

ANV SECURITY GROUP INC.  
Form 10-Q  
November 09, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C.20549**

**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2011**

**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 Number: 000-53802**

**ANV Security Group, Inc.**

**(Exact name of registrant as specified in its charter)**

Nevada  
**(State or other jurisdiction of  
incorporation or organization)**

13-3089537  
**(I.R.S. Employer  
Identification No.)**

8th Floor, Block B, R&D  
Building, Tsinghua Hi-Tech  
Park, North Area of Shenzhen  
Hi-Tech & Industrial Park,  
Nanshan District, Shenzhen,  
China  
**(Address of principal executive  
offices)**

518057

**(Zip Code)**

0086-755-8665-6436

**(Registrant's telephone number, including area code)**

N/A

**(Former name, former address and former fiscal year, if changed since last report)**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of November 4, 2011, 66,130,071 shares of common stock, par value \$0.001 per share, were outstanding, of which 22,075,071 shares were held by non-affiliates.

**ANV SECURITY GROUP, INC.**

**FORM 10-Q**

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## PART I Financial Information

## Item 1 Financial Statements

**ANV Security Group, Inc.****Consolidated Balance Sheets****(Expressed in US dollars)**

	September 30, 2011	As of December 31, 2010
	(Unaudited)	(Audited)
<b>ASSETS</b>		
Current Assets	\$	\$
Cash and Cash Equivalents	1,515,606	4,398,282
Accounts Receivable, net	3,937,885	3,341,125
GST Receivable	11,066	6,046
Inventories, net	6,543,556	4,494,660
Prepayments and Deposits	1,242,073	826,661
Total Current Assets	13,250,186	13,066,774
Property, Plant and Equipment, net	1,149,389	780,115
Intangible Assets, net	1,624,067	1,207,233
Goodwill	6,456,030	6,274,629
Deferred Tax Assets	766,034	717,745
	\$	\$
Total Assets	23,245,706	22,046,496
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities	\$	\$
Accounts Payable and Accrued Expenses	5,484,601	5,217,938
Income Tax Payable	-	120,051
Contract Payable	1,276,149	-
Due to Related Parties	261,296	214,846
Total Current Liabilities	7,022,046	5,552,835
Total Liabilities	7,022,046	5,552,835

Commitments and Contingencies

Stockholders' Equity		
Common Stock	66,130[1]	66,130[1]
Additional Paid-in Capital	18,325,289	18,325,289
Deficit Accumulated	(2,744,220)	(1,927,651)
Accumulated Other Comprehensive Income	576,461	279,893
Less: Stock Subscription Receivable	-	(250,000)
Total Stockholders' Equity	16,223,660	16,493,661
	\$	\$
Total Liabilities and Stockholders' Equity	23,245,706	22,046,496

[1] (\$0.001 par value, 100,000,000 shares authorized, 66,130,071 shares issued and outstanding)

(The accompanying notes are an integral part of these consolidated financial statements.)

**ANV Security Group, Inc.****Consolidated Statements of Operations****(Expressed in US dollars)****(Unaudited)**

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenues	7,450,210	108,620	20,524,242	140,246
Cost of Sales	5,688,389	97,325	16,233,508	111,460
Gross profit	1,761,821	11,295	4,290,734	28,786
Operating Expenses				
Selling and Marketing	613,720	13,399	1,502,611	76,661
General and Administrative	1,036,380	619,437	3,029,157	884,302
Research and Development	347,621	-	869,224	-
Total Operating Expenses	1,997,721	632,836	5,400,992	960,963
Operating (loss)	(235,900)	(621,541)	(1,110,258)	(932,177)
Other Incomes (Expenses)				
Interest Income	540	156	2,016	156
Interest Expense	(693)	(1,147)	(1,589)	(3,154)
Others, net	116,744	13,891	267,714	3,954
Total Other Income (Expense)	116,591	12,900	268,141	956
Loss Before Income Tax Expense	(119,309)	(608,641)	(842,117)	(931,221)
Income Tax Expense, Net of Income Tax Benefit	(365)	-	25,548	-
Net Loss	(119,674)	(608,641)	(816,569)	(931,221)
Other Comprehensive Income (Loss)				
Foreign Currency Translation Adjustment	68,157	95,234	296,568	39,999
Comprehensive (Loss) Income	(51,517)	(513,407)	(520,001)	(891,222)
Net Loss Per Share- Basic and Diluted	(0.00)	(0.01)	(0.01)	(0.02)
Weighted Average Number of Shares Outstanding- Basic and Diluted	66,130,071	50,251,995	66,130,071	38,886,691

(The accompanying notes are an integral part of these consolidated financial statements.)





