

Kandi Technologies Corp  
Form 10-Q  
November 14, 2012

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2012

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 001-52186

**Kandi Technologies, Corp.**

(Exact name of registrant as specified in charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

90-0363723  
(I.R.S. Employer Identification No.)

**Jinhua City Industrial Zone  
Jinhua, Zhejiang Province  
People's Republic of China  
Post Code 321016**  
(Address of principal executive offices)

\_\_\_\_\_  
**(86 - 579) 82239856**  
(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

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 7, 2012 the registrant had issued and outstanding 29,941,134 shares of common stock, par value \$.001 per share.

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**PART I-- FINANCIAL INFORMATION****Item 1. Financial Statements. (Unaudited)**

**KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

<u>ASSETS</u>	<b>September 30, 2012 (Unaudited)</b>	<b>December 31, 2011</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,546,006	\$ 2,294,352
Restricted cash	19,895,444	6,634,989
Accounts receivable	26,921,141	12,932,776
Inventories (net of reserve for slow moving inventory of \$0 and \$72,487 as of September 30, 2012 and December 31, 2011 respectively)	14,385,086	6,674,467
Notes receivable	15,980,324	37,879,243
Other receivables	1,056,257	2,438,917
Prepayments and prepaid expenses	92,349	185,037
Due from employees	57,624	79,857
Advances to suppliers	4,105,847	852,638
Total Current Assets	84,040,078	69,972,276
<b>LONG-TERM ASSETS</b>		
Plant and equipment, net	18,124,202	20,981,893
Land use rights, net	14,383,669	10,992,769
Intangible assets	723,003	-
Construction in progress	12,214,227	10,007,601
Deferred taxes	35,025	89,998
Investment in associated companies	184,701	229,213
Goodwill	437,525	-
Total Long-Term Assets	46,102,352	42,301,474
<b>TOTAL ASSETS</b>	<b>\$ 130,142,430</b>	<b>\$ 112,273,750</b>

See accompanying notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

**LIABILITIES AND STOCKHOLDERS EQUITY**

	<b>September 30, 2012 (Unaudited)</b>	<b>December 31, 2011</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 10,968,071	\$ 5,061,069
Other payables and accrued expenses	1,182,349	3,137,983
Short-term bank loans	34,970,003	36,372,492
Customer deposits	131,557	1,025,357
Notes payable, net of discount of \$0 and \$71 as of September 30, 2012 and December 31, 2011 respectively	9,630,565	5,847,552
Income tax payable	181,766	153,730
Due to employees	160,547	9,455
Due to related party	841,251	841,251
Deferred taxes	70,522	56,362
Financial derivative - liability	-	213
<b>Total Current Liabilities</b>	<b>58,136,631</b>	<b>52,505,464</b>
<b>LONG-TERM LIABILITIES</b>		
Financial derivatives - liability	2,621,557	3,919,411
<b>Total Long-Term Liabilities</b>	<b>2,621,557</b>	<b>3,919,411</b>
<b>TOTAL LIABILITIES</b>	<b>60,758,188</b>	<b>56,424,875</b>
<b>STOCKHOLDERS EQUITY</b>		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 29,941,134 and 27,445,600 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	29,941	27,446
Additional paid-in capital	38,614,210	31,533,378
Retained earnings (the restricted portion is \$1,940,832 at September 30, 2012 and December 31, 2011)	23,093,029	19,210,330
Accumulated other comprehensive income	7,647,062	5,077,721
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>69,384,242</b>	<b>55,848,875</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 130,142,430</b>	<b>\$ 112,273,750</b>

See accompanying notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND**  
**COMPREHENSIVE INCOME (LOSS)**  
**(UNAUDITED)**

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
<b>REVENUES, NET</b>	\$ 12,765,694	\$ 10,310,558	\$ 38,182,211	\$ 28,789,766
<b>COST OF GOODS SOLD</b>	(9,541,687)	(7,984,828)	(29,829,097)	(22,060,888)
<b>GROSS PROFIT</b>	3,224,007	2,325,730	8,353,114	6,728,878
Research and development	(630,083)	(608,463)	(2,006,269)	(1,695,003)
Selling and marketing	(158,714)	(85,239)	(331,750)	(234,854)
General and administrative	(940,930)	(1,067,021)	(2,520,600)	(2,568,417)
<b>INCOME FROM CONTINUING OPERATIONS</b>	1,494,280	565,007	3,494,495	2,230,604
Interest income (expense), net	(76,866)	117,353	(133,806)	95,549
Change in fair value of financial instruments	(882,731)	(271,780)	1,078,795	7,480,992
Government grants	20,634	9,235	45,942	289,962
Investment (loss) income	(18,259)	(12,905)	(45,670)	(20,181)
Other income, net	239,203	95,067	285,805	262,299
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	776,261	501,977	4,725,561	10,339,225
<b>INCOME TAX EXPENSE</b>	(181,743)	(117,119)	(842,863)	(394,624)
<b>NET INCOME</b>	594,518	384,858	3,882,698	9,944,601
<b>OTHER COMPREHENSIVE INCOME</b>				
Foreign currency translation	(260,114)	377,991	2,569,341	1,524,411

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<b>COMPREHENSIVE INCOME (LOSS)</b>	\$	334,404	\$	762,849	\$	6,452,039	\$	11,469,012
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<b>WEIGHTED AVERAGE SHARES OUTSTANDING BASIC</b>		29,909,130		27,445,600		29,068,208		27,436,434
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<b>WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED</b>		31,464,257		28,617,870		30,413,267		28,740,204
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<b>NET INCOME PER SHARE, BASIC</b>	\$	0.02	\$	0.01	\$	0.13	\$	0.36
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<b>NET INCOME PER SHARE, DILUTED</b>	\$	0.02	\$	0.01	\$	0.13	\$	0.35
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See accompanying notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	<b>Nine Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 3,882,698	\$ 9,944,601
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	3,694,917	3,501,765
Deferred taxes	72,004	236,939
Option and warrant expense	19,053	195,474
Change of derivative instrument's fair value	(1,297,854)	(7,480,992)
Loss in investment in associated company	45,670	29,786
<b>Changes in operating assets and liabilities:</b>		
<b>(Increase) Decrease In:</b>		
Accounts receivable	(13,939,987)	8,118,796
Inventories	(7,686,157)	(2,554,537)
Other receivables and prepaid expenses	1,395,899	(880,750)
Due from employees	173,844	10,376
Prepayments and prepaid expenses	(3,158,733)	(3,290,026)
Marketable equity securities (trading)	-	305,564
<b>Increase (Decrease) In:</b>		
Accounts payable	5,888,514	(1,431,210)
Other payables and accrued liabilities	(1,957,184)	(156,970)
Customer deposits	(899,693)	(24,783)
Income tax payable	27,318	(14,090)
Net cash (used in) provided by operating activities	\$ (13,739,691)	\$ 6,509,943
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash Acquired in Acquisition	112,551	-
Purchases of plant and equipment	(472,696)	(240,954)
Purchase of construction in progress	(2,160,338)	(6,019,101)
Issuance of notes receivable	(1,010,596)	(2,751,302)
Repayments of notes receivable	23,115,794	7,810,463
Net cash provided by (used in) investing activities	\$ 19,584,715	\$ (1,200,894)

See accompanying notes to condensed consolidated financial statements



**KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	<b>Nine Months Ended September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Restricted cash	\$ (13,241,885)	\$ (8,255,977)
Proceeds from short-term bank loans	31,023,311	25,607,093
Repayments of short-term bank loans	(32,603,714)	(22,748,197)
Proceeds from notes payable	18,316,871	33,309,509
Repayments of notes payable	(14,558,408)	(39,023,610)
Option exercise & other financing	116,903	65,544
Common Stock Issued, net of Cost of Capital	3,741,790	-
Warrant exercise	219,059	-
Net cash provided by financing activities	(6,986,073)	(11,045,638)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(1,141,049)</b>	<b>(5,736,589)</b>
Effect of exchange rate changes on cash	392,703	(136,100)
Cash and cash equivalents at beginning of period	2,294,352	7,754,166
<b><u>CASH AND CASH EQUIVALENTS AT END OF PERIOD</u></b>	<b>\$ 1,546,006</b>	<b>\$ 1,881,477</b>
<b>SUPPLEMENTARY CASH FLOW INFORMATION</b>		
Income taxes paid	\$ 688,668	\$ 408,714
Interest paid	\$ 2,062,306	\$ 1,776,835
Issuance of Common Stock for Acquisition	\$ 8,616,416	-

See accompanying notes to condensed consolidated financial statements

**KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 (UNAUDITED)**

**NOTE 1 - ORGANIZATION AND PRINCIPAL ACTIVITIES**

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

On June 29, 2007, the Company executed an exchange agreement to acquire 100% of Continental Development Limited, a Hong Kong corporation and its wholly owned subsidiary Zhejiang Kandi Vehicles Co., Ltd. ( Kandi Vehicles ).

In the first fiscal quarter of 2011, Jinhua Kandi New Energy Vehicles Co., Ltd. ( Kandi New Energy ) was incorporated by Kandi Vehicles and Mr. Xiaoming Hu, the Chairman and CEO of the Company.

On April 25, The Company completed the acquisition of KO NGA Investment Limited and its subsidiaries of K S Asia Limited Group Limited, Yongkang K S Electric Limited and Yongkang Scrou Electric Co. with consideration of 2,354,212 shares of the Company s common stock. Yongkang Scrou Electric Co. is an operation vehicle of manufacturing various auto generators.

In connection with an internal reorganization, for the purposes of reducing expenses, Kandi Vehicles and Yongkang KS Electric Co., Ltd ( Yongkang KS Electric ), each a wholly-owned subsidiary of the Company, entered into a Share Transfer Agreement, dated June 27, 2012. Pursuant to the terms and conditions of this agreement, Yongkang KS Electric sold, transferred and assigned its entire ownership interest in Yongkang Scrou Electric Co. ( Yongkang Scrou ) to Kandi Vehicles for a transfer price of RMB40,000,000. As a result of this transaction, Yongkang Scrou became a wholly-owned subsidiary of Kandi Vehicles.

In connection with, and in furtherance of, the internal reorganization noted above, the Company and three of its subsidiaries, Kandi Vehicles, Yongkang KS Electric and Yongkang Scrou entered into an Offset Agreement of credits and debts, dated June 29, 2012. Pursuant to the terms and conditions of this agreement, the parties agreed to offset the payables and receivables of RMB40,000,000 involving share/ownership transfer described above. For clarification, Kandi Vehicles is not required to remit payment of the RMB40,000,000 transfer price to Yongkang KS Electric.

On June 29, 2012, the Company entered into a Share Transfer Agreement with a non-affiliated third-party, Mr. Chen Huabin. Pursuant to the terms and conditions of this agreement, the Company sold, transferred and assigned all of its interest in and to certain shell subsidiaries, KO NGA Investment Limited and its subsidiaries, to Mr. Chen Huabin for \$1.00. This transaction did not have a material impact on the Company s operating results or financial position.

The Company s organization chart as of this reporting date is as follows:



**KANDI TECHNOLOGIES, CORP.**  
**AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2012 (UNAUDITED)**

Kandi Vehicles has a 50% ownership interest and controls the Board of Directors in Kandi New Energy. Under Share Escrow and Trust Agreement, Loan Agreement, Contractor Agreement, between Kandi Vehicles and the other equity owner, Kandi Vehicles is entitled to 100% of the economic benefits, voting rights and residual interests (100% profits and loss absorption rate) in Kandi New Energy.

The primary operations of the Company are designing, developing, manufacturing, and commercializing of all-terrain vehicles, go-karts, and specialized automobile related products for the PRC and global markets.

**NOTE 2 LIQUIDITY**

As of September 30, 2012, the Company's working capital surplus was \$ 25,903,447.

As of September 30, 2012, the Company had credit lines from commercial banks of \$ 41,364,067, of which \$ 29,681,086 was used as of September 30, 2012.

The Company believes that its cash flows generated internally may not be sufficient to support growth of future operations and repay short term bank loans for the next twelve months if needed. However, the Company believes its access to existing financing sources and established relationships with PRC banks will enable it to meet its obligations and fund its ongoing operations.

The Company has historically financed itself through short-term commercial bank loans from PRC banks. The terms of these loans are typically for one year, and upon the payment of all outstanding principal and interest on such loans, the banks have typically rolled over these loans for additional one-year terms, with adjustments made to the interest rate to reflect prevailing market rates. The Company believes this situation has not changed and short-term bank loans will be available on normal trade terms if needed.

**NOTE 3 - BASIS OF PRESENTATION**

The Company maintains its general ledger and journals with the accrual method accounting for financial reporting purposes. The financial statements and notes are representations of management. Accounting policies adopted by the Company conform to generally accepted accounting principles in the United States of America and have been consistently applied in the presentation of financial statements.

The financial information included herein for the nine months period ended September 30, 2012 and 2011 is unaudited; however, such information reflects all adjustments, consisting of normal recurring adjustments, that are, in the opinion of management, necessary for a fair presentation of the Company's condensed consolidated financial statements for these interim periods.

