

APOLLO SOLAR ENERGY, INC.
Form 10-Q
December 14, 2011

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 September 30, 2011

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: 000-12122

Apollo Solar Energy, Inc.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

84-0601802
(I.R.S. Employer Identification No.)

No. 485 Tengfei Third,
Shuangliu Southwest Airport Economic Development Zone,
Shuangliu, Chengdu
People's Republic of China, 610207
(Address of principal executive offices)

Registrant's Telephone Number, Including Area Code: +86 (28) 8562-3888

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 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,

Edgar Filing: APOLLO SOLAR ENERGY, INC. - Form 10-Q

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

Large acceleratedo Accelerated filer o
filer
Non-acceleratedo Smaller reporting y
filer 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 Act). Yes o No y

There were 51,655,961 shares of common stock issued and 49,237,038 shares outstanding as of June 30, 2011.

APOLLO SOLAR ENERGY, INC.

TABLE OF CONTENTS TO QUARTERLY REPORT ON FORM 10-Q

For the Quarterly Period Ended March 31, 2011

ITEM		Page
PART I	FINANCIAL INFORMATION	
Item 1.	Financial Statements	2
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	18
Item 4.	Controls and Procedures	19
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	19
Item 1A.	Risk Factors	19
Item 6.	Exhibits	20
	Signatures	21

APOLLO SOLAR ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(In US Dollars)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 639,399	\$ 2,676,176
Account receivable net of allowance for doubtful accounts \$5,908 and \$3,465, respectively	527,522	294,214
Inventories	3,877,685	6,809,700
Due from Related parties	-	4,412,629
Deferred tax assets	248,350	
Prepaid expenses and other current assets	2,076,183	799,359
Total current assets	7,369,139	14,992,078
Property, machinery and mining assets, net	17,537,167	21,081,705
Asset held for sale	1,136,220	1,098,700
Non-marketable investment	54,822	53,012
Investment in joint venture	4,202,266	587,504
	22,930,475	22,820,921
Total assets	\$ 30,299,614	\$ 37,812,999

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Short-term loan	\$ 4,000,451	\$ 5,002,802
Account payable - trade	182,904	375,520
- construction vendors	1,743,693	2,844,102
Accrued expenses and other current liabilities	1,661,388	1,098,178
Deferred tax liabilities	-	25,329
Due to shareholders	209,587	1,814,260
Total current liabilities	7,798,023	11,160,191
Shareholders' equity		
Preferred stock, \$.001 par value, 25,000,000 shares authorized, 0 shares issued and outstanding at September 30, 2011 and December 31, 2010		
Common stock, \$.001 par value, 100,000,000 shares authorized, 51,655,961 shares issued and 49,237,038 shares outstanding at September 30, 2011 and 51,655,961 issued and outstanding at December 31, 2010	51,656	51,656
Additional paid-in capital	32,191,989	31,709,395
Treasury stock, 2,418,923 shares at cost	(5,273,253)	
Accumulated deficit	(7,274,272)	(7,128,838)
Accumulated other comprehensive income	2,805,471	2,020,595
Total shareholders' equity	22,501,591	26,652,808

Total liabilities and shareholders' equity	\$ 30,299,614	\$ 37,812,999
--	---------------	---------------

2

APOLLO SOLAR ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)
(Unaudited)
(In US Dollars)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Sales	\$2,245,534	\$3,582,735	\$8,968,872	\$6,158,700
Cost of sales	(1,920,272)	(2,577,786)	(7,518,345)	(4,675,245)
Gross profit	325,262	1,004,949	1,450,527	1,483,455
Operating Expenses				
General and administrative expenses	835,272	862,246	2,412,540	2,785,182
Selling expenses	71,805	73,737	247,008	190,074
Research and development expenses	84,181	314,098	374,753	667,208
Total Operating Expenses	991,258	1,250,081	3,034,301	3,642,464
Operating Loss	(665,996)	(245,132)	(1,583,774)	(2,159,009)
Interest income (expenses)	(56,946)	(68,356)	630,851	(251,792)
Loss on sale of assets	(132,398)		(132,398)	
Gain on investment in Joint Venture	1,205,110		1,205,110	
Loss in equity of Joint Venture	(141,078)	(223,025)	(388,666)	(223,025)
Income (loss) before income tax	208,692	(536,513)	(268,877)	(2,633,826)
Income tax expense (credit)	2,335	-	(123,443)	-
Net income (loss)	206,357	(536,513)	(145,434)	(2,633,826)
Other Comprehensive Income (Loss)				
Foreign Currency Translation Adjustment	285,338	384,489	784,876	518,286
Comprehensive income (loss)	\$491,696	\$(152,024)	\$639,442	\$(2,115,540)
Basic and Diluted Loss per common share				
Basic and diluted	\$(0.00)	\$(0.01)	\$(0.00)	\$(0.06)
Weighted average common share outstanding				
Basic and diluted	49,237,038	50,133,662	49,848,414	47,885,783

