

ADVANCED BATTERY TECHNOLOGIES, INC.  
Form 10-Q  
August 09, 2010

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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 June 30, 2010

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.)

15 West 39th Street, Suite 14A, 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)

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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:

August 9, 2010

Common Voting Stock: 68,796,720

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ADVANCED BATTERY TECHNOLOGIES, INC.  
 QUARTERLY REPORT ON FORM 10Q  
 FOR THE FISCAL QUARTER ENDED JUNE 30, 2010

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ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

|                                     | ASSETS                          |                       |
|-------------------------------------|---------------------------------|-----------------------|
|                                     | June 30,<br>2010<br>(Unaudited) | December 31,<br>2009  |
| Current assets:                     |                                 |                       |
| Cash and cash equivalents           | \$ 62,416,290                   | \$ 52,923,358         |
| Accounts receivable, net            | 21,960,884                      | 22,406,927            |
| Inventories, net                    | 6,232,248                       | 3,680,098             |
| Loan receivable, net                | 1,600,000                       | 1,600,000             |
| Other receivables                   | 293,351                         | 107,751               |
| Advance to suppliers, net           | 4,854,838                       | 7,940,129             |
| <b>Total Current Assets</b>         | <b>97,357,612</b>               | <b>88,658,263</b>     |
| Property, plant and equipment, net  | 53,348,554                      | 47,248,600            |
| <b>Total Fixed Assets</b>           | <b>53,348,554</b>               | <b>47,248,600</b>     |
| Other assets:                       |                                 |                       |
| Investment in unconsolidated entity | 786,933                         | 785,057               |
| Investment advance                  | 1,467,800                       | 1,457,034             |
| Deposit for long-term assets        | 2,794,323                       | 2,860,882             |
| Intangible assets, net              | 13,977,262                      | 14,317,502            |
| Goodwill                            | 2,490,578                       | 2,472,311             |
| Other assets                        | 51,236                          | 26,705                |
| <b>Total other assets</b>           | <b>21,568,132</b>               | <b>21,919,491</b>     |
| <b>Total Assets</b>                 | <b>\$ 172,274,298</b>           | <b>\$ 157,826,354</b> |

LIABILITIES AND STOCKHOLDERS' EQUITY

|   |                   |                   |
|---|-------------------|-------------------|
| Current liabilities:  |                   |                   |
| Short-term loan   | \$ -              | \$ 2,916,071      |
| Accounts payable  | 1,827,693         | 670,254           |
| Advance from Customers  | 227,345           | 228,871           |
| Accrued expenses and other payables                               | 914,149           | 1,389,130         |
| <b>Total Current Liabilities</b>                                  | <b>2,969,187</b>  | <b>5,204,326</b>  |
| Long term liabilities:  |                   |                   |
| Deferred tax liability  | 3,468,262         | 3,468,262         |
| Warrant liability   | 11,824,055        | 17,221,335        |
| <b>Total Liabilities</b>  | <b>18,261,504</b> | <b>25,893,923</b> |
| Stockholders' Equity  |                   |                   |
| Preferred stock, \$0.001 face value, 5,000,000 shares authorized; | -                 | -                 |

2 shares issued and 2 shares outstanding as of  
June 30, 2010 and December 31, 2009

Common stock, \$0.001 par value, 150,000,000  
shares authorized;

68,796,720 shares issued and 68,602,139 shares  
outstanding as of June 30, 2010

and 68,778,112 shares issued and 68,583,531  
shares outstanding as of December 31, 2009

|  |                    |                    |
|--|--------------------|--------------------|
|  | 68,796             | 68,778             |
| Additional paid-in-capital   | 74,928,865         | 74,114,122         |
| Accumulated other comprehensive income   | 6,727,123          | 5,496,334          |
| Retained earnings  | 72,787,500         | 52,752,687         |
| Less: Cost of treasury stock (194,581 shares as<br>of June 30,2010 and December 31, 2009 ) | (499,490 )         | (499,490 )         |
| Total Stockholders' Equity   | 154,012,794        | 131,932,431        |
| <br>Total Liabilities and Stockholders' Equity   | <br>\$ 172,274,298 | <br>\$ 157,826,354 |