The results of operations for the nine months period ended September 30, 2012 are not necessarily indicative of the results expected for the entire fiscal year ending December 31, 2012.

**KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 (UNAUDITED)**

**NOTE 4 PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements reflect the accounts of the Company and its ownership interest in following subsidiaries:

- (i) Continental Development, Ltd. ( Continental ) (a wholly-owned subsidiary of the Company)
- (ii) Zhejiang Kandi Vehicles Co., Ltd. ( Kandi Vehicles ) (a wholly-owned subsidiary of Continental)
- (iii) Jinhua Three Parties New Energy Vehicles Service Co., Ltd. ( Jinhua Service ) (a 30% owned subsidiary of Kandi Vehicles)
- (iv) Jinhua Kandi New Energy Vehicles Co., Ltd. ( Kandi New Energy ) (a 50% owned subsidiary of Kandi Vehicles with 100% profits and loss absorption due to contractual agreement)
- (v) Yongkang Scrou Electric. Co., Ltd.(a wholly-owned subsidiary of Kandi Vehicles)

Inter-company accounts and transactions have been eliminated in a consolidation.

**NOTE 5 USE OF ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States 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 consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period. Management makes these estimates using the best information available at the time the estimates are made; however actual results when ultimately realized could differ from those estimates.

**NOTE 6 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Economic and Political Risks**

The Company's operations are conducted in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, and by the general state of the PRC economy.

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

**KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 (UNAUDITED)**

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(b) Fair Value of Financial Instruments**

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

These tiers include:

- Level 1 defined as observable inputs such as quoted prices in active markets;
- Level 2 defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and
- Level 3 defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The assets measured at fair value on a recurring basis subject to the disclosure requirements of ASC 820 as of September 30, 2012 are as follows:

Fair Value Measurements at Reporting Date Using Quoted Prices in

	Carrying value as of September 30, 2012	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 1,546,006	\$ 1,546,006	-	-
Restricted cash	19,895,444	19,895,444	-	-
Warrants	2,621,557	-	2,621,557	-

Cash and cash equivalents consist primarily of highly rated money market funds at a variety of well-known institutions with original maturities of three months or less. Restricted cash represents time deposits on account, some of which is used to secure short-term bank loans and notes payable. The original cost of these assets approximates fair value due to their short term maturity.

Warrants which are accounted as liabilities, are treated as derivative instruments, which will be measured at each reporting date for their fair value using Level 2 inputs. Also see Note 6 section (s).

The Company's non-financial assets are measured on a recurring basis. These non-financial assets are measured for impairment annually on the Company's measurement date at the reporting unit level using Level 3 inputs. For most assets, ASC 820 requires that the impact of changes resulting from its application be applied prospectively in the year in which the statement is initially applied.

The Company's non-financial assets measured on a non-recurring basis include the Company's property, plant and equipment and finite-use intangible assets which are measured for recoverability when indicators for impairment are present. ASC 820 requires companies to disclose assets and liabilities measured on a non-recurring basis in the period

in which the remeasurement at fair value is performed. The Company has reviewed its long-lived assets as of September 30, 2012 and determined that there are no significant assets to be tested for recoverability under ASC 360 and as such, no fair value measurements related to non-financial assets have been made during the nine months ended September 30, 2012.

**KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 (UNAUDITED)**

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(c) Cash and Cash Equivalents**

The Company considers highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

Restricted cash on September 30, 2012 and December 31, 2011 represent time deposits on account, some of which are used to secure short-term bank loans and notes payable. As of September 30, 2012, our restricted cash was as set forth on the table below:

Purpose	Amount
Used to secure short-term bank loans (also see Note 14)	\$ 2,368,172
Used to secure note payable (also see Note 15)	8,051,784
Pure time deposits	9,475,488
Total	19,895,444

**(d) Inventories**

Inventories are stated at the lower of cost or net realizable value (market value). The cost of raw materials is determined on the basis of weighted average. The cost of finished goods is determined on the weighted average basis and comprises direct materials, direct labor and an appropriate proportion of overhead.

Net realizable value is based on estimated selling prices less any further costs expected to be incurred for completion and selling expense.

**(e) Accounts Receivable**

Accounts receivable are recognized and carried at net realizable value. An allowance for doubtful accounts will be recorded in the period when a loss is probable based on an assessment of specific evidence indicating troubled collection, historical experience, accounts aging, ongoing business relation and other factors. Accounts are written off after exhaustive efforts at collection. If accounts receivable are to be provided for, or written off, they would be recognized in the consolidated statement of operations within operating expenses. At September 30, 2012 and December 31, 2011, the Company has no allowance for doubtful accounts, as per the management's judgment based on their best knowledge.

As of September 30, 2012 and December 31, 2011, the longest credit term used, in connection with certain selected customers was 120 days.

**(f) Note receivable**

Notes receivable represents short-term loans to third parties with the maximum term of one year. Interest income is recognized according to each agreement between a borrower and the Company on an accrual basis. If notes receivable are to be provided for, or written off, they are recognized in the relevant year if the loan default is probable, reasonably sure and the loss can be reasonably estimated. The Company recognizes income if the written-off loan is recovered at a future date. In case of foreclosure procedures or legal actions being taken, the Company provides accrual for the related foreclosure expense and related litigation expenses.



**(g) Prepayments**

Prepayments represent cash paid in advance to suppliers. As of September 30, 2012, prepayments included cash paid advances to raw material suppliers and prepaid expenses, such as water and electricity fees.

**KANDI TECHNOLOGIES, CORP.  
AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
SEPTEMBER 30, 2012 (UNAUDITED)**

**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(h) Plant and Equipment**

Plant and equipment are carried at cost less accumulated depreciation. Depreciation is provided over their estimated useful lives, using the straight-line method. Leasehold improvements are amortized over the life of the asset or the term of the lease, whichever is shorter. Estimated useful lives are as follows:

Buildings	30 years
Machinery and equipment	10 years
Office equipment	5 years
Motor vehicles	5 years
Moulds	5 years

The cost and related accumulated depreciation of assets sold or otherwise retired are eliminated from the accounts and any gain or loss is included in the statement of income. The cost of maintenance and repairs is charged to expense as incurred, whereas significant renewals and betterments are capitalized.

**(i) Construction in Progress**

Construction in progress represents direct costs of construction or the acquisition cost of buildings or machinery and design fees. Capitalization of these costs ceases and the construction in progress is transferred to plant and equipment when substantially all of the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided until the assets are completed and ready for their intended use.

**(j) Land Use Rights**

According to the laws of China, land in the PRC is owned by the government and its ownership cannot be sold to an individual or a company. However, the government grants the user a land use right to use the land. The land use rights granted to the Company are being amortized using the straight-line method over the lease term of fifty years.

**(k) Accounting for the Impairment of Long-Lived Assets**

The Company periodically evaluates the carrying value of long-lived assets to be held and used, including intangible assets subject to amortization, when events and circumstances warrant such a review, pursuant to the guidelines established in ASC No. 350. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved. Losses on long-lived assets to be disposed of are determined in a similar manner, except that fair market values are reduced for the cost to dispose.

During the reporting period, there was no impairment loss.

**(l) Revenue Recognition**

Revenues represent the invoiced value of goods sold, recognized upon the shipment of goods to customers. Revenues are recognized when all of the following criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectability is reasonably assured.

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**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(m) Research and Development**

Expenditures relating to the development of new products and processes, including significant improvement to existing products are expensed as incurred. Research and development expenses were \$ 2,006,269 and \$ 1,695,003 for the nine months ended September 30, 2012 and 2011, respectively.

**(n) Government Grant**

Grants received from the PRC Government for assisting in the Company's technical research and development efforts are netted against the relevant research and development costs incurred when the proceeds are received or collectible.

For the nine months ended September 30, 2012 and 2011, \$ 45,942 and \$ 289,962, respectively, was received from the PRC government for the Company's contribution to the local economy.

**(o) Income Taxes**

The Company accounts for income tax using an asset and liability approach and allows for recognition of deferred tax benefits in future years. Under the asset and liability approach, deferred taxes are provided for the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The accounting for deferred tax calculation represents the management's best estimate on the most likely future tax consequences of events that have been recognized in our financial statements or tax returns and related future anticipation. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the Company is able to realize their benefits, or that future realization is uncertain.

**(p) Foreign Currency Translation**

The accompanying consolidated financial statements are presented in United States dollars. The functional currency of the Company is the Renminbi (RMB). Capital accounts of the consolidated financial statements are translated into United States dollars from RMB at their historical exchange rates when the capital transactions occurred.

Assets and liabilities are translated at the exchange rates as of balance sheet date. Income and expenditures are translated at the average exchange rate of the year, which was obtained from website: <http://www.oanda.com>

	<b>September 30, 2012</b>	<b>December 31, 2011</b>	<b>September 30, 2011</b>
Period end RMB : USD exchange rate	6.3340	6.3647	6.4018
Average RMB : USD exchange rate	6.3275	6.4735	6.5060

**(q) Comprehensive Income**

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, all items that are required to be recognized under current accounting standards as components of comprehensive income 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 and

the foreign currency translation changes.

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**NOTE 6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**(r) Stock Option Cost**

The Company's stock option cost is recorded in accordance with ASC 718 and ASC 505.

The fair value of stock options is estimated using the Black-Scholes-Merton model. The Company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on the expiration date of the option. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock option expense recognized is based on awards expected to vest, and there were no estimated forfeitures. ASC standards requires forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

The stock based compensation expense for the period ended September 30, 2012 was \$19,053. Also see Note 17.

**(s) Warrant Cost**

The Company's warrant costs are recorded in liabilities and equities respectively in accordance with ASC 480, ASC 505 and ASC 815.

The fair value of warrants, which is classified as a liability, is estimated using the Black-Scholes-Merton model. The Company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on the expiration date of the warrant. The risk-free interest rate for the expected term of the warrant is based on the U.S. Treasury yield curve in effect at the time of measurement. The warrants, which are freestanding derivatives and are classified as liabilities on the balance sheet, will be measured at fair value on each reporting date, with decreases in fair value recognized in earnings and increases in fair values were recognized in expenses.

The Company determined that the fair value of equity based warrants, which are not considered derivatives under ASC 815, is estimated using the Black-Scholes-Merton model. The Company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on the expiration date of the warrant. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

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**NOTE 7 NEW ACCOUNTING PRONOUNCEMENTS**

**Recent Accounting Pronouncements**

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). ASU 2011-04 clarifies some existing concepts, eliminates wording differences between U.S. GAAP and IFRS, and in some limited cases, changes some principles to achieve convergence between U.S. GAAP and IFRS. ASU 2011-04 results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 also expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. ASU 2011-04 will be effective for the Company beginning after December 15, 2011. We adopted this ASU beginning January 1, 2012. The adoption of ASU 2011-04 did not have a material impact on the Company's operating results or financial position.

In June 2011, FASB issued ASU 2011-05, Presentation of Comprehensive Income, which requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income, or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of equity. ASU 2011-05 will be effective for the Company beginning after December 15, 2011. We adopted this ASU beginning January 1, 2012. The adoption of ASU 2011-05 did not have a material impact on the Company's operating results or financial position; however, the adoption of ASU 2011-05 did affect the manner in which we present comprehensive income.

In September 2011, the FASB has issued Accounting Standards Update (ASU) No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. ASU 2011-08 is intended to simplify how entities, both public and nonpublic, test goodwill for impairment. ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350, *Intangibles—Goodwill and Other*. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. We adopted this ASU beginning January 1, 2012. The adoption of ASU 2011-08 did not have a material impact on the Company's operating results or financial position.

In July 2012, FASB has issued Accounting Standards Update (ASU) No. 2012-02, Intangibles--Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. This ASU states that an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test by comparing the fair value with the carrying amount in accordance with Codification Subtopic 350-30, Intangibles--Goodwill and Other, General Intangibles Other than Goodwill. Under the guidance in this ASU, an entity also has the option to bypass the qualitative assessment for any indefinite-lived intangible asset in any period and

proceed directly to performing the quantitative impairment test. An entity will be able to resume performing the qualitative assessment in any subsequent period. The amendments in this ASU are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted, including for annual and interim impairment tests performed as of a date before July 27, 2012, if a public entity's financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance.



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In August 2012, FASB has issued Accounting Standards Update (ASU) No. 2012-03, Technical Amendments and Corrections to SEC Sections. This ASU amends various SEC paragraphs pursuant to SAB 114, SEC Release No. 33-9250, and ASU 2010-22, which amend or rescind portions of certain SAB Topics.

In October 2012, FASB has issued Accounting Standards Update (ASU) No. 2012-04, Technical Corrections and Improvements. This ASU make technical corrections, clarifications, and limited-scope improvements to various Topics throughout the Codification. The amendments in this ASU that will not have transition guidance will be effective upon issuance for both public entities and nonpublic entities. For public entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2012. For nonpublic entities, the amendments that are subject to the transition guidance will be effective for fiscal periods beginning after December 15, 2013.

