Universal Solar Technology, Inc.
Form 10-Q
August 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2012

.. 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: 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 519060
(Address of principal executive
offices including zip code)

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

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

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. x 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). x 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 ¨	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 x No.

The number of shares of Common Stock outstanding as of August 13, 2012 was 22,599,974 shares.

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PART I.FINANCIAL INFORMATION

Item 1.Financial Statements.

UNIVERSAL SOLAR TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 67,861	$ 44,474
Accounts receivable	268,066	331,507
Inventories	866,708	735,540
Prepaid expenses and other current assets	1,185,002	1,127,809
TOTAL CURRENT ASSETS	2,387,637	2,239,330
Land use right, net of accumulated amortization of $36,689 and $32,650, respectively	417,632	425,937
Property, plant and equipment, net of accumulated depreciation of $1,079,907 and $772,270, respectively	6,946,779	7,486,413
Construction in process	219,257	191,427
TOTAL ASSETS	$ 9,971,305	$ 10,343,107
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES		
Accounts payable	$ 399,143	$ 310,899
Accured expenses and other current liabilities	983,860	924,065
Short-term loan	-	476,652
Due to related-parties - current portion	1,018,495	352,801
TOTAL CURRENT LIABILITIES	2,401,498	2,064,417
Due to related-parties - non-current portion	11,860,151	11,776,972
TOTAL LIABILITIES	14,261,649	13,841,389
STOCKHOLDERS' DEFICIENCY		
Preferred stock, $0.0001 par value, 10,000,000 shares authorized, none issued and outstanding	-	-
Common stock, $0.0001 par value, 22,599,974 shares issued and outstanding	2,260	2,260

Additional paid-in capital	620,812	620,812
Accumulated deficit	(5,013,513)	(4,223,671)
Accumulated other comprehensive income	100,097	102,317
TOTAL STOCKHOLDERS' DEFICIENCY	(4,290,344)	(3,498,282)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	$ 9,971,305	$ 10,343,107

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

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UNIVERSAL SOLAR TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE LOSS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
SALES	$ 243,163	$ 768,035	$ 618,198	$ 1,723,046
COST OF SALES	250,089	1,477,235	777,036	2,393,180
GROSS LOSS	(6,926)	(709,200)	(158,838)	(670,134)
OPERATING EXPENSES				
General and administrative expenses	221,356	201,557	387,844	377,278
Selling expenses	4,811	6,111	7,498	18,224
TOTAL OPERATING EXPENSES	226,167	207,668	395,342	395,502
LOSS FROM OPERATIONS	(233,093)	(916,868)	(554,180)	(1,065,636)
Non-operating income	6,994	21,263	6,994	21,263
Interest expenses, net of interest income	(124,753)	(97,592)	(242,656)	(209,206)
NET LOSS	(350,852)	(993,197)	(789,842)	(1,253,579)
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustment	(1,450)	30,944	(2,220)	35,218
COMPREHENSIVE LOSS	$ (352,302)	$ (962,253)	$ (792,062)	$ (1,218,361)
Loss per common share - basic and diluted	$ (0.02)	$ (0.04)	$ (0.04)	$ (0.05)
Weighted average number of shares outstanding - basic and diluted	22,599,974	22,599,974	22,599,974	22,599,974

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

UNIVERSAL SOLAR TECHNOLOGY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2012	2011
OPERATING ACTIVITIES:		
Net loss	$ (789,842)	$ (1,253,579)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	316,658	254,181
Amortization of land use right	4,373	4,185
Inventory allowance	86,761	362,856
Changes in operating assets and liabilities:		
Accounts receivable	60,768	(177,429)
Prepaid expenses and other assets	(68,150)	(220,347)
Inventories	(225,485)	(1,204,472)
Accounts payable	91,758	(290,988)
Accrued expenses and other current liabilities	66,402	(172,589)
NET CASH USED IN OPERATING ACTIVITIES	(456,757)	(2,698,182)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Deposits for future delivery of equipment	-	(14,763)
Acquisition of property and equipment	(24,088)	(203,106)
Government subsidy on property and equipment	150,308	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	126,220	(217,869)
CASH FLOWS PROVIDED BY FINANCING ACTIVITES:		
Repayment of short-term loans	(475,446)	(1,682,514)
Proceeds from related parties loans	830,494	4,434,088
NET CASH PROVIDED BY FINANCING ACTIVITIES	355,048	2,751,574
Effect of exchange rate changes on cash	(1,124)	10,244
Increase (decrease) in cash	23,387	(154,233)
Cash - Beginning of period	44,474	392,958
Cash - End of period	$ 67,861	$ 238,725
Supplemental disclosures of cash flow information:		
Interest paid	$ 34,935	$ 102,721
Income taxes paid	$ -	$ -