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

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

|  | For Three-months ended<br>June 30, |                    | For Six Months ended June<br>30, |                    |
|--|------------------------------------|--------------------|----------------------------------|--------------------|
|  | 2010                               | 2009<br>(Restated) | 2010                             | 2009<br>(Restated) |
| Revenues   | \$22,835,358                       | \$ 13,771,583      | \$42,384,375                     | \$24,457,320       |
| Cost of Goods Sold                                   | 11,796,140                         | 7,458,600          | 21,729,456                       | 13,109,789         |
| Gross Profit   | 11,039,218                         | 6,312,983          | 20,654,919                       | 11,347,531         |
| Operating Expenses                                   |                                    |                    |                                  |                    |
| Research & Development expenses                      | -                                  | 188,472            | -                                | 188,472            |
| Selling, general and administrative                  | 1,992,830                          | 3,740,079          | 4,608,779                        | 4,636,398          |
| Operating income                                     | 9,046,388                          | 2,384,432          | 16,046,140                       | 6,522,661          |
| Other Income (Expenses)                              |                                    |                    |                                  |                    |
| Interest income                                      | 80,138                             | 96,198             | 187,336                          | 170,546            |
| Interest (expense)                                   | (133 )                             | (206,219 )         | (39,793 )                        | (206,219 )         |
| Equity gain (loss) from unconsolidated entity        | 3,315                              | (57,862 )          | 1,876                            | (67,660 )          |
| Gain on bargain purchase                             | -                                  | 9,909,320          | -                                | 9,909,320          |
| Change in fair value of warrants                     | 4,191,406                          | (4,976,178 )       | 5,397,280                        | (4,511,492 )       |
| Other income (expenses)                              | -                                  | 13,708             | -                                | 13,708             |
| Total other income (expenses)                        | 4,274,726                          | 4,778,967          | 5,546,698                        | 5,308,203          |
| Income Before Income Taxes                           | 13,321,114                         | 7,163,399          | 21,592,837                       | 11,830,864         |
| Provision for Income Taxes (Benefit)                 |                                    |                    |                                  |                    |
| Income tax-Current                                   | 810,875                            | 681,211            | 1,558,027                        | 1,283,693          |
| Income tax-Deferred                                  | -                                  | 3,468,262          | -                                | 3,468,262          |
| Net income   | \$12,510,240                       | \$3,013,926        | \$20,034,811                     | \$7,078,909        |
| Other Comprehensive Income                           |                                    |                    |                                  |                    |
| Foreign currency translation adjustment              | 811,204                            | 68,288             | 1,230,789                        | (29,536 )          |
| Comprehensive Income                                 | \$13,321,444                       | \$3,082,214        | \$21,265,601                     | \$7,049,373        |
| Earnings per share                                   |                                    |                    |                                  |                    |
| Basic  | \$0.20                             | \$0.06             | \$0.33                           | \$0.15             |
| Diluted  | \$0.18                             | \$0.05             | \$0.29                           | \$0.13             |
| Weighted average number of common shares outstanding |                                    |                    |                                  |                    |
| Basic  | 61,549,661                         | 48,901,584         | 61,544,259                       | 47,983,579         |

|         |            |            |            |            |
|---------|------------|------------|------------|------------|
| Diluted | 68,661,790 | 58,056,619 | 68,656,388 | 56,553,099 |
|---------|------------|------------|------------|------------|

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

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ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
UNAUDITED