**ANV Security Group, Inc.****Consolidated Statements of Cash Flows****(Expressed in US dollars)****(Unaudited)**

	Nine Months Ended September 30,	
	2011	2010
<b>Cash flows from operating activities</b>	\$	\$
Net loss	(816,569)	(931,221)
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	422,206	142,035
Provision for doubtful accounts	114,842	-
Provision for obsolete inventories	(57,486)	-
Deferred tax	(17,644)	-
Foreign Currency Exchange Loss	-	15,514
Changes in operating assets and liabilities (net of effects of acquisition):		
Decrease (increase) in:		
Prepayments and deposits	(434,603)	(7,459)
Accounts receivable	(502,568)	508
GST receivable	(5,594)	(4,985)
Inventories	(998,983)	(125,453)
Increase (decrease) in:		
Accounts payable and accrued expenses	92,730	(23,344)
Due to related parties	-	3,979,886
Income tax payable	(125,013)	-
Net Cash (Used in) Provided by Operating Activities	(2,328,682)	3,045,481
<b>Cash Flows From Investing Activities</b>		
Purchase of equipment and furniture	(249,503)	(28,007)
Capitalized intangible costs	(671,167)	(1,026,096)
Purchase of subsidiary, net of cash acquired	-	29,485
Net Cash Used in Investing Activities	(920,670)	(1,024,618)
<b>Cash Flows From Financing Activities</b>		
Proceeds from (repayment to) related parties	38,692	(33,244)
Proceeds from common stock subscription receivable and issuance	250,000	3,184,121
Net Cash Provided by Financing Activities	288,692	3,150,877
Effect of Exchange Rate Changes on Cash and Cash Equivalents		
Net (Decrease) Increase in Cash and Cash Equivalents	(2,882,676)	5,629,955

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Cash and Cash Equivalents at Beginning of Period	4,398,282	52,122
	\$	\$
Cash and Cash Equivalents at End of Period	1,515,606	5,682,077
Supplemental Schedule of Cash Flows Disclosures		
	\$	\$
Interest Paid	1,034	1,147
	\$	\$
Income taxes paid	116,318	-
Supplemental Schedule of Non-Cash Flows Activities		
	\$	\$
Asset purchase through contract payable	1,194,521	-

(The accompanying notes are an integral part of these consolidated financial statements.)

**ANV Security Group, Inc.**

**Notes to Consolidated Financial Statements**

**September 30, 2011**

**1. Company Information**

**ANV Security Group, Inc. and subsidiaries** (the Company or ANVS ) is specialized in new products research and development, software solutions, technologies for network video surveillance and video alarm service platforms. **ANV Security Group, Inc.** has developed products such as IP cameras and DVS (Digital Video Servers), as well as NVRs, DVRs, CCTV cameras etc. It has also developed the first automatic video alarm platform in the world: www.usci8.com. This patent was officially approved by U.S. Patent and Trademark Office (USPT) on October 22, 2009 with patent number US2009/0265747A1. This platform performs instant notification to the owner via SMS, e-mail, telephone or cell-phone when an alarm is triggered worldwide in any time zone and captures the event images in video surveillance servers.

**ANV Security Group, Inc.** was established in December 18, 2006 in Vancouver, Canada. It is a Nevada company. The Company's plan is to become a fully integrated developer, designer, manufacturer, marketer, installer and servicer of web based security systems for residential, commercial and government customers operating in the Peoples Republic of China, the United States of America, and to a lesser extent Canada. Also the Company offers a wide range of video cameras powered by the next generation H.264 video technologies and our patent pending USCI8.com services platforms. We are currently headquartered in Shenzhen, China.

