

Kandi Technologies Corp
Form 10-K
March 31, 2011

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

or

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

For the transition period from _____ to _____

Commission file number 000-52186

KANDI TECHNOLOGIES, CORP.
(Exact name of registrant as specified in its 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) (Zip Code)

(86-579) 82239856
(Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, Par Value \$0.001 Per Share
(Title of each class)

NASDAQ Global Market
(Name of exchange on which
registered)

Securities Registered Pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

(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

As of June 30, 2010 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the shares of the registrant's common stock held by non-affiliates (based upon the closing sale price of such shares as reported on the NASDAQ Capital Market) was approximately \$30.34 million. Shares of the registrant's common stock held by each executive officer and director and each by each person who owns 10% or more of the outstanding common stock have been excluded from the calculation in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

There were 27,433,934 shares of voting common stock with a par value of \$0.001 outstanding at March 25, 2011.

DOCUMENTS INCORPORATED BY REFERENCE: none.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as “anticipate,” “expect,” “intend,” “plan,” “will,” “we believe,” “our company believes,” “management believes” similar language. These forward-looking statements are based on our current expectations and are subject to certain risks, uncertainties and assumptions, including those set forth in the discussion under Item 1, “Business”, Item 1A, “Risk Factors” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Our actual results may differ materially from results anticipated in these forward-looking statements. We base our forward-looking statements on information currently available to us, and we assume no obligation to update them. In addition, our historical financial performance is not necessarily indicative of the results that may be expected in the future and we believe such comparisons cannot be relied upon as indicators of future performance.

Although we believe that the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

PART I

Item 1. Business.

Except as otherwise indicated by the context, references in this Annual Report to “we,” “us,” “our,” “Kandi,” or the “Company” are to the combined businesses of Kandi Technologies, Corp. and its subsidiaries.

Introduction

On June 29, 2007, Stone Mountain Resources, Inc., a Delaware corporation (“Stone Mountain”) executed a share exchange agreement (the “Exchange Agreement”) with Continental Development Limited, a Hong Kong corporation (“Continental”) and Excelvantage Group Limited, a British Virgin Islands Company which owned 100% of Continental (the “Continental Shareholder”). Pursuant to the Exchange Agreement, Stone Mountain issued 12,000,000 shares of its common stock to the Continental Shareholder, in exchange for 100% of the common stock of Continental. After the closing of the Exchange Agreement, Stone Mountain had a total of 19,961,000 shares of common stock outstanding, with the Continental Shareholder owning 60.12% of the total issued and outstanding shares of Stone Mountain’s common stock, and the remaining shares outstanding were held by those who held shares of Stone Mountain’s common stock prior to the closing.

As a result of this transaction, Continental became a wholly owned subsidiary of Stone Mountain. Thereafter, the business of the Company was that of Continental’s wholly owned subsidiary, Zhejiang Kandi Vehicles Co., Ltd. On August 13, 2007, we changed our name from Stone Mountain Resources, Inc. to Kandi Technologies, Corp.

Stone Mountain was a public shell company prior to the closing of the Exchange Agreement. Stone Mountain was originally incorporated on March 31, 2004 in the State of Delaware, and operated as a gold exploration company exploring Nevada mineral properties before ceasing operations in May 30, 2007.

Stone Mountain Resources, Inc. (“Stone Mountain”) was incorporated under the laws of the State of Delaware on March 31, 2004. On August 13, 2007, Stone Mountain Resources, Inc. changed its name to Kandi Technologies, Corp. (“Kandi” or the “Company”).

On June 29, 2007, pursuant to the share exchange agreement between Stone Mountain Resources, Inc., Continental Development Limited, (“Continental”) and Excelvantage (Continental’s sole shareholder), Stone Mountain issued 12,000,000 shares of its common stock to Excelvantage, in exchange for 100% of the common stock of Continental. As a result of the share exchange, Continental became a wholly-owned subsidiary of Stone Mountain. Kandi Technologies, Corp. conducts its operations through its wholly owned subsidiary, Zhejiang Kandi Vehicles Co. Ltd., a People’s Republic of China (“PRC”) company.

On June 24, 2008 the Company closed its acquisition of 100% of the shares of Kandi Special Vehicles Co., Ltd (“KSV”), after which KSV became a wholly-owned subsidiary of the Company. The acquisition was accounted for as a purchase in accordance with Statements of Financial Accounting Standards (“SFAS”) No. 141 “Business Combinations.” The consolidated statements of income include the results of operations of KSV at the date of acquisition. On March 10, 2009, KSV changed its name to Kandi New Energy Vehicles Co., Ltd, (“KNE”). On June 11, 2009, KNE changed its name back to KSV.