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**NOTE 8 CONCENTRATIONS****(a) Customers**

The Company's major customers for the period ended September 30, 2012 accounted for the following percentages of total sales and accounts receivable as follows:

Major Customers	Sales		Accounts Receivable	
	Nine Months			
	Ended September 30, 2012	Ended September 30, 2011	September 30, 2012	December 31, 2011
Company A	47%	7%	57%	2%
Company B	17%	16%	15%	19%
Company C	15%	19%	9%	56%
Company D	8%	-	11%	-
Company E	-	-	-	1%

**(b) Suppliers**

The Company's major suppliers for the nine months ended September 30, 2012 accounted for the following percentage of total purchases and accounts payable as follows:

Major Suppliers	Purchases		Accounts Payable	
	Nine Months			
	Ended September 30, 2012	Ended September 30, 2011	September 30, 2012	December 31, 2011
Company F	46%	66%	-	1%
Company G	24%	-	39%	-
Company H	2%	-	1%	1%
Company I	2%	-	2%	-
Company J	1%	-	-	1%

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**NOTE 9 INCOME (LOSS) PER SHARE**

The Company calculates earnings per share in accordance with ASC 260, Earnings Per Share, which requires a dual presentation of basic and diluted earnings per share. Basic earnings per share are computed using the weighted average number of shares outstanding during the reporting period. Diluted earnings per share represents basic earnings per share adjusted to include the potentially dilutive effect of outstanding stock options, warrants and convertible note (using the if-converted method). For the nine months ended September 30, 2012, there are 1,345,059 potentially dilutive common shares.

The following table sets forth the computation of basic and diluted net income per common share:

Nine months Ended September 30,	2012	2011
Net income (loss)	\$ 3,882,698	\$ 9,944,601
Weighted average shares of common stock outstanding		
Basic	29,068,208	27,436,434
Dilutive shares	1,345,059	1,303,770
Diluted	30,413,267	28,740,204
Basic income per share	\$ 0.13	\$ 0.36
Diluted income per share	\$ 0.13	\$ 0.35

Also see Note 17.

**NOTE 10 - INVENTORIES**

Inventories are summarized as follows:

	<b>September 30, 2012</b>	<b>December 31, 2011</b>
	<b>(Unaudited)</b>	
Raw material	\$ 2,737,874	\$ 1,737,211
Work-in-progress	10,560,603	3,898,950
Finished goods	1,086,609	1,110,793
	14,385,086	6,746,954
Less: reserve for slow moving inventories	-	(72,487)
Inventories, net	\$ 14,385,086	\$ 6,674,467

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**NOTE 11 - NOTES RECEIVABLE**

Notes receivable are summarized as follows:

	<b>September 30, 2012 (Unaudited)</b>	<b>December 31, 2011</b>
Notes receivable from unrelated companies:		
Due April 7, 2012, interest at 9.6% per annum <sup>1</sup>	\$ -	\$ 4,713,498
Due September 30, 2012, interest at 9.6% per annum <sup>2</sup>	-	33,165,745
Due September 30, 2013, interest at 9.6% per annum <sup>3</sup>	15,980,324	-
	15,980,324	37,879,243
Bank acceptance notes:		
Bank acceptance notes	-	-
Notes receivable	\$ 15,980,324	\$ 37,879,243

Details of Notes receivable from unrelated parties as of December 31, 2011

Index	Amount (\$)	Counter party	Relationship	Purpose of Loan	Manner of settlement
1	4,713,498	Zhejiang XinNeng Auto System Co., Ltd.	No relationship beyond loan	Receive interest income	Repaid in cash
2	33,165,745	Yongkang HuiFeng Guarantee Co., Ltd	No relationship beyond loan	Receive interest income	Repaid in cash

Details of Notes receivable from unrelated parties as of September 30, 2012

Index	Amount (\$)	Counter party	Relationship	Purpose of Loan	Manner of settlement
3	15,980,324	Yongkang HuiFeng Guarantee Co., Ltd	No relationship beyond loan	Receive interest income	Not due

For the nine months ended September 30, 2012, the interest income generated from the notes receivable issued to third parties was \$1,731,361.

**NOTE 12 LAND USE RIGHTS**

Land use rights consist of the following:

	<b>September 30, 2012 (Unaudited)</b>	<b>December 31, 2011</b>
Cost of land use rights	\$ 15,652,771	\$ 11,997,512

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Less: Accumulated amortization	(1,269,102)	(1,004,743)
Land use rights, net	\$ 14,383,669	\$ 10,992,769

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As of September 30, 2012 and December 31, 2011, the net book value of land use rights pledged as collateral for the Company's bank loans was \$4,004,842 and \$4,057,640, respectively. Also see Note 14.

As of September 30, 2012 and December 31, 2011, the net book value of land use rights pledged as collateral for bank loans borrowed by Zhejiang Mengdeli Electronic Co., Ltd. ( ZMEC ), an unrelated party of the Company was \$6,844,301 and \$6,935,129 respectively. Also see Note 19.

It is a common business practice among companies in the region of China where Kandi is located to exchange guarantees for bank debt with no consideration given. It is considered a favor for favor business practice and is commonly required by the lending banks as in these cases. ZMEC has provided a guarantee for certain of the Company's bank loans. As of September 30, 2012, ZMEC had guaranteed bank loans of the Company for a total of \$12,630,250. In exchange, the Company provided guarantee for bank loans being borrowed by ZMEC and allowing ZMEC to pledge the Company's assets for ZMEC's bank loans. Also see Note 14 and Note 19.

The amortization expense for the nine months ended September 30, 2012 and 2011 was \$259,756 and \$191,700 respectively.

Amortization expense for the next five years and thereafter is as follows:

2012 (three months)	\$ 86,586
2013	346,342
2014	346,342
2015	346,342
2016	346,342
Thereafter	12,911,715
Total	\$ 14,383,669

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**NOTE 13 PLANT AND EQUIPMENT**

Plant and equipment consist of the following:

	<b>September 30, 2012</b>		<b>December 31, 2011</b>
	<b>(Unaudited)</b>		
At cost:			
Buildings	\$ 13,998,116	\$	13,698,216
Machinery and equipment	10,354,401		10,138,064
Office equipment	226,826		199,021
Motor vehicles	249,226		246,243
Moulds	15,403,171		15,286,217
	<b>40,231,740</b>		<b>39,567,761</b>
Less : Accumulated depreciation			
Buildings	\$ (2,314,449)	\$	(1,949,251)
Machinery and equipment	(8,864,694)		(8,032,798)
Office equipment	(156,826)		(131,813)
Motor vehicles	(195,134)		(175,578)
Moulds	(10,576,435)		(8,296,428)
	<b>(22,107,538)</b>		<b>(18,585,868)</b>
Plant and equipment, net	\$ 18,124,202	\$	20,981,893

As of September 30, 2012 and December 31, 2011, the net book value of plant and equipment pledged as collateral for the bank loans was \$6,925,378 and \$7,124,618, respectively.

As of September 30, 2012 and December 31, 2011, the net book value of plant and equipment pledged as collateral for bank loans borrowed by ZMEC, a supplier but unrelated party of the Company was \$4,536,418 and \$4,624,347, respectively. Also see Note 19.

Depreciation expense for nine months ended September 30, 2012 and 2011 was \$3,435,118 and \$3,309,659 respectively.

**NOTE 14 SHORT TERM BANK LOANS**

Short-term loans are summarized as follows:

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	September 30, 2012 (Unaudited)	December 31, 2011
<b>Loans from China Communication Bank-Jinhua Branch</b>		
Monthly interest only payments at 7.87% per annum, due September 19, 2012, guaranteed by Kandi Investment Group Co.	\$ -	\$ 785,583
Monthly interest only payments at 7.00% per annum, due December 24, 2012, guaranteed by Nanlong Group Co., Ltd.	\$ 473,634	\$ -
<b>Loans from Commercial Bank-Jiangnan Branch</b>		
Monthly interest only payments at 5.81% per annum, due January 3, 2012, guaranteed by Zhejiang Kangli Metal Manufacturing Company, Mr. Hu Xiaoming, Lv Qingjiang, and Ms. Ling Yueping. and pledged by the assets of Jingdezhen De'er Investment Industrial Co., Ltd.	-	3,142,332
Monthly interest only payments at 6.56% per annum, due October 15, 2012, guaranteed by Mr. Hu Xiaoming, and Ms. Ling Yueping, and secured by Company's assets. Also see Note 12 and Note 13.	1,578,781	1,571,166
Monthly interest only payments at 6.89% per annum, due December 5, 2012, secured by Company's asset. Also see Note 12 and Note 13.	789,391	785,583
Monthly interest only payments at 6.89% per annum, due January 5, 2013, guaranteed by Zhejiang Kangli Metal Manufacturing Company, Mr. Hu Xiaoming, Ms. Ling Jiajia, and Ms. Ling Yueping. and pledged by the assets of Jingdezhen De'er Investment Industrial Co., Ltd.	3,157,562	-
<b>Loans from Huaxia Bank</b>		
Monthly interest only payments at 7.22% per annum, due September 23, 2012, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Zhejiang Kangli Metal Manufacturing Company and Kandi Investment Group Co. Also see Note 12 and Note 13.	-	4,399,265
<b>Loans from China Ever-bright Bank</b>		
Interest only payment at 6.71% per annum, due February 15, 2012.	-	3,142,332
Monthly interest only payments at 6.10% per annum, due May 15, 2012, secured by the Company's time deposit. Also see Note 6.	-	2,121,073
Interest only payment at 7.02% per annum, due June 28, 2012.	-	-
Monthly interest only payments at 7.74% per annum, due August 27, 2012, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Nanlong Group Co., Ltd. and Zhejiang Mengdeli Electric Co., Ltd. Also see Note 12 and Note 13.	-	4,713,498



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Monthly interest only payments at 7.74% per annum, due August 27, 2012, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Nanlong Group Co., Ltd. and Zhejiang Mengdeli Electric Co., Ltd. Also see Note 12 and Note 13.	-	4,713,498
Monthly interest only payments at 6.71% per annum, due November 25, 2012, secured by the Company's time deposit. Also see Note 6.	2,131,355	-
Interest only payment at 6.73% per annum, due November 26, 2012.	3,157,562	-
Monthly interest only payments at 6.94% per annum, due January 25, 2013, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Nanlong Group Co., Ltd. and Zhejiang Mengdeli Electric Co., Ltd. Also see Note 12 and Note 13.	4,736,344	-
Monthly interest only payments at 6.94% per annum, due February 13, 2013, secured by the assets of the Company, guaranteed by Mr. Hu Xiaoming, Nanlong Group Co., Ltd. and Zhejiang Mengdeli Electric Co., Ltd. Also see Note 12 and Note 13.	4,736,344	-

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**NOTE 14 - SHORT TERM BANK LOANS (CONTINUED)**

	September 30, 2012 (Unaudited)	December 31, 2011
<b>Loans from Shanghai Pudong Development Bank</b>		
Monthly interest only payments at 6.71% per annum, due June 26, 2012, secured by the property of Ms. Ling Yueping, guaranteed by Nanlong Group Co., Ltd. and Mr. Hu Xiaoming	-	3,142,332
Monthly interest only payments at 6.94% per annum, due June 27, 2013, secured by the property of Ms. Ling Yueping, guaranteed by Yongkang KangBang auto parts Co., Ltd. and Mr. Hu Xiaoming	3,157,562	-
Monthly interest only payments at 6.60% per annum, due July 18, 2013, secured by the property of Ms. Ling Yueping, guaranteed by Yongkang KangBang auto parts Co., Ltd. and Mr. Hu Xiaoming	3,157,562	-
<b>Loans from Bank of Shanghai</b>		
Monthly interest only payments at 6.56% per annum, due December 4, 2012, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Zhejiang Kangli Metal Manufacturing Company and Zhejiang Taiping Shengshi Industrial Co., Ltd.	4,736,344	4,713,498
<b>Loans from China Ever-growing Bank</b>		
Monthly interest only payments at 7.57% per annum, due April 27, 2012, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Zhejiang Shuguang industrial Co., Ltd. and Zhejiang Mengdeli Electric Company.	-	3,142,332
Monthly interest only payments at 7.57% per annum, due April 24, 2013, guaranteed by Mr. Hu Xiaoming, Ms. Ling Yueping, Zhejiang Shuguang industrial Co., Ltd. and Zhejiang Mengdeli Electric Company.	3,157,562	-
Total	\$ 34,970,003	\$ 36,372,492
Interest expense for the nine month ended September 30, 2012 and 2011 was \$1,986,618, and \$1,416,698, respectively.		

As of September 30, 2012, the aggregate amount of short-term loans that were guaranteed by various third parties was \$28,891,695,

- \$12,630,250 is guaranteed by Zhejiang Mengdeli Electric Co Ltd ( ZMEC ), whose bank loans of \$4,357,436 are secured by a pledge, or by the Company's plant and equipment and the land use right for which net book values are \$4,536,418, and \$6,844,301, respectively. Also see Note 19.