On February 10, 2011, the Company board of directors determined to change its fiscal year to the calendar year from the year ended March 31 as this fiscal year is aligned with the fiscal years of its principal operating subsidiaries.

**2. Summary of Significant Accounting Policies**

**a) Basis of Presentation**

These financial statements and related notes are presented in accordance with accounting principles generally accepted in the United States, and are expressed in US dollars. The Company's fiscal year-end is December 31.

**b) Principles of Consolidation**

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries. The Company consolidates companies in which it has controlling interest of over 50%. All significant intercompany accounts, transactions and cash flows have been eliminated on consolidation.

**c) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ( U.S. GAAP or GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Company regularly evaluates estimates and assumptions related to useful life and recoverability of long-lived assets, donated expenses, and deferred income tax valuation allowances. The Company bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. The actual results experienced by the Company may differ materially and adversely from the Company's estimates. To the extent there are material differences between the estimates and the actual results, future results of operations will be affected.

**d) Reclassification**

Certain account reclassifications have been made to the financial statements of the prior year in order to conform to classifications used in the current year. These changes had no impact on previously stated financial statements of the Company.

**e) Comprehensive Income (Loss)**

In accordance with FASB ASC 220-10-55, comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. The Company's only components of comprehensive loss during the three and nine months ended September 30, 2011 and 2010 were net loss and the foreign currency translation adjustment.

**f) Cash and Cash Equivalents**

Cash and cash equivalents include all cash balances and certificates of deposit having a maturity date of three months or less upon acquisition.

**g) Concentration of Credit Risks**

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. The Company places its cash with high credit quality financial institutions in Asia and Canada. The Company has not experienced any losses in such bank accounts through September 30, 2011. In an effort to mitigate any potential risk, the Company periodically evaluates the credit quality of the financial institutions at which it holds deposits.

**h) Accounts Receivable**

Accounts receivable are presented net of an allowance for doubtful accounts. The Company maintains allowances for doubtful accounts for estimated losses. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, customer's historical payment history, its current credit-worthiness and current economic trends. Accounts are written off after exhaustive efforts at collection.

**i) Inventories**

Inventories are stated at the lower of average cost or market and consist of raw materials and finished goods. The Company writes down inventory for estimated obsolescence or unmarketable inventory based upon assumptions and estimates about future demand and market conditions. If actual market conditions are less favorable than those projected by the Company, additional inventory write-downs may be required.

**j) GST Receivable**

GST receivable represents tax credit that the Canadian Company receives when the Company pays GST tax during normal operations. As of September 30, 2011, the Company had a GST tax receivable of \$11,066.

**k) Prepayment and Deposits**

Prepayment and deposits represent the cash paid in advance for purchasing of inventory items from suppliers and the amount as of September 30, 2011 was \$1,242,073 and \$826,661 for December 31, 2010.

**l) Property, Plant and Equipment**

Property, plant and equipment consist of production equipment, office equipment and furniture, computer equipment and leasehold improvement, are carried at cost less accumulated depreciation. The property and equipment as well as leasehold improvement are depreciated on a straight line basis over an estimated useful life of 3 to 10 years.

**m) Goodwill and Intangible Assets**

Goodwill represents the excess of the purchase price over the net fair value of the identifiable tangible and intangible assets acquired and the fair value of liabilities assumed in acquisitions. ASC 350-30-50 Goodwill and Other Intangible Assets, requires the testing of goodwill and indefinite-lived intangible assets for impairment at least annually. The Company tests goodwill for impairment in the fourth quarter of each year.

Under applicable accounting guidance, the goodwill impairment analysis is a two-step test. The first step of the goodwill impairment test involves comparing the fair value of each reporting unit with its carrying amount including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, the second step must be performed to measure potential impairment.

The second step involves calculating an implied fair value of goodwill for each reporting unit for which the first step indicated possible impairment. If the implied fair value of goodwill exceeds the goodwill assigned to the reporting unit, there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of goodwill, an impairment charge is recorded for the excess.

