

USmart Mobile Device Inc.
Form 10-Q
August 15, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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: 000-50140

USmart Mobile Device Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

16-1642709

(I.R.S. Employer Identification Number)

Edgar Filing: USmart Mobile Device Inc. - Form 10-Q

Room 1703, 17/F., Tower 1, Enterprise Square,

9 Sheung Yuet Road, Kowloon Bay,

Kowloon, Hong Kong.

(Address of principal executive offices) (Zip code)

011-852-3666-9939

(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 (§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. (Check one):

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

The Registrant had 39,684,495 shares of common stock outstanding as of August 15, 2013.

TABLE OF CONTENTS

	Page
PART I	
FINANCIAL INFORMATION	1
Item 1. <u>Financial Statements (Unaudited)</u>	1
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	1
<u>Condensed Consolidated Statements of Income (Unaudited)</u>	3
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	4
<u>Notes to the Condensed Consolidated Financial Statements (Unaudited)</u>	6
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	39
Item 4. <u>Controls and Procedures</u>	40
PART II	
OTHER INFORMATION	41
Item 1. <u>Legal Proceedings</u>	41
Item 1A. <u>Risk Factors</u>	41
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	41
Item 3. <u>Defaults Upon Senior Securities</u>	41
Item 4. <u>Mine Safety Disclosures</u>	41
Item 5. <u>Other Information</u>	41
Item 6. <u>Exhibits</u>	42
<u>SIGNATURES</u>	43

PART I – FINANCIAL INFORMATION**USMART MOBILE DEVICE INC. AND SUBSIDIARIES****Item 1. Financial Statements****Condensed Consolidated Balance Sheets (Unaudited)**

	Notes	As of June 30, 2013 (Unaudited)	As of December 31, 2012 (Audited)
ASSETS			
Current assets			
Cash and cash equivalents		\$906,134	\$639,462
Restricted cash		841,539	838,413
Accounts receivable, net of allowance for doubtful accounts of \$98,061 for 2013 and 2012		1,187,930	1,227,703
Amount due from related companies		550,131	0
Inventories, net	3	1,551,225	4,616,148
Other current assets		782,264	776,868
Total current assets		\$5,819,223	\$8,098,594
Long-term assets:			
Property, plant and equipment, net	4	8,735,495	9,586,055
Investments in a jointly-controlled entity	13	3,388,364	2,818,307
Intangible assets	15	11,341,123	11,341,123
Other deposits		151,696	165,325
Amounts due from Aristo / Mr. Yang	7	3,133,128	3,658,359
TOTAL ASSETS		\$32,569,029	\$35,667,763
LIABILITIES			
Current liabilities			
Accounts payable		\$641,594	\$358,006
Amount due to related companies		7,194,556	9,209,313
Accruals		367,283	375,513

Edgar Filing: USmart Mobile Device Inc. - Form 10-Q

Lines of credit and loan facilities	8	5,955,899	8,319,321
Bank loans	9	5,339,751	6,099,309
Current portion of capital lease	5	87,790	96,506
Income tax payable		(177,291)	(177,291)
Due to shareholders for converted pledged collateral		112,385	112,385
Other current liabilities	10	13,962,668	12,386,002
Total current liabilities		\$33,484,635	\$36,779,064

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

PART I – FINANCIAL INFORMATION**USMART MOBILE DEVICE INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets (Unaudited)**

	Notes	As of June 30, 2013 (Unaudited)	As of December 31, 2012 (Audited)
Long-term liabilities			
Capital lease, less current portion	5	\$92,387	133,428
Deferred tax liabilities		74,289	74,289
Total long-term liabilities		166,676	207,717
TOTAL LIABILITIES		\$33,651,311	36,986,781
NET ASSETS (LIABILITIES)		\$(1,082,282)	(1,319,018)
Commitments and contingencies		\$0	\$0
STOCKHOLDERS' EQUITY			
Preferred stock, 20,000,000 shares authorized; 0 shares issued and outstanding as of June 30, 2013 and December 31, 2012		\$0	\$0
Common stock, \$0.001 par value; 50,000,000 shares authorized; 39,474,495 and 39,474,495 shares issued and outstanding as of June 30, 2013 and December 31, 2012		39,475	39,475
Additional paid in capital		4,321,333	4,321,333
Exchange reserve		(1,419)	2,072
Retained earnings (deficits)		(3,161,515)	(3,539,251)
Non-controlling interest		1,197,874	823,629
		(2,280,156)	(2,142,647)
TOTAL STOCKHOLDERS' EQUITY		\$(1,082,282)	\$(1,319,018)

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

PART I – FINANCIAL INFORMATION**USMART MOBILE DEVICE INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Income (Unaudited)**

	Three months ended		Six months ended		
	Notes	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)
Net sales		\$25,007,918	\$31,365,881	\$39,468,146	\$73,778,901
Costs of sales		24,828,545	30,976,050	39,387,288	73,024,299
Gross profit (loss)		\$179,373	\$389,831	\$80,858	\$754,602
Operating expenses					
Selling and distribution costs		37,058	154,757	69,719	167,640
General and administrative expenses		986,758	957,057	2,073,614	2,139,177
Income (loss) from operations		\$(844,443)	\$(721,983)	\$(2,062,475)	\$(1,552,215)
Other expenses (income)					
Rental income		(44,721)	(45,192)	(88,759)	(90,385)
Interest expenses		204,035	301,533	425,505	434,760
Management and service income		(42,332)	(59,680)	(84,668)	(82,873)
Interest income		(538)	(766)	(1,067)	(1,593)
Loss (profit) on disposals of fixed assets		0	0	(1,872,724)	(256)
Exchange differences		(6,537)	(17,310)	(3,696)	(4,760)
Miscellaneous		(54,674)	(36,221)	(107,236)	(77,092)
Share result of a jointly-controlled entity	13	(251,569)	255,356	(570,057)	255,356
Income (loss) before income taxes		\$(648,107)	\$(1,119,703)	\$240,227	\$(1,985,372)
Income taxes provision (reversal)		0	0	0	0
Net income (loss)		\$(648,107)	\$(1,119,703)	\$240,227	\$(1,985,372)
Dividend paid		0	7	0	7