CleanTech Innovations, Inc.
Form 10-Q
November 03, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

Commission file number: 000-53511

CLEANTECH INNOVATIONS, INC.
(Exact name of registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	98-0516425 (IRS Employer Identification No.)
C District, Maoshan Industry Park, Tieling Economic Development Zone, Tieling, Liaoning Province, China (Address of principal executive offices)	112616 (Zip Code)

(86) 0410-6129922
(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 x 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 ¨ (do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES ¨ NO x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 22,463,322 shares of common stock outstanding as of November 1, 2010.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

CLEANTECH INNOVATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and equivalents	$ 397,876	$ 1,295,145
Restricted cash	1,344,235	-
Accounts receivable	11,056,451	1,320,899
Other receivables and deposits	2,471,361	550,469
Retentions receivable	2,000,807	57,088
Advance to suppliers	270,719	11,245
Inventories	1,029,778	169,707
Notes receivable	89,538	-
Total current assets	18,660,765	3,404,553
NON CURRENT ASSETS:		
Long term investment	89,538	87,872
Retentions receivable	832,152	63,234
Prepayments	313,308	254,940
Construction in progress	997,194	2,326,460
Property and equipment, net	6,699,289	52,864
Intangible assets	3,623,595	3,536,894
Total non current assets	12,555,076	6,322,264
TOTAL ASSETS	$ 31,215,841	$ 9,726,817
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 4,116,853	$ 518,392
Other payables and accrued liabilities	400,541	747,759
Unearned revenue	239,617	202,812
Short term loans	3,969,498	3,221,932
Taxes payable	1,835,777	466,593
Total current liabilities	10,562,286	5,157,488
Long term payable, net of unamortized interest	1,167,848	-
Total Liabilities	11,730,134	5,157,488

CONTIGENCY AND COMMITMENT				
STOCKHOLDERS' EQUITY:				
Preferred stock, $0.00001 par value, 100,000,000 shares authorized, no shares issued and outstanding as of September 30, 2010 and December 31, 2009, respectively		-		-
Common stock, $0.00001 par value, 100,000,000 shares authorized, 22,463,322 and 15,122,000 shares issued and outstanding as of September 30, 2010, and December 31, 2009, respectively		224		151
Paid in capital		11,976,664		358,939
Statutory reserve fund		697,665		393,578
Accumulated other comprehensive income		684,977		289,383
Retained earnings		6,126,177		3,527,278
Total stockholders' equity		19,485,707		4,569,329
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	31,215,841	$	9,726,817

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

CLEANTECH INNOVATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	2010	2009	2010	2009
Net sales	$ 14,739,702	$ 978,623	$ 13,056,465	$ 706,228
Cost of goods sold	10,519,685	478,343	9,324,522	318,407
Gross profit	4,220,017	500,280	3,731,943	387,821
Operating expenses				
Selling	207,756	15,190	100,321	7,814
General and administrative	804,446	226,446	440,053	100,953
Total operating expenses	1,012,202	241,636	540,374	108,767
Income from operations	3,207,815	258,644	3,191,569	279,054
Non-operating income (expense)				
Interest income	5,436	410	2,088	157
Subsidy income	1,009,940	211,788	2,644	33,820
Other expenses	(59,258)	(315)	(15,797)	(170)
Interest expense	(264,162)	(75,672)	(50,576)	(59,217)
Total non-operating income (loss)	691,956	136,211	(61,641)	(25,410)
Income before income tax	3,899,771	394,855	3,129,928	253,644
Income tax expense	(996,785)	(98,714)	(808,059)	(62,109)
Net Income	2,902,986	296,141	2,321,869	191,535
Foreign currency translation	395,594	3,362	351,325	2,191
Comprehensive Income	$ 3,298,580	$ 299,503	$ 2,673,194	$ 193,726
Basic weighted average shares outstanding	17,447,008	15,122,000	22,021,207	15,122,000
Diluted weighted average shares outstanding	17,609,141	15,122,000	22,502,319	15,122,000
Basic earnings per share	$ 0.17	$ 0.02	$ 0.11	$ 0.01
Diluted earnings per share	$ 0.16	$ 0.02	$ 0.10	$ 0.01

