

SMARTHEAT INC.
Form 10-Q
December 29, 2016

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

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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 110141

Shenyang, China

(Address of principal executive offices)

(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

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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 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 March 31, 2016 there were 8,283,399 shares of common stock outstanding.

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.

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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 US 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

	MARCH 31, 2016 (UNAUDITED)	DECEMBER 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and equivalents	\$ 1,294,394	\$ 1,736,971
Accounts receivable, net	786,991	673,186
Retentions receivable, net	-	15,183
Advances to suppliers, net	4,907	6,070
Other receivables (net), prepayments and deposits	1,534,167	1,356,767
Inventories, net	2,338,043	3,053,189
Taxes receivable	6,845	7,986
Notes receivable - bank acceptances	117,876	162,327
Total current assets	6,083,223	7,011,679
NONCURRENT ASSETS		
Long term investment	367,529	-
Property and equipment, net	236,236	916,245
Intangible assets, net	385,118	423,505
Total noncurrent assets	988,883	1,339,750
TOTAL ASSETS	\$ 7,072,106	\$ 8,351,429
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 44,030	\$ 224,389
Advances from customers	1,153,095	1,156,178
Taxes payable	37,027	32,507
Accrued liabilities and other payables	5,649,368	3,577,891
Total current liabilities	6,883,520	4,990,965
CREDIT LINE PAYABLE	2,755,335	2,455,335
DEFERRED TAX LIABILITY	6,250	15,238
TOTAL LIABILITIES	9,645,105	7,461,538

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY (DEFICIT)

Common stock, \$0.001 par value; 75,000,000 shares authorized, 8,283,399 and 8,283,399 shares issued and outstanding as of March 31, 2016 and December 31, 2015, respectively

	8,283	8,283
Paid-in capital	85,924,857	98,435,254
Statutory reserve	780,682	780,682
Accumulated other comprehensive income	15,179,334	12,495,370
Accumulated deficit	(111,165,244)	(118,011,345)
 Total Company stockholders' equity (deficit)	 (9,272,088)	 (6,291,756)
 NONCONTROLLING INTEREST	 6,699,089	 7,181,647
 TOTAL EQUITY (DEFICIT)	 (2,572,999)	 889,891
 TOTAL LIABILITIES AND EQUITY	 \$ 7,072,106	 \$ 8,351,429

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

	THREE MONTHS ENDED MARCH 31,	
	2016	2015
	(UNAUDITED)	
Net sales	\$ 138,047	\$ 108,765
Cost of sales	441,884	1,508,184
Gross loss	(303,837)	(1,399,419)
Operating expenses		
Selling	258,319	365,392
General and administrative	805,241	643,906
Reversal of provision for bad debts	(370,348)	(74,697)
Total operating expenses	693,212	934,601
Loss from operations	(997,049)	(2,334,020)
Non-operating income (expenses)		
Interest income	954	2,535
Interest expense	(80,718)	(80,419)
Financial expense	(43,983)	(30,891)
Other income (expenses), net	15,303	(21,056)
Total non-operating expenses, net	(108,444)	(129,831)
Loss before income tax (benefit)	(1,105,493)	(2,463,851)
Income tax expense (benefit)	(8,970)	23,358
Loss from continuing operations	(1,096,523)	(2,487,209)
Cumulative foreign currency translation gain / loss on disposed entities	682,036	11,915,632
Loss from operations of discontinued entities, net of tax	(83,475)	(89,169)
Loss on disposal of discontinued entities, net of tax	(2,764,701)	(47,151,307)
Net loss including noncontrolling interest	(3,262,663)	(37,812,053)
Less: loss attributable to noncontrolling interest from continuing operations	(482,427)	(8,059)
Less: loss attributable to noncontrolling interest from discontinued operations, net of tax	(1,002)	(1,070)
Net loss to SmartHeat Inc.	(2,779,234)	(37,802,924)

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Other comprehensive item		
Foreign currency translation loss attributable to discontinued operations	(17,327)	(338,723)
Foreign currency translation gain (loss) attributable to SmartHeat Inc.	2,701,083	(308,605)
Foreign currency translation gain attributable to noncontrolling interest	1,079	3,260
Comprehensive loss attributable to SmartHeat Inc.	\$(95,478)	\$(38,450,252)
Comprehensive loss attributable to noncontrolling interest	\$(482,350)	\$(5,869)
Basic and diluted weighted average shares outstanding	8,283,399	6,783,399
Basic and diluted loss per share from continuing operations	\$(0.07)	\$(0.36)
Basic and diluted loss per share from discontinued operations	\$(0.26)	\$(5.21)
Basic and diluted net loss per share	\$(0.33)	\$(5.57)

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CONSOLIDATED STATEMENTS OF CASH FLOWS

	THREE MONTHS ENDED MARCH 31,	
	2016	2015
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Loss including noncontrolling interest	\$(3,262,663)	\$ (37,812,053)
Adjustments to reconcile loss including noncontrolling interest to net cash used in operating activities:		
Depreciation and amortization	107,754	124,861
Reversal of provision for bad debts	(379,018)	(74,697)
Provision for inventory impairment	324,796	1,220,571
Changes in warranty reserves	-	(80,625)
Gain on debt waiver	-	(8,790,015)
Loss on sale of equity interest of subsidiaries	2,082,665	44,025,690
Changes in deferred tax	(8,970)	(12,569)
(Increase) decrease in assets and liabilities:		
Accounts receivable	155,590	731,107
Retentions receivable	23,955	89,280
Advances to suppliers	1,181	(4,844)
Other receivables, prepayments and deposits	(162,915)	(1,421,062)
Inventories	(144,901)	38,815
Taxes receivable	3,375	20,645
Accounts payable	(120,179)	(100,155)
Advances from customers	(8,789)	90,078
Accrued liabilities and other payables	729,859	455,410
		