

Edgar Filing: Universal Solar Technology, Inc. - Form 10-Q

Universal Solar Technology, Inc.  
Form 10-Q  
August 16, 2010

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

FORM 10-Q

☒ QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
for the quarterly period ended June 30, 2010

☐ TRANSITION REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 333-150768

UNIVERSAL SOLAR TECHNOLOGY, INC.  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of incorporation or  
organization)

26-0768064  
(I.R.S. Employer Identification No.)

No. 1 Pingbei Road 2,  
Nanping Science & Technology Industrial Park,  
Zhuhai City, Guangdong Province,  
The People's Republic of China  
(Address of principal executive offices)

519060  
(Zip Code)

86-756-8682610  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 accelerate filer, an accelerate filer, a non-accelerated filer, or a smaller reporting company. See the definition 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 ☐

☐

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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 of Common Stock outstanding as of August 12, 2010 was 22,599,974 shares.

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Except as otherwise required by the context, all references in this report to "we", "us", "our", "Universal Solar Technology" or "Company" refer to the consolidated operations of Universal Solar Technology, Inc., and its wholly owned subsidiaries.

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

UNIVERSAL SOLAR TECHNOLOGY, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

|  | June 30, 2010<br>(Unaudited) | December 31, 2009<br>(Audited) |
|--|------------------------------|--------------------------------|
| <b>ASSETS</b>  |                              |                                |
| <b>CURRENT ASSETS:</b>   |                              |                                |
| Cash   | \$ 911,276                   | \$ 1,115,047                   |
| Prepaid expenses and other current assets  | 786,268                      | 319,123                        |
| Inventories  | 298,827                      | 42,956                         |
| <b>TOTAL CURRENT ASSETS</b>  | <b>1,996,371</b>             | <b>1,477,126</b>               |
| Deposits for future deliveries of property and equipment   | 596,310                      | 312,362                        |
| Land use right, net of accumulated amortization of \$16,824 and \$11,452, respectively   | 408,212                      | 411,391                        |
| Property and equipment, net of accumulated depreciation of \$11,524 and \$3,446, respectively  | 3,930,891                    | 3,294,946                      |
| <b>TOTAL ASSETS</b>  | <b>\$ 6,931,784</b>          | <b>\$ 5,495,825</b>            |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>  |                              |                                |
| <b>CURRENT LIABILITIES:</b>  |                              |                                |
| Accounts payable and accrued expenses  | \$ 371,642                   | \$ 154,813                     |
| Due to related parties-current portion   | 19,213                       | 5,675,528                      |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>390,855</b>               | <b>5,830,341</b>               |
| Due to related parties- non-current portion  | 7,277,288                    | 22,485                         |
| <b>TOTAL LIABILITIES</b>   | <b>7,668,143</b>             | <b>5,852,826</b>               |
| <b>STOCKHOLDERS' DEFICIENCY:</b>   |                              |                                |
| Preferred stock, \$0.0001 par value, 10,000,000 shares authorized, 0 shares issued and outstanding   |                              | -                              |
| Common stock, \$0.0001 par value, 90,000,000 shares authorized, issued and outstanding 22,599,974 shares and 22,574,974 shares, respectively | 2,260                        | 2,260                          |
| Additional paid-in capital   | 598,048                      | 553,826                        |
| Accumulated deficit  | (1,381,722)                  | (925,466)                      |

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|  |              |              |
|--|--------------|--------------|
| Accumulated other comprehensive income (loss)  | 45,055       | 12,379       |
| TOTAL STOCKHOLDERS' DEFICIENCY                 | (736,359)    | (357,001)    |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY | \$ 6,931,784 | \$ 5,495,825 |

See notes to consolidated financial statements.