|   | For the Six Months ended June<br>30, |                     |
|---|--------------------------------------|---------------------|
|   | 2010                                 | 2009<br>(Restated)  |
| <b>Cash Flows From Operating Activities:</b>  |                                      |                     |
| Net income  | \$ 20,034,811                        | \$ 7,078,909        |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                      |                     |
| Gain on bargain purchase  | -                                    | (9,909,320 )        |
| Deferred income tax   | -                                    | 3,468,262           |
| Depreciation and amortization   | 2,210,253                            | 854,137             |
| Amortization of deferred consulting expenses  | 58,188                               | 79,375              |
| Amortization of stock based compensation expense  | 756,573                              | 835,519             |
| Equity gain (loss) of unconsolidated entity   | (1,876 )                             | 67,660              |
| Provision for doubtful accounts and inventory valuation allowance                           | 636,260                              | 643,436             |
| Gain on disposal of fixed asset   | (146 )                               | -                   |
| Change in fair value of warrants  | (5,397,280 )                         | 4,511,492           |
| <b>Changes in operating assets and liabilities:</b>   |                                      |                     |
| Accounts receivable   | 62,213                               | (584,589 )          |
| Inventories   | (2,518,300 )                         | (1,621,165 )        |
| Other receivable & prepayments  | 3,291,081                            | (692,543 )          |
| Accounts payable, accrued expenses and other payables                                       | 578,670                              | (3,038,975 )        |
| Advances from Customer  | (3,211 )                             | (1,210,714 )        |
| <b>Net cash provided by (used in) operating activities</b>                                  | <b>19,707,236</b>                    | <b>481,484</b>      |
| <b>Cash Flows From Investing Activities:</b>  |                                      |                     |
| Deposit for long-term assets  | (1,419,217 )                         | (4,596,962 )        |
| Purchase of property, plant and equipment   | (6,102,708 )                         | (101,684 )          |
| Disposal of property, plant and equipment   | 5,127                                | -                   |
| Cash acquired from business combination   | -                                    | 837,081             |
| <b>Net cash used in investing activities</b>  | <b>(7,516,797 )</b>                  | <b>(3,861,565 )</b> |
| <b>Cash Flows From Financing Activities</b>   |                                      |                     |
| Repayment of bank loan  | (2,929,930 )                         | -                   |
| Purchase of treasury stock  | -                                    | (203,788 )          |
| Proceeds from issuance of preferred stock, net  | -                                    | 16,041,861          |
| Loan receivable   | -                                    | (19,355 )           |
| Repayment of officer loan   | -                                    | (135,884 )          |
| <b>Net cash provided by financing activities</b>  | <b>(2,929,930 )</b>                  | <b>15,682,834</b>   |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>                         | <b>232,424</b>                       | <b>(12,365 )</b>    |



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|   |               |               |
|---|---------------|---------------|
| Increase in cash and cash equivalents           | 9,492,932     | 12,290,388    |
| Cash and Cash Equivalents - Beginning of period | 52,923,358    | 32,746,155    |
| Cash and Cash Equivalents - End of period       | \$ 62,416,290 | \$ 45,036,543 |

SUPPLEMENTAL CASH FLOW INFORMATION:

During the year, cash was paid for the following:

|                  |              |            |
|------------------|--------------|------------|
| Interest expense | \$ 47,323    | \$ 152,983 |
| Income taxes     | \$ 2,409,719 | \$ 425,111 |

NON-CASH INVESTING AND FINANCING ACTIVITIES:

|  |           |              |
|--|-----------|--------------|
| Common stock issued for stock-based compensation | \$ 72,030 | \$ 210,500   |
| Common stock issued for acquisition of Wuxi ZQ   | \$ -      | \$ 9,870,000 |
| Option issued to executives for service          | \$ -      | \$ 777,660   |

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

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (RESTATED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. 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 and six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the full year. The condensed consolidated balance sheet information as of December 31, 2009 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009. 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 thereto included in the Company's 2009 Form 10-K.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of Advanced Battery Technologies, Inc. (the "Company" or "ABAT") and its wholly-owned subsidiaries, Cashtech Inc., Wuxi Angell Autocycle Co., Ltd. ("Wuxi ZQ") and Harbin Zhongqiang Power-Tech Co., Ltd. ("Harbin ZQPT"). In addition the consolidated financial statements include the accounts of Heilongjiang Zhongqiang Power-Tech Co., Ltd. ("Heilongjiang ZQPT"), which is a variable interest entity with respect to Harbin 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. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (RESTATED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value of financial instruments

The Company adopted the provisions of Accounting Standards Codification (“ASC”) 820, Fair Value Measurements and Disclosures. ASC 820 clarifies the definition of fair value, prescribes methods for measuring fair value, and establishes a fair value hierarchy to classify the inputs used in measuring fair value as follows:

Level 1-Inputs are unadjusted quoted prices in active markets for identical assets or liabilities available at the measurement date.

Level 2-Inputs are unadjusted quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, inputs other than quoted prices that are observable, and inputs derived from or corroborated by observable market data.

Level 3-Inputs are unobservable inputs which reflect the reporting entity’s own assumptions on what assumptions the market participants would use in pricing the asset or liability based on the best available information.