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- \$12,630,250 is guaranteed by Zhejiang Kangli Metal Manufacturing Company, whose bank loans of \$4,736,344 are guaranteed by the Company. Also see Note 19.

- \$3,157,562 is guaranteed by Zhejiang Shuguang industrial Co., Ltd., whose bank loans of \$7,893,906 are guaranteed by the Company. Also see Note 19.

- \$4,736,344 is guaranteed by Zhejiang Taiping Shengshi Industrial Co., Ltd. whose bank loans of \$3,157,562 are also guaranteed by the Company. Also see Note 19.

- \$9,946,322 is guaranteed by Nanlong Group Co., Ltd. whose bank loans of \$ 3,157,562 are also guaranteed by the Company. Also see Note 19.

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- \$6,315,124 is guaranteed by Yongkang KangBang auto parts Co., Ltd.

This is a common business practice among companies in the region of China where Kandi is located to exchange guarantees for bank debt with no consideration given. It is considered a favor for favor business practice and is commonly required by the lending banks as in these cases.

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**NOTE 15 NOTES PAYABLE**

By issuing bank note payables rather than paying cash to suppliers, the Company can defer the payments until the date the bank note payable is due. Simultaneously, the Company needs to deposit restricted cash in banks to back up the bank note payable, while the restricted cash deposited in banks will generate interest income.

Notes payable are summarized as follows:

	September 30,2012 (Unaudited)	December 31, 2011
Bank acceptance notes:		
Due January 19,2012	\$ -	\$ 149,262
Due March 26, 2012	-	14,140
Due March 26, 2012	-	15,712
Due March 26, 2012	-	37,708
Due March 26, 2012	-	15,712
Due March 26, 2012	-	17,283
Due March 26, 2012	-	15,712
Due March 26, 2012	-	14,140
Due March 26, 2012	-	7,856
Due March 26, 2012	-	6,285
Due March 26, 2012	-	15,712
Due March 26, 2012	-	15,712
Due March 26, 2012	-	7,856
Due March 26, 2012	-	31,423
Due March 26, 2012	-	9,741
Due March 26, 2012	-	9,427
Due March 26, 2012	-	10,998
Due March 26, 2012	-	31,423
Due March 26, 2012	-	51,848
Due March 26, 2012	-	47,135
Due March 26, 2012	-	15,712
Due March 26, 2012	-	4,713
Due March 26, 2012	-	3,142
Due March 26, 2012	-	3,142
Due March 26, 2012	-	12,569
Due March 26, 2012	-	15,712
Due March 26, 2012	-	3,142
Due March 26, 2012	-	3,142,332
Due May 10, 2012	-	78,558
Due May 10, 2012	-	157,117
Due May 10, 2012	-	188,540
Due May 10, 2012	-	94,270
Due May 10, 2012	-	31,423
Due June 19, 2012	-	235,675

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Due June 19, 2012	-	1,335,491
Due October 16, 2012	1,578,781	-
Due October 18, 2012	947,269	-
Due November 11, 2012	3,946,953	-
Due March 26, 2013	1,578,781	-
Due March 26, 2013	1,578,781	-
Subtotal	\$ 9,630,565	\$ 5,846,623

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**KANDI TECHNOLOGIES, CORP.  
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**NOTE 15 NOTES PAYABLE (CONTINUED)**

Notes payable to unrelated companies:

Due January 20, 2012 (Interest rate 6.0% per annum)	-	1,000
Subtotal	\$ -	\$ 1,000

Total	\$ 9,630,565	\$ 5,847,623
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The bank acceptance notes do not bear interest; however, these notes are subject to bank charges of 0.05% of the principal as commission on each transaction. Bank charges for notes payable were \$ 9,158 for the nine months ended September 30, 2012.

Restricted cash of \$ 7,341,332 is held as collateral for the following notes payable at September 30, 2012:

Due October 16, 2012	1,578,781
Due October 18, 2012	947,269
Due November 11, 2012	3,946,953
Due March 26, 2013	1,578,781
Due March 26, 2013	1,578,781
Total	\$ 9,630,565

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**NOTE 16 TAX**

**(a) Corporation Income Tax ( CIT )**

On March 16, 2007, the National People's Congress of China approved the Corporate Income Tax Law of the People's Republic of China (the new CIT law), which went into effect on January 1, 2008. In accordance with the relevant tax laws and regulations of the PRC, the applicable corporate income tax rate is 25%.

Prior to January 1, 2008, the CIT rate applicable to the Company was 33%. Kandi's first profitable tax year for income tax purposes as a foreign-invested company was 2007. As a foreign-invested company, the income tax rate of Kandi was entitled to a 50% tax holiday based on 25% for years 2009 through 2011. During the transition period, the above tax concession granted to the Company, prior to the new CIT law, will be grandfathered according to the interpretations of the new CIT law. After the tax holiday period is ended, the tax rate applicable to Kandi Vehicle changes to 15% since 2012 because of Kandi Vehicle's high technology enterprise qualification. Nevertheless, the Company is qualified to a special research and development credit for 2012. The aggregate tax benefits from January 1, 2012 to September 30, 2012 were \$799,896.

Kandi New Energy and Yongkang Scrou Electric Co., Ltd., are subsidiaries of the Company and their applicable corporate income tax rate is 25%.

According to the PRC corporation income tax ( CIT ) reporting system, the CIT sales cut-off base is concurrent with the value added tax ( VAT ) which will be reported to the State Administration of Taxation ( SAT ) on a quarterly basis. Since the VAT and CIT are accounted for on a VAT tax basis that recorded all sales on a State provided official invoices reporting system, the Company is reporting the CIT according to the SAT prescribed tax reporting rules. Under the VAT tax reporting system, sales cut-off did not take the accrual base but rather on a VAT taxable reporting basis. Therefore, when the company adopted US GAAP on accrual basis, the sales cut-off CIT timing difference which derived from the VAT reporting system will create a temporary sales cut-off timing difference and this difference is reflected in the deferred tax assets or liabilities calculations on the income tax estimation reported in the Form 10-K.

Effective January 1, 2007, the Company adopted ASC 740, Income Taxes. The interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements.

Under ASC 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. ASC 740 also provides guidance on de-recognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of September 30, 2012, the Company does not have a liability for unrecognized tax benefits. The Company files income tax returns to the Internal Revenue Services ( IRS ) and states where the Company has operation. The Company is subject to U.S. federal or state income tax examinations by IRS and relevant state tax authorities for years after 2006. During the periods open to examination, the Company has net operating loss carry forwards ( NOLs ) for U.S. federal and state tax purposes that have attributes from closed periods. Since these NOLs may be utilized in future periods, they remain subject to examination. The Company also files certain tax returns in China. As of September 30, 2012 the Company was not aware of any pending income tax



examinations by China tax authorities. The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of September 30, 2012, the Company has no accrued interest or penalties related to uncertain tax positions. The Company has not recorded a provision for U.S federal income tax for the three months ended September 30, 2012 due to the net operating loss carry forward in the United States.

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**NOTE 16 TAX (CONTINUED)**

Income tax expense (benefit) for the nine months ended September 30, 2012 and 2011 is summarized as follows:

	<b>For the Nine Months Ended September 30, (Unaudited)</b>	
	<b>2012</b>	<b>2011</b>
Current:		
Provision for CIT	\$ 842,863	\$ 394,624
Provision for Federal Income Tax		0
Deferred:	-	-
Provision for CIT		0
Income tax expense (benefit)	\$ 842,863	\$ 394,624

The Company's income tax expense (benefit) differs from the expected tax expense for the nine months ended September 30, 2012 and 2011 (computed by applying the CIT rate of 25%, respectively, to income before income taxes) as follows:

	<b>For the Nine Months Ended September 30, (Unaudited)</b>	
	<b>2012</b>	<b>2011</b>
Computed "expected" (benefit) expense	\$ 897,840	\$ 551,691
Favorable tax rate	(799,986)	(394,624)
Permanent differences	737,764	33,723
Valuation allowance	7,245	203,834
Income tax expense (benefit)	\$ 842,863	\$ 394,624

The tax effects of temporary differences that give rise to the Company's net deferred tax assets and liabilities as of September 30, 2012 and December 31, 2011 are summarized as follows:

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**NOTE 16 TAX (CONTINUED)**

	September 30, 2012 (Unaudited)	December 31, 2011
Current portion:		
Deferred tax assets:		
Expense	\$ (39,128)	\$ (11,741)
Subtotal	(39,128)	(11,741)
Deferred tax liabilities:		
Sales cut-off (CIT tax reporting on VAT tax system)	(31,394)	(44,621)
Other		-
Subtotal	(31,394)	(44,621)
Total deferred tax asset ( liabilities) current portion	(70,522)	(56,362)
Non-current portion:		
Deferred tax assets:		
Depreciation	171,667	226,622
Loss carried forward	7,245	1,351,513
Valuation allowance	(7,245)	(1,351,513)
Subtotal	171,667	226,622
Deferred tax liabilities:		
Accumulated other comprehensive gain	(136,642)	(136,624)
Subtotal	(136,642)	(136,624)
Total deferred tax assets non-current portion	35,025	89,998
Net deferred tax assets(liabilities)	\$ (35,497)	\$ 33,636

**(b) Tax Benefit (Holiday) Effect**

For the nine months ended September 30, 2012 and 2011 the PRC corporate income tax rate was 25%. Certain subsidiaries of the Company are entitled to tax benefit (holidays) for the nine months ended September 30, 2012 and 2011.

The combined effects of the income tax expense, exemptions and reductions available to the Company for the nine months ended September 30, 2012 and 2011 are as follows:

	For the Nine Months Ended September 30 (Unaudited)	
	2012	2011
Tax benefit (holiday) credit	\$ (799,986)	\$ (394,624)
Basic net income per share effect	\$ (0.02)	\$ (0.01)



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**NOTE 17 - STOCK OPTIONS, WARRANTS AND CONVERTIBLE NOTES (a) Stock Options**

On February 11, 2009, the Compensation Committee of the Board of Directors of the Company approved the grant of stock options for 2,600,000 shares of common stock to ten of the Company's employees and directors. The stock options vest ratably over three years and expire in ten years from the grant date. The Company valued the stock options at \$2,062,964 and amortizes the stock compensation expense using the straight-line method over the service period from February 11, 2009 through February 11, 2012. The value of the options was estimated using the Black Scholes Model with an expected volatility of 164%, expected life of 10 years, risk-free interest rate of 2.76% and expected dividend yield of 0.00% . As of September 30, 2012, options for 946,680 shares have been exercised or forfeited. On June 30, 2011, one of the Company's directors resigned, and his 6,668 unexercised options were forfeited.

On October 6, 2009, the Company executed an agreement ( Cooperation Agreement ) with Wang Rui and Li Qiwen, third-party consultants, whereby Mr. Wang and Mr. Li are to provide business development services in China to the Company in exchange for options to purchase 350,000 shares of the Company s common stock at an exercise price of \$1.50 per share. Per the agreement, 250,000 of these options vested and became exercisable on March 6, 2011, and 100,000 vested and became exercisable on June 6, 2011. These options will expire after ten years. The options are issued under, and are subject to, the terms of the Company s 2008 Omnibus Long-Term Incentive Plan. No required dates of service are specified on the consulting agreement. No repurchase features or cash settlement provisions are specified in the terms and conditions of the Notice of Grant of Stock Option.

The following is a summary of the stock option activities of the Company:

	Activity	Weighted Average Exercise Price
Outstanding as of January 1, 2012	1,786,637	\$ 0.84
Granted	-	-
Exercised	33,317-	0.80
Cancelled	-	-
Outstanding as of September 30, 2012	1,753,320	0.84

The following table summarizes information about stock options outstanding as of September 30, 2012:

Options Outstanding			Options Exercisable		
Number of shares	Exercise Price	Remaining Contractual life (in years)	Number of shares	Exercise Price	Exercise Price
1,653,320	\$ 0.80	6.50	1,653,320	\$	0.80
100,000	1.50	7.00	100,000		1.50

The fair value per share of the 2,600,000 options issued to the employees and directors is \$0.7934 per share. The fair value per share of the unexercised 100,000 options issued to Wang Rui and Li Qiwen, which became exercisable on June 6, 2010, is \$3.44.

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**NOTE 17 - STOCK OPTIONS, WARRANTS AND CONVERTIBLE NOTES (CONTINUED) (b) Warrants and Convertible Notes**

On September 21, 2009, the Company executed an agreement ( Consulting Agreement ) with a third-party consultant, whereby the consultant is to provide management consulting and advisory services for a period of 12 months, beginning on September 22, 2009, and ending on September 22, 2010. As compensation for the services provided, the Company agreed to issue 200,000 warrants to purchase the Company's common stock, with 100,000 of these warrants issued at an exercise price of \$2.00 per share and 100,000 of these warrants issued at an exercise price of \$2.50 per share. In addition, the Consulting Agreement permitted a cashless exercise of all 200,000 warrants. The warrants had a five year contractual term and were granted on October 22, 2009. The warrants vested in full and became exercisable on January 21, 2010, upon the closing of an initial round of financing. The fair value per share of the 100,000 warrants issued under the Consulting Agreement with an exercise price of \$2.00 is \$4.56, and the fair value per share of the 100,000 warrants issued under the Consulting Agreement with an exercise price of \$2.50 is \$4.48. As of September 30, 2012, the consultant had cashless exercised all 200,000 warrants.