UNIVERSAL SOLAR TECHNOLOGY, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
(Unaudited)

|   | Three Months Ended<br>June 30, 2010 | Three Months Ended<br>June 30, 2009 | Six Months Ended<br>June 30, 2010 | Six Months Ended<br>June 30, 2009 |
|---|-------------------------------------|-------------------------------------|-----------------------------------|-----------------------------------|
| SALES   | \$ -                                | \$ -                                | \$ -                              | \$ 660,051                        |
| <b>COSTS AND EXPENSES:</b>  |                                     |                                     |                                   |                                   |
| Cost of sales   | -                                   | -                                   | -                                 | 589,460                           |
| Selling, general and administrative expenses                            | 189,327                             | 78,717                              | 350,815                           | 162,197                           |
| <b>TOTAL COSTS AND EXPENSES</b>   | <b>189,327</b>                      | <b>78,717</b>                       | <b>350,815</b>                    | <b>751,657</b>                    |
| <b>LOSS FROM OPERATIONS</b>   | <b>(189,327)</b>                    | <b>(78,717)</b>                     | <b>(350,815)</b>                  | <b>(91,606)</b>                   |
| Interest expense  | (17,358)                            | (11,566)                            | (102,667)                         | (19,805)                          |
| Dividend and interest income  | 490                                 | -                                   | 686                               | -                                 |
| Gain (loss) on foreign currency transactions                            | (1,419)                             | (2,165)                             | (3,460)                           | (2,419)                           |
| <b>NET LOSS</b>   | <b>(207,614)</b>                    | <b>(92,448)</b>                     | <b>(456,256)</b>                  | <b>(113,830)</b>                  |
| <b>OTHER COMPREHENSIVE INCOME (LOSS):</b>                               |                                     |                                     |                                   |                                   |
| Foreign currency translation adjustment                                 | 16,878                              | 438                                 | 32,676                            | 28,889                            |
| <b>COMPREHENSIVE LOSS</b>   | <b>\$ (190,736)</b>                 | <b>\$ (92,010)</b>                  | <b>(423,580)</b>                  | <b>\$ (84,941)</b>                |
| <b>Loss per common share -basic and diluted</b>                         | <b>\$ (0.01)</b>                    | <b>\$ (0.00)</b>                    | <b>(0.02)</b>                     | <b>\$ (0.01)</b>                  |
| <b>Weighted average number of shares outstanding -basic and diluted</b> | <b>22,599,974</b>                   | <b>22,574,974</b>                   | <b>22,599,974</b>                 | <b>22,574,974</b>                 |

See notes to consolidated financial statements.

UNIVERSAL SOLAR TECHNOLOGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

|   | Six Month Ended<br>June 30, 2010 | Six Mnth Ended<br>June 30, 2009 |
|---|----------------------------------|---------------------------------|
| <b>OPERATING ACTIVITIES:</b>  |                                  |                                 |
| Net loss  | \$ (456,256)                     | \$ (113,830)                    |
| Adjustments to reconcile net loss to net cash used in operating activities: | 0                                | 0                               |
| Imputed interest on loans from related parties                              | 44,374                           | 20,424                          |
| Increase in long term interest payable to affiliated parties                | 57,945                           |                                 |
| Stock issued for services   | 0                                |                                 |
| Depreciation of property and equipment                                      | 7,936                            | 59                              |
| Amortization of land use right and intangible assets                        | 5,637                            | 6,171                           |
| Changes in operating assets and liabilities:                                | 0                                |                                 |
| Accounts receivable   | 0                                |                                 |
| Prepaid expenses and other current assets                                   | (463,956)                        | (27,488)                        |
| Inventory   | (254,806)                        |                                 |
| Accounts payable and accrued expenses                                       | 230,735                          | (783)                           |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                                | <b>(828,391)</b>                 | <b>(115,447)</b>                |
| <b>INVESTING ACTIVITIES:</b>  |                                  |                                 |
| Deposits for future deliveries of equipment                                 | (281,398)                        | (237,492)                       |
| Acquisition of property and equipment                                       | (619,262)                        | (47,779)                        |
| Acquisition of Intangible Assets  | (5,842)                          |                                 |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                                | <b>(906,502)</b>                 | <b>(285,271)</b>                |
| <b>FINANCING ACTIVITIES:</b>  |                                  |                                 |
| Loans from related parties  | 1,524,273                        | 612,685                         |
| Sale of common stock  |                                  |                                 |
| <b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>                            | <b>1,524,273</b>                 | <b>612,685</b>                  |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                              | <b>6,849</b>                     | <b>20,148</b>                   |
| <b>INCREASE IN CASH</b>   | <b>(203,771)</b>                 | <b>232,115</b>                  |
| <b>CASH - BEGINNING OF PERIOD</b>   | <b>1,115,047</b>                 | <b>259,025</b>                  |
| <b>CASH - END OF PERIOD</b>   | <b>\$ 911,276</b>                | <b>\$ 491,140</b>               |
| <b>Supplemental disclosures of cash flow information:</b>                   |                                  |                                 |
| Interest paid   | \$ -                             | \$ -                            |
| Income taxes paid   | \$ -                             | \$ -                            |



