

ADVANCED BATTERY TECHNOLOGIES, INC.  
Form 10-Q  
November 12, 2008

**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, 2008

Transition Report pursuant to 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period to

Commission File No. 0-13337

ADVANCED BATTERY TECHNOLOGIES, INC.

(Name of Small Business Issuer in its Charter)

Delaware  
(State of Other Jurisdiction of  
incorporation or organization)

22-2497491  
(I.R.S. Employer I.D. No.)

21 West 39<sup>th</sup> Street, Suite 2A New York, NY 10018  
(Address of Principal Executive Offices)

212-391-2752

(Issuer's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One)

Large accelerated filer  Accelerated filer  Non-accelerated filer  Small reporting company

The number of shares outstanding of each of the issuer's class of equity as of the latest practicable date is stated below:

<u>Title of each class of Common Stock</u>	<u>Outstanding as of November 12, 2008</u>
Common Stock, \$0.001 par value	54,781,577

**PART I - FINANCIAL INFORMATION**

**ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS**

<b>ASSETS</b>	<b>September 30, 2008 (Unaudited)</b>	<b>December 31, 2007 (Audited)</b>
Current assets:		
Cash and cash equivalents	\$ 40,639,841	\$ 2,704,823
Accounts receivable	13,190,640	16,026,604
Inventory	1,472,785	1,159,474
Other receivables	901,815	84,950
Loan receivable	1,600,000	-
Advance to suppliers	1,746,109	1,608,967
Total Current Assets	59,551,190	21,584,818
 Property, plant and equipment, net of accumulated depreciation	 13,740,323	 13,243,236
 Other assets:		
Advance payment for investment	200,000	-
Security deposit	6,000	6,000
Intangible assets, net	1,609,072	1,563,037
Goodwill	2,499,021	2,326,119
	4,314,093	3,895,156
 Total Assets	 \$ 77,605,606	 \$ 38,723,210
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 984,002	\$ 406,454
Customer deposits	123,110	75,116
Accrued expenses and other payables	1,674,530	618,173
Loan from officers	1,217,986	735,700
Total Current Liabilities	3,999,628	1,835,444
 Long-term liabilities:		
Note payable	-	411,263
Total Liabilities	3,999,628	2,246,707

Commitments and Contingencies

Stockholders' Equity

Common stock, \$0.001 par value, 60,000,000 shares

authorized; 54,781,577 shares issued and outstanding as of September 30, 2008 and 60,000,000 shares authorized;

and 49,688,998 shares issued and outstanding as of December 31, 2007

	54,782	49,689
Additional paid-in-capital	39,083,904	18,029,891
Accumulated other comprehensive income	6,274,653	3,099,994
Retained earnings	28,192,639	15,296,930
Total Stockholders' Equity	73,605,978	36,476,504
Total Liabilities and Stockholders' Equity	\$ 77,605,606	\$ 38,723,210

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

**ADVANCED BATTERY TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**  
**For the three and nine months ended September 30, 2008 and 2007**

	Three-Month Ended		Nine-Month Ended	
	September 30, 2008	September 30, 2007 (Restated)	September 30, 2008	September 30, 2007 (Restated)
Revenues	\$ 12,662,585	\$ 8,573,009	\$ 34,442,838	\$ 21,622,092
Cost of Goods Sold	6,776,437	4,591,683	17,542,233	11,413,513
Gross Profit	5,886,148	3,981,326	16,900,605	10,208,579
Operating Expenses Selling, general and administrative	795,336	389,613	1,947,200	2,054,460
Operating income	5,090,812	3,591,713	14,953,405	8,154,119
Other Income (Expenses)	51,925	4,957	68,037	10,593
Income Before Income Taxes	5,142,737	3,596,670	15,021,442	8,164,712
Provision for Income Taxes	770,777	-	2,125,733	-
Net Income	\$ 4,371,960	\$ 3,596,670	\$ 12,895,709	\$ 8,164,712
Other Comprehensive Income				
Foreign currency translation	539,959	475,355	3,174,659	1,079,230

adjustment

Comprehensive Income	\$	4,911,919	\$	4,072,025	\$	16,070,368	\$	9,243,942
Weighted average number of common shares outstanding								
Basic		44,349,487		40,892,198		42,456,824		40,880,714
Diluted		52,527,987		49,645,031		50,635,324		49,633,547
Earnings per share	\$	0.10	\$	0.09	\$	0.30	\$	0.20
Basic								
Diluted	\$	0.08	\$	0.07	\$	0.25	\$	0.16

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

**ADVANCED BATTERY TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**For the Nine Months Ended  
September 30,**

**2008**

**2007**

**(Restated)**

**Cash Flows From Operating Activities:**

Net income	\$ 12,895,709	\$ 4,568,042
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	662,575	304,770
Amortization of prepaid consulting expenses	262,781	178,668
Amortization of stock compensation	439,844	249,561
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	2,835,964	(3,265,054)
Inventory	(313,311)	(217,612)
Other receivable & prepayments	(954,006)	(1,721,771)
Loan receivable	(1,600,000)	-
Prepaid taxes	-	(1,641,012)
Accounts payable, accrued expenses and other payables	1,633,906	1,267,573
Unearned revenue	47,994	49,277
Net cash provided by (used in) operating activities	15,911,456	(227,558)
<b>Cash Flows From Investing Activities:</b>		
Purchase of property, plant and equipment	(126,451)	(922)
Advance payment for investment	(200,000)	-
Collection on loan to related parties	-	815,918
Net cash provided by (used in) investing activities	(326,451)	814,996
<b>Cash Flows From Financing Activities</b>		
Repayments of notes payable	(411,263)	-
Proceeds from loan from officers	485,343	-
Proceeds from notes payable	-	34,404
Proceeds from issuance of common stock	21,500,042	-

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Payments for offering costs	(1,143,562)	-
Net cash provided by financing activities	20,430,560	34,404
Effect of exchange rate changes on cash and cash equivalents	1,919,453	236,610
Increase in cash and cash equivalents	37,935,018	858,452
Cash and Cash Equivalents - Beginning of period	2,704,823	12,630
Cash and Cash Equivalents - End of period	\$ 40,639,841	\$ 871,082

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



**ADVANCED BATTERY TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**(Continued)**

SUPPLEMENTAL CASH FLOW  
INFORMATION:

During the year, cash was paid for the  
following:

Interest expense	\$	-	\$	-
Income taxes	\$	2,125,727	\$	-

NON-CASH INVESTING AND FINANCING  
ACTIVITIES:

Common stock issued for incentive stock-based compensation	\$	139,403	\$	71,000
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The accompanying notes are an integral part of these condensed consolidated financial statements

**ADVANCED BATTERY TECHNOLOGIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)**

## **1. ORGANIZATION AND BASIS OF PRESENTATION**

Advanced Battery Technologies, Inc. ("ABAT" or the "Company") was incorporated in the State of Delaware on January 16, 1984.

On May 6, 2004, the Company completed a share exchange (the "Exchange") with the shareholders of Cashtech Investment Limited ( "Cashtech" ), a British Virgin Islands Corporation, who, at the time, owned 70% interest of Heilongjiang Zhong Qiang Power-Tech Co., Ltd. ( "ZQPT" ), a limited liability company established in the People's Republic of China (the "PRC" ). As result of this share exchange transaction, there was change of control in the Company as the shareholders of Cashtech became the majority shareholders of the Company.

The transaction had been accounted for as a reverse acquisition under the purchase method of accounting. Accordingly, Cashtech was treated as the continuing entity for accounting purposes.

On January 6, 2006, the minority shareholders of ZQPT transferred the remaining 30% of their interests in ZQPT to Cashtech in exchange for 11,780,594 shares of the Company's Common Stock. As result of this transfer, Cashtech now owns 100% of the capital stock of ZQPT.