Under a Securities Purchase Agreement, dated as of January 21, 2010, by and among the Company and certain investors thereto, the Company issued a total of \$10 million of senior secured convertible notes (the Convertible Notes ) and warrants exercisable for an aggregate of 800,000 shares of the Company's Common Stock (the Investor Warrants ), for gross proceeds of \$10 million. As of January 21, 2010, at the price of \$6.25 per share, the Convertible Notes were convertible into 1,600,000 shares of Common Stock. The Investor Warrants, which are exercisable for a period of three years following the closing date, were initially exercisable for shares of Common Stock at an exercise price of \$6.5625 per share. Included in the associated issuance costs is the fair value of 80,000 warrants issued to a placement agent. These warrants have the same terms and conditions as the Investor Warrants issued to the investors.

Pursuant to the terms of the Convertible Notes and the Investor Warrants, on May 18, 2010, the conversion price of the Convertible Notes was adjusted to \$3.5924 per share and the exercise price of the Investor Warrants and warrants issued to the placement agent was adjusted to \$4.3907 per share. On August 19, 2010, the conversion price of the Convertible Notes was adjusted to \$3.1146 per share and the exercise price of the Investor Warrants and warrants issued to the placement agent was adjusted to \$3.8067 per share. As a result, the number of Investor Warrants and warrants issued to the placement agent were adjusted to 1,379,148 and 137,915 respectively. As of September 30, 2012, the investors had converted all \$10,000,000 principal amount and \$159,522 of accrued interest of the Convertible Notes into an aggregate of 3,121,121 shares of Common Stock. As of September 30, 2012, the placement agent had cashless exercised 124,123 warrants issued to him

As of September 30, 2012, the fair value of the Investor Warrants and the warrants issued to the placement agent was \$0.93 per share.

On December 21, 2010, the Company agreed to sell to certain institutional investors up to 3,027,272 shares of the Company's common stock and warrants to purchase up to 1,210,912 shares of the Company's common stock in fixed combination, with each combination consisting of one share of common stock and a warrant to purchase 0.40 shares of common stock in a registered direct public offering ( Second round warrants ). The warrants became exercisable immediately following the closing date of the offering and remain exercisable for three years thereafter at an exercise price of \$6.30 per share. As of September 30, 2012, the fair value of the Second round warrants was \$1.10 per share.



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**NOTE 18 STOCK AWARD**

In connection with his appointment to the Board of Directors, and as compensation for serving, the Board of Directors has authorized the Company to provide Mr. Henry Yu with 5,000 shares of Company's restricted common stock every six months, par value \$0.001 from July 2011.

As compensation for his services, the Board of Directors has authorized the Company to provide Mr. Jerry Lewin with 5,000 shares of Company's restricted common stock every six months, par value \$0.001 from August 2011. Each of Mr. Yu and Mr. Lewin were issued 5,000 shares of restricted stock on March 8, 2012 and August 4, 2012.

The fair value of awarded stock is determined by the closing price of our common stock on the date of stock award, or estimated by the closing price of our common stock on the reporting date if stock has not yet been awarded.



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**NOTE 19 COMMITMENTS AND CONTINGENCIES**

**(a) Guarantees and Pledged collateral for third party bank loans**

As of September 30, 2012, the Company provided guarantees for the following third parties:

(1) Guarantees for bank loans

Guarantee provided to	Amount
Zhejiang Kangli Metal Manufacturing Company.	\$ 4,736,344
Zhejiang Shuguang industrial Co., Ltd.	7,893,906
Zhejiang Taiping Shengshi Industrial Co., Ltd.	3,157,562
Yongkang Angtai Trade Co., Ltd.	789,391
Nanlong Group Co., Ltd.	3,157,562
Total	\$ 19,734,765

On December 4, 2011, the Company entered into a guarantee contract to serve as the guarantor for the bank loan borrowed from Shanghai Bank Hangzhou branch in the amount of \$4,736,344 by Zhejiang Kangli Metal Manufacturing Company. ( ZKMMC ) for the period from December 4, 2011 to December 4, 2012. ZKMMC is not related to the Company. Under this guarantee contract, the Company shall perform all obligations of ZKMMC under the loan contract if ZKMMC fails to perform its obligations as set forth in the loan contract.

On October 9, 2011 and December 8, 2011, the Company entered into two guarantee contracts to serve as the guarantor for the bank loans borrowed from Shenzhen Development Bank Hangzhou branch and Huaxia Bank Hangzhou branch in the amount of \$4,736,344 and \$3,157,562 by Zhejiang Shuguang industrial Co., Ltd. ( ZSICL ) for the period from October 9, 2011 to October 9, 2012 and from December 8, 2011 to December 8, 2012 respectively. ZSICL is not related to the Company. Under these guarantee contracts, the Company shall perform all obligations of ZSICL under the loan contracts if ZSICL fails to perform its obligations as set forth in the loan contracts.

On December 4, 2011, the Company entered into a guarantee contract to serve as the guarantor for the bank loans borrowed from Shanghai Bank Hangzhou branch in the amount of \$3,157,562 by Zhejiang Taiping Shengshi Industrial Co., Ltd. ( ZTSICL ) for the period from December 4, 2011 to December 4, 2012. ZTSICL is not related to the Company. Under this guarantee contract, the Company shall perform all obligations of ZTSICL under the loan contract if ZTSICL fails to perform its obligations as set forth in the loan contract.

On January 7, 2011, the Company entered into a guarantee contract to serve as the guarantor for the bank loans borrowed from China Communication Bank Jinhua Branch in the amount of \$ 789,391 by Yongkang Angtai Trade Co., Ltd. ( YATCL ) for the period from January 7, 2011 to December 31, 2012. YATCL is not related to the Company. Under this guarantee contract, the Company shall perform all obligations of YATCL under the loan contract if YATCL fails to perform its obligations as set forth in the loan contract.

On August 7, 2012, the Company entered into a guarantee contract to serve as the guarantor for the bank loans borrowed from Shanghai Pudong Development Bank Jinhua Branch in the amount of 3,157,562 by Nanlong Group Co., Ltd. ( NGCL ) for the period from August 7, 2012 to March 6, 2013. NGCL is not related to the Company. Under this guarantee contract, the Company shall perform all obligations of NGCL under the loan contract if NGCL fails to perform its obligations as set forth in the loan contract.



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(2) Pledged collateral for a third party's bank loans

As of September 30, 2012, the Company provided the land use rights and plant and equipment pledged as collateral for the following third party:

Zhejiang Mengdeli Electric Co., Ltd.:

Land use rights net book value	\$ 6,844,301
Plant and equipment net book value	\$ 4,536,418

It is a common business practice among companies in the region of China where Kandi is located to exchange guarantees for bank debt with no consideration given. It is considered a favor for favor business practice and is commonly required by the lending banks as in these cases. These companies provided guarantees for the Company's bank loans as well. The banks involved in these guarantee transactions typically allow a maximum loan amount based on a 30% to 70% discount on the net book value of the pledged collateral. Also see Note 14.

**(b) Pending litigation**

There are two lawsuits currently pending in Ripley County, Missouri against the Company and its subsidiary Zhejiang Kandi Vehicles Co., Ltd. (Kandi Vehicles) as well as other parties, Kandi Investment Group and SunL, and they are related to two persons who died in an accident on March 3, 2006 while operating a go-cart allegedly manufactured by Kandi Vehicles. Kandi Investment Group was a major shareholder of Kandi Vehicles but it transferred all its equity in Kandi Vehicles to Continental Development Limited in November 2006. Since then, Kandi Investment Group is unrelated to the Company or its affiliates.

The cases were filed in 2009 and are known as Elder vs. SunL Group and Griffen vs. SunL Group. In March, 2010, the local trial court entered two default judgments in the amount of \$20,000,000 each against Kandi Vehicles and other parties including Kandi Investment but not the Company. The lawsuit and default judgments didn't come to the Company or Kandi Vehicles' attention until May or June 2010. The Company had not been served or notified of the lawsuits and learned of their existence and of the default judgment in the course of commercial discussions with another of the defendants in the cases. Currently, the Company and Kandi Vehicles have filed answers to the complaint denying any culpability. In addition, the Company requested that the court set aside the default judgments against Kandi Vehicles, a request granted, by the court, on February 28, 2011. On March 3, 2011, the plaintiffs subsequently appealed the court order vacating the default judgments; however, the plaintiffs have since voluntarily withdrawn their appeal.

The Company intends to propound discovery on the plaintiffs. The Company and Kandi Vehicles each filed a Motion for Summary Judgment in an attempt to have the cases dismissed by summary judgment. The plaintiffs also filed a Motion for Summary Judgment. All of the Motions for Summary Judgment were argued before the court on July 2, 2012. The judge has not ruled on any of the Motions for Summary Judgment.

The Company intends to defend these cases vigorously and expects to prevail in this lawsuit since the Company including its subsidiaries did not manufacture the subject vehicle in the accident.

**(c) Capital Commitment**

During the previous year, certain mold manufacturing contracts were executed. As of September 30, 2012, the remaining unpaid balance was \$ 2,640,669; we plan on paying \$ 2,174,929 within the next twelve months and the rest

in June of 2014.

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**NOTE 20 -ACQUISITION OF YONGKANG SCROU ELECTRIC CO**

The Company acquired Yongkang Scrou Electric Co on April 25, 2012. The Company issued 2,354,212 shares of its common stock, which was valued at \$3.66 per share (market value on the date of acquisition). The total purchase price for the acquisition was approximately \$8.6 million which was primarily allocated to working capital, tangible property and equipment, identifiable intangible assets and goodwill. The Company anticipates finalizing our purchase accounting for the acquisition no later than the end of 2012, upon the finalization of appraisals primarily related to fixed assets and intangible assets.

The preliminary purchase price allocation based on qualified independent valuation is as follows:

Working Capital	\$ 3,651,648
Tangible Property	880,942
Identifiable Intangible Property	
-Land use right	3,622,650
Tradename	164,463
Goodwill	437,525
Deferred tax liability created, net	(140,812)
<b>Total Purchase Price</b>	<b>\$ 8,616,416</b>
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## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

This report contains forward-looking statements within the meaning of the federal securities laws that relate to future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology, such as "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "project," "predict," "intend," "potential" or "continue" or the negative of such terms or other comparable terminology, although not all forward-looking statements contain such terms.

In addition, these forward-looking statements include, but are not limited to, statements regarding implementing our business strategy; development and marketing of our products; our estimates of future revenue and profitability; our expectations regarding future expenses, including research and development, sales and marketing, manufacturing and general and administrative expenses; difficulty or inability to raise additional financing, if needed, on terms acceptable to us; our estimates regarding our capital requirements and our needs for additional financing; attracting and retaining customers and employees; sources of revenue and anticipated revenue; and competition in our market.

Forward-looking statements are only predictions. Although we believe that the expectations reflected in these forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. All of our forward-looking information is subject to risks and uncertainties that could cause actual results to differ materially from the results expected. Although it is not possible to identify all factors, these risks and uncertainties include the risk factors and the timing of any of those risk factors described in the Company's Form 10-K for the year ended December 31, 2011 and those set forth from time to time in our filings with the Securities and Exchange Commission (SEC). These documents are available on the SEC's Electronic Data Gathering and Analysis Retrieval System at <http://www.sec.gov>.

### **Critical Accounting Policies and Estimates**

#### *Policy affecting options, and warrants*

The Company's stock option cost is recorded in accordance with ASC 718 and ASC 505.

The fair value of stock options is estimated using the Black-Scholes-Merton model. The Company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on the expiration date of the option. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. Stock option expense recognized is based on awards expected to vest, and there were no estimated forfeitures. ASC standards requires forfeitures to be estimated at the time of grant and revised in subsequent periods, if necessary, if actual forfeitures differ from those estimates.

The Company's warrant costs are recorded in liabilities and equities, respectively, in accordance with ASC 480, ASC 505 and ASC 815.

The fair value of warrants, which is classified as a liability, is estimated using a Black-Scholes-Merton model. The Company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on the expiration date of the warrant. The risk-free interest rate for the expected term of the warrant is based on the U.S. Treasury yield curve in effect at the time of measurement. The warrants, which are freestanding derivatives and are classified as liabilities on the balance sheet, will be measured at fair value on each reporting date, with decreases in fair value recognized in earnings and increases in fair values recognized in expenses.

The Company determined that the fair value of equity based warrants, which are not considered derivatives under ASC 815, is estimated using the Black-Scholes-Merton model. The Company's expected volatility assumption is based on the historical volatility of the Company's stock. The expected life assumption is primarily based on the expiration

date of the warrant. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

*Estimates affecting accounts receivable and inventories*

The preparation of our consolidated financial statements requires management to make estimates and assumptions that affect our reporting of assets and liabilities (and contingent assets and liabilities). These estimates are particularly significant where they affect the reported net realizable value of the Company's accounts receivable and inventories.

