

CHINA VALVES TECHNOLOGY, INC
Form 10-Q
May 14, 2010

**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 March 31, 2010

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: 001-34542

CHINA VALVES TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

Nevada

*(State or other jurisdiction of
incorporation or organization)*

86-0891931

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

**No. 93 West Xinsong Road
Kaifeng City, Henan Province**

People's Republic of China

(Address of principal executive offices)

475002

(Zip Code)

(86) 378-2925211

(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.

Large accelerated filer [] Accelerated filer []
Non-accelerated filer [] (Do not check if a smaller reporting company) Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 36,642,876 shares of common stock, par value \$0.001 per share, outstanding on May 11, 2010.

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PART I FINANCIAL INFORMATION

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2010 AND DECEMBER 31, 2009

<u>ASSETS</u>	March 31, 2010	December 31, 2009
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,634,218	\$ 14,485,408
Restricted cash	988,578	1,047,389
Notes receivable	900,738	414,193
Accounts receivable, net of allowance for doubtful accounts of \$1,095,595 and \$908,338 as of March 31, 2010 and December 31, 2009, respectively	41,631,106	32,341,042
Other receivables	4,550,855	4,481,610
Inventories, net	16,791,910	9,246,801
Purchase deposits and prepaid expense	1,184,950	1,567,960
Advances on inventory purchases - related party	-	385,066
Rental prepayment - short-term	523,036	307,630
Total current assets	76,205,391	64,277,099
PLANT AND EQUIPMENT, net	36,786,936	28,468,866
OTHER ASSETS:		
Accounts receivable - retainage, long-term	1,270,025	1,523,395
Deposit for acquisition	21,308,909	13,215,650
Advances on equipment purchases	165,522	654,931
Rental prepayment - long-term	-	307,630
Long term receivable	440,100	440,100
Goodwill	20,811,767	20,811,767
Intangibles, net of accumulated amortization	18,126,526	9,639,180
Other investments, at lower of cost or market	764,515	764,515
Total other assets	62,887,364	47,357,168
Total assets	\$ 175,879,691	\$ 140,103,133

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable - trade	\$ 9,012,262	\$ 6,953,499
Accounts payable - related party	692,348	-
Short term loans	4,688,831	5,048,246
Other payables	2,318,338	2,662,930
Other payables - related parties	1,647,120	1,891,870
Notes payable	293,400	733,500
Accrued liabilities	2,135,641	2,033,626

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Customer deposits	3,999,559	3,325,906
Taxes payable	3,697,804	2,293,346
Total current liabilities	28,485,303	24,942,923

WARRANT LIABILITIES	2,467,791	1,730,837
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Total liabilities	30,953,094	26,673,760
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COMMITMENTS AND CONTINGENCIES

SHAREHOLDERS' EQUITY:

Common stock, \$0.001 par value; 300,000,000 shares authorized; 34,560,309 shares and 31,727,212 shares issued and outstanding as of March 31, 2010 and December 31, 2009, respectively	34,559	31,726
Additional paid-in-capital	95,379,330	70,534,943
Statutory reserves	6,387,948	5,534,575
Retained earnings	36,939,079	31,176,227
Accumulated other comprehensive income	6,185,681	6,151,902
Total shareholders' equity	144,926,597	113,429,373

Total liabilities and shareholders' equity	\$ 175,879,691	\$ 140,103,133
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The accompanying notes are an integral part of these statements.