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

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CLEANTECH INNOVATIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,902,986	$ 296,141
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	150,344	56,997
Stock options expense	90,007	-
(Increase) decrease in current assets:		
Accounts receivable	(9,625,524)	(636,464)
Retentions receivable	(2,668,267)	(39,926)
Other receivables and deposits	(1,880,785)	(1,406,736)
Advance to suppliers	(255,235)	(19,042)
Prepayment	(52,702)	(257,768)
Note receivable	(22,331)	-
Inventories	(843,547)	(339,603)
Restricted cash	(1,323,360)	-
Increase (decrease) in current liabilities:		
Accounts payable	3,532,902	189,496
Other payables and accrued liabilities	(710,668)	190,746
Unearned revenue	32,447	172,729
Taxes payable	1,339,210	121,901
Net cash used in operating activities	(9,334,523)	(1,671,529)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Construction in progress	(876,207)	(195,698)
Acquisition of property & equipment	(2,081,322)	(27,598)
Acquisition of intangible assets	(74,988)	-
Long term investment	-	(87,821)
Net cash used in investing activities	(3,032,517)	(311,117)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contribution by shareholders	2,426,287	-
Issuance of common stock	8,253,471	-
Proceeds from short term loans	9,473,013	2,195,518
Repayment of short term loans	(8,797,218)	-
Net cash provided by financing activities	11,355,553	2,195,518
EFFECT OF EXCHANGE RATE CHANGE ON CASH & EQUIVALENTS	114,218	118

NET INCREASE (DECREASE) IN CASH & EQUIVALENTS		(897,269)		212,990
CASH & EQUIVALENTS, BEGINNING OF PERIOD		1,295,145		25,855
CASH & EQUIVALENTS, END OF PERIOD	$	397,876	$	238,845
Supplemental Cash flow data:				
Income tax paid	$	869,186	$	-
Interest paid	$	264,162	$	75,672

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

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CLEANTECH INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 (UNAUDITED) AND DECEMBER 31, 2009

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

CleanTech Innovations, Inc., formerly known as Everton Capital Corporation (the “Company” or “CleanTech”), was incorporated on May 9, 2006, in the State of Nevada. Through its wholly owned operating subsidiaries in China, the Company designs, manufactures, tests and sells structural towers for on-land and off-shore wind turbines and manufactures patented, specialty metal products that require advanced manufacturing and engineering capabilities, including bellows expansion joints and connecting bend pipes used for waste heat recycling in steel production and in ultra-high-voltage electricity transmission grids, as well as industrial pressure vessels.

The Company authorized an 8-for-1 forward split of its common stock effective July 2, 2010. Prior to the forward split, CleanTech had 5,501,000 shares of common stock outstanding, and, after giving effect to the forward split, CleanTech had 44,008,000 shares of common stock outstanding. The effect of the forward stock split was retroactively reflected for all periods presented.

On July 2, 2010, the Company signed a share exchange agreement with Liaoning Creative Bellows Co., Ltd. (“Creative Bellows”) and the shareholders of Creative Bellows, whereby the Creative Bellows’ shareholders received 15,122,000 shares in CleanTech. Concurrent with the share exchange agreement, CleanTech’s principal shareholder cancelled 40,000,000 shares in CleanTech for $40,000, which was charged to additional paid in capital. The $40,000 payment reflected the fair value of the shares in the pre-acquisition company, which was a non-operating public shell with no trading market for its common stock. The cancelled shares were retired and, for accounting purposes, the shares were treated as not having been outstanding for any period presented. CleanTech had 4,008,000 shares outstanding after the cancellation of the shares. After giving effect to the foregoing transactions, the shareholders of Creative Bellows owned 79.05% of the 19,130,000 shares outstanding of CleanTech. Simultaneously with the share exchange agreement, CleanTech changed its year end from August to December. For accounting purposes, the transaction is being accounted for as a recapitalization of Creative Bellows as the Creative Bellows’ shareholders own the majority of the shares outstanding and will exercise significant influence over the operating and financial policies of the consolidated entity.