Accounts receivable are recognized and carried at net realizable value. An allowance for doubtful accounts will be recorded in the period when a loss is probable based on an assessment of specific evidence indicating troubled collection, historical experience, accounts aging, ongoing business relation and other factors. Accounts are written off after exhaustive efforts at collection. If accounts receivable are to be provided for, or written off, they would be recognized in the consolidated statement of operations within operating expenses. At September 30, 2012 and December 31, 2011, the Company has an allowance for doubtful accounts of \$0 and \$0 respectively, as per the management's judgment based on their best knowledge.

Inventories are stated at the lower of cost, determined on a weighted average basis, or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. When inventories are sold, their carrying amount is charged to expense in the year in which the revenue is recognized. Write-downs for declines in net realizable value or for losses of inventories are recognized as an expense in the year the impairment or loss occurs. There were no declines in net realizable value of inventory for the nine months ended September 30, 2012.

While the Company currently believes that there is little likelihood that actual results will differ materially from these current estimates, if customer demand for our products decreases significantly in the near future, or if the financial condition of our customers deteriorates in the near future, the Company could realize significant write downs for slow-moving inventories or uncollectible accounts receivable.

*Revenue Recognition*

Revenues represent the invoiced value of goods sold, recognized upon the shipment of goods to customers. Revenues are recognized when all of the following criteria are met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred or services have been rendered;
- The seller's price to the buyer is fixed or determinable; and
- Collectability is reasonably assured.



**Results of Operations**

*Comparison of Nine Months Ended September 30, 2012 and 2011*

The following table sets forth the amounts and percentage relationship to revenue of certain items in our condensed consolidated statements of income and comprehensive income

	<b>For Nine Months Ended September 30, 2012</b>	<b>% Of Revenue</b>	<b>For Nine Months Ended September 30, 2011</b>	<b>% Of Revenue</b>	<b>Change In Amount</b>	<b>Change In %</b>
<b>REVENUES, NET</b>	\$ 38,182,211	100.0%	\$ 28,789,766	100.0%	\$ 9,392,445	32.6%
<b>COST OF GOODS SOLD</b>	(29,829,097)	(78.1%)	(22,060,888)	(76.6%)	(7,768,209)	35.2%
<b>GROSS PROFIT</b>	8,353,114	21.9%	6,728,878	23.4%	1,624,236	24.1%
Research and development	(2,006,269)	(5.3%)	(1,695,003)	(5.9%)	(311,266)	18.4%
Selling and distribution expenses	(331,750)	(0.9%)	(234,854)	(0.8%)	(96,896)	41.3%
General and administrative expenses	(2,520,600)	(6.6%)	(2,568,417)	(8.9%)	47,817	(1.9%)
<b>INCOME FROM OPERATIONS</b>	3,494,495	9.2%	2,230,604	7.7%	1,263,891	56.7%
Interest income (expense), net	(133,806)	(0.4%)	95,549	0.3%	(229,355)	(240.0%)
Change in fair value of financial instruments	1,078,795	2.8%	7,480,992	26.0%	(6,402,197)	(85.6%)
Government grants	45,942	0.1%	289,962	1.0%	(244,020)	(84.2%)
Investment (loss) income	(45,670)	(0.1%)	(20,181)	(0.1%)	(25,489)	126.3%
Other income, net	285,805	0.2%	262,299	0.9%	23,506	9.0%
<b>(LOSS) INCOME FROM OPERATIONS BEFORE INCOME TAXES</b>	4,725,561	12.4%	10,339,225	35.9%	(5,613,664)	(54.3%)
<b>INCOME TAX (EXPENSE)</b>	(842,863)	(2.2%)	(394,624)	(1.4%)	(448,239)	113.6%
<b>NET (LOSS) INCOME</b>	3,882,698	10.2%	9,944,601	34.5%	(6,061,903)	(61.0%)

**(a) Revenue**

For the Nine months ended September 30, 2012, our revenue increased by 32.6%, from \$ 28,789,766 to \$ 38,182,211 as compared to the nine months ended September 30, 2011.

The following table lists the number of vehicles sold, categorized by vehicle types, within the nine months ended September 30, 2012 and 2011:

	Nine Months Ended September 30			
	2012		2011	
	Unit	Sales	Unit	Sales
ATV	10,657	\$ 4,696,067	4,695	\$ 2,770,356
Super-mini car <sup>1</sup>	1,110	5,417,659	840	4,920,718
Go-Kart	24,354	22,237,265	16,907	16,916,590
Utility vehicles ( UTVs )	36	134,740	853	1,854,771
Three wheeled motorcycle	733	893,337	678	1,433,049
Refitted car	86	2,362,096	34	894,282
Auto generator	61,440	2,441,047	-	-
<b>Total</b>	<b>98,416</b>	<b>38,182,211</b>	<b>24,007</b>	<b>28,789,766</b>

1) include the products called CoCo, EV in 2011's filing, and EV only in 2012.

**Off-Road Vehicles**

During the nine months ended September 30, 2012, the market condition for ATV products continued to recover. The Company developed some price competitive products to meet markets demands, which has caused good results and successfully increased the Company's sales. Revenues from our ATVs experienced a significant increase of \$1,925,711, or 69.5% in the nine months ended September 30, 2012 over the comparable period, which was attributable to a 127.0% increase in units sold, from 4,695 units in the first nine months of 2011 to 10,657 units in 2012. This increase was partially caused by a 25.3% unit price reduction.

In the first nine months of 2012, our Go-Karts experienced a significant increase in revenue of \$5,320,675 or 31.5% over the same period of last year, which was mainly attributable to a 44.0% increase in unit sales from 16,907 units in the nine months ended September 30, 2011 to 24,354 units in 2012. Just as with ATVs, the Company's successful development of meet-market-demands price competitive products has achieved good results.

The sales of three-wheeled motorcycle (TT) experienced a significant decrease in revenues from \$1,433,049 to \$893,337. In the first nine months ended September 30, 2012, the sales of TT decreased \$539,712, or 37.7% from the same period of last year, despite the slight increase in unit sales from 678 units in the nine months ended September 30, 2011 to 733 units in 2012, with an average unit price decrease of 42.3%. The unit price decreased because the Company developed price-competitive gas-electric hybrid driven three wheeled motorcycles to meet the growing demand of such units in the Chinese urban and rural markets.

Utility vehicles (UTVs) experienced a significant decrease in revenues from \$1,854,771 to \$134,740. This 92.7% decrease is mainly due to the 95.8% drop in unit sales in the nine months ended September 30, 2012 compared to the same period of 2011. This significant drop is primarily because of the continuing high competition in this UTV market, while the UTV manufactured by the Company is relatively high end and more expensive, which caused the average unit price to increase significantly compared to the same period of last year.

**Super-mini-Car Products**

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The EV products experienced a significant increase in revenues from \$4,920,718 to \$5,417,659. For the nine months ended September 30, 2012, revenues from our Super-mini car increased by \$496,941, or 10.1% from the same period of 2011, which was attributable to an increase in unit sales of 32.1% from 840 units in the first nine months of 2011 to 1,110 units in 2012. This increase is primarily a result of the benefit from local government's policies which encourage the development of eco-car. For the nine months ended September 30, 2012, the average unit price of our super-mini-cars decreased 16.7%, because during most of the reporting period, the Company adopted the sales mode of charging or exchanging batteries to sell the super-mini-cars without batteries.

**Refitted car**

For the nine months ended September 30, 2012, revenues from our refitted car increased by \$1,467,814, or 164.1% from the same period of 2011; that is because the Company started to refit other companies' vehicles to meet special requirements for certain customers since June 2011.

**Auto generator**

On April 25, 2012, the Company acquired Yongkang Scrou Electric Co. (Yongkang Scrou), whose main business is producing various auto generators. From April 25, 2012 to September 30, 2012, a total 61,440 sets of auto generators were sold with sales totaling \$2,441,047.

The following table shows the breakdown of Kandi's revenues from its customers by geographical markets based on the location of the customer during the nine months ended September 30, 2012 and 2011:

	Nine Months Ended September 30			
	2012		2011	
	Sales	Percentage	Sales	Percentage
North America	\$ 4,462,269	12%	\$ 3,476,633	12%
China	32,868,171	86%	24,531,801	85%
Europe & other region	851,771	2%	781,332	3%
Total	\$ 38,182,211	100%	\$ 28,789,766	100%

For the nine months ended September 30, 2012, approximately 80% of our sales in China were to Chinese export agents, who resell the company's products to markets around the world.

**(b) Cost of goods sold**

Cost of goods sold during the nine months ended September 30, 2012 was \$29,829,097, representing an increase of \$7,768,209, or 35.2% from the nine months ended September 30, 2011. This increase can be attributed to the Company's significant increase of revenue.

**(c) Gross profit**

Gross profit for the first nine months of 2012 increased 24.1% to \$8,353,114 compared to \$6,728,878 at the same period of last year, as a result of increased revenue. However, gross margin decreased to 21.9% compared to 23.4% for the same period of 2011. This was primarily due to the fact that processing techniques for refitted cars are relatively simple; therefore, its gross margin is comparatively lower. In addition, Yongkang Scrou's adjustment to its product structure, its disposal of its old products, and sales of price-competitive products all contributed to a reduction in the Company's overall gross margin for this reporting period.

**(d) Selling and distribution expenses**

Selling and distribution expenses were \$331,750 for the nine months ended September 30, 2012, as compared to \$234,854 for the same period in 2011, representing a 41.3% increase. The significant increase is primarily because of the increase in fees related to customs inspection fees, higher transportation fees and advertising fees.

**(e) General and administrative expenses**

General and administrative expenses were \$2,520,600 for the nine months ended September 30, 2012, as compared to \$2,568,417 for the same period in 2011, representing a 1.9% decrease. For the nine months ended September 30, 2012, the general and administrative expenses included \$19,053 in stock-based compensation cost for the options

issued to the Company's executives and managerial level employees, while for the same period of last year, the stock based compensation cost was \$195,474. In addition, general and administrative expenses also included \$65,733 in expenses for common stock awards to employees and consultants for financing and investor relations services, while for the same period of last year, this cost was \$30,530. Excluding the effect of stock based compensation cost and stock award cost, the net general and administrative expenses for the nine months ended September 30, 2012 was \$2,435,814, an increase of 4.0% from \$2,342,413 for the same period of 2011. This increase was primarily due to higher product insurance fees, travelling fees and expenses related to increases to our employee's general welfare.

**(f) Research and development**

Research and development expenses were \$2,006,269 for the nine months ended September 30, 2012, as compared to \$1,695,003 from the same period in 2011, representing an 18.4% increase. This increase was primarily due to additional research and development efforts on new products and on quality improvement on existing products. In the first nine months of 2012, the Company strengthened the research and development for electrical vehicles equipped with lithium battery in order to seek the leading position in EV market. In addition, on September 29, 2012, the Company successfully signed a sales contract totaling amount RMB190 million with China Aviation Lithium Battery (Hangzhou) Co., Ltd.

**(g) Government grants**

Government grants totaled \$45,942 for the nine months ended September 30, 2012, representing a 84.2% decrease over the same period in 2011.

**(h) Net interest income (expense)**

Net interest expense was \$133,806 for the nine months ended September 30, 2012, as compared to \$95,549 net interest income for the same period last year, representing a significant decrease. For the nine months ended September 30, 2012, the interest expense for convertible notes was \$2, and the interest incurred by the amortization of debt discount was \$43. While for the same period of last year, the interest expense for the convertible notes was \$123, and the interest incurred by the amortization of debt discount was \$406. Excluding the effects of interest expense related to convertible notes, the net interest expenses for this reporting period was \$133,761, a change of \$96,078 for the same period of 2011. This increase was primarily due to increases of interest expense caused by short-term bank loans.

**(i) Change in fair value of financial instruments**

For the nine months ended September 30, 2012, the interest income, which was caused by changes in the fair value of warrants issued to investors and placement agents was \$1,078,795, while for the same period of last year, the interest income, which was caused by the changes of fair value of financial instruments, was \$7,480,992. This significant decrease was primarily due to our stock price being more stable in the first nine months of 2012 compared to the same period of last year.

**(j) Other Income, Net**

Net other income was \$285,805 for the nine months ended September 30, 2012, compared to \$262,299 for the same period of 2011, an increase of \$23,506 or 9.0% . This increase was primarily due to the increase of selling the fittings of the EV-cars.

**(k) Investment (loss) income**

Investment loss was \$45,670 for the first nine months ended September 30, 2012, compared to \$20,181 for the corresponding period in 2011. For the nine months ended September 30, 2012, the investment loss was solely the result of our 30% equity interest investment in Jinhua Service, which was \$29,786 for the same period of 2011. During the first nine months ended September 30, 2011, the \$9,605 investment income was from trading securities.