**n) Accounting for the Software to be Sold, Leased, or Otherwise Marketed**

The Company accounts for software development costs in accordance with ASC985-20, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed . Costs related to establishing the technological feasibility of a software product are expensed as incurred as a part of research and development in general and administrative expenses. Costs that are incurred to produce the finished product after technological feasibility is established are capitalized and amortized over the estimated economic life of 5 years. The Company performs periodic reviews to ensure that unamortized program costs remain recoverable from future revenue.



As of September 30, 2011, the capitalized surveillance software costs were \$669,120, including outsourcing costs and self development costs. As these surveillance softwares are still under development, they were not amortized for the three months ended September 30, 2011.

**o) Long-Lived Assets**

In accordance with ASC 360, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company is required to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable through the estimated undiscounted cash flows expected to result from the use and eventual disposition of the assets. Whenever any such impairment exists, an impairment loss will be recognized for the amount by which the carrying value exceeds the fair value. The Company estimates fair value based on the information available in making whatever estimates, judgments and projections are considered necessary. There was no impairment of long-lived assets during the three and nine months ended September 30, 2011 and 2010.

**p) Financial Instruments and Fair Value Measures**

ASC 820, Fair Value Measurements and Disclosures clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity's own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts reported in the balance sheets for cash, accounts receivable, advance to vendors, accounts payable and other accrued expenses, and advances from customers approximate their fair market value based on the short-term maturity of these instruments.

**q) Revenue Recognition**

The Company recognizes revenue in accordance with ASC 605, which requires that revenue be recognized when it is earned and either realized or realizable. In general, the Company generates revenue from the sales of surveillance and safety products and systems and revenue is recognized when the following criteria are met:

- (i) Persuasive evidence of an arrangement exists The Company requires evidence of an agreement with a customer specifying the terms and conditions of the products to be delivered typically in the form of a signed contract or purchase order;
- (ii) Delivery has occurred For product sales, delivery generally takes place when title to the product is transferred, which generally take place when products are shipped to or accepted by the customer, depending on the terms of the contract;
- (iii) The fee is fixed or determinable Fees are fixed or determinable based on the contract or purchase order terms; and
- (iv) Collection is probable The Company performs a credit review of all customers with significant transactions to determine whether a customer is creditworthy and collection is probable.

**r) Income Taxes**

The Company utilizes ASC 740, Accounting for Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

ASC 740-10-25 prescribes a more-likely-than-not threshold for consolidated financial statement recognition and measurement of a tax position taken (or expected to be taken) in a tax return. It also provides guidance on the recognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. There are no material uncertain tax positions as of September 30, 2011.

**s) Foreign Currency Translation**

The Company's financial information is presented in US dollars. The functional currencies of the Company and its subsidiaries include the United States dollar ( US\$ ), Hong Kong dollar, Canadian dollar and Renminbi ( RMB ).

The financial statements of the Company have been translated into U.S. dollars in accordance with FASB ASC 830-30 *Translation of Financial Statements* . The financial information is first prepared in functional currencies and then is translated into U.S. dollars at period-end exchange rates as to assets and liabilities and average exchange rates as to revenue and expenses. Capital accounts are translated at their historical exchange rates when the capital transactions occurred. The effects of foreign currency translation adjustments are included as a component of accumulated other comprehensive income in shareholders' equity.

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into US dollars at the rates used in translation.

**t) Basic and Diluted Net Income (Loss) Per Share**

**Earnings per share**

The Company computes earnings per share ( EPS ) in accordance with ASC 260 Earnings per Share ( ASC 260 ), and SEC Staff Accounting Bulletin No. 98 ( SAB 98 ). ASC 260 requires companies with complex capital structures to present basic and diluted EPS. Basic EPS is measured as net income divided by the weighted average common shares

outstanding for the period. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares (e.g., convertible securities, options and warrants) as if they had been converted at the beginning of the periods presented, or issuance date, if later. Potential common shares that have an anti-dilutive effect (i.e., those that increase income per share or decrease loss per share) are excluded from the calculation of diluted EPS.