The Company is engaged in design, manufacture and sales of rechargeable polymer lithium-ion batteries through its wholly owned subsidiaries, Cashtech and ZQPT. The Company's main operations are located in the PRC.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2008 and 2007 are not necessarily indicative of the results that may be expected for the full years. The information included in this Form 10-Q should be read in conjunction with Management's Discussion and Analysis and the financial statements and notes to thereto included in the Company's 2007 Form 10-K.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Reclassification**

Certain prior period amounts have been reclassified to conform to the current period presentation. These reclassifications had no effect on reported total assets, liabilities, stockholders' equity or net income.



**ADVANCED BATTERY TECHNOLOGIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Principles of consolidation**

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Cashtech and ZQPT. All significant inter-company balances and transactions have been eliminated in consolidation.

**Use of estimates**

In preparing the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, the management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Significant estimates required to be made by the management include, but are not limited to, the recoverability of long-lived assets and the valuation of accounts receivable and inventories. Actual results could differ from those estimates.

**Revenue recognition**

The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin ( SAB ) 104. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are recorded as customer deposits.

**Concentration of credit risk**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and cash equivalents and accounts and other receivables. As of September 30, 2008, substantially most of the Company's cash and cash equivalents were held by major banks located in the PRC of which the Company's management believes are of high credit quality. With respect to accounts receivable, the Company extends credit based on an evaluation of the customer's financial condition and without requiring collateral. The Company conducts periodic reviews of its customers' financial condition and customer payment practices to minimize collection risk on accounts receivable.

**Foreign currency translation**

The functional currency of ZQPT is the Chinese Renminbu ( RMB ). For financial reporting purposes, RMB has been translated into United States dollars ("USD") as the reporting currency. Assets and liabilities are translated at the

exchange rate in effect at the balance sheet date. Income statement accounts are translated at the average rate of exchange prevailing for the period. Capital accounts are translated at their historical exchange rates when the capital transaction occurred.

**ADVANCED BATTERY TECHNOLOGIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Translation adjustments arising from the use of different exchange rates from period to period are included as a component of stockholders' equity as "Accumulated other comprehensive income".

Gains and losses resulting from foreign currency translation are included in accumulated other comprehensive income.

**Goodwill**

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets of the minority interest acquired. Goodwill is not subject to amortization, but is subject to at least an annual assessment for impairment, applying a fair-value based test.

**Stock-Based Compensation**

Effective January 1, 2006, the Company adopted the provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards ( SFAS ) No. 123(R), Share-Based Payments, which establishes the accounting for employee stock-based awards. Under the provisions of SFAS No. 123(R), stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). The Company adopted SFAS No. 123 (R) using the modified prospective method and, as a result, periods prior to December 31, 2005 have not been restated.

Prior to December 31, 2005, the Company accounted for stock-based compensation in accordance with provisions of Accounting Principles Board Opinion No. 25 ( APB No. 25), Accounting for Stock Issued to Employees, and related interpretations. Under APB No. 25, compensation cost was recognized based on the difference, if any, on the date of grant between the fair value of the Company's stock and the amount an employee must pay to acquire the stock. The Company has not granted any stock options and, accordingly, no compensation expense related to options was recognized prior to the adoption of SFAS No. 123 (R).

Unearned compensation represents shares issued to executives and employees that will be vested over a certain service period. These shares will be amortized over the vesting period in accordance with FASB 123 (R). The expense related to the vesting of unearned compensation was \$439,844 and \$431,056 for the nine months ended September 30, 2008 and 2007, respectively.

The Company measures compensation expense for its non-employee stock-based compensation under the Financial Accounting Standards Board (FASB) Emerging Issues Task Force (EITF) Issue No. 96-18, *Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* . The fair value of the option issued is used to measure the transaction, as this is more reliable than the fair value of the services received. Fair value is measured as the value of the Company's common stock on the date that the commitment for performance by the counterparty has been reached or the counterparty's performance is complete.

The fair value of the equity instrument is charged directly to compensation expense and additional paid-in capital.

**ADVANCED BATTERY TECHNOLOGIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Income Tax**

The Company utilizes Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. There is no deferred tax amount recognized for the nine months ended September 30, 2008 and 2007.

Under the Income Tax Laws of the PRC, the Company is generally subject to tax at a statutory rate of 25% and was, until January 2008, subject to tax at a statutory rate of 33% (30% state income taxes plus 3% local income taxes) on its taxable income. However, ZQ Power-Tech is located in a specially designated technology zone which allows foreign-invested enterprises a five-year income tax holiday. ZQ Power-Tech enjoyed a two-year tax exemption through December 31, 2007, and enjoys an additional 50% income tax reduction from January 1, 2008 to December 31, 2010.

On March 16, 2007, National People's Congress passed a new corporate income tax law, which is effective on January 1, 2008. This new corporate income tax unifies the corporate income tax rate to 25%, cost deductions and tax incentive policies for both domestic and foreign-invested enterprises in China. According to the new corporate income tax law, the applicable corporate income tax rate of our Chinese subsidiaries decreases to 12.5% in 2008.

The estimated tax savings for the nine months ended September 30, 2008 and 2007 amounted to \$2,125,733 and \$2,694,355, respectively. The net effect on earnings per share had the income tax been applied would decrease basic earnings per share for the nine months ended September 30, 2008 and 2007 from \$0.30 to \$0.25 and \$0.20 to \$0.13, respectively. The estimated tax savings for the three months ended September 30, 2008 and 2007 amounted to \$770,777 and \$1,186,901, respectively. The net effect on earnings per share had the income tax been applied would decrease basic earnings per share for the three months ended September 30, 2008 and 2007 from \$0.10 to \$0.08 and \$0.09 to \$0.06, respectively.

**Basic and Diluted Earning Per Share**

Earning per share is calculated in accordance with the SFAS 128, Earnings per share. Basic net earnings per share is based upon the weighted average number of common shares outstanding. Diluted net earnings per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. Dilution is computed by applying the treasury stock





**ADVANCED BATTERY TECHNOLOGIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

**Recently Issued Accounting Standards**

In June 2008, the FASB issued FASB Staff Position on Emerging Issues Task Force Issue 03-6, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ( FSP EITF 03-6-1 ). FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings

per share ( EPS ) pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of FSP EITF 03-6-1. Early application is not permitted. Management is currently evaluating the impact FSP EITF 03-6-1 will have on the Company's EPS calculations.

In March 2008, the FASB issued Statement of Financial Accounting Standards ( SFAS ) No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*, which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our financial position, financial performance, and cash flows. SFAS No. 161 is effective beginning January 1, 2009. We are currently assessing the potential impact that adoption of SFAS No. 161 may have on our financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of Accounting Research Bulletin No. 51* ( SFAS 160 ), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the non-controlling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company has not determined the effect that the application of SFAS 160 will have on its consolidated financial statements.

In December 2007, Statement of Financial Accounting Standards No. 141(R), *Business Combinations*, was issued. SFAS No. 141R replaces SFAS No. 141, *Business Combinations*.

**ADVANCED BATTERY TECHNOLOGIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

SFAS 141R retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the *purchase method*) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. This replaces SFAS 141's cost-allocation process, which required the cost of an acquisition to be allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. SFAS 141R also requires the acquirer in a business combination achieved in stages (sometimes referred to as a step acquisition) to recognize the identifiable assets and liabilities, as well as the non-controlling interest in the acquiree, at the full amounts of their fair values (or other amounts determined in accordance with SFAS 141R). SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company is currently evaluating the impact that adopting SFAS No. 141R will have on its financial statements.