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2010 AND 2009
(Unaudited)

	Three months ended March 31,	
	2010	2009
SALES	\$ 26,784,237	\$ 17,313,881
COST OF GOODS SOLD	12,924,701	8,921,812
GROSS PROFIT	13,859,536	8,392,069
OPERATING EXPENSES:		
Selling	1,434,077	1,114,937
General and administrative	3,019,113	2,561,608
Research and development	74,203	5,679
Total operating expenses	4,527,393	3,682,224
INCOME FROM OPERATIONS	9,332,143	4,709,845
OTHER EXPENSE (INCOME):		
Other expense (income), net	34,789	(15,370)
Gain from acquisition	(1,016,198)	-
Interest and finance expense, net	34,786	71,449
Change in fair value of warrant liabilities	1,354,174	400,000
Total other expense, net	407,551	456,079
INCOME BEFORE PROVISION FOR INCOME TAXES	8,924,592	4,253,766
INCOME TAX EXPENSE	2,308,367	1,286,415
NET INCOME	6,616,225	2,967,351
OTHER COMPREHENSIVE INCOME (LOSS):		
Foreign currency translation gain (loss)	33,779	(8,884)
COMPREHENSIVE INCOME	\$ 6,650,004	\$ 2,958,467
BASIC EARNINGS PER SHARE:		
Weighted average number of shares	34,258,130	28,891,179
Earnings per share	0.19	0.10
DILUTED EARNINGS PER SHARE:		
Weighted average number of shares	34,505,529	28,891,179
Earnings per share	\$ 0.19	\$ 0.10

The accompanying notes are an integral part of these statements.

CHINA VALVES TECHNOLOGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	Common Stock Number of shares	Common Stock Par Value	Additional Paid-in capital	Common Stock Subscription receivable	Retained Earnings Statutory reserves	Unrestricted	Accumulated other comprehensive income	
BALANCE, December 31, 2008	31,192,552	\$ 31,192	\$ 66,935,968	\$ (9,834,000)	\$ 2,958,659	\$ 10,399,050	\$ 6,158,977	\$ 76
Cashless exercise of warrants	201,148	201	755,811					
Release of shares in escrow related to common stock issued for real estate acquisition				9,834,000				9
Net income						2,967,351		2
Adjustment to statutory reserve					441,855	(441,855)		
Foreign currency translation adjustment							(8,884)	
BALANCE, March 31, 2009, unaudited	31,393,700	31,393	67,691,779	-	3,400,514	12,924,546	6,150,093	90
Cashless exercise of warrants	178							
Stock based compensation			47,057					
Common stock issuance for cash at \$9.00	333,334	333	2,796,107					2
Net income						20,385,742		20
Adjustment to statutory reserve					2,134,061	(2,134,061)		

Foreign currency translation adjustment								1,809	
BALANCE, December 31, 2009	31,727,212	31,726	70,534,943	-	5,534,575	31,176,227		6,151,902	113
Exercised warrants	418,984	419	4,285,888						4
Stock based compensation			20,247						
Common stock issuance for cash at \$9.00	2,414,113	2,414	20,538,252						20
Net income						6,616,225			6
Adjustment to statutory reserve					853,373	(853,373)			
Foreign currency translation adjustment								33,779	
BALANCE, March 31, 2010, unaudited	34,560,309	\$ 34,559	\$ 95,379,330	\$	- \$ 6,387,948	\$ 36,939,079	\$	6,185,681	\$ 144

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31,
(Unaudited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 6,616,225	\$ 2,967,351
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	766,284	308,066
Amortization	139,008	23,234
Bad debt provision	187,193	795,771
Gain on acquisition	(1,016,198)	-
Gain on disposal of fixed assets	-	(46,514)
Stock compensation cost	20,247	-
Change in fair value of warrant liabilities	4,967,571	-
	1,354,174	-
		34,626,874
Natural Gas/Natural Gas Liquids Pipelines - 22.3% (1)		
United States - 22.3% (1)		
Energy Transfer Equity, L.P. (2)	27,809	1,479,161
Energy Transfer Partners, L.P. (2)	107,700	5,159,907
Enterprise Products Partners L.P. (2)	127,600	7,231,092
Kinder Morgan Management, LLC (2) (5) (6)	231,748	19,195,655
ONEOK Partners, L.P. (2)	117,600	6,445,656
Regency Energy Partners, L.P. (2)	71,800	1,708,122
Williams Partners, L.P. (2)	36,287	1,803,464
		43,023,057
Natural Gas Gathering/Processing - 8.1% (1)		
United States - 8.1% (1)		
Copano Energy, L.L.C. (2)	93,200	3,593,792
DCP Midstream Partners, LP (2)	85,200	3,461,676

