

CHINA RECYCLING ENERGY CORP  
Form 10-Q  
August 16, 2010

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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 June 30, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 000-12536

China Recycling Energy Corporation

(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

90-0093373  
(I.R.S. Employer  
Identification No.)

12/F, Tower A  
Chang An International Building  
No. 88 Nan Guan Zheng Jie  
Xi'an City, Shaanxi Province, China  
(Address of Principal Executive Offices, Zip Code)

Registrant's Telephone Number, Including Area Code: + 86-29-8769-1097

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, 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  Accelerated filer  Non-accelerated filer  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

The number of shares outstanding of the registrant’s Common Stock, as of June 30, 2010 was 38,778,035.

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	June 30, 2010 (Unaudited)	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash & cash equivalents	\$ 5,089,700	\$ 1,111,943
Restricted cash	1,671,354	1,461,659
Investment in sales type leases, net	5,861,246	4,396,395
Interest receivable on sales type leases	770,178	437,626
Prepaid expenses	167,310	445,458
Other receivables	206,819	184,355
VAT receivables - current	673,979	383,027
<b>Total current assets</b>	<b>14,440,586</b>	<b>8,420,463</b>
<b>NON-CURRENT ASSETS</b>		
VAT receivables - noncurrent	1,617,203	957,567
Investment in sales type leases, net	77,210,405	48,147,738
Property and equipment, net	204,606	97,311
Construction in progress	46,136,422	34,858,845
<b>Total non-current assets</b>	<b>125,168,636</b>	<b>84,061,461</b>
<b>TOTAL ASSETS</b>	<b>\$ 139,609,222</b>	<b>\$ 92,481,924</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 5,602,415	\$ 3,583,219
Notes payable - bank acceptances	2,076,308	1,461,659
Interest payable	1,363,584	-
Taxes payable	1,100,159	681,707
Accrued liabilities and other payables	2,632,080	2,785,796
Advance from related parties, net	2,503,578	468,475
Convertible note, net of discount due to beneficial conversion feature	3,564,348	-
Accrued interest on short term convertible note	64,050	-
Deferred tax liability-current	71,833	148,193
Loan payable - current	1,325,304	-
<b>Total current liabilities</b>	<b>20,303,659</b>	<b>9,129,049</b>

<b>NONCURRENT LIABILITIES</b>		
Deferred tax liability, net	4,695,937	2,762,115
Convertible notes	3,000,000	8,000,000
Accrued interest on long term convertible notes	285,335	353,024
Loans payable	40,222,944	25,570,429
<b>Total noncurrent liabilities</b>	<b>48,204,216</b>	<b>36,685,568</b>
<b>Total liabilities</b>	<b>68,507,875</b>	<b>45,814,617</b>
<b>SHARES TO BE ISSUED</b>	<b>11,780,471</b>	<b>-</b>
<b>CONTINGENCIES AND COMMITMENTS</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock, \$0.001 par value; 100,000,000 shares authorized, 38,778,035 shares issued and outstanding as of June 30, 2010 and December 31, 2009, respectively	38,779	38,779
Additional paid in capital	42,042,866	38,319,163
Statutory reserve	3,770,192	2,497,724
Accumulated other comprehensive income	4,053,438	3,709,490
Retained earnings	7,393,961	1,485,914
<b>Total Company stockholders' equity</b>	<b>57,299,236</b>	<b>46,051,070</b>
Noncontrolling interest	2,021,640	616,237
<b>Total equity</b>	<b>59,320,876</b>	<b>46,667,307</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 139,609,222</b>	<b>\$ 92,481,924</b>

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

CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
(UNAUDITED)

