

ADVANCED BATTERY TECHNOLOGIES, INC.  
Form 10-Q  
May 11, 2009

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U. S. Securities and Exchange Commission  
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-33726

ADVANCED BATTERY TECHNOLOGIES, INC.  
(Name of Registrant in its Charter)

Delaware  
(State or Other Jurisdiction of incorporation or  
organization)

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

21 West 39th Street, Suite 2A, New York, NY 10018  
Address of Principal Executive Offices)  
Issuer's Telephone Number: 212-391-2752

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Sections 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 subjected to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Small 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   

**APPLICABLE ONLY TO CORPORATE ISSUERS:** Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date:

May 11, 2009

Common Voting Stock: 57,821,577

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## PART I - FINANCIAL INFORMATION

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

|  | ASSETS                           |                      |
|--|----------------------------------|----------------------|
|  | March 31,<br>2009<br>(Unaudited) | December 31,<br>2008 |
| Current assets:  |                                  |                      |
| Cash and cash equivalents  | \$ 33,545,014                    | \$ 32,746,155        |
| Accounts receivable, net   | 16,724,986                       | 14,708,078           |
| Inventories, net   | 1,516,234                        | 1,748,115            |
| Loan receivable  | 1,619,355                        | 1,600,000            |
| Other receivables  | 109,163                          | 240,726              |
| Advance to suppliers   | 129,925                          | 246,163              |
| Total Current Assets   | 53,644,677                       | 51,289,237           |
| Property, plant and equipment, net of accumulated depreciation of \$2,959,062 as of March 31, 2009 and \$2,803,788 as of December 31, 2008 |                                  |                      |
|  | 16,481,181                       | 16,635,843           |
| Total Fixed Assets   | 16,481,181                       | 16,635,843           |
| Other assets:  |                                  |                      |
| Investment in unconsolidated entity  | 1,027,751                        | 1,037,550            |
| Investment advance   | 3,814,946                        | 3,000,000            |
| Deposit for long-term assets   | 3,712,390                        | 1,748,363            |
| Intangible assets, net   | 1,514,834                        | 1,548,158            |
| Goodwill   | 2,482,873                        | 2,487,080            |
| Other assets   | 26,624                           | 6,000                |
| Total other assets   | 12,579,418                       | 9,827,151            |
| Total Assets   | \$ 82,705,276                    | \$ 77,752,231        |

LIABILITIES AND STOCKHOLDERS' EQUITY

|                                     |            |            |
|-------------------------------------|------------|------------|
| Current liabilities:                |            |            |
| Accounts payable                    | \$ 913,210 | \$ 415,850 |
| Advance from Customer               | 83,185     | 80,479     |
| Accrued expenses and other payables | 498,045    | 784,070    |
| Loan from officers                  | 8,390      | 17,236     |
| Tax payable                         | 1,079,760  | -          |
| Total Current Liabilities           | 2,582,590  | 1,297,635  |
| Total Liabilities                   | 2,582,590  | 1,297,635  |

## Stockholders' Equity

|   |               |               |
|---|---------------|---------------|
| Common stock, \$0.001 par value, 60,000,000 shares authorized;<br>54,821,577 shares issued and 54,626,996 shares outstanding as of March 31, 2009<br>and 54,781,577 shares issued and 54,662,067 shares outstanding as of December 31, 2008 | 54,822        | 54,782        |
| Additional paid-in-capital  | 39,602,197    | 39,289,991    |
| Accumulated other comprehensive income  | 5,914,649     | 6,012,475     |
| Retained earnings   | 34,993,347    | 31,393,050    |
| Less: Cost of treasury stock (194,581 and 119,510 shares as of March 31, 2009 and December 31, 2008 )   | (442,329)     | (295,702)     |
| Total Stockholders' Equity  | 80,122,686    | 76,454,596    |
| Total Liabilities and Stockholders' Equity  | \$ 82,705,276 | \$ 77,752,231 |

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

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME  
(UNAUDITED)

|  | THREE MONTHS ENDED MARCH |               |
|--|--------------------------|---------------|
|  | 2009                     | 31,<br>2008   |
| Revenues   | \$ 10,685,738            | \$ 10,031,969 |
| Cost of Goods Sold                                   | 5,651,189                | 4,989,742     |
| Gross Profit   | 5,034,549                | 5,042,227     |
| Operating Expenses                                   |                          |               |
| Research & Development expenses                      | -                        | 4,325         |
| Selling, general and administrative                  | 896,319                  | 567,565       |
| Operating income                                     | 4,138,230                | 4,470,337     |
| Other Income (Expenses)                              |                          |               |
| Interest income (expenses)                           | 74,348                   | 7,586         |
| Equity loss from unconsolidated entity               | (9,798)                  | -             |
| Total other income (expenses)                        | 64,550                   | 7,586         |
| Income Before Income Taxes                           | 4,202,779                | 4,477,923     |
| Provision for Income Taxes (Benefit)                 | 602,482                  | 629,445       |
| Net Income   | \$ 3,600,297             | \$ 3,848,478  |
| Other Comprehensive Income                           |                          |               |
| Foreign currency translation adjustment              | (97,825)                 | 1,590,979     |
| Comprehensive Income                                 | \$ 3,502,472             | \$ 5,439,457  |
| Earnings per share                                   |                          |               |
| Basic  | \$ 0.08                  | \$ 0.09       |
| Diluted  | \$ 0.07                  | \$ 0.08       |
| Weighted average number of common shares outstanding |                          |               |
| Basic  | 47,055,374               | 41,510,498    |
| Diluted  | 54,692,874               | 49,688,998    |