Prior to the acquisition of Creative Bellows, CleanTech was a non-operating public shell. Pursuant to Securities and Exchange Commission ("SEC") rules, the merger or acquisition of a private operating company into a non-operating public shell with nominal net assets is considered a capital transaction, rather than a business combination. Accordingly, for accounting purposes, the transaction was treated as a reverse acquisition and recapitalization, and pro-forma information is not presented.

Creative Bellows was incorporated in Liaoning Province, People’s Republic of China (“PRC”) on September 17, 2007. Creative Bellows designs and manufactures bellows expansion joints, pressure vessels, wind tower components for wind turbines and other fabricated metal specialty products. On May 26, 2009, three individual shareholders, who were also the shareholders of Creative Bellows, established Liaoning Creative Wind Power Equipment Co., Ltd (“Creative Wind Power”). At the end of 2009, the three shareholders transferred all of their shares to Creative Bellows at cost; as a result of the transfer of ownership, Creative Bellows owned 100% of Creative Wind Power. Creative Wind Power markets and sells wind towers components designed and manufactured by Creative Bellows.

These unaudited consolidated financial statements were prepared by the Company pursuant to the rules and regulations of the SEC. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) that are, in the opinion of management, necessary to present fairly the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) were omitted pursuant to such rules and regulations. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes for the year ended December 31, 2009. The results for the nine and three months ended September 30, 2010, are not necessarily indicative of the results to be expected for the full year ending December 31, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of CleanTech, Creative Bellows and Creative Wind Power. All intercompany transactions and account balances are eliminated in consolidation.

Use of Estimates

In preparing financial statements in conformity with US GAAP, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Significant estimates include the recoverability of long-lived assets and the valuation of inventories. Actual results could differ from those estimates.

CLEANTECH INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 (UNAUDITED) AND DECEMBER 31, 2009

Cash and Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash

Restricted cash consists of a percentage of sales deposited by the Company into its bank accounts according to contract terms and which serves as a contract execution and product delivery guarantee. The restriction is released upon customer acceptance of the product. As of September 30, 2010 and December 31, 2009, the Company had restricted cash of $1,344,235 and $0, respectively.

Accounts and Retentions Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Based on historical collection activity, the Company did not have any allowances for bad debts at September 30, 2010 (unaudited) and December 31, 2009.

At September 30, 2010 and December 31, 2009, the Company had retentions receivable for product quality assurance of $2,832,959 and $120,322, respectively. The retention rate generally was 10% of the sales price with a term of one to two years, but no later than the termination of the warranty period. The Company has not encountered any significant collectability issue with respect to the retention receivables.

Inventories

The Company's inventories are valued at the lower of cost or market with cost determined on a weighted average basis. The Company compares the cost of inventories with the market value and allowance is made to write down the inventories to their market value, if lower.

Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Expenditures for maintenance and repairs are expensed as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with 5% salvage value and estimated lives as follows:

Building	40	Years
Machinery	5 – 15	Years
Vehicle	5	Years
Office Equipment	5	Years

Land Use Rights

Right to use land is stated at cost less accumulated amortization. Amortization is provided using the straight-line method over 50 years.

Impairment of Long-Lived Assets

Long-lived assets, which include property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

CLEANTECH INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 (UNAUDITED) AND DECEMBER 31, 2009

Recoverability of long-lived assets to be held and used is measured by comparing of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the assets. Fair value is generally determined using the asset's expected future discounted cash flows or market value, if readily determinable. Based on its review, the Company believes that, as of September 30, 2010 and December 31, 2009, there were no significant impairments of its long-lived assets.

Income Taxes

The Company utilizes Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," codified in Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 740, which requires recognition of deferred tax assets and liabilities for expected future tax consequences of events that were included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, ("FIN 48"), codified in FASB ASC Topic 740. When tax returns are filed, it is likely that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest associated with unrecognized tax benefits are classified as interest expense and penalties are classified in selling, general and administrative expenses in the statements of income. The adoption of FIN 48 did not have a material impact on the Company's financial statements. At September 30, 2010 and December 31, 2009, the Company did not take any uncertain positions that would necessitate recording a tax related liability.