UNIVERSAL SOLAR TECHNOLOGY, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(Unaudited)

1. INTERIM FINANCIAL STATEMENTS

The unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with instructions to Form 10-Q. In the opinion of management, the unaudited financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial position as of June 30, 2010 and the results of operations and cash flows for the periods ended June 30, 2010 and 2009. The financial data and other information disclosed in these notes to the interim financial statements related to these periods are unaudited. The results for the six months ended June 30, 2010 is not necessarily indicative of the results to be expected for any subsequent periods of the entire year ending December 31, 2010. The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the Securities and Exchange Commission's rules and regulations. These unaudited financial statements should be read in conjunction with our audited financial statements and notes thereto for the year ended December 31, 2009 as included in our report on Form 10-K.

2. BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

Universal Solar Technology, Inc. (the "Company") is a Nevada corporation in the development stage. It is engaged in the manufacture and distribution of Silicon ingots, wafers, solar cells, modules, and other PV application products. The Company was incorporated under the laws of the State of Nevada on July 24, 2007. It operates through its wholly-owned subsidiaries, including Kuong U Science & Technology (Group) Ltd. ("KUST"), a company incorporated in Macau, Peoples Republic of China ("PRC") on May 10, 2007, and Nanyang Universal Solar Technology Co., Ltd. ("NUST"), a company incorporated in Nanyang, PRC on September 8, 2008. On May 9th, 2008, the Company filed a registration statement on Form S-1 with the Securities and Exchange Commission (SEC), and raised capital of \$300,000 from a self-underwritten offering of 2,000,000 shares of our common stock.

Basis of presentation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant inter-company accounts and transactions have been eliminated. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Currency translation

The reporting currency of the Company is U.S. dollars (USD). The functional currency of KUST is Hong Kong dollars (HKD). The functional currency of NUST is Renminbi (RMB). The subsidiaries' functional currencies have been translated into USD for reporting purpose.

Income statement items were converted at the average exchange rates during the three month period. Balance sheet items were converted at the period-end exchange rates, except for equity accounts which were calculated at the historical rates. Gains and losses from foreign currency transactions were recognized on an actual basis.

RMB related transactions must take place through PRC authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into USD at the rates applied in the translation.

#### Going concern

The financial statements have been prepared on a "going concern" basis, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. At June 30, 2010, the Company had a stockholders' deficiency of \$736,359. Further, the Company has incurred net losses of \$ 1, 381,722 since inception. These factors raise substantial doubt as to the Company's ability to continue as a going concern. The Company plans to improve its financial condition by raising capital in a private placement of its securities. However, there is no assurance that the Company will be successful in accomplishing this objective. The financial statements do not include any adjustments that might be necessary should the Company be unable to continue as a going concern.

#### Uses of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of net revenue and expenses during each reporting period. Actual results could differ from those estimates.