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

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

|   | THREE MONTHS ENDED MARCH |               |
|---|--------------------------|---------------|
|   | 2009                     | 2008          |
| Cash Flows From Operating Activities:   |                          |               |
| Net income  | \$ 3,600,297             | \$ 3,848,478  |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                          |               |
| Depreciation and amortization   | 190,584                  | 295,963       |
| Amortization of deferred consulting expenses  | 50,281                   | 87,594        |
| Amortization of stock based compensation expense  | 261,965                  | 133,781       |
| Equity loss of unconsolidated entity  | 9,798                    | -             |
| Changes in operating assets and liabilities:  |                          |               |
| Accounts receivable   | (2,016,908)              | 2,099,466     |
| Inventories   | 231,881                  | (1,137,602)   |
| Other receivable & prepayments  | 227,176                  | 373,611       |
| Accounts payable, accrued expenses and other payables                                       | 1,294,663                | 1,883,196     |
| Advance from Customer   | 2,706                    | (21,046)      |
| Net cash provided by operating activities   | 3,852,444                | 7,563,440     |
| Cash Flows From Investing Activities:   |                          |               |
| Loan receivable   | (19,355)                 | -             |
| Deposit for long-term assets  | (1,964,027)              | -             |
| Purchase of property, plant and equipment   | (33,353)                 | (1,689)       |
| Payment made on investment advance  | (814,946)                | -             |
| Net cash used in investing activities   | (2,831,681)              | (1,689)       |
| Cash Flows From Financing Activities  |                          |               |
| Loan (to) from related parties  | -                        | 167,343       |
| Purchase of treasury stock  | (146,627)                | -             |
| Repayment of officer loan   | (8,846)                  | -             |
| Net cash provided by(used in) financing activities  | (155,471)                | 167,343       |
| Effect of exchange rate changes on cash and cash equivalents                                | (66,432)                 | 919,979       |
| Increase in cash and cash equivalents   | 798,859                  | 8,649,073     |
| Cash and Cash Equivalents - Beginning of period   | 32,746,155               | 2,704,823     |
| Cash and Cash Equivalents - End of period   | \$ 33,545,014            | \$ 11,353,896 |
| SUPPLEMENTAL CASH FLOW INFORMATION:   |                          |               |
| During the year, cash was paid for the following:   |                          |               |
| Interest expense  | \$ -                     | \$ -          |

|              |    |   |    |   |
|--------------|----|---|----|---|
| Income taxes | \$ | - | \$ | - |
|--------------|----|---|----|---|

NON-CASH INVESTING AND FINANCING ACTIVITIES:

|  |    |         |    |   |
|--|----|---------|----|---|
| Common stock issued for incentive stock-based compensation | \$ | 152,800 | \$ | - |
|--|----|---------|----|---|

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

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

1. BASIS OF PRESENTATION

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 three months ended March 31, 2009 and 2008 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 2008 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.

Principles of consolidation

The 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 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.



ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For purposes of the statement of cash flow, the Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Accounts receivable

Accounts receivables are stated at net realizable value. Any allowance for doubtful accounts is established based on the management's assessment of the recoverability of accounts and other receivables. Management regularly reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the collectability of accounts receivable and the adequacy of the allowance. The allowance for accounts receivable is \$16,478 and \$16,506 as of March 31, 2009 and December, 31 2008, respectively.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined on a weighted average method. Cost of work in progress and finished goods comprises direct material, direct production cost and an allocated portion of production overheads. Management compares the cost of inventory with the market value and an allowance is made for writing down the inventory to its market value, if lower.

Revenue recognition

The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin ("SAB") 104. Sales revenue is recognized when title and risks have passed, which is generally at the date of shipment and when collectability is reasonably assured.

The Company sells its products to the customers who have passed the Company's credit check. Sales agreements are signed with each customer. The purchase price of products is fixed in the agreement. The Company does not sell products to customers on a consignment basis. The company makes custom products based on sales agreements, so no returns are allowed. The Company warrants the product only in the event of defects for one year from the date of shipment. Historically, the Company has not experienced significant defects, and replacements for defects have been minimal. For the three months ended March 31, 2009 and 2008, no such returns and allowances have been recorded. Should returns increase in the future it would be necessary to adjust estimates, in which case recognition of revenues could be delayed. Payments received before all of the relevant criteria for revenue recognition are recorded as customer deposits.