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

UNIVERSAL SOLAR TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the rules and regulations of the Securities and Exchange Commission. 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, 2012 and the results of operations and cash flows for the periods ended June 30, 2012 and 2011. 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 three and six months ended June 30, 2012 are not necessarily indicative of the results to be expected for any subsequent periods or for the entire year ending December 31, 2012. The balance sheet at December 31, 2011 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, 2011 as included in our Annual Report on Form 10-K.

2. BUSINESS DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

Universal Solar Technology, Inc. (the “Company”) was incorporated in the State of Nevada on July 24, 2007. The Company operates through its wholly-owned subsidiaries, Kuong U Science & Technology (Group) Ltd. (“Kuong U”), 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. The Company manufactures and sells silicon wafers and solar photovoltaic (“PV”) modules.

<u>Basis of consolidation</u>

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 the United States dollar (USD). The functional currency of Kuong U is the Hong Kong dollar (HKD). The functional currency of NUST is the Chinese Yuan (RMB). Revenue and expense accounts of our two subsidiaries are translated into United States dollars at the average rates during the period, and balance sheet items are translated at period-end rates, except for equity accounts which are translated at historical rates. Translation adjustments arising from the use of differing exchange rates from period to period are included as a separate component of shareholders' equity. Gains and losses from foreign currency transactions are recognized in current operations.

The RMB is not freely convertible into foreign currency and all foreign exchange transactions must take place through authorized institutions. No representation is made that the RMB amounts could have been, or could be, converted into USD at the rates used in translation.

UNIVERSAL SOLAR TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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, 2012, the Company had negative working capital of $13,861 and a stockholders’ deficiency of $4,290,344 and has accumulated deficit of $5,013,513 since inception. These factors, among others, 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.

Impairment of long-lived assets

Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value.

3. PREPAID EXPENSES AND OTHER CURRENT ASSETS

As of June 30, 2012 and December 31, 2011, prepaid expenses and other current assets consist following:

	June 30, 2012	December 31, 2011
Input Value Added Tax	$ 967,817	$ 851,407
Other prepaid expenses and other current assets	217,185	276,402
	$ 1,185,002	$ 1,127,809

4. DUE TO RELATED PARTIES

Due to related parties consists of:

Related parties	Maturity date	Interest rate	June 30, 2012	December 31, 2011
Mr. Wensheng Chen, Chief Executive Officer, Chairman of Board	December 1, 2013	3.5 %	$ 3,217,550	$ 3,217,743
Ms. Ling Chen, President	Due on demand	3.5 %	1,018,495	352,801
Zhuhai Yuemao Laser Facility Engineering Co., Ltd. (“Yuemao Laser”)	December 1, 2013	3.5 %	476,856	475,691
Yuemao Science & Technology Group (“Yuemao Technology”)	December 1, 2013	3.5 %	8,165,745	8,083,538
Total			$ 12,878,646	$ 12,129,773
Due to related parties - current portion			$ 1,018,495	$ 352,801
Due to related parties - non-current portion			11,860,151	11,776,972
Total			$ 12,878,646	$ 12,129,773

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UNIVERSAL SOLAR TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Both Yuemao Laser and Yuemao Technology are private companies organized and operating under the laws of the PRC and controlled by the Company’s Chairman and Chief Executive Officer, Mr. Wensheng Chen.