#### Comprehensive income (loss)

Comprehensive income (loss) is defined to include all changes in equity except those resulting from investments by shareholders and distributions to shareholders. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income (loss) are required to be reported in a financial statement that is presented with the same prominence as other financial statements. Comprehensive income includes net income (loss) and the foreign currency translation adjustment, net of tax.

#### New accounting pronouncements

In August 2009, the FASB updated the accounting standards to provide additional guidance on estimating the fair value of a liability in a hypothetical transaction where the liability is transferred to a market participant. The standard is effective for the first reporting period, including interim periods, beginning after issuance. The adoption of this standard did not have a material effect on the Company's consolidated results of operations and financial condition

In June 2009, FASB established Accounting Standards Codification TM ("ASC") as the single source of authoritative accounting principles recognized by the FASB in the preparation of financial statements in conformity with the GAAP. The Codification supersedes all non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification non-authoritative. The Codification was effective for financial statements issued for interim and annual periods ending after September 15, 2009. We adopted the new guidance for the quarter ended September 30, 2009, which changed the way we reference accounting standards in our disclosures. Adoption of the Codification did not have any impact on the Company's results of operations or financial position.

In May 2009, FASB issued new guidance establishing general standards of accounting for disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued, or subsequent events. An entity should apply the requirements to interim or annual financial periods ending after June 15, 2009. Adoption of this standard did not have a material impact on the Company's results of operations or financial position.

## 3. DUE TO RELATED PARTIES-NON-CURRENT PORTION

|   | June 30,<br>2010 | December 31,<br>2009 |
|---|------------------|----------------------|
| Due to Company's chairman and chief executive officer, non-interest bearing, due on demand                      | \$ 8,836         | \$                   |
| Due to Company's president Ms. Lin Chen, non-interest bearing, due on demand                                    | 368              | 368                  |
| Due to Zhuhai Yuemao Laser Facility Engineering Co., Ltd. ("Yuemao Laser"), non-interest bearing, due on demand | 10,009           | 1,120                |
| Due to Mr. Wenshen Chen, Company's chairman and chief executive officer, due 12/1/2013, at 1% per annum         | 3,031,319        | 2,207,336            |
| Due to Zhuhai Yuemao Laser Facility Engineering Co., Ltd. ("Yuemao Laser") due 12/1/2013, at 1% per annum       | 245,385          | 236,889              |
| Due to Yuemao Technology Ltd. ("Yuemao Technology"), due 12/1/2013, at 1% per annum                             | 3,927,424        | 3,252,300            |
| Interest Payable, due 12/1/2013 with the principals, not interest bearing                                       | 73,160           | 14,860               |
| Total   | 7,296,501        | 5,712,873            |
| Current portion   | (19,213)         | (5,675,528)          |
| Non-current portion   | \$ 7,277,288     | 37,345               |

On May 5, 2010, NUST amended the previous oral loan agreement with Yuemao Technology and formed a Line of Credit Agreement. By June 30, 2010, NUST has received the total cash amount of RMB 26,670,000. According to the Line of Credit Agreement, NUST may continue to borrow from Yuemao Technology at the interest rate of 1 percent per annum, NUST promises to pay the principal and the interest balance by 12/1/2013.

On May 5, 2010, KUST amended the previous oral loan agreement with Yuemao Laser Technology and formed a Line of Credit Agreement. By June 30, 2010, KUST has received the total cash amount of HKD 1,914,979.

According to the Line of Credit Agreement, KUST may continue to borrow from Yuemao Technology at the interest rate of 1 percent per annum, KUST promises to pay the principal and the interest balance by 12/1/2013.

On May 5, 2010, KUST amended the previous oral loan agreement with Mr. Wenshen Cheng and formed a Line of Credit Agreement. By June 30, 2010, KUST has received the total cash amount of HKD 23,480,825. According to the Line of Credit Agreement, KUST may continue to borrow from Mr. Wenshen Chen at the interest rate of 1 percent per annum, KUST promises to pay the principal and the interest balance by 12/1/2013.