On May 9, 2008, the Company sold Zhejiang Yongkang Top Import & Export Co., Ltd. (“Dingji”), a subsidiary of the Company, to certain individuals.

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On December 31, 2010, Jinhua Three Parties New Energy Vehicles Service Co., Ltd. (“Jinhua Service”) was formed by joint venture with State Grid Power Corporation, Tianneng Power International, Inc. and Zhejiang Kandi Vehicles Co., Ltd. to establish the first China electric super-mini automobiles battery replacement services. The Company owns 30% of Jinhua Service.

The primary operations of the Company are the design, development, manufacturing, and commercializing of all-terrain vehicles, go-karts, and specialized automobile related products for the PRC and global export markets. Sales are made to dealers in Asia, North America, Europe and Australia.

Business Overview

General

Kandi’s products include off-road vehicles (which include ATVs, UTVs, and go-karts), motorcycles and mini-cars.

	The year ended December 31			
	2010		2009	
	Unit	Revenue	Unit	Revenue
All-terrain Vehicles (ATVs)	5,868	\$ 3,716,893	5,433	\$ 3,020,271
Super-mini car (EV)	1,618	6,800,000	1,892	8,478,424
Go-Kart	28,366	25,434,803	13,618	11,556,921
Mini Pick-up	-	-	1	4,364
Utility vehicles (UTVs)	2,270	4,839,256	3,171	8,477,828
Three-wheeled motorcycle (TT)	917	2,089,348	1,133	2,289,954
Total	39,039	\$ 42,880,300	25,248	\$ 33,827,762

Off-Road Vehicles

In 2003 Kandi began mass production of go-karts. The Company is now one of the leading manufacturers of go-karts in the People's Republic of China (PRC). Kandi produces a wide range of go-karts, from the 90cc class to the 1,000cc class in cylinder displacement. Kandi also produces four-wheeled all-terrain vehicles (ATVs) and specialized utility vehicles (UTVs), which are ATVs special-fitted for agricultural and industrial use.

Revenues from our ATVs experienced a significant increase of \$696,622, or 23%, in year 2010 over the comparable fiscal years, which was attributable to 13.9% increase in the average unit price from \$556 in 2009 to \$633 in 2010 and slightly increased unit sales of 8%. During the fiscal year 2010, because the Company has successfully developed several new competitive models, in addition to the fact that the economy worldwide has recovered since 2009, demand for ATVs increased significantly. Although the average unit price increased, the unit sales also increased.

In 2010, our Go-Karts experienced a significant increase in revenue of \$13.9 million or 120% over the fiscal year 2009, which was mainly attributable to a 108% increase in unit sales from 13,618 units in 2009 to 28,366 units in 2010. In year 2010, the good market condition, which benefitted from the world economic recovery from the financial crisis, created a large increase in demand, especially demand for middle and small size products, which had been suppressed during the financial crisis.

Revenues from our three-wheeled motorcycle (TT) dropped by \$0.2 million, or 8.8%, from fiscal year 2009 to 2010, which was attributable to a decrease in unit sales of 19% from 1,133 units in 2009 to 917 units in 2010. In year 2010, the Company modified the model 250MB2, and increased its performance. As a result, the Company increased its unit price in 2010. As the main product of TT product line, the price increase of model 250MB2 caused the average unit price of TT products to increase by 12.7% in year 2010. During fiscal year 2010, unit sales of 250MB2 remained stable; however, unit sales of other models decreased, which caused the total sales to dropped in general.

Utility vehicles (UTVs) experienced a significant decrease in revenues from \$8,477,828 to \$4,839,256. This 43% decrease is due to a 20% decrease in average unit price and a 28% drop in unit sales from 3,171 units in 2009 to 2,270 units in 2010. This significant drop is primarily because more competitors entered the UTV market in year 2010 after the UTV market recorded high profit in year 2009. Because of the high competition in this UTV market, the Company has reduced its price to maintain its competitive advantages. However, the severe competition still caused the Company to experience a significant sales drop in UTV products in year 2010.

Mini-Car Products

The global market potential for all-electric vehicles has been forecasted to reach up to 30 million units by 2015, according to the China Association of Automobile Manufacturers (CAAM). Governments such as China and the United States are beginning to see the important benefits pure Electric Vehicles bring to the environment as they approve subsidies for EV purchasers and manufacturers. Recent goals from both the Chinese and U.S. governments have included an annual production capacity of 500,000 alternative-energy vehicles by 2011 and 1,000,000 alternative-energy cars on the road by 2015, respectively.