On May 5, 2011, Mr. Wensheng Chen and the Company entered into an agreement pursuant to which the Company and Mr. Wensheng Chen agreed that all loans from Mr. Wensheng Chen will bear interest at the rate of 3.5% per annum beginning January 1, 2011. Accrued interest is payable at times determined by the Company based upon its cash flows.

On May 5, 2011, Ms. Ling Chen and the Company entered into an agreement pursuant to which the Company and Ms. Ling Chen agreed that all loans from Ms. Ling Chen will bear interest at the rate of 3.5% per annum beginning January 1, 2011. Accrued interest is payable at times determined by the Company based upon its cash flows.

Interest expense on loans from related parties aggregated approximately $216,974 and $142,942 for the six months ended June 30, 2012 and 2011, respectively. Interest expense on loans from related parties aggregated approximately $110,481 and $81,241 for the three months ended June 30, 2012 and 2011, respectively.

5. MAJOR CUSTOMERS

During the six months ended June 30, 2012, the Company sold all of its products to customers located in China. Two customers accounted for approximately 70% and 19% of sales for the six months ended June 2012. During six months ended June 30, 2011, three customers accounted for approximately 59.3%, 16.4% and 16.2% of sales.

During three months ended June 30, 2012, three customers accounted for approximately 48.3%, 31.9 and 10.3% of sales, respectively. During three months ended June 30, 2011, two customers accounted for approximately 63.0% and 37.0% of sales, respectively.

6. INCOME TAXES

The Company's Chinese subsidiaries are governed by Income Tax Law of the PRC concerning private-run enterprises, which are generally subject to taxes at a statutory rate of 25% on income reported in the statutory financial statements prepared in accordance with PRC GAAP after appropriate tax adjustments. Applicable income tax rate of Kuong U is 15%. Operating loss carryforwards can be utilized for five years in China and 20 years in the U.S.

As of June 30, 2012, the Company had approximately $4,500,000 and $491,000 of net operating loss carryforwards for income tax purposes in China and the United States, respectively, which will expire between 2014 to 2030.

UNIVERSAL SOLAR TECHNOLOGY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Based on management's present assessment, the Company has determined it to be more likely than not that a deferred tax asset attributable to the future utilization of the net operating loss carry-forward as of June 30, 2012 and December 31, 2012 will be realized. Accordingly, the Company has provided a 100% allowance against the deferred tax asset in the financial statements at June 30, 2012 and December 31, 2011. The Company will continue to review this valuation allowance and make adjustments as appropriate.

7. COMMITMENTS AND CONTINGENCIES

Vulnerability due to operations in PRC

The Company's operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 20 years, there is no guarantee that the PRC government's pursuit of economic reforms will be consistent or effective.

The PRC has adopted currency and capital transfer regulations. These regulations require that the Company comply with complex regulations for the movement of capital. Because most of the Company's future revenues will be in RMB, any inability to obtain the requisite approvals, or any future restrictions on currency exchanges, will limit the Company's ability to fund its business activities outside China or to pay dividends to its shareholders.

The Company's assets will be predominantly located inside China. Under the laws governing foreign invested enterprises in China, dividend distribution and liquidation are allowed, but subject to special procedures under the relevant laws and rules. Any dividend payment will be subject to the decision of the board of directors and subject to foreign exchange rules governing such repatriation. Any liquidation is subject to both the relevant government agency's approval and supervision, as well as the foreign exchange control.

In addition, the results of business and prospects are subject, to a significant extent, to the economic, political and legal developments in China.

While China's economy has experienced significant growth in the past twenty years, growth has been irregular, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall economy of China, but may also have a negative effect on the Company. The Company's sales and financial condition may be adversely affected by the government control over capital investments or changes in tax regulations.

Foreign companies conducting operations in the PRC face significant political, economic and legal risks. The Communist regime in the PRC includes a stifling bureaucracy which may hinder Western investment. Any new government regulations or utility policies pertaining to the Company's PV products may result in significant additional expenses to the Company, Company distributors and end users and, as a result, could cause a significant reduction in demand for the Company's PV products.

8. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date of these financial statements were issued and determined that there were no subsequent events to recognize or disclose in these financial statements.

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

The following discussion and analysis should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report on Form 10-Q and with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 4, 2012.

FORWARD-LOOKING STATEMENTS:

This Quarterly Report on Form 10-Q for the three months ended June 30, 2012 contains "forward-looking statements" within the meaning of Section 21E of the Securities and Exchange Act of 1934, as amended, including statements that include the words "believes," "expects," "anticipates," or similar expressions. These forward-looking statements include, among others, statements concerning our expectations regarding our working capital requirements, financing requirements, business, growth prospects, competition and results of operations, and other statements of expectations, beliefs, future plans and strategies, anticipated events or trends, and similar expressions concerning matters that are not historical facts. The forward-looking statements in this Quarterly Report on Form 10-Q for the three months ended June 30, 2012 involve known and unknown risks, uncertainties and other factors that could cause our actual results, performance or achievements to differ materially from those expressed in or implied by the forward-looking statements contained herein.

OVERVIEW OF OUR BUSINESS

We primarily manufacture, market and sell silicon wafers to manufacturers of solar cells. In addition, we manufacture PV modules with solar cells purchased from third parties.

<u>Product Line 1 - Silicon Wafers</u>

We produce silicon wafers by extracting purified mono-crystalline silicon from virgin poly-silicon feedstock utilizing mono-crystalline silicon ingot growers. Then we cut the purified mono-crystalline silicon ingots into silicon wafers with multi-wire saws. Silicon wafers are one of the most important components in solar cells.

As of June 30, 2012, we have eleven mono-crystalline silicon ingot growers. Maximum production capacity of each mono-crystalline silicon ingot grower is approximately one ton of mono-crystalline silicon ingots per month. Our current mono-crystalline silicon ingot production capacity is approximately 132 tons per annum.

We are also equipped with five multi-wire saws, each of which can produce approximately 70 silicon wafers per kilogram of mono-crystalline silicon ingot. Based on an estimated 2.8 watts (W) per silicon wafer, our current silicon wafer production capacity is approximately 20MW per annum.

During the six months ended June 30, 2012, the capacity utilization rate of our silicon wafer production machines fluctuated between 20% and 30%.

Product Line 2 – PV Modules

We have two semi-automatic production lines that manufacture PV modules. Our existing production capacity is approximately 20MW of PV modules per annum. During 2012, we produced various types of PV module samples; however we did not produce PV module products in commercial quantities. Currently, we purchase solar cells from third parties to manufacture PV modules. During the six months ended June 30, 2012, the Company did not produce any PV modules.

Overview of Properties, Plant and Equipment

We have acquired land-use rights to 71,346 square meters for industrial usage in Henan Province, PRC. The land use rights expire on July 23, 2060. We began the construction of our manufacturing facilities on this site in 2008. As of June 30, 2012, we have completed the construction of five workshops. Two of the five workshops are in operation with each comprises of 2,016 square meters.

As of June 30, 2012, the net book value of our property, plant and equipment was $6,946,779.

Critical Accounting Policies

During the six months ended June 30, 2012, there were no changes to our critical accounting policies and the use of estimates. For further information, please refer to “Critical Accounting Policies” included in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2011.

Operation

In July 2010, we began manufacturing silicon wafers. In September 2010, we began to ship our silicon wafers to customers primarily located in China.

We are also expanding the production capacity of our existing product lines through the purchase of additional equipment and recruitment of personnel. We also plan to produce solar cells by ourselves and provide advanced applications of solar energy to complete the value chain of this industry.

RESULTS OF OPERATIONS

Comparison of Three Months Ended June 30, 2012 and 2011:

Revenues. In the current period, revenue was $243,163, compared to $768,035 for the prior period, a decrease of $524,872 or 68.3%. The decrease was due to a decrease of our silicon wafers sales. Our revenues were generated from the sales of silicon wafers for both periods. During the second quarter of 2012, the selling price of our silicon wafers was unexpectedly low due to fierce competition. As a result, the company decided to reduce the sales amount of silicon wafers, which resulted in a decline in our revenue.