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Maintenance, repairs and betterments, including replacement of minor items, are charged to expense; major additions to physical properties are capitalized. Depreciation and amortization are provided using the straight-line method (after taking into account their respective estimated residual values) over the estimated useful lives of the assets as follows:

|                           |       |
|---------------------------|-------|
| B u i l d i n g s   a n d | 39    |
| improvements              | years |
| Machinery, equipment      | 5-10  |
| and motor vehicles        | years |

Construction in progress

Construction in progress represents buildings and machinery under construction, which is stated at cost and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Prepaid consulting services

Prepaid consulting services represent the aggregate fair value of the Company's common stock issued in return for the consulting services provided by certain consultants to the Company. The fair value is determined by reference to the closing price of the Company's common stock as quoted on NASDAQ or other US stock exchanges at the date of issuance. The prepaid expenses are amortized on a straight-line basis over the respective terms of the service periods. Amortization of prepaid consulting services for the three months ended March 31, 2009 and 2008 was \$50,281 and \$87,594, respectively.

Impairment of long-lived assets

Long-lived assets, which include property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 March 31, 2009, most of the Company's cash and cash equivalents were held by major banks located in the PRC 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 Renminbi ("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. 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 and other intangible assets are accounted for in accordance with the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets." Under SFAS 142, goodwill, including any goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have indefinite useful lives are not amortized. Rather, goodwill and such indefinite-lived intangible assets are assessed for impairment at least annually based on comparisons of their respective fair values to their carrying values.

Finite-lived intangible assets are amortized over their respective useful lives and, along with other long-lived assets, are evaluated for impairment periodically whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In evaluating long-lived assets for recoverability, including finite-lived intangibles and property and equipment, the Company uses its best estimate of future cash flows expected to result from the use of the asset and eventual disposition in accordance with SFAS No.144. To the extent that estimated future undiscounted net cash flows attributable to the asset are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed of and for which there is a committed plan of disposal, whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell.

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).

Both prior to and subsequent to December 31, 2005, the Company determined the fair value of each stock award to be equal to the quoted market price for the Company’s common stock on the date of the award.

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 average vesting period for the shares issued to date has been 11.37 years, based on the terms of the employment agreements under which the stock was awarded. The expense related to the vesting of unearned compensation was \$261,965 and \$133,781 for three months ended March 31, 2009 and 2008, respectively.

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Service.s. 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.

Research and development costs

Research and development costs are expensed as incurred. Engineers and technical staff are involved in the production of our products as well as on-going research, with no segregation of the portion of their salaries relating to research and development from the portion of their salaries relating to production. The total salaries are included in cost of goods sold. Research and development expense was \$0 and \$4,325 for the three months ended March 31, 2009 and 2008, respectively.

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. The Company has provided a 100% valuation allowance at March 31, 2009 for the temporary difference related to loss carry-forwards and stock-based compensation.

Comprehensive Income

Comprehensive income is defined to include changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, 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 gain, net of tax.

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic and Diluted Earnings per Share

Earnings per share are calculated in accordance with the SFAS 128, "Earnings per share." Basic net earnings per share are based upon the weighted average number of common shares outstanding, but excluding shares issued as compensation that have not yet vested. Diluted net earnings per share are based on the assumption that all dilutive convertible shares and stock options were converted or exercised, and that all unvested shares have vested. Dilution is computed by applying the treasury stock 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. The adoption of this FSP EITF 03-6-1 did not have a material effect on the Company's financial position.

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.

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 adoption of this SFAS 160 did not have a material effect on the Company's financial position.

In December 2007, Statement of Financial Accounting Standards No. 141(R), Business Combinations, was issued. SFAS No. 141R replaces SFAS No. 141, Business Combinations. 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 adoption of this SFAS No. 141R did not have a material effect on the Company's financial position.

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

### 3. INVENTORY

|                 | March 31, 2009 | December 31, 2008 |
|-----------------|----------------|-------------------|
| Raw Materials   | \$ 621,520     | \$ 791,891        |
| Work-in-process | 546,321        | 638,745           |
| Finished goods  | 348,393        | 317,479           |
|                 | \$ 1,516,234   | \$ 1,748,115      |

The accumulative allowance for inventory was \$47,574 and \$47,655 as of March 31, 2009 and December 31, 2008, respectively. No allowance for inventory was made for the three months ended March 31, 2009 and 2008.

### 4. LOAN RECEIVABLE

The Company loaned to a non-related company, Harbin Jinhuida Investment Consulting Limited, the amount of \$1,600,000 for one year term from October 30, 2008 to October 29, 2009 at a fixed interest rate of 10% per annum. The principal plus interest will be repaid upon maturity. The Company accrued interest income of \$40,000 for the three months ended March 31, 2009 as a result of this transaction.