	SIX MONTHS ENDED JUNE 30, (UNAUDITED)		THREE MONTHS ENDED JUNE 30, (UNAUDITED)	
	2010	2009	2010	2009
Revenue				
Sales of systems	\$ 31,921,309	\$ 9,513,077	\$ 21,795,873	\$ 9,513,077
Contingent rental income	742,638	-	742,638	-
Rental income from operating lease	-	5,946,892	-	1,623,999
<b>Total revenue</b>	<b>32,663,947</b>	<b>15,459,969</b>	<b>22,538,511</b>	<b>11,137,076</b>
Cost of sales				
Cost of systems	24,600,160	7,317,751	16,801,915	7,317,751
Rental expense	-	4,148,572	-	1,126,899
<b>Total cost of sales</b>	<b>24,600,160</b>	<b>11,466,323</b>	<b>16,801,915</b>	<b>8,444,650</b>
<b>Gross profit</b>	<b>8,063,787</b>	<b>3,993,646</b>	<b>5,736,596</b>	<b>2,692,426</b>
Interest income on sales-type leases	6,418,263	2,333,472	3,323,695	1,134,941
<b>Total operating income</b>	<b>14,482,050</b>	<b>6,327,118</b>	<b>9,060,291</b>	<b>3,827,367</b>
Operating expenses				
General and administrative expenses	2,746,173	1,355,741	1,386,476	560,303
<b>Total operating expenses</b>	<b>2,746,173</b>	<b>1,355,741</b>	<b>1,386,476</b>	<b>560,303</b>
<b>Income from operations</b>	<b>11,735,877</b>	<b>4,971,377</b>	<b>7,673,815</b>	<b>3,267,064</b>
Non-operating income (expenses)				
Interest income	21,434	-	(37,705)	-
Interest expense	(1,188,449)	(433,768)	(737,075)	(375,549)
Other income	(3,568)	(5,153)	92,691	(3,059)
<b>Total non-operating expenses, net</b>	<b>(1,170,583)</b>	<b>(438,921)</b>	<b>(682,089)</b>	<b>(378,608)</b>
<b>Income before income tax</b>	<b>10,565,294</b>	<b>4,532,456</b>	<b>6,991,726</b>	<b>2,888,456</b>
Income tax expense (benefit)	2,898,043	225,151	1,861,277	(342,960)
<b>Net income from operations</b>	<b>7,667,251</b>	<b>4,307,305</b>	<b>5,130,449</b>	<b>3,231,416</b>
Less: Income (loss) attributable to noncontrolling interest	486,573	(3,158)	92,132	(3,198)
<b>Net income attributable to China Recycling Energy Corp</b>	<b>7,180,678</b>	<b>4,310,463</b>	<b>5,038,317</b>	<b>3,234,614</b>

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<b>Other comprehensive item</b>				
Foreign currency translation (gain) loss attributable to China Recycling Energy Corp	343,948	(1,092)	385,866	28,803
<b>Comprehensive income attributable to China Recycling Energy Corp</b>				
	\$ 7,524,626	\$ 4,309,371	\$ 5,424,183	\$ 3,263,417
<b>Comprehensive income attributable to noncontrolling interest</b>				
	\$ 509,913	\$ -	\$ 112,927	\$ -
<b>Basic weighted average shares outstanding</b>				
	38,778,035	37,348,071	38,778,035	38,260,905
<b>Diluted weighted average shares outstanding *</b>				
	48,886,504	43,511,301	48,754,609	44,600,370
<b>Basic net earnings per share</b>				
	\$ 0.19	\$ 0.12	\$ 0.13	\$ 0.08
<b>Diluted net earnings per share *</b>				
	\$ 0.15	\$ 0.10	\$ 0.10	\$ 0.07

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

CHINA RECYCLING ENERGY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	SIX MONTHS ENDED	
	JUNE 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Income including noncontrolling interest	\$ 7,667,251	\$ 4,307,305
Adjustments to reconcile income including noncontrolling interest to net cash provided by operating activities:		
Depreciation and amortization	25,323	15,018
Amortization of discount related to conversion feature of convertible note	880,466	-
Stock options and warrants	1,407,547	442,191
Accrued interest on convertible notes	(3,639)	167,342
Changes in deferred tax	1,832,221	123,438
(Increase) decrease in current assets:		
Interest receivable on sales type lease	(258,972)	230,051
Prepaid expenses	279,184	3,899,203
VAT receivable and other receivables	(973,351)	(1,708)
Inventory	-	(299,355)
Increase (decrease) in current liabilities:		
Accounts payable	(1,362,890)	2,055,791
Taxes payable	412,624	(1,041,599)
Interest payable	1,356,732	-
Accrued liabilities and other payables	(166,058)	(906,267)
Net cash provided by operating activities	11,096,438	8,991,410
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Gross investment in sales type leases	(6,122,391)	(8,988,974)
Restricted cash	(200,653)	-
Acquisition of property & equipment	(131,547)	(14,297)
Construction in progress	(18,201,622)	(766,900)
Net cash used in investing activities	(24,656,213)	(9,770,171)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Insurance of common stock	-	2,000,000
Insurance of convertible notes	-	3,000,000
Cash contribution from noncontrolling interest	908,279	263,439
Proceeds from loans	15,757,780	2,927,101
Advance from (repayment to) related parties	850,408	(3,440)