

SMARTHEAT INC.  
Form 10-Q  
September 08, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-Q  
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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014

OR

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

Commission file number: 001-34246

SMARTHEAT INC.

(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of incorporation  
or organization)

98-0514768  
(IRS Employer Identification No.)

A-1, 10, Street 7  
Shenyang Economic and Technological  
Development Zone  
Shenyang, China  
(Address of principal executive offices)

110141  
(Zip Code)

+86 (24) 2519-7699  
(Registrant's telephone number, including area code)

Indicate by checkmark 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 last 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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 the definitions of “large accelerated filer,” “accelerated filer,” “non-accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(do not check if a 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 August 22, 2014, there were 6,783,399 shares of common stock outstanding.

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SmartHeat Inc.

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NOTE ABOUT FORWARD-LOOKING STATEMENTS AND OTHER INFORMATION

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which include, but are not limited to, statements concerning our projected revenues, expenses, gross profit and income, mix of revenue, demand for our products, the benefits and potential applications for our products, the need for additional capital, our ability to obtain and successfully perform additional new contract awards and the related funding and profitability of such awards, the competitive nature of our business and markets and product qualification requirements of our customers. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs and certain assumptions made by us. Words such as "anticipates," "expects," "intends," "plans," "predicts," "potential," "believes," "seeks," "hopes," "estimates," "should," "may," "will," "with" variations of these words or similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors. Such factors include, but are not limited to the following:

- our goals and strategies;
- our expansion plans;
- our future business development, financial conditions and results of operations;
- the expected growth of the market for PHE products, heat meters and heat pumps in our target markets;
- our expectations regarding demand for our products;
- our expectations regarding keeping and strengthening our relationships with key customers;
- our ability to stay abreast of market trends and technological advances;
- our ability to protect our intellectual property rights effectively and not infringe on the intellectual property rights of others;
- our ability to attract and retain quality employees;
- our ability to pursue strategic acquisitions and alliances;
- competition in our industry in China;
- general economic and business conditions in the regions in which we sell our products;
- relevant government policies and regulations relating to our industry; and
- market acceptance of our products.

Additionally, this report contains statistical data that we obtained from various publicly available government publications and industry-specific third party reports. Statistical data in these publications also include projections based on a number of assumptions. The markets for PHEs, PHE Units, heat meters and heat pumps may not grow at the rates projected by market data, or at all. The failure of these markets to grow at the projected rates may have a material adverse effect on our business and the market price of our common stock. In addition, the changing nature of our customers' industries results in uncertainties in any projections or estimates relating to the growth prospects or future condition of our markets. Furthermore, if any one or more of the assumptions underlying the market data is later found to be incorrect, actual results may differ from the projections based on these assumptions.

Unless otherwise indicated, information in this report concerning economic conditions and our industry is based on information from independent industry analysts and publications, as well as our estimates. Except where otherwise noted, our estimates are derived from publicly available information released by third party sources, as well as data from our internal research, and are based on such data and our knowledge of our industry, which we believe to be reasonable. None of the market data from independent industry publications cited in this report was prepared on our or our affiliates' behalf.

Additional information on the various risks and uncertainties potentially affecting our operating results are discussed in this report and other documents we file with the Securities and Exchange Commission, or the SEC, or available upon written request to our corporate secretary at: A-1, 10, Street 7, Shenyang Economic and Technological Development Zone, Shenyang, China 110141. We undertake no obligation to revise or update publicly any forward-looking statements for any reason, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on these forward-looking statements.

As used in this report, “SmartHeat,” “Company,” “we,” “our” and similar terms refer to SmartHeat Inc. and its subsidiaries, unless the context indicates otherwise.

Our functional currency is the U.S. Dollar, or USD, while the functional currency of our subsidiaries in China are denominated in Chinese Yuan Renminbi, or RMB, the national currency of the People’s Republic of China, which we refer to as the PRC or China, and the functional currency of our subsidiary in Germany is denominated in Euros, or EUR. The functional currencies of our foreign operations are translated into USD for balance sheet accounts using the current exchange rates in effect as of the balance sheet date and for revenue and expense accounts using the average exchange rate during the fiscal year. See Note 2 of the consolidated financial statements included herein.