The Company also loaned \$19,355 to RDX Holdings Limited. The entire amount is expected to be paid back in May 2009 without interest. Zhiguo Fu, the Company's Chief Executive Officer, is a member of the Board of Directors of the parent of RDX Holdings Limited.

### 5. OTHER RECEIVABLES

Other receivables generally consist of advances to employee and interest receivable. The Company has full oversight and control over the advanced accounts. Therefore, no allowance for the uncollectible accounts is considered necessary.



ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

## 6. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consisted of the following at March 31, 2009 and December 31, 2008:

|  | March 31, 2009 | December 31, 2008 |
|--|----------------|-------------------|
| Building and improvements                | \$ 12,376,306  | \$ 12,397,349     |
| Machinery and equipment                  | 3,692,727      | 3,698,917         |
| Motor Vehicles                           | 250,368        | 217,236           |
|  | 16,319,401     | 16,313,502        |
| less: Accumulated Depreciation           | (2,959,062)    | (2,803,788)       |
| Construction in Progress                 | 3,120,842      | 3,126,130         |
| Total property, plant and equipment, net | \$ 16,481,181  | \$ 16,635,843     |

Depreciation expense for the three months ended March 31, 2009 and 2008 was \$159,886 and \$273,796, respectively.

Construction in progress represents direct costs of construction and design fees incurred for the Company's new plant and equipment. Capitalization of these costs ceases and the construction in progress is transferred to plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided until it is completed and ready for its intended use. Construction in progress totaled \$3,120,842 and \$3,126,130 as of March 31, 2009 and December 31, 2008, respectively.

## 7. INVESTMENT IN UNCONSOLIDATED ENTITY

In the fourth quarter of 2008, the Company entered an equity investment agreement ("Agreement") with Beyond E-Tech, Inc (BET) to acquire 49% of issued and outstanding capital stock of BET for a total payment of \$1,500,000. The Company made the payment in full as of March 31, 2009. BET is a newly-organized company that imports and distributes cell phones in the United States. Pursuant to the Agreement, during any period of time when the Company is a shareholder of BET, BET shall exclusively market products for resale that use ABAT's rechargeable polymer lithium-ion batteries.

The Company has a significant influence on BET and therefore uses the equity method to account for the investment in BET. According to the Agreement, the Company has significant influence over the operating and financial policies of BET, including a right of approval of its operating budget, veto power over large capital expenses, and other management controls. Net loss on using this equity method investment was \$9,798 for the three months ended March 31, 2009.

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

7. INVESTMENT IN UNCONSOLIDATED ENTITY (Continued)

The Company uses its best estimate of future cash flows expected to result from the use of this asset in accordance with SFAS No. 157. There was \$371,743 impairment loss recognized on this investment for the year ended December 31, 2008 because the estimated future undiscounted net cash flows related to this investment are less than the carrying amount.

8. DEPOSIT FOR LONG-TERM ASSETS

The Company entered various agreements to purchase equipment and machinery in an effort to expand its production in 2009. As of March 31, 2009, the Company made a total down payment of \$3.71 million on those long-term assets. The Company expects to pay the remaining contract amount of \$1.83 million in 2009. The deposit will be reclassified to the respective accounts under the fixed assets upon delivery and transfer of legal titles.

9. INVESTMENT ADVANCE

On October 24, 2008, Cashtech entered an agreement with Wuxi Angell Autocycle Co. Ltd ('Wuxi Angell') under which the Company will acquire a 55% interest in Wuxi Angell in exchange for a cash payment of RMB 25 million (approximately US\$3.64 million) and 2 million shares of ABAT's common stock.

On April 28, 2009 Advanced Battery Technologies and its wholly-owned subsidiary, Cashtech Investment Limited, amended the above agreement and entered into a Share Purchase Agreement with the owners of Wuxi Angell, who are Wuxi Baoshiyun Autocycle Co., Ltd. and Bao Jin, . The Share Purchase Agreement provides that Cashtech Investment Limited will purchase 100% equity in Wuxi Angell in exchange for (a) U.S.\$3,640,000 already paid by Advanced Battery Technologies, (b) 70,000,000 Chinese Renminbi (approx. \$10,248,902) to be paid at closing, and (c) 3,000,000 shares of the common stock of Advanced Battery Technologies, Inc.

The Company has advanced payment in the total amount of approximately \$3.81 million as of March 31, 2009.

Wuxi Angell is the customer of ABAT with sales of \$0.24 million and \$2.41 million, which represented 2.2% and 24.0% of the total sales of the Company for the three months ended March 31, 2009 and 2008, respectively.

ADVANCED BATTERY TECHNOLOGIES, INC.  
 CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
 FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
 (UNAUDITED)

10. 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" (the Right) to use the land and the power line underneath. The Group leases two pieces of land per real estate contract from the PRC Government for a period from August 2003 to September 2043, on which the office and production facilities of ZQ Power-Tech are situated. The Group 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 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, 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 March 31, 2009, no impairment of intangible assets has been recorded.