In June 2007, the FASB issued FASB Staff Position No. EITF 07-3, *Accounting for Nonrefundable Advance Payments for Goods or Services Received for use in Future Research and Development Activities* ( FSP EITF 07-3 ), which addresses whether nonrefundable advance payments for goods or services that used or rendered for research and development activities should be expensed when the advance payment is made or when the research and development activity has been performed. The Company has adopted FSP EITF 07-3 and expensed the research and development as it incurred.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* including an amendment of FASB Statement No. 115 ( FAS 159 ). FAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective of FAS 159 is to provide opportunities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply hedge accounting provisions. FAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 will be effective in the first quarter of fiscal 2009. The Company is evaluating the impact that this statement will have on its consolidated financial statements.



**ADVANCED BATTERY TECHNOLOGIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)**

**3. INVENTORY**

	September 30, 2008	December 31, 2007
Raw Materials	\$492,615	\$368,844
Work-in-process	397,239	168,166
Finished goods	582,931	622,464
	\$1,472,785	\$1,159,474

No allowance for inventory was made for the nine months ended September 30, 2008 and 2007.

**4. OTHER RECEIVABLES**

Other receivables generally consist of advances made to vendors and other business associates in China to secure good business relationships. In addition, as of September 30, 2008 the Company had deposited \$870,000 in a bank account in the name of RDX Holdings Limited, and that amount is included in Other Receivables. RDX Holdings Limited is a British Virgin Islands corporation that is controlled by the son of the Company's Chairman. The deposit was made in order to facilitate the transfer of the funds from the United States to China. Subsequent to September 30, 2008 the entire amount was transferred to the Company's accounts.

The Company has full oversight and control over the advanced accounts. Therefore, no allowance for the uncollectible accounts is considered necessary.

**5. LOAN RECEIVABLE**

Loan receivable represents a loan made to a company that purchases batteries from ZQ Power-Tech on an OEM basis and that is expected to assist ZQ Power-Tech in securing favorable terms for its purchase of new equipment. The entirety of the loan was repaid in November 2008.

**6. PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment consist of the following at September 30, 2008 and December 31, 2007:



**ADVANCED BATTERY TECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)**

	September 30, 2008	December 31, 2007
Building and improvements	\$ 12,797,033	\$ 11,603,472
Machinery and equipment	3,534,657	3,486,333
Motor Vehicles	182,321	169,706
	16,514,011	15,259,511
less: Accumulated Depreciation	(2,773,688)	(2,016,275)
Total property, plant and equipment, net	\$ 13,740,323	\$ 13,243,236

Property, plant and equipment is generally stated at cost less accumulated depreciation. Upon acquisition of the 30% minority interest (Note 1), the buildings and building improvements have been adjusted to their fair market value due to re-evaluation of the Company's assets and liabilities for the purpose of determining the goodwill.

Depreciation expense for the nine months ended September 30, 2008 and 2007 was \$594,380 and \$441,195 respectively.

## 7. INTANGIBLE ASSETS

Intangible assets consist of land use rights and patents. All land in the People's Republic of China is government owned and cannot be sold to any individual or company. However, the government grants the user a land use right to use the land and the power line underneath. ZQ

Power-Tech leases two pieces of land per real estate contract from the PRC Government for a period from August 2003 to September 2013, on which the office and production facilities of ZQ Power-Tech are situated. ZQ Power-Tech leases power from the local government for a period from July 2003 to July 2013.

Rights to use land and power and patent right are stated at fair market value less accumulated amortization. The use of the fair market value was due to re-evaluation of the Company's assets and liabilities for the purpose of determining the goodwill upon acquisition of the 30% minority interest (Note 1).

The Company amortizes the patents over a 10 year period. The Company evaluates intangible assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets, other long-lived assets, and goodwill is measured by comparing their net book value to the related projected undiscounted cash flows from these assets,





**ADVANCED BATTERY TECHNOLOGIES, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)**

**7. INTANGIBLE ASSETS (Continued)**

considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss. As of September 30, 2008, no impairment of intangible assets has been recorded.

Net intangible assets at September 30, 2008 and December 31, 2007 were as follows:

	September 30, 2008	December 31, 2007
Rights to use land and power	\$ 1,029,143	\$ 957,938
Patents	905,403	840,452
	1,934,546	1,798,390
Less: accumulated amortization	(325,474)	(235,353)
 Total Intangible Assets, Net	 \$ 1,609,072	 \$ 1,563,037

Amortization expense was \$68,195 and \$81,606 for the nine months ended September 30, 2008 and September 30, 2007, respectively.

**8. GOODWILL**

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets of the 30% minority interest in ZQPT acquired from the minority shareholders in ZQPT (Note 1). Goodwill is tested for impairment on an annual basis and in between annual test dates if events or circumstances indicate that the carrying amount of goodwill exceeds its implied fair value. The Company determined the implied fair value of goodwill by allocating the price paid to acquire the 30% minority interest to all of its assets and liabilities.

## **9. LOAN FROM OFFICER**

The Company's CEO, Mr. Zhiguo Fu, periodically loans money to finance the operations of its New York Office. As of September 30, 2008, the Company has borrowed a total amount of \$1,217,986 from Mr. Fu. The loan is intended to be interest free and due upon demand.

## **10. NOTE PAYABLE**

In September 2003, the Company was approved to receive a government-subsidized economic development loan in the original amount of \$362,446 from the Finance Bureau of City of Shuangcheng, where the Company's principal operations are located. The note is an interest-free

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**10. NOTE PAYABLE (Continued)**

and unsecured demand loan with no fixed term of repayment. During the nine months period ended September 30, 2008, the Company repaid the loan in full.

**11. STOCK-BASED COMPENSATION**

(1)

**2004 Equity Incentive Plan**

The Company adopted the 2004 Equity Incentive Plan (the 2004 Plan ) on August 24, 2004. The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of the participants of the Plan (the "Participants") to those of the Company's stockholders, and by providing the Participants with an incentive for outstanding performance. The Plan is further intended to attract and retain the services of the Participants upon whose judgment, interest, and special efforts the successful operation of the Company is dependent. The Company has reserved 5,000,000 shares of common stock for the options and awards under the Plan.

Subject to the terms and provisions of the Plan, the Board of Directors, at any time and from time to time, may grant shares of stock to eligible persons in such amounts and upon such terms and conditions as the Board of Directors shall determine.

The Committee appointed by the Board of Directors to administer the Plan shall have the authority to determine all matters relating to the options to be granted under the Plan including selection of the individuals to be granted awards or stock options, the number of stocks, the date, the termination of the stock options or awards, the stock option term, vesting schedules and all other terms and conditions thereof.

A summary of the status of the Company's unearned stock compensation under the 2004 Equity Incentive Plan as of September 30, 2008, and changes for the nine months ended September 30, 2008, is presented below:

	September 30, 2008
Unearned stock compensation as of January 1, 2008	\$ 2,369,454
Unearned stock compensation granted	-
Compensation expenses debited to statement of operations	

with a credit to additional paid-in capital	(439,844)
Unearned stock compensation as of September 30, 2008	\$ 1,929,610

In addition, the compensation cost capitalized as an offset to additional paid-in capital in relation to shares issued to non-employee consultants under the 2004 Plan in prior years and current period was \$478,728. The Company's contracts with these consultants have terms ranging from 60 months to 120 months, and the unearned stock compensation will be amortized as expense over the

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**11. STOCK-BASED COMPENSATION (Continued)**

respective terms of the contracts. The amortization for the nine months ended September 30, 2008 and 2007 was \$262,781 and \$268,001, respectively.

The following table shows the amortization of the unearned stock compensation relating to consulting contracts.