On May 5, 2010, the Company amended the previous oral loan agreement with Mr. Wenshen Cheng and formed a Line of Credit Agreement. By June 30, 2010, Universal Solar Technology has received the total cash amount of HKD 22,485. According to the Line of Credit Agreement, Universal Solar Technology may continue to borrow from Mr. Wenshen Chen at the interest rate of 1 percent per annum, Universal Solar Technology promises to pay the principal

and the interest balance by 12/1/2013.

As of June 30, 2010, total interest payable under the above Line of Credit Agreements was \$73,160.

For those non-interest bearing payables due to related parties, interest has been imputed at 5 percent per annum. As of June 30, 2010, total imputed interest was \$ 178,252.

Both Yuemao Laser and Yuemao Technology are PRC companies and controlled by the Company's chairman and chief executive officer.

#### 4. MAJOR CUSTOMER

The Company has two major customers in India, Kotak Urja Private Limited, and Suman Lakshmi Enterprises. The sales to Kotak Urja Private Limited accounted for approximately 92% of total revenue in 2009. Under the terms of the purchase agreements, the Company is obligated to replace nonworking modules for a period of one year from the date of deliveries. Up to the expiration date of the warranty, there is no request for replacement.

#### 5. RELATED PARTY TRANSACTIONS

The Company has no related party transaction other than described in Note 2 during the reporting period.

#### 6. INCOME TAXES

The Company has not recorded a provision for United States federal income tax for the periods presented since it incurred net losses in such periods.

The Company's Chinese subsidiaries are governed by the Income Tax Law of the People's Republic of China concerning private enterprises, which are generally subject to tax at a statutory rate of 25% on taxable income.

As of June 30, 2010, the Company had approximately \$1,381,722 of net operating loss carry forwards for income tax purposes in the United States.

Based on management's present assessment, the Company has not determined it to be more likely than not that a deferred tax asset attributable to the future utilization of the net operating loss carryforward as of June 30, 2010 will be realized. Accordingly, the Company has provided a 100% allowance against the deferred tax asset in the financial statements at June 30, 2010. The Company will continue to review this valuation allowance and make adjustments as appropriate.

#### 7. COMMITMENTS AND CONTINGENCIES

The Company signed of a sales contract for \$32,600,000 with C.T.O. spol.s.r.o. Group, part of the largest electricity producer in the Czech Republic. The contract calls for the delivery of 20MW of monocrystalline solar modules to be delivered by the end of 2010. After signing the contract, C.T.O. requested to amend the contract and delay the payment. As of today, we have not received the deposit of 15% of the total amount of the sales contract from our counter party.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the Financial Statements and Notes thereto appearing elsewhere in this Form 10-Q.

### DISCLAIMER REGARDING FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking statements, which are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Terms such as “anticipate”, “may”, “will”, “should”, “believe”, “estimate”, “expect”, “intend”, “plan”, “predict”, “project”, “target”, “will likely result”, “will continue” and similar expressions are intended to identify forward-looking statement and based upon our expectations at the time they made. The forward-looking statements are not guarantee for future performance and actual results may differ from those indicated or implied in the forward-looking statements due to a various factors including, but not limited to changes to our assumptions, risks and uncertainties involved, many of which are beyond our control. We discuss risks and uncertainties in great details under item 1A “Risk Factors” below.

The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. However, your attention is directed to any further disclosures made on related subjects in our subsequent annual and periodic reports filed with the Securities and Exchange Commission on Forms 10-K, 10-Q and 8-K.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the financial statements and accompanying notes and the other financial information appearing in Part I, Item 1 and elsewhere in this report. The Company's fiscal year end is December 31.