Net intangible assets at March 31, 2009 and December 31, 2008 were as follows:

|                                | March 31, 2009 | December 31, 2008 |
|--------------------------------|----------------|-------------------|
| Rights to use land and power   | \$ 1,024,957   | \$ 1,024,225      |
| Patents                        | 897,089        | 901,076           |
|                                | 1,922,046      | 1,925,301         |
| Less: accumulated amortization | (407,212)      | (377,143)         |
|                                | \$ 1,514,834   | \$ 1,548,158      |

Amortization expense was \$30,698 and \$22,167 for the three months ended March 31, 2009 and 2008, respectively.

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

#### 10. INTANGIBLE ASSETS (Continued)

Based upon current assumptions, the Company expects that its intangible assets will be amortized over the next five years according to the following schedule:

| As of March 31 |              |
|----------------|--------------|
| 2010           | \$ 120,820   |
| 2011           | 120,820      |
| 2012           | 120,820      |
| 2013           | 120,820      |
| 2014           | 120,820      |
| Thereafter     | 910,734      |
|                | \$ 1,514,834 |

#### 11. 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. 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.

#### 12. LOAN FROM OFFICER

The Company's CEO, Mr. Zhiguo Fu, periodically loans money to finance the operations of its New York Office. As of March 31, 2009, the Company still owed Mr. Fu a total of \$8,390. The loan is intended to be interest free and due upon demand.

#### 13. 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.

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

13. STOCK-BASED COMPENSATION (Continued)

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 March 31, 2009, and changes for the three months ended March 31, 2009, is presented below:

|  |              |
|--|--------------|
| Unearned stock compensation as of January 1, 2009  | \$ 2,103,694 |
| Unearned stock compensation granted  | -            |
| Compensation expenses debited to statement of operations with a credit to additional paid-in capital | (66,440)     |
| Unearned stock compensation as of March 31, 2009   | \$ 2,037,254 |

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 \$381,991. 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 respective terms of the contracts. The amortization for the three months ended March 31, 2009 and 2008 was \$50,281 and \$87,594, respectively.

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

As of March 31, Amortization

|      |            |
|------|------------|
| 2009 | 116,375    |
| 2010 | 115,354    |
| 2011 | 100,729    |
| 2012 | \$ 49,533  |
|      | \$ 381,991 |



ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

13. STOCK-BASED COMPENSATION (Continued)

(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.

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 March 31, 2009 is presented below:

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

## 13. STOCK-BASED COMPENSATION (Continued)

|  |                  |
|--|------------------|
| Unearned stock compensation as of January 1, 2009  | \$ 3,634,101     |
| Unearned stock compensation granted  | 152,800          |
| Compensation expenses debited to statement of operations with a credit to additional paid-in capital | (195,525)        |
| <br>Unearned stock compensation as of March 31, 2009   | <br>\$ 3,591,376 |

Other than the transaction as detailed above, no options or awards have been made, exercised or lapsed during the three months ended March 31, 2009 and 2008 under the 2004 Plan and the 2006 Plan.

## 14. INCOME TAXES

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 was effective on January 1, 2008. This new corporate income tax unifies the corporate income tax rate to 25%, and includes 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 decreased to 12.5% in 2008.

A reconciliation of tax at United States federal statutory rate to provision for income tax recorded in the financial statements is as follows:

|  | For the Three Months<br>Ended March 31, |         |
|--|---|---------|
|  | 2009                                    | 2008    |
| U.S. statutory income tax rate             | 35.0%                                   | 35.0%   |
| Foreign tax rate difference                | (10.0%)                                 | (10.0%) |
| Effect of favorable tax exemption in China | (10.7%)                                 | (10.9%) |
| Actual consolidated income tax rate        | 14.3%                                   | 14.1%   |



The estimated tax savings as a result of our tax holidays for the three months ended March 31, 2009 and 2008 amounted to \$602,482 and \$629,445, 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 March 31, 2009 and 2008 from \$0.08 to \$0.07 and from \$0.09 to \$0.08, respectively.

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

## 14. INCOME TAXES (Continued)

The Company was incorporated in the United States. It incurred a net operating loss for U.S. income tax purposes for the three months ended March 31, 2009 and 2008. The net operating loss carry forwards, including amortization of share-based compensation, for United States income tax purposes amounted to \$664,422 and \$397,191 the three months ended March 31, 2009 and 2008, respectively, which may be available to reduce future years' taxable income. These carry forwards will expire, if not utilized, beginning in 2027 through 2028. Management believes that the realization of the benefits arising from this loss appear to be uncertain due to Company's limited operating history and continuing losses for United States income tax purposes. Accordingly, the Company has provided a 100% valuation allowance at March 31, 2009 for the temporary difference related to loss carry-forwards and restricted stock issuance. Management reviews this valuation allowance periodically and makes adjustments as warranted. The valuation allowances for the three months ended March 31, 2009 and 2008 were \$232,547 and \$139,017, respectively.