Year	Amortization
2008	\$ 175,548
2009	180,541
2010	116,375
2011	93,858
	\$ 566,322

**(2) 2006 Equity Incentive Plan**

The Company adopted the 2006 Equity Incentive Plan (the 2006 Plan ) on April 24, 2006. The 2006 Plan became effective on April 18, 2006. The number of shares available for grant under the 2006 Plan shall not exceed 8,000,000 shares and shares of stock and options may be granted to the eligible persons at the discretion of the Company's Board of Directors or the Committee administering the plan. Incentive stock options ( ISO ), nonqualified stock options ( NQSO ), or a combination thereof may be granted but ISOs can only be granted to the Company's employees. The Committee can also grant shares of restricted stock or performance shares (a performance share is equivalent in value to a share of stock) to eligible persons at any time and from time to time.

The exercise price for each ISO awarded under the 2006 Plan shall be equal to 100% of the fair market value of a share on the date the option is granted and be 110% of the fair market value if the eligible person owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent or subsidiary corporations. The exercise price of a NQSO shall be determined by the Committee in its sole discretion.

No option shall be exercisable later than the tenth anniversary date of its grant and each option shall expire at such time as the Committee determines at the time of grant. The eligible person who owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its parent or subsidiary corporations shall exercise his/her option before the fifth anniversary date of its grant.

Options shall vest at such items and under such terms and conditions as determined by the Committee; provided, however, unless a different vesting period is provided by the Committee at or before the grant of an option, the options will vest on the first anniversary of the grant.

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**11. STOCK-BASED COMPENSATION (Continued)**

Options granted under the 2006 Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each participant.

No award shall be made under the 2006 Plan after December 31, 2015.

A summary of the status of the Company's unearned stock compensation under the 2006 Equity Incentive Plan as of September 30, 2008 is presented below:

Unearned stock compensation as of January 1, 2008	\$	3,828,414
Unearned stock compensation granted		257,155
Compensation expenses debited to statement of operations with a credit to additional paid-in capital		(358,276)
Unearned stock compensation as of September 30, 2008	\$	3,727,293

Other than the transaction as detailed above, no options or awards have been made, exercised or lapsed during the nine months ended September 30, 2008 and 2007 under the 2004 Plan and the 2006 Plan.

**12. EARNINGS PER SHARE**



Earnings per share for the period ended September 30, 2008 and 2007 is determined by dividing net income for the periods by the weighted average number of both basic and diluted shares of common stock and common stock equivalents outstanding. The following is an analysis of the differences between basic and diluted earnings per common share in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share.

The following demonstrates the calculation for earnings per share for the three and nine months ended September 30, 2008 and 2007:

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	<b>Three-Month Ended</b>		<b>Nine-Month Ended</b>	
	<b>September 30, 2008</b>	<b>September 30, 2007</b>	<b>September 30, 2008</b>	<b>September 30, 2007</b>
<b>Basic earning per share</b>		<b>(Restated)</b>		<b>(Restated)</b>
Net Income	\$ 4,371,960	\$ 3,596,670	\$ 12,895,710	\$ 8,164,712
Weighted average number of common shares outstanding-Basic	44,349,487	40,892,198	42,456,824	40,880,714
Earnings per share-Basic	\$ 0.10	\$ 0.09	\$ 0.30	\$ 0.20
<b>Diluted earnings per share</b>				
Net Income	\$ 4,371,960	\$ 3,596,670	\$ 12,895,710	\$ 8,164,712
Weighted average number of common shares outstanding - Basic	44,349,487	40,892,198	42,456,824	40,880,714
Effect of diluted stock awards	8,178,500	8,752,833	8,178,500	8,752,833
Weighted average number of common shares outstanding - Diluted	52,527,987	49,645,031	50,635,324	49,633,547
Earnings per share-Diluted	\$ 0.08	\$ 0.07	\$ 0.25	\$ 0.16

At September 30, 2008 and 2007, the Company had unvested stock awards of 8,178,500 and 8,752,833, respectively, under the 2004 and 2006 equity plans. For the three and nine months ended September 30, 2008, all unvested stock awards were included in the diluted earnings per share calculation as they are dilutive. For the three and nine months ended September, 2007, all unvested stock awards were included in the diluted earnings per share calculation as they are dilutive.

At September 30, 2008 and 2007, the Company had outstanding warrants of 2,592,945 and -0-, respectively. For the three and nine months ended September 30, 2008, all outstanding warrants with an exercise above the market price during the nine months ended September 30, 2008 were excluded from the diluted earnings per share calculation as they are anti-dilutive. For the three and nine months ended September, 2007, there were no warrants issued and outstanding.

### **13. STOCKHOLDERS EQUITY**

On August 8 and August 15, 2008 the Company issued a total of 5,058,834 shares of common stock (the Shares ) and warrants to purchase a total of 2,276,474 shares of common stock (the Warrants ) to eight accredited institutional funds. The purchase price for the securities was \$21,500,034. From the proceeds of the offering, the Company paid a fee of \$1,075,002 to Rodman & Renshaw, LLC, which acted as the placement agent for the offering. The Company also reimbursed Rodman & Renshaw, LLC for its out-of-pocket expenses totaling \$68,560, and issued.

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**13.STOCKHOLDERS EQUITY (Continued)**

to Rodman & Renshaw, LLC warrants to purchase 316,471 shares of common stock. The Company realized net proceeds of \$20,356,480 from the offering. As a result of these offerings, there are 54,781,577 shares of common stock outstanding as of September 30, 2008.

The Warrants sold in the offering, as well as the warrants issued to Rodman & Renshaw, LLC, permit the holders to purchase common stock from Advanced Battery Technologies for a price of \$5.51 per share. The Warrants expire in five years. Cashless exercise is permitted only if there is no effective registration statement permitting resale of the common shares underlying the Warrants. No warrant-holder may exercise a Warrant to purchase shares that would cause the holder to own more than 4.99% of the outstanding common stock of Advanced Battery Technologies.

Both Investor Warrants and Placement Agent Warrants meet the conditions for equity classification pursuant to FAS 133 Accounting for Derivatives and EITF 00-19 Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock. Therefore, these warrants were classified as equity and included in the Additional Paid-in Capital.

The fair value of the warrants was calculated using the Black-Scholes options pricing model using the following assumptions: Volatility 91.52%, risk free interest rate 3.21%

for August 8, 2008 Placement and 3.11% for August, 15, 2008 Placement, and expected term of 5 years.

Following is a summary of the status of warrants activities as of September 30, 2008:

	Warrants Outstanding	Weighted Average Exercise Price	Average Remaining Life in Years	Aggregate Intrinsic Value
Outstanding December 31, 2007	-			-
Granted	2,592,945		4.83	-

		\$			
			5.51		
Forfeited	-				-
	-				
Exercised					-
Outstanding, September 30, 2008	2,592,945	\$	5.51	4.83	8,709,964

**14 - CONCENTRATION OF RISKS**

Three major customers accounted for approximately 33.8% of the net revenue for the nine months ended September 30, 2008, with each customer individually accounting for 13.4%, 10.3%, and 10.1%, respectively. At September 30, 2008, the total receivable balance due from these customers was \$3,262,190, representing 24.7% of total accounts receivable. Four major customers accounted for 43.2% of the net revenue for the nine months ended September 30, 2007, with each customer individually accounted for 13.0%, 10.2%, 10.0%, and 10.0%, respectively. At September 30, 2007,

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**14 - CONCENTRATION OF RISKS (CONTINUED)**

the total receivable balance due from these customers was \$4,381,227, representing 39.7% of total accounts receivable.

Three major vendors provided approximately 38.2% of the Company's purchases of raw materials for the period ended September 30, 2008, with each vendor individually accounting for 16.2%, 12.0%, and 10.0%, respectively. The Company's accounts payable to these vendors was \$71,675 at September 30, 2008. Four vendors provided 42.0% of the Company's purchase of raw materials for the nine months ended September 30, 2007, with each vendor individually accounting for 11.1%, 10.6%, 10.1%, and 10.2%, respectively. The Company's accounts payable to these vendors was \$149,487 at September 30, 2007.