### OVERVIEW OF OUR BUSINESS

We are a development stage enterprise that manufactures silicon ingots, wafers, high efficiency solar photovoltaic (“PV”) modules and other PV application products in the EU, North America, Asia and Africa. The Company was incorporated under the laws of the State of Nevada on July 24, 2007. It operates through its wholly-owned subsidiaries, including Kuong U Science & Technology (Group) Ltd. (“KUST”), a company incorporated in Macau, Peoples Republic of China (“PRC”) on May 10, 2007, and Nanyang Universal Solar Technology Co., Ltd. (“NUST”), a company incorporated in Nanyang, PRC on September 8, 2008. On May 9th, 2008, the Company filed a registration statement on Form S-1 with the Securities and Exchange Commission (SEC), and raised capital of \$300,000 from a self-underwritten offering of 2,000,000 shares of our common stock.

The company's focus during 2010 has been on completing the development of its Nanyang factory. The new factory covers an area of 71337 square meters in Nanyang City, Henan province. Upon full completion, the Nanyang factory will have advanced manufacturing technologies and equipments. We expect that by the end of 2010, the Nanyang factory will have annual production capacity of up to 50MW silicon ingots, 20MW solar wafers, and 30 MW solar PV modules. Our products have passed multiple standard tests and achieved the certificates of VDE, TUV, IEC61215, IEC 61730, CE and ISO 9001:2000.

### RESULTS OF OPERATIONS

As of to date, we have completed testing of 8 ingot growers and continue to acquire more equipments to expand the production volume. We obtained operating permits for our high pressure container to be used in our silicon ingots department. During the second quarter of 2010 we have accepted delivery of water cooling system, multi-wire saw and framing machine. We have produced 100,000 pieces of wafers and each may sell at \$2-\$3 in the current market.

We have hired a total of 114 employees as of June 30, 2010 and a total of 158 employees as of the date of the filing this report. For the PV module departments, two assembling groups are under training and expect to start production in August of 2010. We expect to be in full production by September, 2010.

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Revenue Recognition

Affected by the significant price decrease for solar products, it was not cost effective for the Company to sell products manufactured by a related party as it has done in the past. As a result, there were no revenues recognized during the three months ended June 30, 2010 or the three months ended June 30, 2009. Instead, the Company has focused its efforts on completing the construction of its manufacturing facilities in order to become more vertically integrated. As a vertically integrated company, we will be able to increase the profit margin of our products and sell our products at lower prices.

Cost of Sales

The cost of sales for the three months ended June 30, 2010 and the three months ended June 30, 2009 were both zero, as we had no sales for reasons stated above.

Gross Profit

Gross profit is affected by numerous factors, including our average selling prices, foreign exchange rates, our manufacturing costs and the effective utilization of our production facilities. Because we had no sales for reasons discussed above for the three months ended June 30, 2010 and the three months ended June 30, 2009, we had no gross profits during those periods.

Selling, General and Administrative

Selling, general and administrative expense consists primarily of salaries and other personnel-related costs, professional fees, advertisement, and other selling expenses. It was \$189,327 for the three months ended June 30, 2010, compared to \$78,717 for the three months ended June 30, 2009 an increase of \$110,610 or 141%. The increase was mainly associated with the increase in personnel associated with the Nanyang factory. We expect these expenses to increase further in the near future, both in absolute dollars and as a percentage of net sales, in order to support the completion of manufacturing construction, installation of equipment, improvement of our information processes and systems, compliance and other infrastructure required for a public company.

Interest Expense

Net interest expense was \$17,358 for the three months ended June 30, 2010, compared to \$11,566 for the three months ended June 30, 2009, an increase of \$5,792 or 50%. The majority of the \$17,358 interest expense was attributable to the interest expense on the loans from related parties. The increase in interest expense is due to increased borrowing from related parties.

Net Loss

Net loss for the three months ended June 30, 2010 was \$207,614 compared to \$92,448 for the second quarter of 2009 as a result of the combination of the absence of revenue, and increase in administration and personal expenses. The number of employees has increase from 4 to 114 at the end of the second quarter of 2010 compared to the same period in 2009.