Basic net earnings (loss) per share equals net earnings (loss) divided by the weighted average shares outstanding during the year. The computation of diluted net earnings per share does not include dilutive common stock equivalents in the weighted average shares outstanding as they would be anti-dilutive. The Company's common stock equivalents at September 30, 2011 and December 31, 2010 include the following:

	September 30, 2011	December, 2010
Options	140,000	140,000
Warrants	-	-
	140,000	140,000

#### u) Recent Accounting Pronouncements

Goodwill

(Included in ASC 350 "Intangibles-Goodwill and Other")

In December 2010, the FASB issued ASU No. 2010-28, "Intangibles-Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts." This ASU requires that reporting units with zero or negative carrying amounts perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. ASU 2010-28 is effective for the Company beginning with this interim period. The adoption of this update did not have an impact on the Company's financial condition or results of operations.

#### Note 3. Inventory

Inventories consisted of the following:

	September 30, 2011	December 31, 2010
Raw materials	2,385,457	1,567,815
Work-in-progress	2,178,651	1,884,438
Finished goods	2,081,953	1,196,891
Less: provision for inventory	(102,505)	(154,484)
	6,543,556	4,494,660

#### Note 4. Property, Plant and Equipment, net

Property, Plant and Equipment, net, consisted of the following:

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	September 30, 2011	December 31, 2010
Machinery and equipment	599,229	446,090
Furniture and office equipment	825,297	402,107
	1,424,526	848,197
Less: Accumulated depreciation	(275,137)	(68,082)
	1,149,389	780,115

**Note 5. Goodwill and other Intangible Assets**

In the second quarter ended June 30, 2011, the Company acquired four companies from different unaffiliated persons in arms length transactions. The principals of the acquired companies will receive up to 2 million shares of our common stock on the condition of proving the value of the assets purchased is RMB2,300,000 or approximately US\$350,000 and the acquired company contributing a net profit of RMB1,500,000 or approximately US\$230,000 in the 12 months after the transaction closes. Accordingly, each acquisition is subject to adjustment based on an audit of the acquired company and its results. The acquired companies are (i) Jinan Hualutong Technology Co., Ltd., an electronic security product marketer located in Jinan, Shandong, China; (ii) Shijiazhuang Huilin Technology Co., Ltd., an electronic security product marketer located in Shijiazhuang, Hebei, China; (iii) Taian Comins Electronic Technology Co., Ltd., an electronic security product marketer and installer located in Taian, Shandong, China; and (iv) Shenyang HuashengShiji Trading Co., Ltd., an electronic security product marketer located in Shenyang, Liaoning, China.

The following table summarizes the activity in the Company's goodwill account during the nine months ended September 30, 2011 and fiscal year 2010:

	September 30, 2011	December 31, 2010
Beginning balance	6,274,629	-
Goodwill acquired during the year		
Flybit	-	2,258,774
Angesi	-	4,015,855
Jinan Hualutong	46,099	-
Shijiazhuang Huilin	46,099	-
Taian Comins	44,601	-
Shenyang Huasheng	44,602	-
Ending balance	6,456,030	6,274,629

Intangible assets are summarized by classifications as follows:

	September 30, 2011	December 31, 2010
Surveillance software	1,963,715	1,353,650
Financial software	17,134	12,037
Incorporation Cost	53,217	55,644
Less: Accumulated amortization	(409,999)	(214,098)
	1,624,067	1,207,233

**Note 6. Accounts Payable and Accrued Expenses**

As at September 30, 2011 accounts payable and accrued expenses amounted \$5,484,601 representing trade payables to supplier during normal course of business and accrued expenses incurred in normal operations. As at December 31, 2010, accounts payable and accrued expenses amounted \$5,217,938.



## **Note 7. Income Taxes**

As at September 30, 2011, the Company has a net operating loss carry forward for tax purposes totaling approximately \$2,744,220 consisting of \$450,000 from ANV Security Group, Inc., \$1,696,390 from ANV Video Alarm Service Inc., \$41,768 from ANV Security Group Technology (Taian) Co., Ltd and \$556,062 from ANV Security Group (Asia) Co., Limited. The net operating loss carries forwards for income taxes, which may be available to reduce future years' taxable income. Management believes that the realization of the benefits from these losses appears uncertain due to the Company's continuing losses for income tax purposes. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset benefit of ANV Security Group, Inc. and ANV Video Alarm Service Inc to reduce the asset to zero. Management will review this valuation allowance periodically and make adjustments as warranted.