**15. LITIGATION**

In September 2008, Susquehanna Financial Group, LLLP ( "SFG" ) commenced an action against the Company in the Court of Common Pleas of Montgomery County, Pennsylvania. SFG alleges that it was party to two contracts with the Company, pursuant to which SFG alleges that it was entitled to serve as financial advisor with respect to any offering of securities by the Company completed prior to March 2009. SFG alleges that the Company failed to afford SFG the opportunity to serve as financial advisor in connection with the private placement by the Company in August 2008. SFG alleges that it is entitled to damages in the amount of \$1,359,872.46 and a warrant to purchase 81,882 share of the Company's common stock exercisable at \$8.00 per share. The Company has answered the Complaint, and has denied that SFG was entitled to serve as financial advisor in connection with the August 2008 private placement by reason of the fact that SFG had terminated its agreements with the Company, had waived any continuing rights under the contracts, and had acted in bad faith in connection with the services it undertook to perform for the Company.

**16. WARRANTIES**

The Company warrants that all products manufactured by it will be free from defects in materials and workmanship under normal use for a period of one year from the date of shipment. The Company's experience for costs and expenses in connection with such warranties has been minimal and during the nine months ended September 30, 2008 and 2007, no amounts have been considered necessary to reserve for warranty costs.

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**17. COMMITMENTS AND CONTINGENCIES**

The Company's operations are carried out 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's economy.

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

The Company's sales, purchases and expenses transactions are denominated in RMB and all of the Company's assets and liabilities are also denominated in RMB. The RMB is not freely convertible into foreign currencies under the current law. In China, foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China, the central bank of China. Remittances in currencies other than RMB may require certain supporting documentation in order to affect the remittance.

**18. RESTATEMENT**

We have restated the consolidated financial statements for the nine months ended September 30, 2007 as a result of changes in management's decision to restate its goodwill.

The management previously deemed that its goodwill was impaired based on its estimates of future cash flow to determine the fair value of the reporting unit. Upon further review of SFAS 142, the Company determined that, based on the quoted market prices of its common stock, goodwill was in fact not impaired. The Company has reversed the impairment of its goodwill to follow the guidance of SFAS 142.



The impact of this restatement on the financial statements as originally reported is summarized below:

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	September 30, 2007	
	As Reported	As Restated
Property, plant and equipment, net	\$ 12,984,648	\$ 12,984,648
Construction in progress		
Intangible assets	\$ 1,522,593	1,522,593
Goodwill	129,204	2,179,408
Total Assets	34,172,258	36,222,462
Additional paid-in capital	17,773,397	17,773,397
Retained earnings	11,206,032	13,256,236
Total Liabilities and Stockholders' Equity	34,172,258	36,222,462
Revenue	21,622,092	21,622,092
General and administrative expenses	11,413,513	11,413,513
Net income (loss)	\$ 8,164,712	\$ 8,164,712
Net income (loss) per share	\$ 0.16	\$ 0.16

**Item 2.**

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

***Forward-Looking Statements: No Assurances Intended***

*In addition to historical information, this Quarterly Report contains forward-looking statements, which are generally identifiable by use of the words believes, expects, intends, anticipates, plans to, estimates, projects, or similar expressions. These forward-looking statements represent Management's belief as to the future of Advanced Battery Technologies. Whether those beliefs become reality will depend on many factors that are not under Management's control. Many risks and uncertainties exist that could cause actual results to differ materially from those reflected in these forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed below in the section entitled Risk Factors That May Affect Future Results. Readers are cautioned not to place undue reliance on these forward-looking statements. We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements.*

**Consolidated Results of Operation**

Near the end of 2004, ZQ Power-Tech obtained the financing needed to complete additional factory facilities at ZQ Power-Tech's campus in Heilongjiang. Production was reduced to minimal or none, as management focused on doubling the Company's production capacity and training the necessary personnel. Between 2004 and the end of 2005, the number of employees at our facility increased from 300 to, currently, 1202, as we more than doubled our production capacity to its current level of \$45 million per year. We now have two buildings ( A and B ) in full production. As our revenues in 2007 reached \$31 million and continue to grow, our plan is to outfit buildings C and D so as to double our production capacity. Toward that end, our management has recently completed an equity placement to obtain the capital necessary for the expansion.

In the fall of 2005 we returned to full production, shipping \$4,222,960 of product in that year. Our growth continued through 2006 and 2007, as we recorded \$16,329,340 in revenue for 2006 and \$31,897,618 in revenue for 2007.

**Comparing Three Months Ended September 30, 2008 and 2007:**

The following table presents certain consolidated statement of operations information. Financial information is presented for the three months ended September 30, 2008 and 2007.

	September 30, 2008	September 30, 2007
Revenues	\$ 12,662,585	\$ 8,573,009
Cost of Goods Sold	6,776,437	4,591,683
Operating Expenses	795,336	389,613
Income from Operations	5,090,812	3,591,713
Net Income	\$ 4,371,960	\$ 3,596,670

#### Comparing Nine Months Ended September 30, 2008 and 2007:

The following table presents certain consolidated statement of operations information. Financial information is presented for the nine months ended September 30, 2008 and 2007.

	September 30, 2008	September 30, 2007
Revenues	\$ 34,442,838	\$ 21,622,092
Cost of Goods Sold	17,542,233	11,413,513
Operating Expenses	1,947,200	2,054,460
Income from Operations	14,953,405	8,154,119
Net Income	\$ 12,895,709	\$ 8,164,712

*Revenues:* We had total revenues of \$12,662,585 for the three months ended September 30, 2008, an increase of \$4,089,576 or 48%, compared to \$8,573,009 for the three months ended September 30, 2007. The increase in revenues was due primarily to increased sales volume, especially from the large and medium capacity battery cells.

We generated approximately \$2.97 million or 23% of our revenues in the three months ended September 30, 2008 from large capacity battery cells for electric sanitation vehicles, stationary applications, and other large scale battery applications, \$8.24 million or 65% of our revenues from medium capacity battery cells for electric scooters, electric bicycles, power tools, miners lamps, searchlights and others, and \$1.46 million or 11.5% of our revenues from small

capacity battery cells for IC cards, digital photo albums, electronic toys etc.

For the nine months ended September 30, 2008 our revenue reached \$34,442,838, an increase of \$12,820,746 or 59% increase compared to \$21,622,092 for the nine months ended September 30, 2007. The increase in revenues was due primarily to increased sales volume, especially from the large and medium capacity battery cells.

We generated approximately \$11.0 million or 32% of our revenues in the nine months ended September 30, 2008 from large capacity battery cells for electric sanitation vehicles, stationary applications, and other large scale battery applications, \$20.0 million or 58% of our revenues from medium capacity battery cells for electric scooters, electric bicycles, power tools,

miners lamps, searchlights and others, and \$3.4 million or 10% of our revenues from small capacity battery cells for IC cards, digital photo albums, electronic toys and etc.

Since at November 7, 2008 we had a backlog of approximately \$62 million for delivery throughout the next 15 months, we expect to expand on the level of operations that we achieved during 2007 and the first nine month of the current year.

**Cost of Goods Sold:** Our cost of revenues consists of the cost of raw materials, production costs and production overhead. In the three months ended September 30, 2008, the cost of goods sold was \$6,776,437, an increase of \$2,184,754 or approximately 48% over the same period in 2007. The increase in our cost of goods sold was primarily due to the increase in our sales, partially offset by more efficient utilization of raw materials and improved production efficiency.