Cost of Sales. Cost of sales was $250,089 compared to $1,477,235 for the prior period, a $1,227,146 or 83.1% decrease. The decrease was primarily due to the decreased sales of silicon wafers.

Gross Loss. In the current period, gross loss was $6,926; compared to gross loss of $709,200 for the same period in previous year, gross loss margin increased to negative 2.85% in the current period from negative 92.22% for the same period in previous year. During the three months ended June 30, 2011, the Company sold products below costs and took inventory markdown of approximately $363,000 because of difficult market condition.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and other personnel-related costs, professional fees and other costs. General and administrative expenses remained at same level as the prior period. General and administrative expenses incurred during the three months ended June 30, 2012 was $221,356 representing $19,799 or 9.8% increase compared with $201,557 for the same period of 2011.

Selling Expenses. Selling expenses include exhibition and other selling expenses. Selling expenses for the three months ended June 30, 2012 and 2011 were $4,811 and $6,111, respectively, representing a decrease of $1,300 or 21.3%. The decrease was primarily due to the company's cut in certain exhibition and other selling efforts because of its tight cash flow situation during the second quarter of 2012.

Non-operating Income. During three months ended June 30, 2012, non-operating income was $6,994. During the corresponding period of 2011, non-operating income was $21,263.

Interest Expenses. Interest expenses, net of interest income, increased by $27,161 or 27.8% from $97,592 in the prior period to $124,753 in the current period. The increase was mainly due to an increased amount of loans.

Net Loss. In the current period, net loss decreased by $642,345 or 64.7% to $350,852 from $993,197 for the prior period. The decrease was mainly due to the reasons discussed above.

Comparison of Six Months Ended June 30, 2012 and 2011:

Revenues. In the current period, revenue was $618,198, compared to $1,723,046 for the prior period, a decrease of $1,104,848 or 64.1%. The decrease was due to a decrease of our silicon wafers sales. Our revenues were generated from the sales of silicon wafers for both periods. During the first half of 2012, the selling price of our silicon wafers was unexpectedly low due to fierce competition. As a result, the company decided to reduce the sales amount of silicon wafers, which resulted in a decline in our revenue.

Cost of Sales. Cost of sales was $777,036 for six months ended June 30, 2012; compared to $2,393,180 for the same period prior year, a $1,616,144 or 67.5% decrease. The decrease was primarily due to the decreased sales of silicon wafers.

Gross Loss. In the first half of 2012, gross loss was $158,838; compared to gross loss of $670,134 for the same period in previous year. Gross loss margin increased to negative 25.69% in the current period from negative 38.89% for the same period in previous year. The Company sold products below costs and took inventory markdown of $86,761 and $362,856 for the six month ended June 30, 2012 and 2011, respectively.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and other personnel-related costs, professional fees and other costs. General and administrative expenses remained at same level as the prior period. General and administrative expenses incurred during the six months ended June 30, 2012 was $387,844, representing $10,566 or 2.8% increase compared with $377,278 for the same period of 2011.

Selling Expenses. Selling expenses include exhibition and other selling expenses. Selling expenses for the six months ended June 30, 2012 and 2011 were $7,498 and $18,224, respectively, representing a decrease of $10,726 or 58.9%. The decrease was primarily due to the company's cut in certain exhibition and other selling efforts because of its tight cash flow situation during the first half of 2012.

Non-operating Income. During six months ended June 30, 2012, non-operating income was $6,994. During the corresponding period of 2011, non-operating income was $21,263.

Interest Expenses. Interest expenses, net of interest income, increased by $33,450 or 16.0% from $209,206 in the prior period to $242,656 in the current period. The increase was mainly due to an increased amount of loans.

