

Kandi Technologies Group, Inc.
Form 10-Q
May 12, 2014

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, 2014**

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 number **001-33997**

KANDI TECHNOLOGIES GROUP, INC.

(Exact name of registrant as specified in charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

90-0363723

(I.R.S. Employer Identification No.)

**Jinhua City Industrial Zone
Jinhua, Zhejiang Province
People's Republic of China
Post Code 321016**

(Address of principal executive offices)

(86 - 579) 82239856

(Registrant's telephone number, including area code)

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 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

As of May 7, 2014, the registrant had issued and outstanding 40,743,821 shares of common stock, par value \$.001 per share.

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PART I-- FINANCIAL INFORMATION**Item 1. Financial Statements. (Unaudited)**

**KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

ASSETS

	March 31, 2014 (Unaudited)	December 31, 2013
CURRENT ASSETS		
Cash and cash equivalents	\$ 20,498,275	\$ 12,762,369
Restricted cash	-	1,636
Accounts receivable	22,674,057	31,370,862
Inventories (net of provision for slow moving inventory of \$349,850 and \$352,734 as of March 31, 2014 and December 31, 2013, respectively)	13,646,998	9,187,714
Notes receivable	35,078,977	13,794,094
Other receivables	705,771	556,904
Prepayments and prepaid expenses	461,395	505,513
Due from employees	42,759	34,272
Advances to suppliers	16,470,855	8,867,074
Amount due from JV Company, net	21,625,758	2,917,592
Deferred tax	252,684	13,706
Total Current Assets	131,457,529	80,011,736
LONG-TERM ASSETS		
Plant and equipment, net	27,945,044	29,333,516
Land use rights, net	14,246,146	14,453,191
Construction in progress	16,222	16,356
Deferred taxes	-	81,076
Investment in associated company	80,356	96,838
Investment in JV Company	80,399,179	79,331,930
Goodwill	322,591	322,591
Intangible assets	638,972	659,496
Total Long-Term Assets	123,648,510	124,294,994
TOTAL ASSETS	\$ 255,106,039	\$ 204,306,730

See accompanying notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2014 (Unaudited)	December 31, 2013
CURRENT LIABILITIES		
Accounts payable	\$ 44,089,700	\$ 22,843,143
Other payables and accrued expenses	3,332,258	2,422,613
Short-term bank loans	33,742,132	34,020,281
Customer deposits	135,398	44,404
Notes payable	14,599,961	16,683,023
Income tax payable	542,224	1,362,828
Due to employees	9,645	10,297
Due to related party	-	-
Deferred taxes	21,626	-
Financial derivate - liability	21,332,440	9,256,827
Total Current Liabilities	117,805,384	86,643,416
LONG-TERM LIABILITIES		
Deferred tax	1,194,424	1,009,477
Bond payable	12,977,743	13,084,724
Financial derivatives - liability	4,014,614	15,042,994
Total Long-Term Liabilities	18,186,781	29,137,195
TOTAL LIABILITIES	135,992,165	115,780,611
STOCKHOLDERS EQUITY		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 40,721,321 and 37,012,904 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	40,721	37,013
Additional paid-in capital	122,636,097	76,754,774
Retained earnings (the restricted portion is \$3,807,551 and \$3,807,551 at March 31, 2014 and December 31, 2013, respectively)	(9,967,074)	4,119,086
Accumulated other comprehensive income	6,404,130	7,615,246
TOTAL STOCKHOLDERS EQUITY	119,113,874	88,526,119
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 255,106,039	\$ 204,306,730

See accompanying notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE
INCOME (LOSS)**
(UNAUDITED)

	Three Months Ended	
	March 31, 2014	March 31, 2013
REVENUES, NET	\$ 40,171,304	\$ 14,662,521
COST OF GOODS SOLD	(35,310,895)	(11,290,490)
GROSS PROFIT	4,860,409	3,372,031
Research and development	(1,172,257)	(689,665)
Selling and marketing	(71,257)	(89,614)
General and administrative	(6,470,766)	(692,964)
(LOSS) INCOME FROM CONTINUING OPERATIONS	(2,853,871)	1,899,788
Interest (expense) income, net	(471,180)	(670,208)
Change in fair value of financial instruments	(12,314,171)	990,395
Government grants	-	-
Share of (loss) in associated companies	(15,805)	(14,023)
Share of profit after tax of JV	1,728,356	-
Other income, net	59,580	122,365
(LOSS) INCOME BEFORE INCOME TAXES	(13,867,091)	2,328,317
INCOME TAX EXPENSE	(219,069)	(91,444)
NET (LOSS) INCOME	(14,086,160)	2,236,873
OTHER COMPREHENSIVE INCOME		
Foreign currency translation	(1,211,116)	584,915
COMPREHENSIVE INCOME (LOSS)	\$ (15,297,276)	\$ 2,821,788
WEIGHTED AVERAGE SHARES OUTSTANDING BASIC	39,597,785	32,298,832
WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED	39,597,785	32,539,339
NET (LOSS) INCOME PER SHARE, BASIC	\$ (0.36)	\$ 0.07
NET (LOSS) INCOME PER SHARE, DILUTED	\$ (0.36)	\$ 0.07