## **Note 8. Related Party Transactions**

As at September 30, 2011 and December 31, 2010, the Company owed individual affiliated shareholders in amount of \$261,296 and \$214,846 respectively.

During the three and nine months ended September 30, 2011, the Company recognized sales revenue of \$1,372,399 and \$5,589,279 from HongKong AOPVision Tech Co., Limited ( HongKong AOPVision ), which accounted for 18% and 27% of the consolidated revenue of the corresponding periods. As of September 30, 2011 and December 31, 2010, the amounts in accounts receivable due from HongKong AOPVision were \$221,338 and \$524,404, respectively. HongKong AOPVision's sole shareholder is a family member of one of the key management and Company's director & shareholder who holds 5.91% of our equity.

## **Note 9. Capital Stock**

The Company is authorized to issue 100,000,000 shares of common stocks, par value \$0.001 per share. As of September 30, 2011 and as of December 31, 2010, the number of voting common shares issued and outstanding was 66,130,071.

On June 28, 2009, our Canadian predecessor entered in to an agreement and plan of reorganization ( agreement ) by and among Dini Products, Inc. ( DINP ), a Nevada corporation whereas, each of the common share in the Company was exchanged on a share for share basis so that after such exchange DINP has 33,190,071 shares of common stock issued and outstanding inclusive of 29,860,000 shares issued to the Company s stockholders.

Upon execution of agreement, the Company has amended its name to ANV Security Group, Inc.

**Note 10. Equity Compensation Plan**

On October 1, 2008, the board of directors adopted the Company's Stock Option Plan. The Company has reserved 1,000,000 shares of common stock for issuance upon exercise of options granted from time to time under the stock option plan. The stock option plan is intended to assist the Company in securing and retaining key employees, directors and consultants by allowing them to participate in the Company's ownership and growth through the grant of incentive and non-qualified options. Under the stock option plan, the Company may grant incentive stock options only to key employees and employee directors, or the Company may grant non-qualified options to employees, officers, directors and consultants. The stock option plan is currently administered by the Company's board of directors. Subject to the provisions of the stock option plan, the board will determine who shall receive options, the number of shares of common stock that may be purchased under the options. As at September 30, 2011, the Company has granted 140,000 shares options.

## **Note 11. Operating Risk**

### (a) Concentration of credit risk

Financial instruments that potentially expose the Company to concentration of credit risk consist primarily of cash, accounts and notes receivable. The Company places its cash with financial institutions with high credit ratings.

### (b) Country risk

Revenues of the Company are mainly derived from the sales in Asia. The Company hopes to expand its operations to countries outside Asia, however, such expansion has not been commenced and there are no assurances that the Company will be able to achieve such an expansion successfully. Therefore, a downturn or stagnation in the economic environment of China and other Asian markets could have a material adverse effect on the Company's financial condition.

### (c) Product risk

ANVS might have to compete with larger companies who have greater funds available for expansion, marketing, research and development and the ability to attract more qualified personnel. There can be no assurance that ANVS will remain competitive should this occur.

### (d) Exchange risk

The Company cannot guarantee that the current exchange rates will remain steady, therefore there is a possibility that the Company could post the same amount of profit for two comparable periods and because of fluctuating exchange rates actually post higher or lower profit depending on exchange rates of RMB and Hong Kong dollar converted to U.S. dollars on that date. The exchange rates could fluctuate depending on changes in the political and economic environments without notice.

## **Note 12. Segment Information**

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision maker is its Chief Executive Officer.

In the three and nine months ended September 30, 2011, the Company had only sold security devices and units and accordingly the Company had a single operating segment during the reporting period.

### **Note 13. Commitments and Contingencies**

#### **13.1 Lease Commitments**

The Company leases its North American office space and laboratory facility in Richmond, British Columbia which starts on April 1, 2010 and expires on March 31, 2013. Its total monthly minimum rental fee is \$3,285.

