

ANV SECURITY GROUP INC.  
Form 10-Q  
May 03, 2011

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

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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 March 31, 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

518057

(Address of principal executive offices)

(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

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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 April 29, 2011, 66,130,071 shares of common stock, par value \$0.001 per share, were outstanding, of which 4,648,627 shares were held by non-affiliates.

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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)

	As of	
	March 31, 2011 (Unaudited)	December 31, 2010 (Audited)
<b>ASSETS</b>		
Current Assets		
Cash and Cash Equivalents	\$3,104,992	\$ 4,398,282
Accounts Receivable	2,698,176	3,341,125
GST Receivable	7,889	6,046
Inventory	5,398,921	4,494,660
Prepayment and Deposit	834,373	826,661
Due From Related Parties	18,601	-
Total Current Assets	12,062,952	13,066,774
Property, Plant and Equipment , net	816,183	780,115
Intangible Assets	1,166,367	1,207,233
Goodwill	6,274,629	6,274,629
Deferred Tax Assets	713,727	717,745
Total Assets	\$21,033,858	\$ 22,046,496
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities		
Accounts Payable	\$4,703,888	\$ 5,217,938
Income Tax Payable	-	120,051
Due to Related Parties	95,493	214,846
Total Liabilities	4,799,381	5,552,835
Commitments and Contingencies		
Stockholders' Equity		
Common Stock (\$0.001 par value, 100,000,000 shares authorized, 66,130,071 and 66,130,071 shares issued and outstanding, respectively)	66,130	66,130
Additional Paid-in Capital	18,325,289	18,325,289
Deficit Accumulated	(2,294,835 )	(1,927,651 )
Accumulated Other Comprehensive Income	387,893	279,893
Less: Stock Subscription Receivable	(250,000 )	(250,000 )
Total Stockholders' Equity	16,234,477	16,493,661
Total Liabilities and Stockholders' Equity	\$21,033,858	\$ 22,046,496

(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)

	For The Three Months Ended	
	March 31, 2011	March 31, 2010
Revenues	\$ 4,919,525	\$ 4,291
Cost of Sales	3,914,045	1,579
Gross profit	1,005,480	2,712
<b>Operating Expenses</b>		
Selling and Marketing	413,245	13,154
General and Administrative	873,350	111,406
Research and Development	208,064	-
Total Operating Expenses	1,494,659	124,560
Operating income (loss)	(489,179 )	(121,848 )
<b>Other Income (Expenses)</b>		
Interest Income	369	-
Interest Expense	(553 )	(1,315 )
Others, net	121,360	(4,047 )
Total Other Income (Expense)	121,176	(5,362 )
Loss Before Income Tax Expense	(368,003 )	(127,210 )
Income Tax Expense, Net of Income Tax Benefit	819	-
Net Loss	(367,184 )	(127,210 )
<b>Other Comprehensive Income</b>		
Foreign Currency Translation Adjustment	108,000	31,619
Comprehensive (Loss) Income	\$ (259,184 )	\$ (95,591 )
Net Loss Per Share – Basic and Diluted	\$ (0.01 )	\$ (0.00 )
Weighted Average Number of Shares Outstanding – Basic and Diluted	66,130,071	33,190,071

(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)

	For the Three Months Ended	
	March 31, 2011	March 31, 2010
<b>Cash flows from operating activities</b>		
Net loss	\$ (367,184 )	\$ (127,210 )
Adjustment to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	124,256	1,542
Provision for doubtful accounts	5,156	-
Provision for obsolete inventories	(121,183 )	-
Deferred tax	11,226	-
Changes in operating assets and liabilities ( net of effects of acquisition):		
Decrease (increase ) in:		
Prepayment and deposit	11,691	(1,016 )
Accounts receivable	645,899	508
GST receivable	(1,690 )	(1,673 )
Inventory	(733,334 )	(13,749 )
Increase (decrease) in:		
Accounts payable	(563,685 )	4,368
Income tax payable	(120,721 )	-
Due from related parties	-	63,994
<b>Net Cash Used in Operating Activities</b>	<b>(1,109,569 )</b>	<b>(73,236 )</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of equipment and furniture	(80,025 )	(4,306 )
Capitalized intangible costs	(1,655 )	(305,572 )
Purchase of subsidiary, net of cash acquired	-	29,485
<b>Net Cash Used in Investing Activities</b>	<b>(81,680 )</b>	<b>(280,393 )</b>
<b>Cash Flows From Financing Activities</b>		
Repayment to related parties	(137,549 )	(106,163 )
Issuance of common stock	-	28,353
<b>Net Cash Used in Financing Activities</b>	<b>(137,549 )</b>	<b>(77,810 )</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	35,508	411,073
<b>Net Decrease In Cash and Cash Equivalents</b>	<b>(1,293,290 )</b>	<b>(20,366 )</b>
Cash and Cash Equivalents at Beginning of Period	4,398,282	52,122
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 3,104,992</b>	<b>\$ 31,756</b>
<b>Supplemental Schedule of Cash Flows Disclosures</b>		
Interest paid	\$ 553	\$ -
Income taxes paid	\$ 120,721	\$ -