See accompanying notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES**
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March	
	31	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (14,086,160)	\$ 2,236,873
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,386,527	2,109,977
Deferred taxes	44,801	(144,911)
Change of derivative instrument's fair value	12,314,171	(990,395)
Loss in investment in associated company	15,805	14,023
Share of (profit) after tax of JV	(1,728,356)	-
Changes in operating assets and liabilities:		
(Increase) Decrease In:		
Accounts receivable	8,501,760	(4,440,829)
Inventories	(4,567,411)	(2,901,362)
Other receivables and prepaid expenses	(154,488)	(88,166)
Due from employees	(9,402)	(2,418)
Prepayments and prepaid expenses	(7,691,861)	2,717,021
Amount due from JV	(18,868,380)	-
Increase (Decrease) In:		
Accounts payable	21,589,347	1,990,665
Other payables and accrued liabilities	930,528	(85,177)
Customer deposits	92,022	(268,344)
Income tax payable	(815,354)	(425,109)
Net cash (used in) provided by operating activities	\$ (3,046,451)	\$ (278,152)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of plant and equipment	(119,476)	(8,698)
Issuance of notes receivable	(21,553,430)	(1,940,690)
Deposit for acquisition	-	(14,103,172)
Net cash provided by (used in) investing activities	\$ (21,672,906)	\$ (16,052,560)

See accompanying notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES**
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended March 31	
	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted cash	\$ 1,634	\$ 7,954,409
Proceeds from short-term bank loans	817,013	12,727,059
Repayments of short-term bank loans	(817,013)	(12,727,059)
Repayments of notes payable	(1,960,832)	(3,181,765)
Common stock and warrants issued	11,067,734	-
Warrant exercise	20,484,279	3,244,318
Option exercise & other financing	3,066,081	38,100
Net cash provided by financing activities	32,658,896	8,055,062
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,939,539	(8,275,650)
Effect of exchange rate changes on cash	(203,633)	128,242
Cash and cash equivalents at beginning of period	12,762,369	12,135,096
<u>CASH AND CASH EQUIVALENTS AT END OF PERIOD</u>	\$ 20,498,275	\$ 3,987,688

SUPPLEMENTARY CASH FLOW INFORMATION

Income taxes paid	\$ 1,034,422	\$ 516,554
Interest paid	\$ 580,044	\$ 553,089

SUPPLEMENTAL NON-CASH DISCLOSURE: During the three months ended March 31, 2014 and 2013, \$0 and \$0 were transferred from construction in progress to plant and equipment, respectively.

See accompanying notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES

Kandi Technologies Group, Inc. (Kandi Technologies) was incorporated under the laws of the State of Delaware on March 31, 2004. Kandi Technologies changed its name from Stone Mountain Resources, Inc. to Kandi Technologies, Corp. on August 13, 2007. On December 21, 2012, Kandi Technologies changed its name to Kandi Technologies Group, Inc. As used herein, the term the Company means Kandi Technologies and its operating subsidiaries, as described below.

Headquartered in the Jinhua city, Zhejiang Province, China, the Company is one of China's leading producers and manufacturers of electrical vehicles, all-terrain vehicles, go-karts, specialized utility vehicles and a variety of other specialty vehicles for sale in the People's Republic of China (the PRC) and global markets. The Company conducts its primary business operations through its wholly-owned subsidiary, Zhejiang Kandi Vehicles Co., Ltd. (Kandi Vehicles), and the partial and wholly-owned subsidiaries of Kandi Vehicles.

The Company's organizational chart is as follows:

Operating Subsidiaries:

Pursuant to relevant agreements executed in January 2011, Kandi Vehicles is entitled to 100% of the economic benefits, voting rights and residual interests (100% profits and loss absorption rate) of Jinhua Kandi New Energy Vehicles Co., Ltd. (Kandi New Energy), a company in which Kandi Vehicles has a 50% interest.