APOLLO SOLAR ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In US Dollars)

	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities		
Net loss	\$ (145,434)	\$ (2,633,826)
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	482,594	490,810
Depreciation and amortization	730,076	688,820
Deferred tax assets	(273,679)	-
Other interest income	(837,359)	-
Loss in equity of Joint Venture	388,666	223,025
Gain from investment in Joint Venture	(1,205,110)	-
Loss on sale of assets	132,398	-
Changes in assets and liabilities:		
Account receivable	(219,396)	(350,994)
Inventories	3,109,783	1,472,889
Prepaid expenses and other current assets	(1,227,911)	(234,968)
Account payable-trade	(201,883)	164,451
Accounts payable - construction	(1,176,804)	(265,401)
Accrued expenses and other current liabilities	516,616	730,207
Net cash provided by operating activities	72,557	285,013
Cash flows from investing activities		
Non-marketable investment	-	(7,346)
Purchase of property and equipment	(291,980)	(1,346,208)
Proceeds from sale of assets	769,622	-
Net cash provided by (used in) investing activities	477,642	(1,353,554)
Cash flows from financing activities		
Proceeds from (payment to) short-term loans	(1,152,886)	1,469,160
Proceeds from (payment to) shareholders	(1,637,789)	2,000,000
Advance from (payment to) shareholders	-	(20,477)
Advance from (payment to) related parties	237,413	(577,992)
Net cash provided by (used in) financing activities	(2,553,262)	2,870,691
E Effect of exchange rate changes on cash and cash equivalents	(33,714)	39,593
Net increase (decrease) in cash and cash equivalents	(2,036,777)	1,841,743
Cash and cash equivalents, beginning of period	2,676,176	507,776
Cash and cash equivalents, end of period	\$ 639,399	\$ 2,349,519

Supplemental disclosures of cash flow information:

Interest paid	\$ 198,880	\$ 174,826
Income taxes paid	\$ 12,009	\$ 92,263

Supplementary disclosure of non-cash financing activities:

Treasury stock acquired in exchange for loan to related parties	\$ 5,273,253	\$-
Assets transferred to Joint Venture	\$ 2,731,296	\$ -
Assets sold	\$ 942,955	\$-
Conversion of debt to common stock	\$ -	\$8,929,139

APOLLO SOLAR ENERGY, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
 (UNAUDITED)

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements of Apollo Solar Energy, Inc. (the “Company”) reflect all material adjustments consisting of only normal recurring adjustments which, in the opinion of management, are necessary for a fair presentation of results for the interim periods. Certain information and footnote disclosures required under accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, although the Company believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual report on Form 10-K for the year ended December 31, 2010 as filed with the Securities and Exchange Commission.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 those estimates. Estimates that are particularly susceptible to change include assumptions used in determining the fair value of securities owned and non-readily marketable securities.

The results of operations for the three and nine months ended September 30, 2011 are not necessarily indicative of the results to be expected for the entire year or for any future period.

The Company’s functional currency is the Chinese Renminbi (“RMB”); however, the accompanying financial statements have been translated and presented in United States Dollars (“USD”).

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiaries, Sichuan Apollo, Diye, Da Du River, Ma Jia Gou and new subsidiary in Hefei. All significant inter-company transactions and balances among the Company and its subsidiaries are eliminated upon consolidation.

NOTE 2. INVENTORIES

Inventories consist of the following:

	As of	
	September 30, 2011	December 31, 2010
Raw Materials	\$ 584,753	\$ 1,646,217
Work-in-progress	1,188,350	2,261,022
Finished goods	2,104,582	2,902,461
Total	\$ 3,877,685	\$ 6,809,700

NOTE 3. PROPERTY, MACHINERY AND MINING ASSETS, NET

A summary of property and equipment and the estimate lives used in the computation of depreciation and amortization is as follows:

	As of		
	September 30, 2011	December 31, 2010	Life (years)
Buildings	\$ 13,265,572	\$ 14,199,056	40
Right to use land	1,772,804	4,131,884	50
Machinery and equipment	3,612,919	3,731,260	10
Office equipments	332,995	356,429	5
Vehicle	572,793	553,878	5-10
Mining	566,867	489,012	5-40
Construction in progress (1)	914,070	928,035	
Sub-total	21,038,020	24,389,554	
Less: Accumulated depreciation	(3,500,853)	(3,307,849)	
Total	\$ 17,537,167	\$ 21,081,705	

Depreciation expense for the nine months ended September 30, 2011 and 2010 was \$ 730,076 and \$688,820 respectively.