## 15. EARNINGS PER SHARE

Earnings per share for the three months period ended March 31, 2009 and 2008 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 months ended March 31, 2009 and 2008:

|   | For the Three Months Ended<br>March 31, |              |
|---|---|--------------|
|   | 2009                                    | 2008         |
| Basic earning per share   |   |              |
| Net Income  | \$ 3,600,297                            | \$ 3,848,478 |
| Weighted average number of common shares<br>outstanding-Basic   | 47,055,374                              | 41,510,498   |
| Earnings per share-Basic  | \$ 0.08                                 | \$ 0.09      |
| Diluted earnings per share                                      |   |              |
| Net Income  | \$ 3,600,297                            | \$ 3,848,478 |
| Weighted average number of common shares<br>outstanding-Basic   | 47,055,374                              | 41,510,498   |
| Effect of diluted securities-Stock options                      | 7,637,500                               | 8,178,500    |
| Weighted average number of common shares<br>outstanding-Diluted | 54,692,874                              | 49,688,998   |

|                            |    |      |    |      |
|----------------------------|----|------|----|------|
| Earnings per share-Diluted | \$ | 0.07 | \$ | 0.08 |
|----------------------------|----|------|----|------|

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

15. EARNINGS PER SHARE (Continued)

At March 31, 2009 and 2008, the Company had unvested stock awards of 7,637,500 and 8,178,500, respectively, under the 2004 and 2006 equity plans. All unvested stock awards were included in the diluted earnings per share calculation as they are dilutive.

At March 31, 2009, the Company had outstanding warrants of 2,592,945 and there were no outstanding warrants as of March 31, 2008. For the three months ended March 31, 2009, all outstanding warrants, with an exercise above the market price during the three months ended March 31, 2009, were excluded from the diluted earnings per share calculation as they are anti-dilutive.

16. 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 aggregate 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 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.

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 at the grant date 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. The grant date value was \$8,709,964.

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

## 16. STOCKHOLDERS' EQUITY (Continued)

Following is a summary of the status of warrants activities as of March 31, 2009:

|                                   | Warrants<br>Outstanding | Weighted<br>Average<br>Exercise Price | Average<br>Remaining<br>Life in years | Aggregate<br>Intrinsic<br>Value |
|-----------------------------------|-------------------------|---------------------------------------|---------------------------------------|---------------------------------|
| Outstanding, December<br>31, 2008 | 2,592,945               | 5.51                                  | 4.33                                  | -                               |
| Granted                           | -                       | -                                     | -                                     | -                               |
| Forfeited                         | -                       |                                       |                                       | -                               |
| Exercised                         | -                       |                                       |                                       | -                               |
| Outstanding, March 31,<br>2009    | 2,592,945               | \$ 5.51                               | \$ 4.33                               | -                               |

On December 8, 2008, the Board of Directors approved a stock repurchase program. The Company repurchased 194,581 shares as treasury stock as of March 31, 2009.

In addition, according to the five-year employment contract, the company issued 40,000 shares to one employee in January 2009 and there are 160,000 shares remaining to be issued to him in the following four years.

As a result of these transactions, there are 54,821,577 shares of common stock issued and 54,626,996 shares outstanding as of March 31, 2009.

## 17. CONCENTRATION OF RISKS

Four major customers accounted for approximately 50.0% of the net revenue for the three months ended March 31, 2009, with each customer individually accounting for 21.2%, 10.8%, 9.1% and 7.9%, respectively. At March 31, 2009, the total receivable balance due from these customers was \$6,017,030, representing 36.0% of total accounts receivable. Four major customers accounted for 59% of the net revenue for the three months ended March 31, 2008. At March 31, 2008, the total receivable balance due from these customers was \$3,604,435, representing 26% of total accounts receivable.

Four major vendors provided approximately 55.8% of the Company's purchases of raw materials for the three months ended March 31, 2009, with each vendor individually accounting for 17.4%, 14.7%, 12.6% and 11.1%, respectively. The Company's accounts payable to these vendors was \$485,112 as of March 31, 2009, representing 53.1% of total accounts payable. Four vendors provided around 60% of the Company's purchase of raw materials for the three months ended March 31, 2008, with each vendor individually accounting for 18%, 16%, 14%, and 12%, respectively. The Company's accounts payable to these vendors was \$132,963 as of March 31, 2008.

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

18. 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 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.

19. WARRANTIES

The Company warrants that all equipment 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 three months ended March 31 2009 and 2008, no amounts have been considered necessary to reserve for warranty costs.

20. COMMITMENTS AND CONTINGENCIES

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.

ADVANCED BATTERY TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS  
FOR THE THREE MONTHS ENDED MARCH 31, 2009 AND 2008  
(UNAUDITED)

20. COMMITMENTS AND CONTINGENCIES (Continued)

The Company entered various agreements to purchase equipment and machinery in an effort to expand its production in 2009. As of March 31, 2009, the Company made a total down payment of \$3.71 million on those long-term assets. The Company still has the commitment to pay the remaining contract amount of \$1.83 million in 2009.