Jinhua Three Parties New Energy Vehicles Service Co., Ltd. (Jinhua Service) was formed as a joint venture, by and among our wholly-owned subsidiary, Kandi Vehicles, the State Grid Power Corporation and Tianneng Power International. The Company, indirectly through Kandi Vehicles, has a 30% ownership interest in Jinhua Service.

In April 2012, pursuant to a share exchange agreement, the Company acquired 100% of Yongkang Scrou Electric Co, Ltd.(Yongkang Scrou), a manufacturer of automobile and electric vehicle parts.

In March 2013, pursuant to a joint venture agreement (the JV Agreement) entered into between Kandi Vehicles and Shanghai Maple Guorun Automobile Co., Ltd. (Shanghai Maple), a 99%-owned subsidiary of Geely

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(UNAUDITED)**

Automobile Holdings Ltd. (Geely), the parties established Zhejiang Kandi Electric Vehicles Co., Ltd. (the JV Company) to develop, manufacture and sell electrical vehicles (EVs) and related auto parts. Each of Kandi Vehicles and Shanghai Maple has a 50% ownership interest in the JV Company. In March 2014, the JV Company changed its name to Kandi Electric Vehicles Group Co., Ltd.

In March 2013, Kandi Vehicles formed Kandi Electric Vehicles (Changxing) Co., Ltd. (Kandi Changxing) in the Changxing (National) Economic and Technological Development Zone. Kandi Changxing is engaged in the production of EVs. In fourth quarter of 2013, Kandi Vehicles entered into an ownership transfer agreement with JV Company pursuant to which Kandi Vehicles transferred 100% of its ownership in Kandi Changxing to the JV Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Changxing.

In April 2013, Kandi Electric Vehicles (Wanning) Co., Ltd. (Kandi Wanning) was formed in Wanning City of Hainan Province by Kandi Vehicles and Kandi New Energy. Kandi Vehicles has a 90% ownership in Kandi Wanning, and Kandi New Energy has the remaining 10% interest. However, Kandi Vehicles is, effectively, entitled to 100% of the economic benefits, voting rights and residual interests (100% profits and loss absorption rate) of Kandi Wanning because by contract it is entitled to 100% of the economic benefits, voting rights and residual interests (100% profits and loss absorption rate) of Kandi New Energy.

In July 2013, Zhejiang ZuoZhongYou Electric Vehicle Service Co., Ltd. (the Service Company) was formed. The JV Company has a 19% ownership interest in the Service Company. The Company, indirectly through its 50% ownership interest in the JV Company, has a 9.5% economic interest in the Service Company.

In November 2013, Zhejiang Kandi Electric Vehicles Jinhua Co., Ltd. (Kandi Jinhua) was formed by the JV Company. The JV Company has 100% ownership interest in Kandi Jinhua, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Jinhua.

In November 2013, Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. (JiHeKang) was formed by the JV Company. The JV Company has 100% ownership interest in JiHeKang, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in JiHeKang.

In December 2013, the JV Company entered into an ownership transfer agreement with Shanghai Maple pursuant to which the JV Company acquired 100% ownership of Kandi Electric Vehicles (Shanghai) Co., Ltd. (Kandi Shanghai). As a result, Kandi Shanghai is a wholly-owned subsidiary of the JV Company, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Shanghai.

In January 2014, Zhejiang Kandi Electric Vehicles Jiangsu Co., Ltd. (Kandi Jiangsu) was formed by the JV Company. The JV Company has 100% ownership interest in Kandi Jiangsu, and the Company, indirectly through its 50% ownership interest in the JV Company, has a 50% economic interest in Kandi Jiangsu.

The Company's primary business operations are the design, development, manufacturing and commercialization of EVs, all-terrain vehicles (ATVs), go-karts, and other related specialized automobiles. As part of its strategic objective to become a leader in electric vehicles manufacturing and related services, the Company has increased its focus on fuel efficient, pure EVs with a particular emphasis on expanding its market share in China.

**KANDI TECHNOLOGIES GROUP, INC.
AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

NOTE 2 LIQUIDITY

As of March 31, 2014, the Company's working capital surplus was \$13,652,145.

As of March 31, 2014, the amount of advances to suppliers was \$16,470,855, which included the advance of a RMB 97 million (\$15,735,514) prepayment by Kandi Wanning to equipment supplier - Nanjing Shangtong Auto Technologies Co., Ltd. (Nanjing Shangton) for an equipment purchase. The equipment will be purchased and delivered according to the construction schedule and development of Kandi Wanning. This advance will be used to off-set the equipment purchase price upon delivery.

As of March 31, 2014, the Company had credit lines from commercial banks of \$53,208,747, of which \$33,742,132 was used as of March 31, 2014.

