

APOLLO SOLAR ENERGY, INC.

Form 10-Q

May 21, 2012

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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, 2012

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

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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” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

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 Act). Yes  No

There were 49,377,038 shares of common stock outstanding as of May 21, 2012.

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APOLLO SOLAR ENERGY, INC.

TABLE OF CONTENTS TO QUARTERLY REPORT ON FORM 10-Q

For the Quarterly Period Ended March 31, 2012

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

APOLLO SOLAR ENERGY, INC.  
CONSOLIDATED BALANCE SHEETS

	March 31, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$1,324,044	\$363,771
Account receivable net of allowance for doubtful accounts \$58,083 and \$57,994, respectively	781,027	804,577
Inventories	3,825,120	4,065,987
Due from stockholders and related parties	4,926	-
Prepaid expenses and other current assets	2,302,992	1,001,660
<b>TOTAL CURRENT ASSETS</b>	<b>8,238,109</b>	<b>6,235,995</b>
Property, machinery and mining assets, net	20,176,477	20,370,831
Asset held for sale	926,178	924,765
Non-marketable investments	55,591	55,506
Investment in and advances to Joint Venture	454,125	581,963
	21,612,371	21,933,065
<b>TOTAL ASSETS</b>	<b>\$29,850,480</b>	<b>\$28,169,060</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term loan	\$6,914,741	\$4,050,374
Account payable - trade	235,965	202,853
- Construction vendors	1,464,323	1,493,155
Accrued expenses and other current liabilities	2,365,245	2,677,948
Due to stockholders and related parties	211,221	214,213
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,191,495</b>	<b>8,638,543</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$.001 par value, 25,000,000 shares authorized, 0 shares issued and outstanding at March 31, 2012 and December 31, 2011	-	-
Common stock, \$.001 par value, 100,000,000 shares authorized, 51,795,961 shares issued and 49,377,038 shares outstanding at March 31, 2012 and December 31, 2011	51,796	51,796
Additional paid-in capital	32,752,661	32,609,043
Treasury stock, 2,418,923 shares at cost	(5,216,770 )	(5,216,770 )
Accumulated deficit	(11,941,676)	(10,897,576)
Accumulated other comprehensive income	3,012,974	2,984,024
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<b>18,658,985</b>	<b>19,530,517</b>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$29,850,480	\$28,169,060
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The accompanying notes are an integral part of these financial statements

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

	Three months Ended March 31,	
	2012	2011
SALES	\$1,872,034	\$3,783,220
COST OF SALES	1,768,154	3,430,156
GROSS PROFIT	103,880	353,064
OPERATING EXPENSES		
General and administrative expenses	688,019	900,781
Selling expenses	56,898	70,273
Research and development expenses	155,570	30,810
TOTAL OPERATING EXPENSES	900,487	1,001,864
OPERATING LOSS	(796,607 )	(648,800 )
OTHER INCOME (EXPENSES)		
Interest income - related party	-	837,359
Interest expenses, net of interest income	(138,896 )	(94,189 )
Loss in equity in Joint Venture	(108,597 )	(111,843 )
LOSS BEFORE INCOME TAXES	(1,044,100 )	(17,473 )
Income tax credit	-	(97,066 )
NET INCOME (LOSS)	(1,044,100 )	79,593
OTHER COMPREHENSIVE INCOME		
Foreign currency translation adjustment	28,950	186,139
COMPREHENSIVE INCOME (LOSS)	\$(1,015,150 )	\$265,732
Basic and Diluted Loss per common share		
Basic and diluted	\$(0.02 )	\$0.00
Weighted average number of common share outstanding		
Basic and diluted	49,377,038	51,091,546