According to the five-year employment contract, the company issued 40,000 shares to one employee in January 2009 and there are 160,000 shares remaining to be issued to him in the following four years.

21. SUBSEQUENT EVENTS

On May 4, 2009 Cashtech Investment Limited, the wholly-owned subsidiary of Advanced Battery Technologies, acquired 100% interest of the registered capital of Wuxi Angell Autocycle Co., Ltd. The registered capital was purchased from Wuxi Baoshiyun Autocycle Co., Ltd. and Bao Jin, who are not affiliated with Advanced Battery Technologies or its subsidiaries. In exchange for the equity in Wuxi Angell, the Company paid US\$3,640,000 and 70,000,000 Chinese Renminbi (approx. \$10,248,902) in cash. In addition, the Company issued 3,000,000 shares of its common stock to the sellers.

## 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 in the section of our Annual Report on Form 10-K for the year ended December 31, 2008 entitled "Risk Factors." 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.

### Results of Operations

#### Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008

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. Since 2004, the number of employees at our facility has increased from 300 to, as of March 31 2009, 607, because 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 2008 reached \$45 million and continue to grow, the need to outfit buildings "C" and "D" so as to double our production capacity became apparent. Toward that end, during 2008 we completed an equity placement to obtain the capital necessary for the expansion.

Due to the limitation of current capacity and higher administration cost, our business presented slight growth during the three months ended March 31, 2009, accompanied by a reduction in operating income and net income. Our revenue increased by 6.5% and our net income decreased by 6.5%. However, as new manufacturing capacity will become available later this year, we expect to achieve significant growth in 2009. In addition, on May 4, 2009 we acquired 100% of Wuxi Angell, a leading manufacturer of battery-powered motorbikes and scooters. We believe that the acquisition will help us to offset the effects of recent worldwide recession and accelerate our future growth.

Revenues. In the three months ended March 31, 2009, we realized \$10,685,738 in revenues, an increase of 6.5% compared to the \$10,031,969 in revenue that we achieved in the same period of 2008. As a result of competition and fully utilized production capacity, our prices and unit sales have remained relatively stable.



The growth in our battery business has been accompanied by a reorientation in the relative importance of different battery sizes. When we first entered the battery business in 2003 and following years, the bulk of our sales were small capacity batteries, primarily those used in consumer electronic devices. Our growth, however, has been propelled by customers for our medium capacity batteries (used for electric scooters, electric bicycles, power tools, miners' lamps, searchlights, etc.) and large capacity batteries (used for electric sanitation vehicles, stationary applications, and other large scale battery applications). In the three months ended March 31, 2009, the contribution of batteries in these categories as well as the contribution of miner's lamps to our total revenues was:

| Type                      | Amount(US\$) | % (of total revenue) |
|---------------------------|--------------|----------------------|
| Small Capacity Batteries  | \$976,580    | 9.14%                |
| Medium Capacity Batteries | \$3,593,637  | 33.63%               |
| Large Capacity Batteries  | \$3,829,069  | 35.83%               |
| Miner's Lamps             | \$2,286,452  | 21.40%               |

**Gross Profit.** Our cost of revenues consists of the cost of raw materials, labor costs and production overhead. In the three months ended March 31, 2009, our revenue increased by 6.5% and our cost of goods sold increased by 13.3%, from \$4,989,742 to \$5,651,189. This higher growth in cost of sales is mainly attributable to the higher proportion of sales from lower margin products, i.e., medium capacity batteries. The result was a deterioration in our gross margin from 50.3% in the three months ended March 31, 2008 to 47.1% in the same period of 2009.

The current global recession has caused a widespread and dramatic drop in the cost of raw materials, including the metals that we utilize in our batteries. We expect this situation will help us to return to the level of gross margin that we achieved in 2008. However, if the recession results in diminished sales or our acquisition initiatives do not generate higher profit in the first year after acquisition, our gross margin is likely to suffer.

**Operating Expenses:** The Company's operating expenses increase by 56.7%, from \$571,890 in the three months ended March 31, 2008 to \$896,319 in the same period of 2009. The increase is primarily due to the higher noncash stock compensation amortization expense and higher administration expenses incurred by our US office, such as salaries and legal fee. However, considering only the operation expenses in Heilongjiang ZQPT, our main production base in China, the operation expenses only slightly increased by \$51,818, which is mainly attributable to our expanded operation.

Included in our general and administrative expense during the three months ended March 31, 2009 was \$312,246 attributable to amortization of the market value of stock that we granted to employees or consultants. This non-cash expense resulted from our use of stock during our early years to incentivize key individuals. The market value of the stock at the time it was issued is being amortized over the term of the employee's or consultant's services, thus:

In the case of employees, the period of amortization is based on a vesting schedule included in the employees' contracts. The average vesting period for the employees is 11.4 years. To date, only one employee of the Company who received stock awards has terminated employment; so the amortization has been proportional to that schedule.