The Company believes that its cash flows generated internally may not be sufficient to support the growth of future operations and to repay short-term bank loans for the next twelve (12) months, if needed. However, the Company believes its access to existing financing sources and established relationships with PRC banks will enable it to meet its obligations and fund its ongoing operations.

The Company has historically financed its operations through short-term commercial bank loans from PRC banks. The term of these loans is typically for one year, and upon the payment of all outstanding principal and interest in a particular loan, the banks have typically rolled over the loan for an additional one-year terms, with adjustments made to the interest rate to reflect prevailing market rates. The Company believes this situation has not changed and that short-term bank loans will be available on normal trade terms if needed.

On March 24, 2014, the Company raised approximately \$11.05 million from the sale to two institutional investors of an aggregate of 606,000 shares of its common stock at a price of \$18.24 per share. As part of the transaction, the Company also issued to the investors warrants for the purchase of up to 90,900 shares of common stock at an exercise price of \$22.80 per share, which warrants have a term of 18 months from the date of issuance.

NOTE 3 - BASIS OF PRESENTATION

The Company maintains its general ledger and journals with the accrual method accounting for financial reporting purposes. The financial statements and notes are representations of management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States and have been consistently applied in the presentation of financial statements.

The financial information included herein for the three-month periods ended March 31, 2014 and 2013 is unaudited; however, such information reflects all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of the Company's condensed consolidated financial statements for these interim periods.

The results of operations for the three-month period ended March 31, 2014 are not necessarily indicative of the results expected for the entire fiscal year ending December 31, 2014.

NOTE 4 PRINCIPLES OF CONSOLIDATION

The consolidated financial statements reflect the accounts of the Company and its ownership interest in following subsidiaries:

- (i) Continental Development Limited. (Continental) (a wholly-owned subsidiary of the Company)

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AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

- (ii) Zhejiang Kandi Vehicles Co., Ltd. (Kandi Vehicles) (a wholly-owned subsidiary of Continental)
 - (iii) Jinhua Three Parties New Energy Vehicles Service Co., Ltd. (Jinhua Service) (a 30% owned subsidiary of Kandi Vehicles)
 - (iv) Jinhua Kandi New Energy Vehicles Co., Ltd. (Kandi New Energy) (a 50% owned subsidiary of Kandi Vehicles)
 - (v) Yongkang Scrou Electric. Co., Ltd (Yongkang Scrou) (a wholly-owned subsidiary of Kandi Vehicles)
 - (vi) Kandi Electric Vehicles (Changxing) Co., Ltd. (Kandi Changxing) (a wholly-owned subsidiary of the JV Company)
 - (vii) Zhejiang Kandi Electric Vehicles Co., Ltd. (the JV Company) (a 50% owned subsidiary of Kandi Vehicles)
 - (viii) Kandi Electric Vehicles (Wanning) Co., Ltd. (Kandi Wanning) (a subsidiary 10% owned by Kandi New Energy and 90% owned by Kandi Vehicles)
 - (ix) Zhejiang ZuoZhongYou Electric Vehicle Service Co., Ltd. (the Service Company) (a 19% owned subsidiary of the JV Company).
 - (x) Zhejiang Kandi Electric Vehicles Jinhua Co., Ltd. (Kandi Jinhua) (a wholly-owned subsidiary of the JV Company)
 - (xi) Zhejiang JiHeKang Electric Vehicle Sales Co., Ltd. (JiHeKang) (a wholly-owned subsidiary of the JV Company)
 - (xii) Kandi Electric Vehicles (Shanghai) Co., Ltd. (Kandi Shanghai) (a wholly-owned subsidiary of the JV Company)
 - (xiii) Kandi Electric Vehicles Jiangsu Co., Ltd. (Kandi Jiangsu) (a wholly-owned subsidiary of the JV Company)
- Inter-company accounts and transactions have been eliminated in consolidation.

NOTE 5 USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles in the United States 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 consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Management makes these estimates using the best information available at the time the estimates are made; however actual results when ultimately realized could differ from those estimates.

NOTE 6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Economic and Political Risks

The Company's operations are conducted in the PRC. As a result, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the

general state of the PRC economy. In addition, the Company's earnings are subject to movements in foreign currency exchange rates when transactions are denominated in Renminbi (RMB), which is the Company's functional currency. Accordingly, the Company's operating results are affected by changes in the exchange rate between the U.S. dollar and the RMB.

**KANDI TECHNOLOGIES GROUP, INC.
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(UNAUDITED)**

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's performance may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

(b) Fair Value of Financial Instruments

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

These tiers include:

Level 1 defined as observable inputs such as quoted prices in active markets;

Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and

Level