**(I) Net income**

The operating performance of the Company for the nine months ended September 30, 2012 reflected a net income of \$3,882,698, a decrease of \$6,061,903 or 156.1% from a net income of \$9,944,601 for the same period of last year, which was primarily due to changes in the fair value of certain warrants issued to investors and placement agents. Excluding the effects of option related expenses, which was \$19,053 and \$195,474 for the nine months ended September 30, 2012 and 2011, respectively; stock award expenses of \$65,733 and \$30,530 for the nine months ended September 30, 2012 and 2011, respectively; Convertible Note interest expenses of \$2 and \$123 for the nine months ended September 30, 2012 and 2011, respectively, which was caused by an amortization of discount on the Convertible Notes of \$43 and \$406 for the nine months ended September 30, 2012 and 2011, respectively; a change in the fair value of financial derivatives to \$1,078,795 and \$7,480,992 for the nine months ended September 30, 2012 and 2011, respectively; for the nine months ended September 30, 2012, the Company's net income was \$2,888,734, an increase of 7.4% compared to net income of \$2,690,142 for the same period of 2011, excluding the same effects. This increase was primarily due to an increase in gross profit. As of September 30, 2012, all of the Convertible Notes have been converted.

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Comparison of Three Months Ended September 30, 2012 and 2011

The following table sets forth the amounts and percentage relationship to revenue of certain items in our condensed consolidated statements of income and comprehensive income

	<b>For Three Months Ended September 30, 2012</b>	<b>% Of Revenue</b>	<b>For Three Months Ended September 30, 2011</b>	<b>% Of Revenue</b>	<b>Change In Amount</b>	<b>Change In %</b>
<b>REVENUES, NET</b>	\$ 12,765,694	100%	\$ 10,310,558	100%	\$ 2,455,136	23.8%
<b>COST OF GOODS SOLD</b>	(9,541,687)	(74.7%)	(7,984,828)	(77.4%)	(1,556,859)	19.5%
<b>GROSS PROFIT</b>	3,224,007	25.3%	2,325,730	22.6%	898,277	38.6%
Research and development	(630,083)	(4.9%)	(608,463)	(5.9%)	(21,620)	3.6%
Selling and distribution expenses	(158,714)	(1.2%)	(85,239)	(0.8%)	(73,475)	86.2%
General and administrative expenses	(940,930)	(7.4%)	(1,067,021)	(10.3%)	126,091	(11.8%)
<b>INCOME FROM OPERATIONS</b>	1,494,280	11.7%	565,007	5.5%	929,273	164.5%
Interest income (expense), net	(76,866)	(0.6%)	117,353	1.1%	(194,219)	(165.5%)
Change in fair value of financial instruments	(882,731)	(6.9%)	(271,780)	(2.6%)	(610,951)	224.8%
Government grants	20,634	0.2%	9,235	0.1%	11,399	123.4%
Investment income	(18,259)	(0.1%)	(12,905)	(0.1%)	(5,354)	41.5%
Other income, net	239,203	1.9%	95,067	0.9%	144,136	151.6%
<b>(LOSS) INCOME FROM OPERATIONS BEFORE INCOME TAXES</b>	776,261	6.1%	501,977	4.9%	274,284	54.6%
<b>INCOME TAX (EXPENSE)</b>	(181,743)	(1.4%)	(117,119)	(1.1%)	(64,624)	55.2%
<b>NET (LOSS) INCOME</b>	594,518	4.7%	384,858	3.7%	209,660	54.5%



**(a) Revenue**

For the three months ended September 30, 2012, our revenues increased 23.8% from \$10,310,558 to \$12,765,694 as compared to the three months ended September 30, 2011.

The following table lists the number of vehicles sold, categorized by vehicle types, for the three months ended September 30, 2012 and 2011:

	Three Months Ended September 30			
	2012		2011	
	Unit	Sales	Unit	Sales
ATV	3,579	\$ 1,734,120	2,030	\$ 1,044,602
Super-mini car <sup>1</sup>	471	2,780,807	298	1,512,861
Go-Kart	7,372	6,504,208	5,513	5,763,275
Utility vehicles ( UTVs )	1	1,358	460	634,534
Three wheeled motorcycle ( TT )	235	209,371	394	751,126
Refitted car	22	627,467	23	604,160
Auto generator	33,142	908,363	-	-
Total	44,822	12,765,694	8,718	10,310,558

1) include the products called CoCo, EV in 2011's filing, and EV only in 2012

**Off-Road Vehicles**

During the three months ended September 30, 2012, the market condition for our ATV products continued to recover. The Company developed some price competitive products to meet markets demands that caused good results and successfully increased the Company's sales. Revenues from our ATVs experienced a significant increase of \$689,518, or 66.0% in the three months ended September 30, 2012, compared to the comparable period in 2011, which was attributable to a 76.3% increase from 2,030 units in the three months of 2011 to 3,579 units in 2012. This increase was partially caused by a 5.8% unit price decrease.

During the three months ended September 30, 2012, our Go-Karts experienced an increase in revenue of \$740,933 or 12.9% compared to the same period in 2011, which was attributable to a 33.7% increase in unit sales from 5,513 units in the three months ended September 30, 2011 to 7,372 units in 2012. Just as with ATVs, the Company's successful development of price competitive products that meet market demands achieved good results.

In the three months ended September 30, 2012, sales of our TT decreased \$541,755, or 72.1% compared to the same period of last year. This decrease primarily occurred because the market is highly competitive, and the decrease in unit sales from 394 units in the nine months ended September 30, 2011 to 235 units in 2012, with the average unit price having decreased by 53.3%. The unit price decreased because the Company developed price-competitive, gas-electric hybrid driven three wheeled motorcycles to meet the growing demand of such units in the Chinese urban and rural markets.

UTVs experienced a significant decrease in revenues from \$634,534 to \$1,358. This 99.8% decrease was mainly due to a 99.8% drop in unit sales in the three months ended September 30, 2012 compared to the same period of 2011. This significant drop was primarily due to continuing high competition in the UTV market. The UTVs manufactured by the Company are relatively high end and more expensive, which caused the average unit price to increase significantly compared to the same period of last year.

**Super-mini-Car Products**

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The EV products experienced a significant increase in revenues from \$1,512,861 to \$2,780,807. For the three months ended September 30, 2012, revenues from our Super-mini car increased by \$1,267,946, or 83.8%% from the same period of 2011, which was attributable to an increase in unit sales of 58.1%% from 298 units in the three months of 2011 to 471 units in 2012. This increase is primarily due to beneficial local government policies that have encouraged the development of eco-cars. In addition, for the three month period ended September 30, 2012, the company sold super-mini-cars with and without batteries; the selling price of super-mini-cars with batteries is higher than the selling price of super-mini-cars sold without batteries.

**Refitted car**

For the three months period ended September 30, 2012, the performance of refitted cars sales has slightly improved with a 3.9% increase in revenue comparing to the same period last year.

**Auto generator**

On April 25, 2012, as reported on Form 8-Ks filed on February 17, 2012 and May 2, 2012, the Company via its acquisition of KO NGA Investment Limited acquired Yongkang Scrou, whose main business is producing various auto generators. From July 1, 2012 to September 30, 2012, a total of 33,142 sets of auto generators were sold, with sales of \$908,363.

The following table shows a breakdown of the Company's revenues from its customers by geographical markets based on the location of the customer during the 3 months ended September 30, 2012 and 2011:

	Three Months Ended September 30			
	2012		2011	
	Sales	Percentage	Sales	Percentage
North America	\$ 1,266,463	10%	\$ 1,292,509	13%
China	11,192,195	88%	8,759,034	85%
Europe & other region	307,036	2%	259,015	2%
Total	\$ 12,765,694	100%	\$ 10,310,558	100%

For the three months ended September 30, 2012, about 75% of our sales in China were sales to Chinese export agents, who resold the Company's products to markets around the world.

**(b) Cost of goods sold**

Cost of goods sold during the three months ended September 30, 2012 was \$9,541,687, representing an increase of \$1,556,859, or 19.5% from the three months ended September 30, 2011, which can be attributed to the Company's significant increase of revenue.

**(c) Gross profit**

As a result of increased revenue, gross profit for the third quarter of 2012 increased 38.6% to \$3,224,007 compared to \$2,325,730 at the same period of last year. The gross margin increased to 25.3% compared to 22.6% for the same period of 2011. This significant increase is primarily due to the price of the EV-cars with batteries being higher than the price of EV-cars without batteries. The gross margin of the EV-car increased by 5% compared to the same period of 2011.

**(d) Selling and distribution expenses**

Selling and distribution expenses were \$158,714 for the three months ended September 30, 2012, compared to \$85,239 for the same period in 2011, representing a 86.2% increase. The significant increase is primarily due to increases in fees related to customs inspection fees, higher transportation fees and advertising fees.

**(e) General and administrative expenses**

General and administrative expenses were \$940,930 for the three months ended September 30, 2012, as compared to \$1,067,021 for the same period in 2011, representing a 11.8% decrease. For the three months ended September 30, 2012, the general and administrative expenses included \$0 in stock-based compensation cost for the options issued to the Company's executives and managerial level employees, while for the same period of last year, this stock based

compensation cost was \$57,159. In addition, general and administrative expenses also included \$36,907 in expenses for common stock awards to employees and consultants for financing and investor relations services, while for the same period of last year, this cost was \$1,704. Excluding the effect of stock based compensation cost and stock award cost, the net general and administrative expenses for the three months ended September 30, 2012 was \$904,023, a decrease of 10.3% from \$1,008,158 for the same period of 2011. This decrease was primarily due to lower product insurance fees.

**(f) Research and development**

Research and development expenses were \$630,083 for the three months ended September 30, 2012, as compared to \$608,463 for the same period in 2011, representing a 3.6% increase. This increase was primarily due to additional research and development efforts on new products and quality improvements on existing products. In the third quarter of 2012, the Company increased the amount of money it spent on research and development for electrical vehicles equipped with lithium battery in hopes of obtaining a leading position in the EV market. In addition, on September 29, 2012, the Company successfully signed the sales contract totaling amount RMB190 million with China Aviation Lithium Battery (Hangzhou) Co., Ltd.

**(g) Government grants**

Government grants totaled \$20,634 for the three months ended September 30, 2012, representing a 123.4% increase over the same period in 2011.

**(h) Net interest income (expense)**

Net interest expenses was \$76,866 for the three months ended September 30, 2012, as compared to \$117,353 net interest income for the same period last year, representing a significant decrease. For the three months ended September 30, 2012, the interest expense for convertible notes was \$0, and the interest incurred by the amortization of debt discount was \$0. While for the same period of last year, the interest expense for the convertible notes was \$93, and the interest incurred by the amortization of debt discount was \$184. Excluding the effects of interest expense related to convertible notes, the net interest expenses for this reporting period was \$76,866, a significant change from net interest income of \$117,630 for the same period of 2011, primarily due to increases of interest expense in short-term bank loans and discounted notes.

**(i) Change in fair value of financial instruments**

For the three months ended September 30, 2012, the interest expense, which was caused by the changes of fair value of warrants issued to investors and placement agents, was \$882,731, while for the same period of last year, the interest expense, which was caused by the changes of fair value of financial instruments, was \$271,780. This significant increase was primarily due to decreases in our stock price in the third quarter of 2012.

**(j) Other Income, Net**

Net other income was \$239,203 for the three months ended September 30, 2012, compared to \$95,067 for the same period of last year, an increase of \$144,136 or 151.6% . This increase can be primarily attributed to the increase of selling the fittings of our EV-cars.

**(k) Investment (loss) income**

Investment loss was \$18,259 for the three months ended September 30, 2012, compared to \$12,905 for the corresponding period in 2011. For the three months ended September 30, 2012, the investment loss was purely a result of our 30% equity interest investment in Jinhua Service, which was \$12,967 for the same period of 2011.

**(l) Net income**

The operating performance of the Company for the three months ended September 30, 2012 reflected a net income of \$594,518, an increase of \$209,660 or 54.5% from a net income of \$384,858 for the same period of last year, which was primarily due to changes in the fair value of warrants issued to certain investors and placement agents.

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Excluding the effects of option related expenses, which was \$0 and \$57,159 for the three months ended September 30, 2012 and 2011, respectively; the stock award expense, which was \$36,907 and \$1,704 for the three months ended September 30, 2012 and 2011, respectively; the Convertible Note s interest expense, which was \$0 and \$93 for the three months ended September 30, 2012 and 2011, respectively; the effect caused by an amortization of discount on Convertible Notes, which was \$0 and \$184 for the three months ended September 30, 2012 and 2011, respectively; and a change in the fair value of certain financial derivatives, which was (\$882,731) and (\$271,780) for the three months ended September 30, 2012 and 2011, respectively; for the three months ended September 30, 2012, the Company s net income was \$1,514,156, an increase of 111.5% compared to net income of \$715,778 for the same period of 2011 excluding the same effects. This increase was primarily due to an increase in gross profit. As of September 30, 2012, all of the Convertible Notes have been converted.

## **Financial Condition**

### **Liquidity and Capital Resources**

#### **Working Capital**

The Company had a working capital surplus of \$25,903,447 as of September 30, 2012, comparable to a working capital surplus of \$18,936,075 as of September 30, 2011.