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





ANV Security Group, Inc.  
Notes to Consolidated Financial Statements  
March 31, 2011

1. Company Information

ANV Security Group, Inc. and subsidiaries (the “Company” or “ANVS”) is specialized in new products research & development, software solution, technologies for network video surveillance and video alarm service platform. ANV Security Group, Inc. has developed products of IP camera and DVS (Digital Video Server), as well as NVR, DVR, CCTV camera etc. It has also developed the first auto video alarm platform in the world: [www.usci8.com](http://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, Canada and the United States of America. 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 months ended March 31, 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 March 31, 2011. At March 31, 2011, our cash and cash equivalents were as follows:

COUNTRY	March 31, 2011	December 31, 2010
Canada	\$ 314,688	\$ 379,848
China and HK SAR	2,790,304	4,018,434
Total cash and cash equivalents	\$ 3,104,992	\$ 4,398,282

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 March 31, 2011, the Company had a GST tax receivable of \$7,889.

k) Prepayment and Deposits

Prepayment and Deposits included in other assets represent the cash paid in advance for purchasing of inventory items from Suppliers and the amount as of March 31, 2011 was \$834,373 and \$826,661 for December 31, 2010.

l) Property, Plant and Equipment

Property, Plant and equipment consists of production equipment, office equipment and furniture, computer equipment and leasehold improvement, is recorded at cost. 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) 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) 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 months ended March 31, 2011 and 2010.

o) 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.

p) 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 delivery of professional services and records revenues when the services are completed, already collected or collectability is reasonably assured, there is no future obligation and there is remote chance of future claim or refund to the customers. It is reported net of business taxes and refunds.

q) 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 March 31, 2011.

r) 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.

s) 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 March 31, 2011 and December 31, 2010 include the following:

March 31, 2011 December, 2010

Options	140,000	140,000
Warrants	-	-
	140,000	140,000





## t) 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:

	March 31, 2011	December 31, 2010
Raw materials	\$ 1,910,580	\$ 1,567,815
Work-in-progress	1,417,371	1,884,438
Finished goods	2,105,287	1,196,891
Less: provision for inventory	(34,317)	(154,484)
	\$ 5,398,921	\$ 4,494,660

Note 4. Property, Plant and Equipment, net  
Property, Plant and Equipment, net, consisted of the following:

	March 31, 2011	December 31, 2010
Machinery and equipment	\$ 477,917	\$ 446,090
Furniture and office equipment	454,054	402,107
	931,971	848,197
Less: Accumulated depreciation	(115,788)	(68,082)
	\$ 816,183	\$ 780,115

Note 5. Goodwill and other Intangible Assets

Goodwill is tested for impairment on an annual basis, and whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. Recoverability of goodwill is measured at the reporting unit level by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit, which is measured based upon, among other factors, market multiples for comparable companies as well as a discounted cash flow analysis. If the recorded value of the assets, including goodwill, and liabilities ("net book value") of the reporting unit exceeds its fair value, an impairment loss may be required to be recognized. Further, to the extent the net book value of the Company as a whole is greater than its market capitalization, all, or a significant portion of its goodwill may be considered impaired. The Company completed its annual impairment test during its fourth quarter of fiscal year carrying value.

Pursuant to the accounting guidance for goodwill and other intangible assets, the measurement of impairment of goodwill consists of two steps. In the first step, the fair value of the Company is compared to its carrying value. In connection with the preparation of interim financial statements for the period ended December 31, 2010, management completed a valuation of the Company, which incorporated existing market-based considerations as well as a discounted cash flow methodology based on current results and projections, and concluded the estimated fair value of the Company was less than its net book value. Accordingly the guidance required a second step to determine the implied fair value of the Company's goodwill, and to compare it to the carrying value of the Company's goodwill. This second step included valuing all of the tangible and intangible assets and liabilities of the Company as if it had been acquired in a business combination, including valuing all of the Company's intangible assets even if they were not currently recorded to determine the implied fair value of goodwill. The result of this assessment indicated that the implied fair value of goodwill as of that date was zero.