(1) Estimated costs to complete the construction in progress after September 30, 2011 are not anticipated to be material. Construction is expected to be completed by the end of 2011.

NOTE 4. RELATED PARTIES TRANSACTIONS AND BALANCES

Due from related parties consists of the following:

	As of	
	September 30, 2011	December 31, 2010
Due from Xinju	\$ -	\$ 4,379,411
Due from Joint Venture	-	1,064
Due from shareholder	-	32,154
Total	\$ -	\$ 4,412,629

Xinju is a related party partially owned by a majority shareholder of Apollo, Renyi Hou, our former CEO. On March 10, 2011, Mr. Hou exchanged 2,418,923 shares of the Company's common stock in full settlement of approximately \$5.2 million due from Xinju. The amount due from Xinju was converted into 2,418,923 shares of the Company's common stock based on a fair market value of \$2.18 per share. The Joint Venture is a newly formed company in which Apollo holds a 35% of the equity interest. All the above loans are non-interest bearing and due on demand.

Due to related parties consists of notes due to shareholders with non-interest bearing and due on demand.

	As of	
	September 30, 2011	December 31, 2010
Due to shareholders	209,587	1,814,260
Total	\$ 209,587	\$ 1,814,260

NOTE 5. EQUITY METHOD INVESTMENT IN JOINT VENTURE

On November 9, 2009, Sichuan Apollo Solar Science & Technology Co. Ltd. ("Sichuan Apollo"), a wholly-owned foreign enterprise of the Company, entered into a joint venture agreement (the "JV Agreement") with Bengbu Design & Research Institute for Glass Industry ("Bengbu") and a local Chinese government agency (the "Agency"). The Joint Venture ("JV") was formed to conduct research and development related to glass used in the production of thin film solar cells and manufacture thin film solar cells. As of September 30, 2011 the JV had not commenced the production of thin film solar cells. The Company accounts for its 35% interest in JV under the equity method of accounting.

In accordance with ASC 805-40, Sichuan Apollo has reported a gain on the difference between the initial cost of the investment and the Company's proportionate share the JV's fair value of its net equity, which, if treated as a consolidated subsidiary would have resulted in negative goodwill to be recorded as a gain. During the nine months ended September 30, 2011, the Company contributed net assets with appraised value of approximately RMB 33,000,000 (approximately \$5 million) to the JV. This resulted in an excess of the proportionate share of the JV's net assets at fair market value over the cost of the assets contributed of approximately RMB 7,000,000 (approximately \$1.2 million) which is reported as income on the accompanying statement of operations for the nine months ended September 30, 2011. As of September 30, 2011, all of the capital contributions due to the JV have been made by Bengbu. Sichuan Apollo will report additional gains in subsequent periods when the additional contributions are made to the JV.

Summarized financial information for our investment in the JV assuming a 100% ownership interest is as follows:

	For the nine month ended September 30, 2011	For the nine month ended September 30, 2010
Statement of operations		
Revenues	\$ 20,499	\$ 284,705
Cost of sales	18,884	285,459
Gross profit	1,615	(754)
Operating Loss	(1,105,222)	(637,216)
Loss before income tax	\$ (1,105,222)	\$ (637,216)

	For the three month ended September 30, 2011	For the three month ended September 30, 2010
Statement of operations		
Revenues	\$ 17,358	\$ 284,705
Cost of sales	17,186	285,459
Gross profit	172	(754)
Operating Loss	(397,812)	(637,216)
Loss before income tax	\$ (397,812)	\$ (637,216)

NOTE 6. ACCRUED EXPENSES, TAXES AND OTHER CURRENT LIABILITIES

Accrued expenses, taxes and other current liabilities are listed as below:

	As of	
	September 30, 2011	December 31, 2010
Accrued interest	\$ 810,265	\$ 782,515
Salaries and benefits	137,967	142,180
Value Added Taxes	349,228	