The Company leases its headquarter office in Shenzhen, China which expires on January 14, 2014. Its total monthly rental fee is RMB 97,759 (US\$15,383).

The Company leases its principal manufacturing and showroom facility in Shenzhen China which expires on January 20, 2013. Its total monthly rental fee is RMB117,520 (US\$18,493).

#### **13.2 Litigation**

As per the Company, as of September 30, 2011, there are no actions, suits, proceedings or claims pending against or materially affecting the Company, which if adversely determined, would have a material adverse effect on the financial condition of ANVS.

**ITEM 2. MANGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward Looking Statements**

This Quarterly Report on Form 10-Q contains "forward-looking" statements as such term is defined in the Private Securities Litigation Reform Act of 1995 and information relating to the Company that is based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. When used in this report, the words "anticipate," "believe," "estimate," "expect" and "intend" and words or phrases of similar import, as they relate to the Company or Company management, are intended to identify forward-looking statements. Such statements reflect the current risks, uncertainties and assumptions related to certain factors including, without limitations, competitive factors, general economic conditions, customer relations, relationships with vendors, the interest rate environment, governmental regulation and supervision, seasonality, distribution networks, product introductions and acceptance, technological change, changes in industry practices, onetime events and other factors described herein and in other filings made by the Company with the Securities and Exchange Commission. Based upon changing conditions, should any one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended. The Company does not intend to update these forward-looking statements.

## RESULTS OF OPERATIONS

### Financial Performance Highlights of Three Months Ended September 30, 2011

We caution you that the three and nine months ended September 30, 2011 includes substantial operations in China that were not a part of our operations in the prior year same period. Therefore direct comparisons are not useful or relevant.

On June 1, 2010, the Company completed the acquisition of 100% shares of Flybit International Ltd. Thereafter on September 30, 2010, another equity acquisition of Shenzhen Angesi Technology Co., Ltd was also closed. The two newly acquired wholly owned subsidiaries have substantially contributed the China operations to the Company with its strong research & development, equipped manufacturing facilities and effective marketing of video cameras throughout the Greater China.

On April 30, 2011 and June 30, 2011, the Company completed the acquisitions of four companies from different unaffiliated persons in arms length transactions. These acquisitions are part of the Company's strategy to increase its marketing and sales capacity.

Revenues in third quarter of 2011 were \$7.4 million, which driven by the business of surveillance product and systems. The surveillance and security product market in China continued to expand. However, the business environment remains competitive and challenging. Management would continue focusing on management controls and improving operating and manufacturing efficiencies via the restructuring process to reach the positive synergy upon completion of the acquisitions.

The following are some financial highlights for the three months ended September 30, 2011:

- 1 *Revenues:* Revenues recorded \$7,450,210.
  
- 1 *Gross margin:* Gross margin was 23.6%.
  
- 1 *Operating loss:* Operating loss was (\$235,900).
  
- 1 *Operating margin:* Operating loss margin was (3.2%).

1 *Net loss:* Net loss was (\$119,674).

1 *Net margin:* Net loss margin was (1.6%).

1 *Comprehensive loss:* Comprehensive loss was (\$51,517) after foreign currency translation adjustment of \$68,157.

In the third quarter of 2011, our revenues decreased slightly to US\$7.4 million as compared to US\$8.1 million in the second quarter of 2011. The net loss in the third quarter of 2011 was improved from (US\$329,711) to (US\$119,674) as compared with second quarter, we further decreased our net losses and our results are in line with the Company's profitability goals this year. As a percentage of revenue, net loss decreased from 4.0% of revenues in the second quarter of the fiscal year to 1.6% in the third quarter of the fiscal year. The improvement in our gross profit as well as the improvement in net loss in gross dollar amounts was attributed to the synergy of effective restructuring and streamlining of our operations structure. Management believes that our momentum of organic growth would be continuous in benefit from our intensive R&D on product innovation and our commitment to quality and that these factors will drive our growth and improve the bottom line.