Effective February 7, 2012, we implemented a one-for-ten reverse stock split of our common stock. Unless otherwise indicated, all share amounts and per share prices in this report were retroactively adjusted to reflect the effect of this reverse stock split. See Note 1 of the consolidated financial statements included herein.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

SMARTHEAT INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	June 30, 2014	December 31, 2013
	(UNAUDITED)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash & equivalents	\$ 18,996,617	\$ 13,602,399
Restricted cash	670,830	2,458,758
Accounts receivable, net	15,099,549	12,167,565
Retentions receivable, net	2,597,790	4,202,109
Advances to suppliers, net	5,018,613	6,584,833
Other receivables (net), prepayments and deposits	3,972,878	2,644,522
Inventories, net	54,194,515	56,324,363
Taxes receivable	633,406	989,635
Notes receivable - bank acceptances	683,906	2,759,251
<b>Total current assets</b>	<b>101,868,104</b>	<b>101,733,434</b>
<b>NONCURRENT ASSETS</b>		
Long term investment	912,044	934,805
Restricted cash	316,899	135,926
Retentions receivable	-	237,882
Advance for equipment purchase	1,241,933	-
Construction in progress	1,362,730	1,340,905
Property and equipment, net	10,041,499	10,185,160
Intangible assets, net	4,381,691	14,885,623
<b>Total noncurrent assets</b>	<b>18,256,796</b>	<b>27,720,301</b>
<b>TOTAL ASSETS</b>	<b>\$ 120,124,900</b>	<b>\$ 129,453,735</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 6,626,668	\$ 6,683,860
Advance from customers	2,744,657	2,630,061
Taxes payable	26,761	197,078
Accrued liabilities and other payables	17,531,682	17,215,006
Notes payable - bank acceptances	-	2,590,025
Loans payable	24,983,580	24,462,299

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Total current liabilities	51,913,348	53,778,329
CREDIT LINE PAYABLE	2,149,335	1,396,378
LONG-TERM LOAN	2,112,859	2,132,231
DEFERRED TAX LIABILITY	91,419	17,177
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.001 par value; 75,000,000 shares authorized, 6,583,399 shares and 6,133,399 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively		
	6,583	6,133
Paid-in capital	81,733,320	81,901,266
Statutory reserve	5,389,057	5,389,057
Accumulated other comprehensive income	8,385,003	8,991,269
Accumulated deficit	(57,812,734 )	(51,991,839 )
Total Company stockholders' equity	37,701,229	44,295,886
NONCONTROLLING INTEREST	26,156,710	27,833,734
TOTAL EQUITY	63,857,939	72,129,620
TOTAL LIABILITIES AND EQUITY	\$ 120,124,900	\$ 129,453,735

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



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SMARTHEAT INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2014 (UNAUDITED)	2013	2014 (UNAUDITED)	2013 (UNAUDITED)
Net sales	\$10,669,833	\$13,891,423	\$5,709,867	\$7,722,992
Cost of goods sold	12,701,080	14,265,228	7,337,123	5,320,037
Gross loss (income)	(2,031,247 )	(373,805 )	(1,627,256 )	2,402,955
Operating expenses				
Selling	3,523,056	3,242,531	1,956,545	1,546,589
General and administrative	4,661,513	4,818,674	1,747,185	2,482,031
Provision for bad debts	(3,399,744 )	12,287,944	(12,149,019 )	7,524,870
Provision for advance to supplier	108,270	1,529,595	33,480	288,916
Total operating expenses (income)	4,893,095	21,878,744	(8,411,808 )	11,842,406
Income (loss) from operations	(6,924,342 )	(22,252,549 )	6,784,552	(9,439,451 )
Non-operating income (expenses)				
Investment (loss) income	(22,891 )	39,345	(19,282 )	38,784
Interest income	64,583	28,975	36,900	13,585
Interest expense	(857,146 )	(772,242 )	(488,004 )	(428,431 )
Financial expense	(276,171 )	(150,341 )	(224,035 )	(87,442 )
Gain on issuance of stock	70,000	-	70,000	-
Foreign exchange transaction gain	5,550	3,339	2,151	840
Other income, net	510,725	734,075	268,974	423,777
Total non-operating expenses, net	(505,350 )	(116,849 )	(353,296 )	(38,887 )
Income (loss) before income tax	(7,429,692 )	(22,369,398 )	6,431,256	(9,478,338 )
Income tax (benefit) expense	75,493	(45,000 )	90,029	(22,556 )
Net income (loss) before noncontrolling interest	(7,505,185 )	(22,324,398 )	6,341,227	(9,455,782 )
Less: income (loss) attributable to noncontrolling interest	(1,684,289 )	(47,297 )	3,086,178	(2,555 )
Net income (loss) to SmartHeat Inc.	(5,820,896 )	(22,277,101 )	3,255,049	(9,453,227 )
Other comprehensive item				
Foreign currency translation gain (loss) attributable to SmartHeat Inc.	(606,266 )	1,550,147	(43,960 )	1,361,630
Foreign currency translation gain (loss) attributable to noncontrolling interest				