the Company and Joseph W. Luter, III (incorporated by reference to Exhibit 10.2 to the Company s Current Report on Form 8-K filed with the SEC on September 6, 2006).
Exhibit 10.9	Compensation for Non-Employee Directors as of August 30, 2006 (incorporated by reference to Exhibit 10.3 to the Company s Current Report on Form 8-K filed with the SEC on September 6, 2006).
Exhibit 31.1	Certification of C. Larry Pope, President and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
Exhibit 31.2	Certification of Daniel G. Stevens, Vice President and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
Exhibit 32.1	Certification of C. Larry Pope, President and Chief Executive Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
Exhibit 32.2	Certification of Daniel G. Stevens, Vice President and Chief Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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SIGNATURES

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

SMITHFIELD FOODS, INC.

/S/ DANIEL G. STEVENS
Daniel G. Stevens

Vice President and Chief Financial Officer

/S/ JEFFREY A. DEEL
Jeffrey A. Deel

Corporate Controller

Date: September 8, 2006