The following table summarizes the activity in the Company's goodwill account during the three months ended March 31, 2011 and fiscal year 2010:

	March 31, 2011	December 31, 2010
Beginning balance	\$ 6,274,629	\$ -
Goodwill acquired during the year		
Flybit	-	2,258,774
Angesi	-	4,015,855
Ending balance	\$ 6,274,629	\$ 6,274,629

Intangible assets are summarized by classifications as follows:

	March 31, 2011	December 31, 2010
Software	\$ 1,402,448	\$ 1,365,687
Incorporation Cost	57,057	55,644
Less: Accumulated amortization	(293,138)	(214,098)
	\$ 1,166,367	\$ 1,207,233

#### Note 6. Accounts Payable

As at March 31, 2011 accounts payable amounted \$4,703,888 representing trade payables to supplier during normal course of business. As at December 31, 2010, accounts payable amounted \$5,217,938.

#### Note 7. Income Taxes

As at March 31, 2011, the Company has a net operating loss carry forward for tax purposes totaling approximately \$2,294,835 consisting of \$450,000 from ANV Security Group, Inc., \$1,404,768 from ANV Video Alarm Service Inc., \$77,384 from ANV Security Group Technology (Taian) Co., Ltd and \$362,683 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

All inter-company accounts, transactions and cash flows have been eliminated on consolidation. As at March 31, 2011 and December 31, 2010, the Company owes individual shareholders in amount of \$95,493 and \$214,846 respectively, and has amount due from individual shareholders of \$18,601 and nil respectively.

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 March 31, 2011 and December 31, 2010, the numbers of voting common shares issued and outstanding are both 66,130,071, respectively.

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 March 31, 2011, the Company has granted 140,000 shares options.

Note 11. Operating Risk

(a) Concentration of credit risk

Financial instruments that potentially expose the ANV Security Group Inc. (the “Company” or “ANVS”) 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 sale in Asia & Canada. The Company hopes to expand its operations to countries outside the Canada, 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 Canada 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 rate 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 a fluctuating exchange rate actually post higher or lower profit depending on exchange rate of Canadian dollars converted to U.S. dollars on that date. The exchange rate could fluctuate depending on changes in the political and economic environments without notice.

(e) Key personnel risk

The Company's future success depends on the continued services of Mr. Wilson Wang, CEO, Mr. Jonathan Zeng, COO and Mr. Paul Lau, CFO. The loss of one of their service would be detrimental to the Company and could have an adverse effect on business development. The Company does not currently maintain key man insurance on their life but plan to implement in near future. Future success is also dependent on the ability to identify, hire, train and retain other qualified managerial and other employees.

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 months ended March 31, 2011, the Company had only sale of security devise and units actually generated sale and accordingly the Company had a single operating segment during the reporting period.

Note 13. Commitments and Contingencies

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 97,759.39 (US\$14,911).

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\$17,924).

13.2 Litigation

As per the Company, as of March 31, 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 March 31, 2011

We caution you that the three months ended March 31, 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.

Revenues in first quarter of 2011 were \$4.9 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 difficult. Management would continue focusing on management controls and improving operating and manufacturing efficiencies.

The following are some financial highlights for the three months ended March 31, 2011:

1 Revenues: Revenues recorded \$4,919,525.

1 Gross margin: Gross margin was 20.4%.

1 Operation loss: Operating loss was (\$489,179).

1 Operating margin: Operating loss margin was (10.0%).

1 Net loss: Net loss was (\$367,184).

1 Net margin: Net loss margin was (7.5%).

1 Comprehensive loss: Comprehensive loss was (\$259,184) after foreign currency translation adjustment of \$108,000.

## LIQUIDITY AND CAPITAL RESOURCES

We had cash and cash equivalents of \$3,104,992 as of March 31, 2011, as compared to \$4,398,282 as of December 31, 2010, a decrease of \$1,293,290. The decrease of cash and cash equivalents during the three months ended March 31, 2011 was primarily attributable to cash used in operations of \$1,109,569, purchases of equipment and furniture of \$80,025 and net repayment to related parties of \$137,549.

Net cash used in operating activities was \$1,109,569 for the three months ended March 31, 2011, as compared to \$73,236 for the three months ended March 31, 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 three months ended March 31, 2011.

Net cash used in investing activities was \$81,680 for the three months ended March 31, 2011, as compared to \$280,393 for the three months ended March 31, 2010. Main components of cash flows from investing activities for the three months ended March 31, 2011 included cash of \$80,025 used in purchases of equipment and furniture. Main components of cash flows from investing activities for the three months ended March 31, 2010 mainly included



capitalized intangible assets of \$305,572.

Net cash used in financing activities was \$137,549 for the three months ended March 31, 2011 as compared to \$77,810 for the three months ended March 31, 2010. Main components of cash flows from financing activities for the three months ended March 31, 2011 included \$137,549 of net repayment to related parties. Cash flows from financing activities for the three months ended March 31, 2010 consisted included \$106,163 of net repayment to related parties, offset by \$28,353 of proceeds from the issuance of common stock.

We have funded our activities to date primarily through the sales of surveillance and safety products and systems and the issuance of equity securities.

### 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 PROCEDURE

##### (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 March 31, 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)

April 29, 2011

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