In the case of consultants, the period of amortization is based on the term of the consulting contracts, although amortization will be accelerated if the consulting relationship ceases. Again, to date, the consultants who received stock have remained involved in the Company's affairs, so there has been no acceleration of amortization.

At March 31, 2009 there remained \$5,628,630 in unamortized stock compensation on the Company's books. The amortization of this sum will contribute to our operating expenses as described above.

In the three months ended March 31 2009, we realized \$74,348 interest income, which is mainly due to our \$1.6 million lending to a non-related company, Harbin Jinhuida Investment Consulting Limited, at an interest rate of 10% per annum, and our cash deposited in Chinese banks. Additionally, we recognized \$9,798 investment loss from our 49% equity investment in Beyond E-Tech, Inc., a Texas corporation recently organized to engage in distributing cellular telephones in the United States. The acquisition has been recorded as an "investment in unconsolidated entity" on our balance sheet, and our participation in that business will be accounted for through the equity method. Because Beyond E-Tech incurred a net loss of approximately \$19,997 in the three months ended March 31, 2009, the value of our investment was reduced on our balance sheet by 49% of that sum – i.e. \$19,997 – and we incurred "equity loss" in that amount

The Company's revenue less expenses produced a pre-tax income of \$4,202,779 for the three months ended March 31, 2009 and a pre-tax income of \$4,477,923 in the same period of 2008. In the three months period of 2009, domestic (U.S.) pre-tax loss was \$664,422 and foreign (China) pre-tax income was \$4,867,201. As a result of Chinese tax laws that reward foreign investment in China, currently and through 2010, ZQ Power-Tech is entitled to a 50% tax abatement, which results in an effective corporate tax rate of approximately 12.5%. After taxes of \$602,482 realized in the three months ended March 31 2009, our net income was \$3,600,297, a decrease of 6.5% over 2008. This first quarter 2009 income represented \$.08 basic earnings per share and \$.07 fully diluted.

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 three months ended March 31 2009, the effect of converting our financial results to Dollars was to reduce our accumulated other comprehensive income by \$97,825.

## Liquidity and Capital Resources

At March 31, 2009 the Company had a working capital balance of \$51,062,087, a slight improvement from our working capital balance of \$49,991,602 at December 31, 2008. The primary reason for the improvement in working capital was the net income realized during the three months period. During this same period, in order to complete the expansion plan for two new assembly lines and replace some outdated equipments, we made an additional deposit of \$1,964,027 with our vendors during this three months period; we also made advanced payment of \$814,946 to Wuxi Angell shareholders to fulfill our acquisition agreement.

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. If we determine that additional funds are needed for other attractive growth opportunities, we have available \$16,481,181 in property, plant and equipment, which ZQ Power-Tech owns free of liens. On May 7, 2009 our backlog of firm orders was approximately \$64 million. Based on that backlog of orders, we believe that secured financing will be available on favorable terms if needed

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

## Impact of Accounting Pronouncements

There were no recent accounting pronouncements that have had a material effect on the Company's financial position or results of operations.

## 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.

## ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our operating subsidiary, ZQ Power-Tech, carries on business exclusively in Chinese Renminbi. Therefore it does not have any derivative instruments or other financial instruments that are market risk sensitive.

## 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 time periods specified in the rules and forms of the Securities and Exchange Commission. "Disclosure controls and procedures" include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.



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 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 period covered by this report, and they have concluded that there was no change to the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings.

None.

### Item 1A. Risk Factors.

There have been no material changes from the risk factors included in the Annual Report on Form 10-K for the year ended December 31, 2008.

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

#### (c) Repurchase of Equity Securities

The following table sets forth information regarding the Company's repurchase of shares of its common stock during the 1st quarter of 2009.

| Period                               | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1) | Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs |
|--------------------------------------|----------------------------------|------------------------------|---|--|
| January 1, 2009-<br>January 31, 2009 | 0                                | N.A.                         | 0   | 3,880,490  |
| February 1, 2009<br>– February 28,   | 0                                | N.A.                         | 0   | 3,880,490  |

2009

|                                   |        |        |        |           |
|-----------------------------------|--------|--------|--------|-----------|
| March 1, 2009 –<br>March 31, 2009 | 75,071 | 1.9532 | 75,071 | 3,805,419 |
| Total                             | 75,071 | 1.9532 | 75,071 | 3,805,419 |

(1) In December 2008 the Board of Directors announced a stock repurchase program under which the Company may purchase up to 4 million shares of its common stock. Purchases will be made, from time to time, in the open market, depending on several factors, including price, prevailing market conditions, and other investment opportunities. The program will expire on November 30, 2009.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

30

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Item Exhibits

6.

- 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: May 11, 2009

By: /s/ Zhiguo Fu  
Name: Zhiguo Fu  
Title: Chief Executive Officer

Date: May 11, 2009

By: /s/ Guohua Wan  
Name: Guohua Wan  
Title: Chief Financial Officer