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MarkWest Energy Partners, L.P. (2)	56,700	3,241,539
Targa Resources Partners L.P. (2)	127,100	5,235,249
		15,532,256
Propane Distribution - 1.0% (1)		
United States - 1.0% (1)		
Inergy, L.P. (2)	97,700	1,950,092
Total Master Limited Partnerships and Related Companies (Cost \$44,933,386)		95,132,279
Short-Term Investment - 0.0% (1)		
United States Investment Company - 0.0% (1)		
Fidelity Institutional Money Market Portfolio - Class I, 0.12% (7) (Cost \$89,482)	89,482	89,482
Total Investments - 118.4% (1) (Cost \$162,239,242)		228,002,845
Interest Rate Swap Contracts - (0.5%) (1)		
\$26,000,000 notional - unrealized depreciation		(886,408)
Other Assets and Liabilities - (17.9%) (1)		(34,533,167)
Total Net Assets Applicable to Common Stockholders - 100.0% (1)		\$ 192,583,270

- Calculated as a percentage of net assets applicable to common stockholders.
- (1)
- (2) All or a portion of the security is segregated as collateral for the margin borrowing facility.
- (3) Restricted securities have been fair valued in accordance with procedures approved by the Board of Directors and have a total fair value of \$45,817,728, which represents 23.8% of net assets.
- (4) Security has characteristics that are similar to corporate bonds although it trades in a manner similar to an equity investment. The security has a quoted price in an active market and is classified as a Level 1 investment within the fair value hierarchy.
- (5) Security distributions are paid-in-kind.
- (6) A portion of the security is segregated as collateral for the unrealized depreciation of interest rate swap contracts of \$886,408.
- (7) Rate indicated is the current yield as of February 28, 2013.

Various inputs are used in determining the value of the Company's investments. These inputs are summarized in the three broad levels listed below:

Level 1 – quoted prices in active markets for identical investments

Level 2 – other significant observable inputs (including quoted prices for similar investments, market corroborated inputs, etc.)

Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

The following table provides the fair value measurements of applicable Company assets and liabilities by level within the fair value hierarchy as of February 28, 2013. These assets and liabilities are measured on a recurring basis.

Description	Fair Value at February 28, 2013	Level 1	Level 2	Level 3
Assets				
Debt Securities:				
Corporate Bonds(a)	\$ 132,781,084	\$ 5,025,180	\$ 127,755,904	\$ -
Equity Securities:				
Master Limited Partnerships and Related Companies(a)	95,132,279	95,132,279	-	-
Other:				
Short-Term Investment(b)	89,482	89,482	-	-
Total Assets	\$ 228,002,845	\$ 100,246,941	\$ 127,755,904	\$ -
Liabilities				
Interest Rate Swap Contracts	\$ 886,408	\$ -	\$ 886,408	\$ -

(a) All other industry classifications are identified in the Schedule of Investments.

(b) Short-term investment is a sweep investment for cash balances in the Company at February 28, 2013.

The Company did not hold any Level 3 securities during the period from December 1, 2012 through February 28, 2013.

Valuation Techniques

In general, and where applicable, the Company uses readily available market quotations based upon the last updated sales price from the principal market to determine fair value. This pricing methodology applies to the Company's Level 1 investments.

Some debt securities are fair valued using a market value obtained from an approved pricing service which utilizes a pricing matrix based upon yield data for securities with similar characteristics or from a direct written broker-dealer quotation from a dealer who has made a market in the security. This pricing methodology applies to the Company's Level 2 assets.