Net Loss. In the current period, net loss decreased by $463,737 or 37.0% to $789,842 from $1,253,579 for the prior period. The increase was mainly due to the reasons discussed above.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2012, we had total current assets of $2,387,637 and total current liabilities of $2,401,498, resulting in a negative working capital of $13,861. Cash and cash equivalents were $44,474 at the beginning of the period and increased to $67,861 at the end of the period ended June 30, 2012.

During the first half of 2012, cash used in operations was $456,757, a decrease of 83.1% from $2,698,182 for the same period of 2011. The decrease was mainly due to the increase in accounts payable and the decrease in raw materials purchased in the period. During current period, net cash inflow resulting from increased accounts payable was $91,758, in contrast, the Company generated net cash outflow of $290,988 resulting from decreased accounts payable during the same period previous year. Net cash outflow used in inventory was 225,485 in six months ended June 30, 2011, decreased $978,987 comparing with $1,204,472 cash outflow used in the same period last year.

During six months ended June 30, 2012, our investing activities provided net cash inflow of $126,220, mainly due to government subsidy on property and equipment of $150,308 granted to the Company during first half of 2012. There was no subsidy of such received during the same period of 2011. During six months ended June 30, 2011, we spent $203,106 in acquisition of property and equipment. We spent $24,088 acquiring property and equipment, representing $179,018 or 88.1% decrease in amount of cash used in this regard.

Net cash provided by financing activities in the first half of 2012 was $355,048, a 87.1% decrease from $2,751,574 for the same period of 2011. This decrease was mainly due to a decrease in advances received from related parties. The Company received loans from related parties in the amount of $830,494 in the current period, compared to $4,434,088 in the same period prior year. The Company did not receive any loans from any other unrelated parties in the current period, but it repaid $475,446 and 1,682,514 loans from a local financial institution in the six months ended June 30, 2012 and 2011, respectively.

The Company’s difficult financial position, continuous losses and low share price and inactive stock trading volume have made it difficult for the Company to raise additional capital.

Related party loans

The following table presents amounts of related party loans:

Related parties	Maturity date	Interest rate	June 30, 2012	December 31, 2011
Mr. Wensheng Chen, Chief Executive Officer, Chairman of Board	December 1, 2013	3.5 %	$3,217,550	$ 3,217,743
Ms. Ling Chen, President	Due on demand	3.5 %	1,018,495	352,801
Zhuhai Yuemao Laser Facility Engineering Co., Ltd. (“Yuemao Laser”)	December 1, 2013	3.5 %	476,856	475,691
Yuemao Science & Technology Group (“Yuemao Technology”)	December 1, 2013	3.5 %	8,165,745	8,083,538
Total			$ **12,878,646**	$ 12,129,773

Due to related parties - current portion	$1,018,495	$ 352,801
Due to related parties - non-current portion	11,860,151	11,776,972
Total	$12,878,646	$ 12,129,773

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1. Both Yuemao Laser and Yuemao Technology are PRC companies and controlled by the Company's chairman and Chief Executive Officer, Mr. Wensheng Chen.

Mr. Wensheng Chen, Chairman and Chief Executive Officer of the Company

Non-Trade Transactions

All loans the Company borrowed from Mr. Chen will bear interest at the interest rate of 3.5% per annum starting from January 1, 2011. The Company can make repayment of the accrued interest when its cash flow circumstance allows. During the six months ended June 30, 2012, the Company accrued an interest of $57,577 on the loans from Mr. Chen.

Ms. Ling Chen, President of the Company

Non-Trade Transactions

As of June 30, 2012, the Company borrowed approximately $1,018,495 from Ms. Ling Chen. On May 5, 2011, Ms. Ling Chen and the Company entered into an amendment to the loans. The amendment sets forth that all loans from Ms. Ling Chen will bear an interest at the rate of 3.5% per annum starting from January 1, 2011. The Company can make repayment of accrued interest when its cash flow circumstance allows. Loans borrowed from Ms. Ling Chen are payable on demand. During the six months ended June 30, 2012, the Company accrued an interest of $10,124 on the loans from Ms. Ling Chen.