As of September 30, 2012, the Company had credit lines from commercial banks for \$41,364,067, of which \$29,681,086 was used as of September 30, 2012. The Company believes that its cash flows generated internally may not be sufficient to support growth of future operations and repay short term bank loans for the next twelve months if needed. However, the Company believes its access to existing financing sources and established relationships with PRC banks will enable it to meet its obligations and fund its ongoing operations.

The Company has historically financed itself through short-term commercial bank loans from PRC banks. The terms of these loans are typically for one year, and upon the payment of all outstanding principal and interest in a respective loan, the banks have typically rolled over the loans for additional one-year terms, with adjustments made to the interest rate to reflect prevailing market rates. The Company believes this situation has not changed and the short-term bank loans will be available on normal trade terms if needed.

**Capital Requirements and Capital Provided**

Capital requirements and capital provided for the nine months ended September 30, 2012 are as follows:

	<b>Nine Months Ended September 30, 2012</b>	
	<b>(In thousands)</b>	
<b><u>Capital requirements</u></b>		
Purchase of plant and equipment		473
Purchase of Construction in progress		2,160
Repayments of short-term bank loans		32,604
Repayments of notes payable		14,558
Increase in restricted cash		13,242
Internal cash used in operations		13,816
Issuance of notes receivable		1,011
Total capital requirements	\$	77,864
<b><u>Capital provided</u></b>		
Proceeds from short-term bank loan		31,023
Proceeds from notes payable		18,317
Repayments of notes receivable		23,116
Other financing activities		336
Common Stock Issued, net of Cost of Capital		3,742
Cash Acquired in Acquisition		113
Total capital provided	\$	76,647

For further information, see the Statement of Cash Flows.

The difference between capital provided and capital requirement is the effect of exchange rate changes over the past nine months.

**Cash Flow**

Net cash flow used in operating activities was (\$13,816,049) for the nine months ended September 30, 2012, as compared to net cash flow provided by operating activities of \$6,509,943 in the same period in 2011. The significant change of net cash flow used in operating activities was mainly due to the large amount of cash outflow caused by accounts receivable performance described below in this paragraph and the (\$3,158,733) amount of cash outflow caused by prepayments and prepaid expenses. The amount of accounts receivable has changed to cash outflow of (\$13,939,987) in the nine months ended 2012 from cash inflow \$8,118,796 for the same period of last year. The amount of prepayments and prepaid expenses has changed to cash outflow of (\$3,158,733) in the nine months ended 2012 from cash outflow of (\$3,290,026) for the same period of last year, which is mainly due to a higher than normal number of molds purchasing contracts that we set-off this year, which resulted in a reduction of our cash inflow.

Net cash flow provided by investing activities was \$19,584,715 for the nine months ended September 30, 2012 as compared to net cash flow used in investing activities of (\$1,200,894) for the same reporting period in 2011. For the nine months ended September 30, 2012, the Company recorded a net cash inflow of \$22,105,198 in notes receivable, due to the \$23,115,794 repayment of notes receivable and the (\$1,010,596) issuance of notes receivable. In comparison to the same period of last year, the Company issued (\$2,751,302) in notes receivable and \$ 7,810,463 in repayment of note receivables, which caused a net cash inflow of \$5,059,161 from notes receivable.

Net cash flow used in financing activities was (\$6,986,073) for the nine months ended September 30, 2012, as compared to net cash flow used in financing activities of (\$11,045,638) for the nine months ended September 30, 2011. Cash flow used in financing activities for the nine months ended September 30, 2012 was primarily due to the



changes in restricted cash, which caused a cash outflow of (\$13,241,885) and a net cash inflow from notes payable of \$3,758,463. For the same period of last year, the Company recorded a net cash outflow from notes payable of (\$5,714,101) and a (\$8,255,977) from the restricted cash .

**Off-Balance Sheet Arrangements:**

Please see Financial Footnotes 14 and 19 for additional information relating to the following off-balance sheet arrangements.

**(a) Guarantees and Pledged collateral for third party bank loans**

As of September 30, 2012, the Company provided guarantees for the following third parties:

## (1) Guarantees for bank loans

Guarantee provided to	Amount
Zhejiang Kangli Metal Manufacturing Company.	\$ 4,736,344
Zhejiang Shuguang industrial Co., Ltd.	7,893,906
Zhejiang Taiping Shengshi Industrial Co., Ltd.	3,157,562
Yongkang Angtai Trade Co., Ltd.	789,391
Nanlong Group Co., Ltd.	3,157,562
Total	\$ 19,734,765

## (2) Pledged collateral for a third party's bank loans

As of September 30, 2012, the Company provided the land use rights and plant and equipment pledged as collateral for the following third party:

Zhejiang Mengdeli Electric Co., Ltd.:

Land use rights net book value	\$ 6,844,301
Plant and equipment net book value	\$ 4,536,418

It is a common business practice among companies in the region of China where Kandi is located to exchange guarantees for bank debt with no consideration given. It is considered a favor for favor business practice and is commonly required by the lending banks as in these cases. These companies provided guarantees for the Company's bank loans as well. The banks involved in these guarantee transactions typically allow a maximum loan amount based on a 30% to 70% discount on the net book value of the pledged collateral.

**Recent Activities:**

On July 10, 2012, the Company signed a cooperative letter of intent ( LOI ) with China Aviation Lithium Battery Co., Ltd. in Beijing to promote 20,000 pure electrical vehicles in Hangzhou.

On July 13, 2012, the Company signed a framework agreement with the government of Weifang Binhai Economic Development Zone in Wei Fang City of Shandong Province to produce key components and parts for 100,000 electrical vehicles annually.

From August 10th to 12th, 2012, the Company participated in the Second China International Green Vehicle Industry Expo (Hangzhou) at the Hangzhou Heping International Convention Center in Hangzhou, China.

On August 15, 2012, the Company signed a cooperative letter of intent with Zhejiang Zotye Holding Group Co., Ltd. to establish a strategic alliance and cooperate with each other's competitive strengths to advance the EV development in Hangzhou.

On September 5, 2012, the Company hosted an investor event at McKenna Long & Aldridge LLP's offices in Atlanta GA to discuss Kandi's recent developments and strategy for future plans.

On September 29, 2012, the Company and China Aviation Lithium Battery (Hangzhou) Co., Ltd. entered a Sales Contract for 5,000 pure EVs of Model JNJ6290.

On October 29, 2012, the Company negotiated, conditional upon approval by the board of directors of the Company, a framework agreement (the 'Framework Agreement') with Wanning city government of Hainan Province, under which the Company intends to expand into Hainan's pure EV market by establishing and investing in a manufacturing plant that will have the capacity to produce key components and parts for up to 100,000 EVs annually.

On October 31, 2012, the Company received a new order of 100 pure EVs from Hangzhou New Energy Taxi Co. Ltd. which intends to deploy all 100 EVs for its internal and marketing use.

On November 4, 2012, Mr. Wan Gang, Vice Chairman of Chinese People's Political Consultative Conference (CPPCC) which is the lower house of Chinese Congress and Minister of the Ministry of Science and Technology of China visited Kandi's facility in Jinhua City. Mr. Hu Xiaoming, our Chairman and CEO, reported to Mr. Wan regarding the Company's new business model of pure electric vehicle. Minister Wan carefully reviewed a sample of pure EVs of the Company and gave Kandi's pure EVs high marks after a detailed introduction by the Company.

On November 5, 2012, Mr. Hu Xiaoming, our Chairman and CEO, paid a visit to Zhejiang Geely Holding Group, which is one of the top ten automobile manufacturers in China (including Volvo Cars Corporation) and met its Chairman Li Shufu at Geely's headquarters. The parties had an in-depth discussion of the development of pure EVs in China.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

#### **Exchange Rate Risk**

Our operations are conducted mainly in the PRC. As such, our earnings are subject to movements in foreign currency exchange rates when transactions are denominated in RMB, which is our functional currency. Accordingly, our operating results are affected by changes in the exchange rate between the U.S. dollar and those currencies.

#### **Economic and Political Risks**

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's performance may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation, among other things.

### **Item 4. Controls and Procedures.**

#### **Evaluation of Disclosure Controls and Procedures**

The Company maintains a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed by the Company in this Form 10-Q, and in other reports required to be filed under the Securities Exchange Act of 1934 (the Exchange Act), is recorded, processed, summarized and reported within the time periods specified in the rules and forms for such filings. Management of the Company, under the direction of the Company's Chief Executive Officer and Chief Financial Officer, reviewed and performed an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15a(e) and 15d-15(e) under the Exchange Act) as of September 30, 2012. Based on that review and evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and is accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### **Changes in Internal Control over Financial Reporting**

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Inherent Limitations on Effectiveness of Controls**

Our management, including the CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. 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. Projections of any evaluation of the effectiveness of

controls to future periods are subject to risks. 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.**

There are two lawsuits currently pending in Ripley County, Missouri against the Company and its subsidiary Zhejiang Kandi Vehicles Co., Ltd.( Kandi Vehicles ) as well as other parties, Kandi Investment Group and SunL, and they are related to two persons who died in an accident on March 3, 2006 while operating a go-cart allegedly manufactured by Kandi Vehicles. Kandi Investment Group was a major shareholder of Kandi Vehicles but it transferred all its equity in Kandi Vehicles to Continental Development Limited in November 2006. Since then, Kandi Investment Group is unrelated to the Company or its affiliates.

The cases were filed in 2009 and are known as Elder vs. SunL Group and Griffen vs. SunL Group. In March, 2010, the local trial court entered two default judgments in the amount of \$20,000,000 each against Kandi Vehicles and other parties including Kandi Investment but not the Company. The lawsuit and default judgments didn't come to the Company or Kandi Vehicles' attention until May or June 2010. The Company had not been served or notified of the lawsuits and learned of their existence and of the default judgment in the course of commercial discussions with another of the defendants in the cases. Currently, the Company and Kandi Vehicles have filed answers to the complaint denying any culpability. In addition, the Company requested that the court set aside the default judgments against Kandi Vehicles, a request granted, by the court, on February 28, 2011. On March 3, 2011, the plaintiffs subsequently appealed the court order vacating the default judgments; however, the plaintiffs have since voluntarily withdrawn their appeal.

The Company intends to propound discovery on the plaintiffs. The Company and Kandi Vehicles each filed a Motion for Summary Judgment in an attempt to have the cases dismissed by summary judgment. The plaintiffs also filed a Motion for Summary Judgment. All of the Motions for Summary Judgment were argued before the court on July 2, 2012. The judge has not ruled on any of the Motions for Summary Judgment.

The Company intends to defend these cases vigorously and expects to prevail in this lawsuit since the Company including its subsidiaries did not manufacture the subject vehicle in the accident.

### **Item 1A. Risk Factors.**

Other than as set forth in our previous Form 10-Q for the quarterly period ended June 30, 2012, as of the date of this filing, there have been no material changes from the risk factors previously disclosed in our Risk Factors in the Form 10-K for the period ended December 31, 2011. An investment in our common stock involves various risks. When considering an investment in our company, you should carefully consider all of the risk factors described in our most recent Form 10-K and Form 10-Q for the quarterly period ended June 30, 2012. These risks and uncertainties are not the only ones facing us and there may be additional matters that we are unaware of or that we currently consider immaterial. All of these could adversely affect our business, financial condition, results of operations and cash flows and, thus, the value of an investment in our company.

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

As previously reported on Form 8-Ks filed with the SEC on February 17, 2012 and May 2, 2012, in connection with a Share Exchange Agreement, the Company, on April 25, 2012, issued, in an exempt private placement, a total of 2,354,212 shares of the Company's common stock in reliance on Regulation S of the Securities Act of 1933, as amended. In connection with this exempt private placement, the Company filed a Registration Statement on Form S-3 registering the resale of the securities issued in the private placement. This Resale Form S-3 Registration Statement was declared effective by the SEC on September 20, 2012.

### **Item 3. Defaults Upon Senior Securities.**

None

**Item 4. Mine Safety Disclosures.**

None

**Item 5. Other Information.**

None.

**Item 6. Exhibits**

Exhibit Number	Description
<u>31.1</u>	<u>Certification pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934*</u>
<u>31.2</u>	<u>Certification pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934*</u>
<u>32.1</u>	<u>Certification of CEO and CFO pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002**</u>
Exhibit 101.INS	XBRL Instance Document.**
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document.**
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.**
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document.**
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.**
Exhibit 101.DEF	XBRL Taxonomy Definitions Linkbase Document.**

\*Filed herewith

\*\*Furnished with the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2012

**SIGNATURES**

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

**Kandi Technologies, Corp.**

Date: November 14, 2012 By: /s/ Hu Xiaoming  
 Hu Xiaoming  
 President and Chief Executive Officer  
 (Principal Executive Officer)

Date: November 14, 2012 By: /s/ Zhu Xiaoying  
 Zhu Xiaoying  
 Chief Financial Officer  
 (Principal Financial and Accounting Officer)