The accompanying notes are an integral part of these financial statements



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

	Three months Ended March 31,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$(1,044,100)	\$79,593
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Stock-based compensation	143,618	160,865
Interest income from related party loan	-	(837,359 )
Loss in equity of Joint Venture	108,597	111,843
Depreciation	238,531	241,015
Deferred taxes	-	(106,185 )
Changes in operating assets and liabilities:		
Account receivable	24,730	(1,753,928)
Inventories	246,589	1,580,422
Prepaid expenses and other current assets	(1,297,217)	396,750
Account payable - trade	32,737	(187,247 )
- construction	(31,052 )	(304,007 )
Accrued expenses and other current liabilities	(315,157 )	979,789
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>	<b>(1,892,724)</b>	<b>361,551</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(13,499 )	(68,805 )
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(13,499 )</b>	<b>(68,805 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from (repayments of) short-term loans	2,852,495	(380,009 )
Repayments of shareholder loan	-	(1,690,029)
Payments from related party	11,969	237,428
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>2,864,464</b>	<b>(1,832,610)</b>
<b>EFFECT OF EXCHANGE RATE ON CASH AND CASH EQUIVALENTS</b>	<b>2,032</b>	<b>46,015</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>960,273</b>	<b>(1,493,849)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>363,771</b>	<b>2,676,176</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$1,324,044</b>	<b>\$1,182,327</b>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid	\$99,377	\$67,300
Income taxes paid	\$111	\$9,134



Non-cash financing activities:

Treasury stock acquired in exchange for loan to related parties	\$-	\$4,435,894
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The accompanying notes are an integral part of these financial statements

APOLLO SOLAR ENERGY, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011  
(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, 2011 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 months ended March 31, 2012 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”).

Going concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the accompanying financial statements, the Company has negative working capital of \$2,953,386, did not generate cash from its operations, and has had operating losses for past two years. These circumstances, among others, raise substantial doubt about the Company’s ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 2. INVENTORIES

Inventories are valued at the lower of cost or net realizable value with cost determined on the weighted-average method. Work in progress and finished goods are composed of direct material, direct labor and a portion of manufacturing overhead. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and dispose.

## NOTE 2. INVENTORIES (Continued)

Inventories consist of the following:

	As of	
	March 31, 2012	December 31, 2011
Raw Materials	\$ 785,628	\$ 719,635
Work-in-progress	1,368,272	1,322,666
Finished goods	1,671,220	2,023,686
Total	\$ 3,825,120	\$ 4,065,987

## NOTE 3. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist following:

	March 31,2012	December 31,2011
Advances for purchases	\$2,059,927	\$908,760
Other receivable	236,712	92,900
Other prepaid expenses	6,353	-
Total	\$2,302,992	\$1,001,660

## NOTE 4. RELATED PARTIES TRANSACTIONS AND BALANCES

The breakdown of due from/due to related parties consists of the following:

	As of	
	March 31, 2012	December 31, 2011
Due from (to) Xinju	\$ 4,926	\$ (2,992)
Due to shareholders	(211,221)	(211,221)
Total	\$ (206,295)	\$ (214,213)

Due to shareholders and due to/from Xinju are non-interest bearing and due on demand.

## 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 March 31, 2012 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.

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

	March 31, 2012	March 31, 2011
Statement of operations		
Revenues	\$-	\$2,287
Cost of sales	-	1,189
Gross profit	-	1,098
Operating Loss	(310,277 )	(319,552 )
Loss before income tax	(310,277 )	(319,552 )

## NOTE 6. ACCRUED EXPENSES, TAXES AND OTHER CURRENT LIABILITIES

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

	March 31, 2012	As of December 31, 2011
Accrued interest	\$ 827,988	\$819,418
Salaries and benefits	198,547	275,194
Other taxes	317,198	715,277
Professional fees	69,041	102,779
Other payables	952,471	765,280
Total	\$ 2,365,245	\$2,677,948

## NOTE 7. SHORT-TERM LOAN

Short-term bank loans consist of the following loans collateralized by assets of the company:

	March 31, 2012	December 31, 2011
1) Loan payable to Chengdu Xihang Gang Construction & Investment Co., Ltd. due on demand, without interest collateralized by certain plant equipment of Sichuan Apollo	\$655,975	\$654,974
2) Loan payable to Bank of Communication, Chengdu branch due on July 29, 2012, with interest at 8.53% per annum, collateralized by the buildings and land use right of Diye	317,664	317,179
3) Loan payable to Bank of China, Xihanggang Branch, Chengdu due on August 25, 2012, with interest at 7.74% per annum, collateralized by the buildings of Sichuan Apollo	794,159	792,947
4) Loan payable to Bank of China, Xihanggang Branch, Chengdu due on September 19, 2012, with interest at 7.74% per annum, collateralized by the buildings of Sichuan Apollo	698,860	697,794
5) Loan payable to Bank of China, Xihanggang Branch, Chengdu due on December 25, 2012, with interest at 7.74% per annum, collateralized by the buildings of Sichuan Apollo	1,588,318	1,585,894
6) Loan payable to Bank of China, Xihanggang Branch, Chengdu, due on March 28, 2012, with interest of 6.73% per annum. The loan was paid in full in March 2012.	-	1,586
7) Loan payable to Wuhan Economic Development Group through Industrial and Commercial Bank of China, Huangpu Branch, Wuhan due on October 31, 2012, with interest at 7.5% per annum, collateralized by Sichuan Xinlong's 100% ownership in Shimian	1,270,654	-
8) Loan payable to Bo Hai Bank, Chengdu Branch, due on August 23, 2012, with interest at 7.625% per annum, collateralized by the buildings of Sichuan Apollo	1,588,318	-
9) Loan payable to Bank of China, Xihanggang Branch, Chengdu, due on demand	793	-
	\$6,914,741	\$4,050,374

## NOTE 8. TAXES

### Corporation income tax

The Company is incorporated in the United States of America and is subject to United States federal taxation. No provisions for income taxes have been made, as the Company had no U.S. taxable income for the three months ended March 31, 2012 and 2011.

The Company's Chinese subsidiaries are governed by the Income Tax Law of the PRC concerning the privately run and foreign invested enterprises, which are generally subject to tax at a statutory rate of 25% on income reported in the statutory financial statements after appropriate tax adjustments.

On July 16, 2009, the Company's subsidiary, Sichuan Xinlong, received government approval regarding the High-Tech Enterprise Certificate which allows the Company to enjoy a favorable tax rate of 15% effective January 1, 2009 through December 31, 2011. The Company is in the process of applying to renew this certificate for 2012 and the following years.

Based on management's present assessment, the Company has determined that it is more likely than not a deferred tax asset attributable to the future utilization of the net operating loss carry-forward as of March 31, 2012 will not be realized. Accordingly, the Company has provided a 100% allowance against the deferred tax asset in the financial statements at March 31, 2012. The Company will continue to review this valuation allowance and make adjustments as appropriate.

The Company has net operating loss carry-forwards in China and United States of approximately \$3 million and \$8 million, respectively, which expire between 2012 and 2022. The Company has a deferred tax asset resulting from the tax loss carry-forwards of approximately \$4 million for which the Company has provided a 100% valuation allowance.

### Value added tax ("VAT")

Enterprises or individuals who sell commodities, engage in repair and maintenance or import or export goods in the PRC are subject to a value added tax in accordance with the PRC laws. The value added tax standard rate is 17% of the gross sales price. A credit is available whereby VAT paid on the purchases of semi-finished products or raw materials used in the production of the Company's finished products can be used to offset the VAT due on the sales of the finished products.

As of March 31, 2012 and December 31, 2011, the Company had VAT tax receivable of \$20,834 and payable of \$62,511, respectively.

## NOTE 9. PRC STATUTORY RESERVES

In accordance with the PRC Companies Law, the Company was required to transfer 10% of its profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve. The statutory surplus reserve is non-distributable. As of March 31, 2012 and December 31, 2011, the Company did not accumulate any statutory reserve due to the accumulated deficit.

## NOTE10. BUSINESS SEGMENTS

For the three months ended March 31, 2012:

	Manufacturing	Refining	Mining	Corporate & Others	Consolidated Total
Revenue	\$ 155,671	\$1,716,363	\$-	\$-	\$ 1,872,034
Operating loss	(416,797 )	(17,614 )	(57,626 )	(304,570 )	(796,607 )
Depreciation and amortization	159,989	70,367	8,175	-	238,531
Capital expenditures	1,507	10,328	1,664	-	13,499

For the three months ended March 31, 2011:

	Manufacturing	Refining	Mining	Corporate & Others	Consolidated Total
Revenue	\$ -	\$3,783,220	\$-	\$-	\$3,783,220
Operating loss	(204,697 )	(136,741 )	(101,690 )	(205,672 )	(648,800 )
Depreciation and amortization	204,386	28,770	7,859	-	241,015
Capital expenditures	10,517	18,533	39,755		