Cost of goods sold in the nine months ended September 30, 2008 was \$17,542,233, an increase of \$6,128,720 or approximately 54% over the same period in 2007. The increase in our cost of goods sold was primarily related to the increase in our sales, partially offset by more efficient utilization of raw materials and improved production efficiency.

**Gross profit:** The Company earned a gross profit of \$5,886,148 for the three months ended September 30, 2008, an increase of \$1,904,822 or approximately 48%, compared to \$3,981,326 for the three months ended September 30, 2007. The Company earned a gross profit of \$16,900,605 for the nine months ended September 30, 2008, an increase of \$6,692,026 or approximately 66%, compared to \$10,208,579 for the nine months ended September 30, 2007. The increase in gross profit is due to the increase in our sales and improved production efficiency in this quarter.

**Gross margin:** Gross margin, as a percentage of revenues, remains flat approximately at 46% for the three months ended September 30, 2008, compared to gross margin for the three months ended September 30, 2007. Gross margin, as a percentage of revenues, increased to approximately 49% for the nine months ended September 30, 2008 from approximately 47% for the nine months ended September 30, 2007. The increase in gross margin is primarily due to the increased contribution from higher margin products, more efficient utilization of raw materials and increased production efficiency.

**Operating expenses:** The Company incurred operating expenses of \$795,336 for the three months ended September 30, 2008, an increase of \$405,723 or approximately 104%, compared to \$389,613 for the three months ended September 30, 2007. The Company incurred operating expenses of \$1,947,200 for the nine months ended September 30, 2008, a decrease of \$107,260 or approximately 52%, compared to \$2,054,460 for the nine months ended September 30, 2007. The decrease is primarily due to a one-time compensation charge of \$893,896, arising from a

bonus granted to management during the quarter ended March 31, 2007. Otherwise, our operating expenses increased primarily as a result of expenses related to the maintenance of our producing and administrative facilities at our headquarter in the PRC and expenses incurred by our U.S. offices, including the expense attributable to the Company's listing on the NASDAQ Capital Market in March 2008. We expect that future increases in our selling, general and



administrative expense will be roughly proportional to the increase in our revenues. This will occur because the efficiencies that we are realizing from our expanded operations will be partially offset by the expenses of the US office.

Included in our general and administrative expense during the nine months ended September 30, 2008 was \$702,625 attributable to amortization of the market value of stock that we granted to employees or consultants, primarily during 2004. During the three months ended September 30, 2008, this expense totaled \$234,025. This non-cash expense resulted from our use of stock during our early years to incentivize key individuals. At September 30, 2008 there remained \$5,897,427 in unamortized stock compensation on the Company's books. This sum will be amortized over the expected duration of the employment or service of the recipients of the shares.

In January 2006 the Company acquired the minority interest in its subsidiary, ZQ Power-Tech, resulting in 100% ownership. At that time it recorded \$2,050,204 as goodwill, representing the excess of the purchase price it paid over the fair value of the assets associated with the minority interest. At the end of 2006, management impaired the goodwill and took a write-off in that amount. In March 2008, however, management revisited that decision, and concluded that its decision to write-off the goodwill had not conformed to generally accepted accounting standards and that the goodwill was not impaired. For that reason, the Company's balance sheet and statement of operations for the year ended December 31, 2006 were restated in connection with the filing of the Company's Annual Report on Form 10-KSB for the year ended December 31, 2007 to reflect the reversal of the impairment charge. The restatement had no effect on the historical financial statements included in this Quarterly Report, except that the effect of the restatement on the Company's balance sheet as of September 30, 2007 is recorded in Note 12 to the Condensed Consolidated Financial Statements.

The Company's revenue less expenses produced a pre-tax income of \$5,142,737 for the three months ended September 30, 2008 and \$3,596,670 for the same period in 2007. The Company's revenue less expenses produced a pre-tax income of \$15,021,442 for the nine months ended September 30, 2008 and \$8,164,712 for the same period in 2007. As a result of Chinese tax laws that reward foreign investment in China, ZQ Power-Tech was entitled to exemption from income taxes during 2006 and 2007. So for the nine and three month periods ended September 30, 2007, the Company's pre-tax income was identical to its net income, representing \$.20 and \$.09 per share, respectively. Currently and through 2010, ZQ Power-Tech is entitled to a 50% tax abatement. After taxes of \$2,125,733 realized in the nine months ended September 30, 2008, our net income for the first nine months of 2008 was \$12,895,709, representing \$.30 per share. For the three months ended September 30, 2008, net income was \$4,371,960, representing \$.10 per share.

Our business operates primarily in Chinese Renminbi, but we report our results in our SEC filings in U.S. Dollars. The conversion of our accounts from RMB to Dollars results in translation adjustments. While our net income is added to the retained earnings on our balance sheet; the translation adjustments are added to a line item on our balance sheet labeled "accumulated other comprehensive income," since it is more reflective of changes in the relative values of U.S. and Chinese currencies than of the success of our business. During the nine



months ended September 30, 2008, the effect of converting our financial results to Dollars was to add \$3,174,659 to our accumulated other comprehensive income.

### **Liquidity and Capital Resources**

Until December 2004, the development and initial operations of ZQ Power-Tech were financed primarily by contributions to capital made by Zhiguo Fu, the Company's Chairman. On December 1, 2004, ZQ Power-Tech entered into a Loan Agreement with China Financial Bank, and received a loan of 20 million RMB (approximately \$2.4 million). The Loan Agreement, as amended, required that the principal be paid in a balloon in November 2007. During 2006, however, we repaid the loan. During the nine months ended September 30, 2008 we repaid our other long-term debt, a \$427,837 note payable to the Finance Bureau of the City of Shuangcheng. Therefore at September 30, 2008 our only loan was a \$1,147,986 liability to our Chairman for funds he has deposited into the accounts of our US office.

Our Chairman, Zhiguo Fu, deposited most of that sum in 2007, despite our cash balance of \$2,704,823 at the end of 2007, in anticipation of the cash we will require in order to expand our production capabilities. Our revenue in 2007 reached a level equal to approximately 69% of the annual production capacity of our manufacturing plant. With a backlog of firm orders as of November 7, 2008 exceeding \$62 million, the need for expansion is obvious. Of the four factory buildings on our campus in the City of Harbin, two (Building C and Building D) remain unused. Our plan is to utilize our available capital resources to fund the purchase of inventory and other working capital requirements of an expansion, while obtaining additional capital for equipment through the sale of equity.

In August 2008 we completed a private placement to eight investment funds of 5,058,834 shares of common stock and five year warrants to purchase 2,276,474 shares of common stock at \$5.51 per share. The net proceeds that we realized from the offering were approximately \$20,673,706. We intend to use a portion of those funds to implement two new assembly lines.

At September 30, 2008 the Company had a working capital balance of \$55,551,561, an improvement of \$35,802,187 from our working capital balance at December 31, 2007. The primary reasons for the improvement in working capital were the private placement in August and the net income realized during the first nine months of the current year. In addition, the Company has made a concerted effort to collect aged accounts receivable. As a result, although sales have grown in 2008, our accounts receivable balance has been reduced by \$2,835,964 during the nine months ended September 30, 2008.

ZQ Power-Tech has sufficient liquidity to fund its near-term operations and to fund the working capital demands of an expansion of its operations. The proceeds of our recent equity offering will enable us to purchase the equipment needed to expand our operations. If we determine that additional funds are needed, we have available \$13,740,323 in property, plant and equipment, which ZQ Power-Tech owns free of liens. Based on the substantial backlog of orders that ZQ Power-Tech has accumulated, it believes that secured financing will be available to it on favorable terms if needed.

Based upon the financial resources available to ZQ Power-Tech, management believes that it has sufficient capital and liquidity to sustain operations for the foreseeable future.

### **Off-Balance Sheet Arrangements**

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or results of operations.