Kandi began sales of its gas-powered Super-mini car, CoCo, in August 2008. The first generation CoCo was designed for local neighborhood driving, with a 250cc single cylinder, 4-stroke water-cooled engine with a top speed of 25 mph, achieving 60 mpg. In 2009, the Company launched the battery powered all-electric CoCo. The electric CoCo (EV) is designed to achieve a top speed of 25 mph, and will have a driving range of 80 miles on a single full charge.

In 2010, revenues from our Super-mini car, which is known as the pure Electric Vehicle (EV) in China and CoCo elsewhere, dropped significantly by \$1.7 million, or 20% from 2009, which was attributable to both a slight decrease

in the average unit price of 6% from \$4,481 in 2009 to \$4,203 in 2010, and a decrease in unit sales of 14.5% from 1,892 units in 2009 to 1,618 units in 2010.

In fiscal year 2010, because the Chinese government is promoting the new energy cars, the Company shifted its focus market from the United States to China for the EV products. In the U.S market, because the U.S government's subsidy to electric powered cars is lower, the Company has reduced its sales price, which has affected EV's sales revenues in the U.S market. At the same time, however the Chinese market needs time to develop. As a result, total sales dropped in year 2010 for the EV products. However, the Company expects significant growth in the sales of the pure Electric Vehicles in China and expects to expand the product line in the near term.

The Company ceased production of the Mini Pick-Up in 2009 and sold only one specially-manufactured vehicle in 2009. In year 2010, no Mini Pick-Up was sold.

The following table shows the breakdown of Kandi's revenues from its customers by geographic markets based on the location of the distributors during the fiscal years ended December 31, 2010 and 2009:

	The Years Ended of December 31			
	2010		2009	
	Sales Revenue	Percentage	Sales Revenue	Percentage
North America	\$ 4,474,619	11%	\$ 4,058,400	12%
Europe	497,910	1%	405,067	1%
China	37,907,771	88%	29,364,295	87%
Total	42,880,300	100%	33,827,762	100%

For the year ended December 31, 2010, sales to North America and sales to Europe increased in terms of volume. However, the percentage of those two markets as a percentage of total sales did not change significantly, which reflects the fact that the Company is expanding in all markets. In the year 2011, we expect continued sales growth in those regions, especially in China. For the years ended December 31, 2010 and 2009, about 95% of sales to China are sales to Chinese export agents, who resell the Company's products to North America, Europe, and other regions.

Development Activities

In recent years, an increased focus of the Company has been on the development of products for its domestic market in China, particularly battery powered all electric super-mini automobiles (EVs). In November, 2009, the Company sold 30 specially designed low speed EVs to the Postal Service in Jinhua, and in July, 2010, the Company announced that it received an order from the Postal Service in Hangzhou, Zhejiang Province, for 60 all electric vehicles.

On January 4, 2010, the Company announced that it formed an alliance with major Chinese energy, IT and battery companies to help launch a new business model for the mass commercialization of EVs to be expanded on a city by city basis, addressing key concerns relating to EVs, including high purchase costs, limited driving ranges and convenience and safety matters with respect to the charging, maintenance and disposal of batteries. Under this new business model, consumer costs will be reduced as a result of government cooperation and subsidies, and driving ranges will be extended through the construction of "battery farms" which will allocate power to a network of "express change" battery stations where batteries may be rented and exchanged utilizing Kandi technology. Central to the new business strategy, batteries will be made available on a rental basis separate from the sale of each vehicle. An initial goal of the Alliance is the establishment of a revolutionary comprehensive model EV city in Jinhua to be followed by other model cities in Zhejiang Province with the assistance and participation of the local and regional governments. The core members of the alliance with the Company are China Potevio/CNOOC New Energy and Power Ltd. (a joint venture between China National Offshore Oil Corporation and China Potevio Co.) and Tianneng Power International, Ltd.

In April, 2010, the Company announced that it anticipated that local and regional government funded subsidies for up to 50% of the purchase price of EVs would be made available to the first 3,000 purchasers of the Company's EVs in the Jinhua EV model city.

Most significantly, on April 30, 2010, China's Ministry of Industry and Information and Technology qualified the Company's low speed vehicle (KD5020X) for China's energy conserving and new energy projects. The vehicle was placed on its list of vehicles in its 10th catalogue of recommended car types which meet requirements for sales to the

public. On June 1, 2010, the Chinese Ministry of Finance (MOF) announced planned trial subsidies for China's EV and hybrid car manufacturers of up to RMB 60,000 and RMB 50,000 (about \$9,000 and \$7,500), respectively, as part of an effort to stimulate purchases of these vehicles to help reduce emissions and gasoline consumption. Additionally, the announcement indicated there will be government investment and policy support for EV infrastructure, such as batter