

SMARTHEAT INC.  
Form 10-Q  
August 20, 2012

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

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FORM 10-Q  
\_\_\_\_\_

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

For the quarterly period ended June 30, 2012  
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

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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

3,955,774 shares of common stock outstanding as of August 17, 2012.

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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 recent restructuring efforts;
- our new management's ability to operate a public company;
  - 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.

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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.

Since filing our Form 10-Q for the quarter ended March 31, 2012, we significantly restructured our Board of Directors (the "Board") and management. Two directors, Jun Wang and Arnold Staloff, resigned, and two new directors, Oliver Bialowons and Kenneth Scipta, were appointed to our Board. To better focus his time and attention on our operations, Jun Wang resigned as Chairman and Chief Executive Officer of the parent company, but retained his positions as chief executive of all of our operating subsidiaries. Mr. Wen Sha and Xudong Wang also refocused all of their time and attention to their roles with our operating subsidiaries by resigning from their respective positions with the parent company. Oliver Bialowons assumed the duties of President of the parent company on May 25 and Michael Wilhelm assumed the duties of Chief Financial Officer and Treasurer on July 10, following the end of our second quarter. Since assuming their respective duties as President and Chief Financial Officer, our new management team has not yet had the opportunity to fully assess our internal controls and reporting systems. As a result, with respect to Item 4 (Controls and Procedures) and the certifications under Sections 302(a) and 906 of the Sarbanes Oxley Act of 2002, our current President and current Chief Financial Officer have relied upon the evaluation of the effectiveness of our disclosure

controls and procedures implemented by our former Chief Executive Officer and Chief Financial Officer, and are qualified in their entirety by their knowledge as of the time of such certification.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

SMARTHEAT INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash & equivalents	\$ 10,524,475	\$ 12,419,922
Restricted cash	2,014,879	2,688,691
Accounts receivable, net	34,674,589	47,055,517
Retentions receivable	3,804,683	3,583,898
Advances to suppliers	7,736,041	17,603,984
Other receivables (net), prepayments and deposits	6,966,372	6,663,330
Taxes receivable	1,488,039	-
Inventories, net	53,277,325	53,648,549
Notes receivable - bank acceptances	714,636	1,916,320
<b>Total current assets</b>	<b>121,201,039</b>	<b>145,580,211</b>
<b>NONCURRENT ASSETS</b>		
Long term investment	722,750	-
Restricted cash	367,032	204,991
Retentions receivable	357,790	670,291
Advance to supplier for equipment	6,712,014	1,122,914
Construction in progress	1,307,138	522,876
Property and equipment, net	11,183,709	11,348,601
Intangible assets, net	15,078,103	15,419,805
Goodwill	2,037,892	2,098,332
Other noncurrent asset	-	10,044
<b>Total noncurrent assets</b>	<b>37,766,428</b>	<b>31,397,854</b>
<b>TOTAL ASSETS</b>	<b>\$ 158,967,467</b>	<b>\$ 176,978,065</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 8,622,034	\$ 12,660,100
Advance from customers	5,594,098	4,585,218
Taxes payable	9,315	1,178,712
Accrued liabilities and other payables	4,911,877	4,136,298
Notes payable - bank acceptances	47,432	3,278,232
Loans payable	16,442,948	10,633,402

Total current liabilities	35,627,704	36,471,962
DEFERRED TAX LIABILITY	139,430	189,516
LONG-TERM PAYABLE	2,055,368	2,281,023
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, \$0.001 par value; 75,000,000 shares authorized, 3,955,774 shares issued and outstanding	3,956	3,956
Paid-in capital	103,023,657	102,985,737
Statutory reserve	5,396,014	5,396,014
Accumulated other comprehensive income	10,495,262	11,119,887
Retained earnings	1,260,570	17,445,733