### **Risk Factors That May Affect Future Results**

Investing in our common stock involves a significant degree of risk. You should carefully consider the risks described below together with all of the other information contained in this Report, including the financial statements and the related notes, before deciding whether to purchase any shares of our common stock. If any of the following risks occurs, our business, financial condition or operating results could materially suffer. In that event, the trading price of our common stock could decline and you may lose all or part of your investment.

*We may be unable to gain a substantial share of the market for batteries.*

We have only one product line, rechargeable polymer lithium-ion batteries. We began marketing our batteries in the Spring of 2004, and only began to report substantial revenue at the end of 2005. There are many companies, large and small, involved in the market for rechargeable batteries. Some of our existing and potential competitors have longer operating histories and significantly greater financial, technical, marketing and other resources. It will be difficult for us to establish a reputation in the market so that manufacturers chose to use our batteries rather than those of our competitors. Unless we are able to expand our sales volume significantly, we will not be able to improve the efficiency of our operation.

*Our business and growth will suffer if we are unable to hire and retain key personnel that are in high demand.*

Our future success depends on our ability to attract and retain highly skilled engineers, technical, marketing and customer service personnel, especially qualified personnel for our operations in China. Qualified individuals are in high demand in China, and there are insufficient experienced personnel to fill the demand. Therefore we may not be able to successfully attract or retain the personnel we need to succeed.

*We may not be able to adequately protect our intellectual property, which could cause us to be less competitive.*

We are continuously designing and developing new technology. We rely on a combination of copyright and trade secret laws and restrictions on disclosure to protect our intellectual property rights. Unauthorized use of our technology could damage our ability to compete effectively. In China, monitoring unauthorized use of our products is difficult and costly. In addition, intellectual property law in China is less developed than in the United States and historically China has not protected intellectual property to the same extent as it is protected in other jurisdictions, such as the United States. Any resort to litigation to enforce our intellectual

property rights could result in substantial costs and diversion of our resources, and might be unsuccessful.

*We may have difficulty establishing adequate management and financial controls in China and in complying with U.S. corporate governance and accounting requirements.*

The People's Republic of China has only recently begun to adopt the management and financial reporting concepts and practices that investors in the United States are familiar with. We may have difficulty in hiring and retaining employees in China who have the experience necessary to implement the kind of management and financial controls that are expected of a United States public company. If we cannot establish such controls, we may experience difficulty in collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet U.S. standards.

We are also subject to the rules and regulations of the United States, including the SEC, the Sarbanes-Oxley Act of 2002 and the rules and regulations of the NASDAQ Stock Market. We expect to incur significant costs associated with our public company reporting requirements, costs associated with applicable corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002 and other rules implemented by the SEC and requirements in connection with the continued listing of our common stock on the NASDAQ Stock Market. If we cannot assess our internal control over financial reporting as effective, or our independent registered public accountants are unable to provide an unqualified attestation report on such assessment, investor confidence and share value may be negatively impacted.

*Capital outflow policies in China may hamper our ability to pay dividends to shareholders in the United States.*

The People's Republic of China has adopted currency and capital transfer regulations. These regulations require that we comply with complex regulations for the movement of capital. Although Chinese governmental policies were introduced in 1996 to allow the convertibility of RMB into foreign currency for current account items, conversion of RMB into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of the State Administration of Foreign Exchange. We may be unable to obtain all of the required conversion approvals for our operations, and Chinese regulatory authorities may impose greater restrictions on the convertibility of the RMB in the future. Because all of our current revenues and most of our future revenues will be in RMB, any inability to obtain the requisite approvals or any future restrictions on currency exchanges will limit our ability to fund our business activities outside China or to pay dividends to our shareholders.

*We have limited business insurance coverage.*

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products, and do not, to our knowledge, offer business liability insurance. As a result, we do not have any business liability insurance coverage for our operations. Moreover, while business disruption insurance is available, we have determined that the risks of disruption and cost of the insurance are such that we do not require it at this time. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of our resources.





*Our operations are international, and we are subject to significant political, economic, legal and other uncertainties (including, but not limited to, trade barriers and taxes that may have an adverse effect on our business and operations.*

We manufacture all of our products in China and substantially all of the net book value of our total fixed assets is located there. However, we sell our products to customers outside of China as well as domestically. As a result, we may experience barriers to conducting business and trade in our targeted markets in the form of delayed customs clearances, customs duties and tariffs. In addition, we may be subject to repatriation taxes levied upon the exchange of income from local currency into foreign currency, as well as substantial taxes of profits, revenues, assets or payroll, as well as value-added tax. The markets in which we plan to operate may impose onerous and unpredictable duties, tariffs and taxes on our business and products. Any of these barriers and taxes could have an adverse effect on our finances and operations.

*Environmental compliance and remediation could result in substantially increased capital requirements and operating costs.*

Our operating subsidiary, ZQ Power-Tech, is subject to numerous Chinese provincial and local laws and regulations relating to the protection of the environment. These laws continue to evolve and are becoming increasingly stringent. The ultimate impact of complying with such laws and regulations is not always clearly known or determinable because regulations under some of these laws have not yet been promulgated or are undergoing revision. Our consolidated business and operating results could be materially and adversely affected if ZQ Power-Tech were required to increase expenditures to comply with any new environmental regulations affecting its operations.

*We may be required to raise additional financing by issuing new securities with terms or rights superior to those of our shares of common stock, which could adversely affect the market price of our shares of common stock.*

We may require additional financing to fund future operations, develop and exploit existing and new products and to expand into new markets. We may not be able to obtain financing on favorable terms, if at all. If we raise additional funds by issuing equity securities, the percentage ownership of our current shareholders will be reduced, and the holders of the new equity securities may have rights superior to those of the holders of shares of common stock, which could adversely affect the market price and the voting power of shares of our common stock. If we raise additional funds by issuing debt securities, the holders of these debt securities would similarly have some rights senior to those of the holders of shares of common stock, and the terms of these debt securities could impose restrictions on operations and create a significant interest expense for us.

*The NASDAQ Capital Market may delist our common stock from trading on its exchange, which could limit investors' ability to effect transactions in our common stock and subject us to additional trading restrictions.*

Our common stock is listed on the NASDAQ Capital Market. We cannot assure you that our common stock will continue to be listed on the NASDAQ Capital Market in the future. If the NASDAQ Capital Market delists our common stock from trading on its exchange, we could face significant material adverse consequences including:



.  
a limited availability of market quotations for our common stock;

.  
a limited amount of news and analyst coverage for our company; and

.  
a decreased ability to issue additional securities or obtain additional financing in the future.

*We do not intend to pay any cash dividends on our common stock in the foreseeable future and, therefore, any return on your investment in our common stock must come from increases in the fair market value and trading price of our common stock.*

We have never paid a cash dividend on our common stock. We do not intend to pay cash dividends on our common stock in the foreseeable future and, therefore, any return on your investment in our common stock must come from increases in the fair market value and trading price of our common stock.

*Our international operations require us to comply with a number of U.S. and international regulations.*

We need to comply with a number of international regulations in countries outside of the United States. In addition, we must comply with the Foreign Corrupt Practices Act, or FCPA, which prohibits U.S. companies or their agents and employees from providing anything of value to a foreign official for the purposes of influencing any act or decision of these individuals in their official capacity to help obtain or retain business, direct business to any person or corporate entity or obtain any unfair advantage. Any failure by us to adopt appropriate compliance procedures and ensure that our employees and agents comply with the FCPA and applicable laws and regulations in foreign jurisdictions could result in substantial penalties or restrictions on our ability to conduct business in certain foreign jurisdictions. The U.S. Department of The Treasury's Office of Foreign Asset Control, or OFAC, administers and enforces economic and trade sanctions against targeted foreign countries, entities and individuals based on U.S. foreign policy and national security goals. As a result, we are restricted from entering into transactions with certain targeted foreign countries, entities and individuals except as permitted by OFAC which may reduce our future growth.