Yuemao Science & Technology Group ("Yuemao Technology")

Yuemao Technology is a private company established under the laws of the PRC, which is controlled by our Chairman and Chief Executive Officer, Mr. Wensheng Chen.

Non-Trade Transaction

On May 5, 2011, Yuemao Technology and the Company entered into an amendment to the loan. all loans from Yuemao Technology will bear an interest at the rate of 3.5% per annum starting from January 1, 2011. The Company can make repayment of accrued interest when its cash flow circumstance allows. During the six months ended June 30, 2012, the Company accrued an interest of approximately $140,943 on the loans from Yuemao Technology.

Zhuhai Yuemao Laser Facility Engineering Co., Ltd. ("Yuemao Laser")

Yuemao Laser is a private company established under the laws of the PRC, which is controlled by our Chairman and Chief Executive Officer, Mr. Wensheng Chen.

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Non-Trade Transactions

On May 5, 2011, Yuemao Laser and the Company entered into an amendment to the loans. The amendment sets forth that all loans the Company borrowed from Yuemao Laser will bear an interest at the rate of 3.5% per annum starting from January 1, 2011. The Company can make repayment of accrued interest when its cash flow circumstance allows. During the six months ended June 30, 2012, the Company accrued an interest of approximately $8,329 on loans from Yuemao Laser.

Future Cash Requirements

During 2012, the Company plans to raise approximately $18 million to either complete construction of a solar cell production facility or to acquire an existing production facility. As a result, the Company expects to require significantly greater capital resources compared to the previous fiscal year.

The Company’s cash requirements can be divided into two categories.

(1) Capital demand in daily operations. This includes costs associated with being a public company, including legal fees, audit/review fees and other professional fees; and costs incurred by the Company’s operating subsidiary, including wages, utilities and other operating costs. The Company expects its cash requirements under this category to be approximately $120,000 per month.

(2) Capital demand for the construction of its solar cell production facility or to acquire an existing solar cell production facility.

As of June 30, 2012, the Company does not have sufficient capital to meet its planned expansion. Due to the negative profit margins during the six months ended June 30, 2012, the Company does not expect to achieve positive cash flow in the short-term. In addition, given the Company’s short operating history, it is difficult to predict when the Company would begin to generate sufficient cash to support its operations. However, in the foreseeable future, related-parties intend to continue to provide financial resources to meet the Company’s daily operating cash needs, including the Company’s CEO, Mr. Wensheng Chen, Yuemao Technology, and Yuemao Laser. The Company plans to raise funds from domestic and foreign banks and/or financial institutions to increase working capital in order to meet its capital demand described in category (2) above.

Going forward, the Company anticipates that it will require an additional $18 million to build new solar cell manufacturing facilities.

Without additional funding, the Company will not be able to pursue its business model. If adequate funds are not available or are not available on acceptable terms when required, we would be required to significantly curtail our operations and would not be able to fund the development of the business envisioned by our business model. These circumstances could have a material adverse effect on our business, which could affect our ability to continue to operate as a going concern.

The recent and unprecedented disruption in the credit markets has had a significant impact on a number of financial activities. Additional financing is desirable within the next nine months in order to meet our current and projected cash flow deficits from business operations and future development.

Off-Balance Sheet Arrangements

As of June 30, 2012, 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. 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 ineffective.

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 to 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, 2012, 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 April 4, 2012.

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

None.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

Exhibit No.	Description
10.7	Letter of Confirmation of Interest of Related Party Loans, dated May 5, 2011 between Universal Solar, Wensheng Chen, Zhuhai Yuemao Laser Facility Engineering Co., Ltd. and Yuemao Science & Technology Group
10.8	Letter of Confirmation of Interest of Related Party Loans, dated May 5, 2011 between Universal Solar and Ling Chen
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

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

Universal Solar Technology, Inc.

By: /s/Wensheng Chen
Chief Executive Officer and Chairman of the Board of Directors
(Principal Executive Officer)
August 13, 2012

By: /s/ Weilei Lv
Chief Financial Officer
(Principal Financial and Accounting Officer)
August 13, 2012