

SMARTHEAT INC.  
Form 10-Q  
August 12, 2010

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 June 30, 2010

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)

110027  
(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 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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 32,811,125 shares of common stock outstanding as of August 9, 2010.

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

SMARTHEAT INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

June 30, 2010 (Unaudited) December 31, 2009

ASSETS			
<b>CURRENT ASSETS</b>			
Cash & cash equivalents	\$	31,447,222	\$ 48,967,992
Restricted cash		690,771	1,301,573
Accounts receivable, net		23,971,656	31,887,785
Retentions receivable		2,046,730	885,642
Advances to suppliers		13,834,721	7,657,791
Other receivables, prepayments and deposits		4,683,672	3,572,600
Inventories		22,386,703	11,259,273
Notes receivable - bank acceptances		429,800	397,248
<b>Total current assets</b>		<b>99,491,275</b>	<b>105,929,904</b>
<b>NON-CURRENT ASSETS</b>			
Deferred tax asset		6,535	-
Restricted cash		68,420	48,361
Accounts receivable, net		232,099	237,384
Retentions receivable		297,444	349,931
Deposit for equipment purchase		5,397,189	-
Intangible assets, net		4,073,315	4,071,021
Construction in progress		33,016	-
Property and equipment, net		7,758,818	7,739,609
<b>Total noncurrent assets</b>		<b>17,866,836</b>	<b>12,446,306</b>
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>117,358,111</b>	<b>\$ 118,376,210</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$	3,040,937	\$ 3,493,196
Unearned revenue		3,476,863	2,130,637
Taxes payable		1,304,812	2,140,627
Accrued liabilities and other payables		2,770,455	3,685,272
Notes payable - bank acceptances		155,060	1,806,564
Loans payable		147,256	4,393,544
<b>Total current liabilities</b>		<b>10,895,383</b>	<b>17,649,840</b>
<b>DEFERRED TAX LIABILITY</b>		<b>-</b>	<b>8,526</b>

## COMMITMENTS AND CONTINGENCIES

## STOCKHOLDERS' EQUITY

Common stock, \$0.001 par value; 75,000,000 shares authorized, 32,811,125 and 32,794,875 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	32,811	32,795
Paid in capital	75,075,918	74,917,370
Statutory reserve	3,423,988	2,872,006
Accumulated other comprehensive income	1,482,838	969,988
Retained earnings	25,756,021	21,231,484
Total Company stockholders' equity	105,771,576	100,023,643
NONCONTROLLING INTEREST	691,152	694,201.00
TOTAL EQUITY	106,462,728	100,717,844
TOTAL LIABILITIES AND EQUITY	\$ 117,358,111	\$ 118,376,210

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

SMARTHEAT INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30,		THREE MONTHS ENDED JUNE 30,	
	2010	2009	2010	2009
Net sales	\$ 32,136,429	\$ 18,705,898	\$ 22,767,593	\$ 12,498,395
Cost of goods sold	21,116,060	11,874,903	14,986,259	7,973,956
Gross profit	11,020,369	6,830,995	7,781,334	4,524,439
Operating expenses				
Selling expenses	2,637,348	1,159,532	1,992,425	698,619
General and administrative expenses	2,561,015	1,340,132	1,784,019	770,610
Total operating expenses	5,198,363	2,499,664	3,776,444	1,469,229
Income from operations	5,822,006	4,331,331	4,004,890	3,055,210
Non-operating income (expenses)				
Interest income	199,564	80,421	44,527	63,740
Interest expense	5,045	(117,612)	66,297	(64,760)
Financial expense	(19,003)	-	(14,690)	1,840
Exchange loss	(43,671)	-	(43,671)	-
Other income	83,805	36,309	17,070	35,549
Other expenses	(1,419)	(11,199)	(1,179)	(11,199)
Total non-operating income (expenses), net	224,321	(12,081)	68,354	25,170
Income before income tax	6,046,327	4,319,250	4,073,244	3,080,380
Income tax expense	966,306	680,432	696,786	462,831
Income from operations	5,080,021	3,638,818	3,376,458	2,617,549
Less: Income attributable to noncontrolling interest	14,730	-	15,212	-
Net income to SmartHeat Inc	5,094,751	3,638,818	3,391,670	2,617,549
Other comprehensive item				
Foreign currency translation	512,851	13,143	489,797	11,433
Comprehensive Income	\$ 5,607,602	\$ 3,651,961	\$ 3,881,467	\$ 2,628,982
Basic weighted average shares outstanding	32,800,818	24,179,900	32,806,048	24,179,900