Interest rate swap contracts are valued by using industry-accepted models which discount the estimated future cash flows based on a forward rate curve and the stated terms of the interest rate swap agreement by using interest rates currently available in the market, or based on dealer quotations, if available, which applies to the Company's Level 2 liabilities.

The Company utilizes the beginning of reporting period method for determining transfers between levels. There were no transfers between levels for the period from December 1, 2012 through February 28, 2013.

Certain of the Company's investments are restricted and are valued as determined in accordance with procedures established by the Board of Directors. The table below shows the principal amount, acquisition date(s), acquisition cost, fair value and the percent of net assets which the securities comprise at February 28, 2013.

Investment Security	Principal Amount	Acquisition Date(s)	Acquisition Cost	Fair Value	Fair Value as Percent of Net Assets
DCP Midstream LLC, 9.750%, 03/15/2019	\$5,000,000	08/07/09-08/17/12	\$ 6,052,370	\$ 6,604,395	3.4%
Duquesne Light Holdings, Inc., 6.400%, 09/15/2020	3,000,000	11/30/11	3,180,330	3,647,076	1.9
Duquesne Light Holdings, Inc., 5.900%, 12/01/2021	2,000,000	11/18/11-12/05/11	2,074,420	2,368,840	1.2
Enogex LLC, 6.250%, 03/15/2020	4,000,000	02/26/10-04/22/10	4,118,593	4,523,580	2.4
Florida Gas Transmission Co., LLC, 5.450%, 07/15/2020	1,500,000	07/08/10-01/04/11	1,551,220	1,742,351	0.9
FTS International, Inc., 7.125%, 11/15/2018	1,184,000	12/22/11	1,246,160	1,225,440	0.6
IPALCO Enterprises, Inc., 7.250%, 04/01/2016	4,000,000	11/03/09-01/04/11	4,165,000	4,480,000	2.3
Midcontinent Express Pipelines, LLC, 6.700%, 09/15/2019	6,000,000	09/09/09-03/02/10	6,055,570	6,477,252	3.4
NGPL PipeCo LLC, 9.625%, 06/01/2019	4,000,000	05/23/12	4,042,500	4,640,000	2.4
Ruby Pipeline, LLC, 6.000%, 04/01/2022	1,500,000	09/17/12	1,616,250	1,652,979	0.9
Source Gas, LLC, 5.900%, 04/01/2017	5,770,000	04/21/10	5,544,521	6,235,939	3.2
Southern Star Central Gas Pipeline, Inc., 6.000%, 06/01/2016	2,000,000	08/24/09	1,970,000	2,219,876	1.2
			\$ 41,616,934	\$ 45,817,728	23.8%

As of February 28, 2013, the aggregate cost of securities for federal income tax purposes was \$155,734,925. The aggregate gross unrealized appreciation for all securities in which there was an excess of fair value over tax cost was \$72,267,920, the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over fair value was \$0 and the net unrealized appreciation was \$72,267,920.

Item 2. Controls and Procedures.

- (a) The registrant's Chief Executive Officer and its Chief Financial Officer have concluded that the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940 (the "1940 Act")) are effective as of a date within 90 days of the filing date of this report, based on the evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act and Rule 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended.
- (b) There was no change in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act) that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 3. Exhibits.

Separate certifications for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2(a) under the 1940 Act (17 CFR 270.30a-2(a)) are filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Tortoise Power and Energy Infrastructure Fund, Inc.

Date: April 23, 2013

By: /s/ Terry Matlack
Terry Matlack
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Tortoise Power and Energy Infrastructure Fund, Inc.

Date: April 23, 2013

By: /s/ Terry Matlack
Terry Matlack
Chief Executive Officer

Tortoise Power and Energy Infrastructure Fund, Inc.

Date: April 23, 2013

By: /s/ P. Bradley Adams
P. Bradley Adams
Chief Financial Officer