Revenue Recognition

The Company's revenue recognition policies are in compliance with SEC Staff Accounting Bulletin ("SAB") 104 (codified in FASB ASC Topic 605). Sales revenue, including the final 10% of the purchase price, is recognized after delivery is complete, customer acceptance of the product occurs and collectability is reasonably assured. Customer acceptance occurs after the customer puts the product through a quality inspection, which normally is completed within one to two weeks from customer receipt of the product. The customer is responsible for installation and integration of our component products into their end products. Payments received before satisfaction of all relevant criteria for revenue recognition are recorded as unearned revenue. Unearned revenue consists of payments received from customers prior to customer acceptance of the product.

The Company's standard payment terms generally provide that 30% of the purchase price is due upon the placement of an order, 30% is due upon reaching certain milestones in the manufacturing process and 30% is due upon customer inspection and acceptance of the product, which customers normally complete within one to two weeks after delivery. As a common practice in the manufacturing business in China, payment of the final 10% of the purchase price is due no later than the termination date of the product warranty period, which can be up to 24 months from the customer acceptance date. The final 10% of the purchase price is recognized as revenue upon customer acceptance of the product. Payment terms are negotiated on a case-by-case basis and these payment percentages and terms may differ for each customer.

Sales revenue represents the invoiced value of goods, net of value-added tax (VAT). The Company’s products sold and services provided in the PRC are subject to VAT of 17% of the gross sales price. This VAT may be offset by VAT paid by the Company on raw materials and other materials included in the cost of producing their finished product. The Company recorded VAT payable and VAT receivable net of payments in the financial statements. The VAT tax return is filed offsetting the payables against the receivables.

CLEANTECH INNOVATIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2010 (UNAUDITED) AND DECEMBER 31, 2009

Warranties

The Company offers a warranty to its customers on its products for up to 24 months depending on the terms negotiated with each customer. During the warranty period, the Company will repair or replace defective products free of charge. The Company commenced production in 2009 and, as of September 30, 2010, has yet to incur any warranty expense. The Company has implemented a stringent set of internal manufacturing protocols to ensure product quality beginning at the time raw materials are received into our facilities up to the final inspection at the time products are shipped to the customer. However, the Company will monitor warranty claims and accrue for warranty expense accordingly, using ASC Topic 450 to account for our standard warranty.

The Company provides its warranty to all customers and does not consider it an additional service; rather, the warranty is considered an integral part of the product’s sale. There is no general right of return indicated in the contracts or purchase orders. If a product under warranty is defective or malfunctioning, the Company is responsible for fixing it or replacing it with a new product. The Company’s products are the only deliverables.

The Company provides after-sales services at a charge after expiration of the warranty period. Such revenue is recognized when service is provided.

Cost of Goods Sold

Cost of goods sold consists primarily of material costs, labor costs and related overhead, which are directly attributable to the products and other indirect costs that benefit all products. Write-down of inventory to lower of cost or market is also recorded in cost of goods sold.

Research and Development

Research and development costs are related primarily to the Company’s development and testing of its new technologies that are used in the manufacturing of bellows-related products. Research and development costs are expensed as incurred. For the nine months ended September 30, 2010 and 2009, research and development was immaterial. For the three months ended September 30, 2010 and 2009, research and development was immaterial. Research and development was included in general and administrative expenses.

Subsidy Income

Subsidy income is a Science and Technology Support Grant from Administrative Committee of Liaoning Province Tieling Economic & Technological Development Zone to attract businesses with high-tech products to such zone. The grant was without any conditions and restrictions, not required to be repaid and was exempt from income tax in 2008. From 2009, subsidy income is subject to statutory income tax. The grant is determined based on the investment made by the Company, its floor space occupied in such zone, and certain taxes paid by the Company. For the nine months ended September 30, 2010 and 2009, the subsidy income was $1,009,940 and $211,788, respectively.

Basic and Diluted Earnings per Share (EPS)

Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS is computed similar to basic net income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if all the potential common shares, warrants and stock options had been issued and if the additional common shares were dilutive. Diluted earnings per share are based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock method for the outstanding options and the if-converted method for the outstanding convertible preferred shares. Under the treasury stock method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period. Under the if-converted method, convertible outstanding instruments are assumed to be converted into common stock at the beginning of the period (or at the time of issuance, if later). The following table presents a reconciliation of basic and diluted earnings per share:

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2010	2009	2010	2009
Net income	$ 2,902,986	$ 296,141	$ 2,321,869	$