## LIQUIDITY AND CAPITAL RESOURCES

We had cash and cash equivalents of \$1,515,606 as of September 30, 2011, as compared to \$4,398,282 as of December 31, 2010, a decrease of \$2,882,676. The decrease of cash and cash equivalents during the nine months ended September 30, 2011 was primarily attributable to cash used in operations of \$2,328,682, purchases of equipment and furniture of \$249,503 and capitalized intangible costs of \$671,167.

Net cash used in operating activities was \$2,328,682 for the nine months ended September 30, 2011, as compared to net cash provided by operating activities \$3,045,481 for the nine months ended September 30, 2010. The increase in cash used in operating activities was primarily attributable to our net loss, as well as changes in working capital for the nine months ended September 30, 2011.

Net cash used in investing activities was \$920,670 for the nine months ended September 30, 2011, as compared to \$1,024,618 for the nine months ended September 30, 2010. Main components of cash flows from investing activities for the nine months ended September 30, 2011 included cash of \$671,167 used in capitalized surveillance software intangible assets and \$249,503 used in purchases of equipment and furniture. Main components of cash flows from investing activities for the nine months ended September 30, 2010 mainly included capitalized intangible assets of \$1,026,096.

Net cash provided by financing activities was \$288,692 for the nine months ended September 30, 2011 as compared to \$3,150,877 for the nine months ended September 30, 2010. Main components of cash flows from financing activities for the nine months ended September 30, 2011 included proceeds from stock subscription receivable of \$250,000, and \$38,692 of net proceeds from related parties. Cash flows from financing activities for the nine months ended September 30, 2010 included \$3,184,121 of proceeds from the issuance of common stock, offset by \$33,244 of net repayment to related parties.

We have funded our activities to date primarily through the sales of surveillance and safety products and systems and the issuance of equity securities. Our working capital resources should be sufficient for our operation within the year and we are seeking additional bank lines and placement of equity. However, we can give no assurance we will be successful in these efforts.



### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

#### **Foreign Exchange Risk**

Our reporting currency is the U.S. dollar. Except for the U.S. holding company, the majority of our consolidated revenues, consolidated costs and expenses, and our assets are denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between the U.S. dollars and the RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues, earnings and assets as expressed in our U.S. dollar financial statements will decline. Assets and liabilities are translated at exchange rates at the balance sheet dates and revenue and expenses are translated at the average exchange rates and equity is translated at historical exchange rates. Any resulting translation adjustments are not included in determining net income but are included in determining other comprehensive income, a component of equity. We have not entered into any hedging transactions in an effort to reduce our exposure to foreign exchange risk.

The value of the Renminbi against the U.S. dollar and other currencies is affected by, among other things, changes in China's political and economic conditions. Since July 2005, the Renminbi has not been pegged to the U.S. dollar. Although the People's Bank of China regularly intervenes in the foreign exchange market to prevent significant short-term fluctuations in the exchange rate, the Renminbi may appreciate or depreciate significantly in value against the U.S. dollar in the medium to long term. Moreover, it is possible that in the future, PRC authorities may lift restrictions on fluctuations in the Renminbi exchange rate and lessen intervention in the foreign exchange market.

#### **Inflation**

Inflationary factors such as increases in the cost of our materials and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenues if the selling prices of our products do not increase with these increased costs.

#### **ITEM 4. CONTROLS AND PROCEDURES**

##### **(a) Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of September 30, 2011, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based upon that evaluation, our Principal Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

##### **(b) Changes in Internal Controls**

There were no changes in our internal controls and procedures in internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We continue to rely on the members of the Board of Directors to provide assurance that our entity-level controls remain effective and we believe our process-level controls remain effective.

**PART II**

**OTHER INFORMATION**

**Item 1. Legal Proceedings**

We are not party to any material legal proceeding.

**Item 1A. Risk Factors**

There are no material changes from the risk factors previously disclosed in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-KT for the year ended December 31, 2010, filed with the SEC on March 31, 2011.

**Item 2. Changes in Securities**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. (Removed and Reserved)**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certifications of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certifications of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

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

ANV SECURITY GROUP, INC.

By: /S/ Weixing Wang  
Weixing Wang  
Chief Executive Officer (Principal Executive Officer)

By: /S/ Paul Lau  
Paul Lau  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

November 4, 2011