*All of our assets are located in China and changes in the political and economic policies of the PRC government could have a significant impact upon what business we may be able to conduct in the PRC and accordingly on the results of our operations and financial condition.*

Our business operations may be adversely affected by the current and future political environment in the PRC. The Chinese government exerts substantial influence and control over the manner in which we must conduct our business activities. Our ability to operate in China may be adversely affected by changes in Chinese laws and regulations, including those relating to taxation, import and export tariffs, raw materials, environmental regulations, land use rights, property and other matters. Under the current government leadership, the government of the PRC has been pursuing economic reform policies that encourage private economic activity and greater economic decentralization. There is no assurance, however, that the government of the PRC will continue to pursue these policies, or that it will

not significantly alter these policies from time to time without notice.

*Our operations are subject to PRC laws and regulations that are sometimes vague and uncertain. Any changes in such PRC laws and regulations, or the interpretations thereof, may have a material and adverse effect on our business.*

Our principal operating subsidiary, ZQ Power-Tech, is considered a foreign invested enterprise under PRC laws, and as a result is required to comply with PRC laws and regulations. Unlike the common law system prevalent in the United States, decided legal cases have little value as precedent in China. There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including but not limited to the laws and regulations governing our business and the enforcement and performance of our arrangements with customers in the event of the imposition of statutory liens, death, bankruptcy or criminal proceedings. The Chinese government has been developing a comprehensive system of commercial laws. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and judicial interpretation and their lack of force as precedents, interpretation and enforcement of these laws and regulations involve significant uncertainties. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively. We cannot predict what effect the interpretation of existing or new PRC laws or regulations may have on our businesses. If the relevant authorities find us in violation of PRC laws or regulations, they would have broad discretion in dealing with such a violation.

*The scope of our business license in China is limited, and we may not expand or continue our business without government approval and renewal, respectively.*

Our principal operating subsidiary, ZQ Power-Tech, is a wholly foreign-owned enterprise organized under PRC law, commonly known as a WFOE. A WFOE can only conduct business within its approved business scope, which ultimately appears on its business license. In order for us to expand our business beyond the scope of our license, we will be required to enter into a negotiation with the authorities for the approval to expand the scope of our business. We cannot assure you that ZQ Power-Tech will be able to obtain the necessary government approval for any change or expansion of our business scope.

*We rely principally on dividends and other distributions on equity paid by our operating subsidiary to fund our cash and financing requirements, but such dividends and other distributions are subject to restrictions under PRC law. Limitations on the ability of our operating subsidiary to pay dividends or other distributions to us could have a material adverse effect on our ability to grow, make investments or acquisitions, pay dividends to you, and otherwise fund and conduct our business.*

We are a holding company and conduct substantially all of our business through our operating subsidiary, ZQ Power-Tech, which is a limited liability company established in China. We rely on dividends paid by ZQ Power-Tech for our cash needs, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses. The payment of dividends by entities organized in China is subject to ZQ Power-Tech to us only out of accumulated profits as determined in



accordance with PRC accounting standards and regulations. ZQ Power-Tech is also required to set aside at least 10% of its after-tax profit based on PRC accounting standards each year to its general reserves until the cumulative amount of such reserves reaches 50% of its registered capital. These reserves are not distributable as cash dividends. In addition, ZQ Power-Tech is required to allocate a portion of its after-tax profit to its enterprise expansion fund and the staff welfare and bonus fund at the discretion of its board of directors. Moreover, if ZQ Power-Tech incurs debt on its own behalf in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. Any limitations on the ability of ZQ Power-Tech to pay dividends or other distributions to us could have a material adverse effect on our ability to grow, make investments or acquisitions, pay dividends to you, and otherwise fund or conduct our business.

*Our business development, future performance, strategic plans, and other objectives would be hindered if we lost the services of our Chairman.*

Fu Zhiguo is the Chief Executive Officer of Advanced Battery Technologies and of our operating subsidiary, ZQ Power-Tech. Mr. Fu is responsible for strategizing not only our business plan but also the means of financing it. Mr. Fu has also, from time to time, provided his personal funds to meet the working capital needs of ZQ Power-Tech. If Mr. Fu were to leave Advanced Battery Technologies or become unable to fulfill his responsibilities, our business would be imperiled. At the very least, there would be a delay in the development of Advanced Battery Technologies until a suitable replacement for Mr. Fu could be retained.

### **Item 3**

#### **Quantitative and Qualitative Disclosures About Market Risk**

Not applicable.

### **Item 4.**

#### **Controls and Procedures**

(a)

**Evaluation of disclosure controls and procedures.**

The term disclosure controls and procedures (defined in SEC Rule 13a-15(e)) refers to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934 (the Exchange Act ) is recorded, processed, summarized and reported within required time periods. The Company s management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company s disclosure controls and procedures as of the end of the period covered by this quarterly report (the Evaluation Date ). Based on that evaluation, the Company s Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, such controls and procedures were effective.

(b)

**Changes in internal controls.**

The term internal control over financial reporting (defined in SEC Rule 13a-15(f)) refers to the process of a company that is designed to provide reasonable assurance regarding the



reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated any changes in the Company's internal control over financial reporting that occurred during the first quarter of the year covered by this quarterly report, and they have concluded that there was no change to the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1.

#### Legal Proceedings.

*Susquehanna Financial Group, LLLP v. Advanced Battery Technologies, Inc.* In September Susquehanna Financial Group, LLLP ( SFG ) commenced this action in the Court of Common Pleas of Montgomery County, Pennsylvania (Civil Action No. 08-25505). SFG alleges that it was party to two contracts with the Company, pursuant to which SFG alleges that it was entitled to serve as financial advisor with respect to any offering of securities by the Company completed prior to March 2009. SFG alleges that the Company failed to afford SFG the opportunity to serve as financial advisor in connection with the private placement by the Company in August 2008. SFG alleges that it is entitled to damages in the amount of \$1,359,872.46 and a warrant to purchase 81,882 share of the Company's common stock exercisable at \$8.00 per share. The Company has answered the Complaint, and has denied that SFG was entitled to serve as financial advisor in connection with the August 2008 private placement by reason of the fact that SFG had terminated its agreements with the Company, had waived any continuing rights under the contracts, and had acted in bad faith in connection with the services it undertook to perform for the Company.

### Item 1A.

#### Risk Factors.

There have been no material changes from the risk factors included in the Annual Report on Form 10-KSB for the year ended December 31, 2007.



Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds.

On August 8 and August 15, 2008 the Company sold a total of 5,058,834 shares of common stock (the Shares ) and warrants to purchase a total of 2,276,474 shares of common stock (the Warrants ). The purchasers were eight accredited institutional funds. The aggregate purchase price for the securities was \$21,500,033.50. The sale of the securities was exempt from registration with the Securities and Exchange Commission pursuant to Rule 506, by reason of the fact that there was no general solicitation in connection with the offering, and the fact that the purchasers were accredited investors with sufficient knowledge and experience to be capable of evaluating the merits and risks of the investment, who were purchasing for investment for their own accounts.

Item 3.

Defaults Upon Senior Securities.

None.

Item 4.

Submission of Matters to a Vote of Security Holders.

None.

Item 5.

Other Information.

None.

Item 6.

Exhibits

31.1

Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2

Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1

Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

## SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ADVANCED BATTERY TECHNOLOGIES, INC.

Date: November 12, 2008

By: /s/ Zhiguo Fu

Name: Zhiguo Fu

Title: Chief Executive Officer

Date: November 12, 2008

By: /s/ Dahe Zhang

Name: Dahe Zhang

Title: Chief Financial Officer