Foreign Currency Gain (Loss)

Foreign currency gain (loss) consists of gains and losses resulting from holding assets and liabilities and conducting transactions denominated in currencies other than our functional currencies. During the three months ended June 30, 2010, we recognized a foreign currency translation gain of \$16,878, compared to \$438 for the three months ended June 30, 2009 an increase of \$16,440 or 3,753%. The increase in foreign currency translation gain was mainly due to the fluctuation between US Dollar and Chinese Yuan during the reporting period.

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Revenue Recognition

Affected by the significant price decrease for solar products, it was not cost effective for the Company to sell products manufactured by a related party as it has done in the past. As a result, there were no revenues recognized during the six months ended June 30, 2010 compared to \$660,051 for the six months ended June 30, 2009, generated from our major two customers of solar PV modules manufactured by a related party. Instead, the Company has focused its efforts on completing the construction of its manufacturing facilities in order to become more vertically integrated. As a vertically integrated company, we will be able to increase the profit margin of our products and sell our products at lower prices.

Cost of Sales

The cost of sales for the six months ended June 30, 2010 was zero, as we had no sales, comparing to \$589,460 for the six months ended June 30, 2009 which constitutes a 100% decrease. The cost of sales in the amount of \$589,460 was the cost associated with the solar PV modules manufactured by a related party which was sold by KUST.

Gross Profit

Gross profit is affected by numerous factors, including our average selling prices, foreign exchange rates, our manufacturing costs and the effective utilization of our production facilities. Our gross profit for the six months ended June 30, 2010 was zero, compared to \$70,591 for the six months of 2009 because we had no sales for reasons discussed above.

Selling, General and Administrative

Selling, general and administrative expense consists primarily of salaries and other personnel-related costs, professional fees, advertisement, and other selling expenses. It was \$350,815 for the six months ended June 30, 2010, compared to \$162,197 for the same period in 2009, an increase of \$188,618 or 116%. The increase was mainly associated with the expenses related to the increase in personnel from 4 to 114 related to the new manufacturing facilities in Nanyang. We expect these expenses to increase further in the near future, both in absolute dollars and as a percentage of net sales, in order to support the completion of manufacturing construction, installation of equipment, improvement of our information processes and systems, compliance and other infrastructure required for a public company.

Interest Expense

Net interest expense was \$102,667 for the six months ended June 30, 2010, compared to \$19,805 for the six months ended June 30, 2009, an increase of \$82,862 or 418%. The majority of the interest expense was attributable to the interest expense on the loans from related parties and the increase was due to increased borrowing from related parties.

Net Loss

Net loss for the six months ended June 30, 2010 was \$456,256 compared to \$113,830 for the same period in 2009, an increase of \$342,426 or 301%. The increase was due to the increase of increase in payroll expenses as a result of a significant increase in employees as a result of the large hiring to staff our new manufacturing facilities in Nanyang. The number of employees has increase from 4 to 114 at the end of the second quarter of 2010 compared to the same

period a year ago.

#### Foreign Currency Gain (Loss)

Foreign currency gain (loss) consists of gains and losses resulting from holding assets and liabilities and conducting transactions denominated in currencies other than our functional currencies. During the six months ended June 30, 2010, we recognized a foreign currency translation gain of \$32,676, compared to \$28,889 for the three months ended June 30, 2009, an increase of \$3,787 or 13%. This increase was mainly due to the fluctuation between US Dollar and Chinese Yuan during the reporting period.

## LIQUIDITY AND CAPITAL RESOURCES

Our operation is primarily funded through paid-in capital and short term and long term loans from the related parties. As of June 30, 2010, we had \$911,276 in cash, cash equivalents and marketable securities, compared with \$1,115,047 ended December 31, 2009. We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, operating results and cash flows.

### Operating Activities

For the six months ended June 30, 2010, cash used in operating activities was \$828,391 compared with \$115,447 used during the six months ended June 30, 2009. This was primarily attributable to cash used in prepaid expenses, other current assets and inventory. Offset to the increase was an increase in imputed interest on advances from related parties and interest payable on long term loans from related parties of \$44,374 and \$57,945 respectively and net increase in accounts payable and accrued expenses of \$230,735.

### Investment Activities

For the six months ended June, 2010, cash used in investment activities was \$906,502 compared to \$285,271 for the six months ended June 30, 2009. The increase is primarily related to cash paid as deposits for future deliveries of equipment and acquisition of property and equipment as a result of a series equipment purchases for our new manufacturing facilities in Nanyang.

### Financing Activities

Financing activities provided net cash inflow of \$1,524,273 during the first six months of 2010 as compared to \$612,685 for the same period 2009. The increase was due to increased borrowing from related parties. The company may continue to borrow from the related parties to finance the future development.

### Off-Balance Sheet Arrangements

As of June 30, 2010, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any other parties. We do not have any off balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, operating results and cash flows.

The recent and unprecedented disruption in the credit markets has had a significant impact on a number of financing activities. Additional financing is desirable within the next 9 months in order to meet our current and projected cash flow deficits from business operations and future development. We will continue to seek financing from related parties and other sources.

In addition, we continues to enhance our sale and marketing efforts such as participating in international trade shows and increasing our sales staff in order to generate sales. We entered into a sales contract with C.T.O., spol. s.r.o. on June 18, 2010 to sell 20MW of monocrystalline solar modules for an aggregate sales price of \$32,600,000. Although pursuant to the agreement 15% of the aggregate sales price was due on June 28, 2010, to date we have not received any payment and there is no guaranty that we ever will.

### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not required.



Item 4T. Evaluation of Disclosure Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this Quarterly Report on Form 10-Q (the “Evaluation Date”). The purpose of this evaluation is to determine if, as of the Evaluation Date, our disclosure controls and procedures were operating effectively such that the information, required to be disclosed in our Securities and Exchange Commission (“SEC”) reports (i) was recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) was accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were operating effectively.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company’s management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the Company’s internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended, during the fiscal quarter covered by this report, and they have concluded that there was no change to the Company’s internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

CEO AND CFO CERTIFICATIONS

We have attached as exhibits to this Quarterly Report on Form 10-Q the certification of our Chief Executive Officer and Chief Financial Officer which are required in accordance with the Exchange Act. We recommend that this Item 4 be read in conjunction with those certifications for a more complete understanding of the subject matter presented.

LIMITATION ON THE EFFECTIVENESS OF CONTROLS

The inherent limitations of the control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives are being met. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Control systems can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

As of this quarter reported ended June 30, 2010, there is no pending litigation made against Universal Solar Technology, Inc. In the ordinary conduct of our business, we are subject to periodic lawsuits, investigations and claims, including, but not limited to, routine employment matters.

Item 1A. Risk Factors

There have been no material changes from risk factors as previously disclosed in our annual report on Form 10-K filed on March 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

For a description of the unregistered sales of equity securities and use of proceeds, refer to our Annual Report on Form 10-K for the year ended December 31, 2009 filed with Securities and Exchange Commission. No advertising and general solicitation was employed in offering the securities. The offerings and sales were made to a limited number of persons, all of whom were accredited investors and executive officers of our company. All of our shareholders are provide with access to our Securities and Exchange Commission filings.

Item 3. Defaults upon Senior Securities

None.

Item 4. Other Information

None.

Item 5. Exhibits

| Exhibit No. | Title of Document  |
|-------------|--|
| 31.1        | Certification of Principal Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended |
| 31.2        | Certification of Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended |
| 32.1        | Certification pursuant to Section 906 of Sarbanes Oxley Act of 2002 (Chief Executive Officer)  |
| 32.2        | Certification pursuant to Section 906 of Sarbanes Oxley Act of 2002 (Chief Financial Officer)  |

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

Universal Solar Technology, Inc.

Date: August 16, 2010

By: /s/ Wensheng Chen  
Wensheng Chen  
Chief Executive Officer

By: /s/ Lijie Zhu  
Lijie Zhu  
Chief Financial Officer  
(Principal Financial and Accounting Officer)