The carrying amounts reported in the balance sheets for cash, accounts receivable, loan receivables, other receivables, advance to suppliers, short-term loan, accounts payable, advance from customers, other payables and accrued expenses, approximate their fair market value based on the short-term maturity of these instruments. The Company uses Level 3 method to measure fair value of their warrant liability. The Company did not identify any other assets or liabilities that are required to be presented on the consolidated balance sheets at fair value in accordance with ASC 820.

Risks of losses

The Company is potentially exposed to risks of losses that may result from business interruptions, injury to others (including employees) and damage to property. These losses may be uninsured, especially due to the fact that the Company’s operations are in China, where business insurance is not readily available. If: (i) information is available before the Company’s financial statements are issued or are available to be issued indicates that such loss is probable and (ii) the amount of the loss can be reasonably estimated, an estimated loss will be accrued by a charge to income. If such loss is probable but the amount of loss cannot be reasonably estimated, the loss shall be charged to the income of the period in which the loss can be reasonably estimated and shall not be charged retroactively to an earlier period. As of June 30, 2010 and 2009, the Company has not experienced any uninsured losses from injury to others or other losses.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (RESTATED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent events

The Company has evaluated subsequent events that have occurred through the date of this financial statement issuance and has determined that there were no material events since the balance sheet of this report.

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 \$1,125,871 and \$570,182 as of June 30, 2010 and December 31, 2009 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.

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 | 20-39 |
| improvements              | years |
| Machinery, equipment      | 5-10  |
| and motor vehicles        | years |

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (RESTATED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Goodwill

Goodwill and other intangible assets are accounted for in accordance with the provisions of ASC 350, "Goodwill and Other Intangible Assets." Under ASC 350, 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.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (RESTATED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of long-lived assets

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 ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets."

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 ASC 360. 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.

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.

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 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 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 and six months ended June 30, 2010 and 2009, 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 advance from customers.

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (RESTATED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Product warranty

The Company provides product warranties to its customers 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 costs and expenses in connection with such warranties has been minimal and, as of June 30 2010, no product warranty reserve was considered necessary.

Stock-Based compensation

The Company adopted the provisions of ASC 718, "Share-Based Payments," which establishes the accounting for employee stock-based awards. Under the provisions of ASC 718, 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).

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 ASC 718. The average vesting period for the shares issued to date has been 9.79 years, based on the terms of the employment agreements under which the stock was awarded. The stock-based compensation was \$370,076 and \$184,724 for the three months, and \$756,573 and \$446,689 for the six months, ended June 30, 2010 and 2009, respectively.

The Company measures compensation expense for its non-employee stock-based compensation under ASC 718 "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. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009 (RESTATED)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development costs

Research and development costs are expensed as incurred. Portion of engineers' salaries in our research and development division are included in research and development expense. Research and development expense was \$0 and \$188,472 for the three and six months ended June 30, 2010 and 2009, respectively.

Advertising

Advertising is expensed as incurred. Advertising expenses were included in selling expenses. The Company did not have any advertising expenses for the three and six months ended June 30, 2010 and 2009, respectively.

Income tax

The Company utilizes ASC 740, "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.

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 or loss, net of tax.



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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic and diluted earnings per share

Earnings per share are calculated in accordance with the ASC 260, "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.

Segment reporting

ASC 280 requires use of the "management approach" model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. During the three and six months ended June 30, 2010 and 2009, the Company operated in two business segments - battery segment and electrical vehicle segment.

Foreign currency translation

The functional currency of Harbin ZQPT, HLJ ZQPT and Wuxi ZQ 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.

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## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Recently issued accounting standards

In January 2010, FASB amended ASC 820, Improving Disclosures about Fair Value Measurements. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company has determined the adoption of this ASU does not have a material impact on its financial statements.

In December, 2009, FASB amended Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. The amendments in this Accounting Standards Update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this Update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The Company has determined the adoption of this rule does not have a material impact on its financial statements.

## 3. INVENTORIES

|                 | June 30, 2010 | December 31, 2009 |
|-----------------|---------------|-------------------|
| Raw Materials   | \$ 2,917,978  | \$ 1,408,230      |
| Work-in-process | 330,000       | 514,905           |
| Finished goods  | 3,031,992     | 1,804,334         |
|                 | 6,279,970     | 3,727,469         |
| Less allowance  | (47,722 )     | (47,372 )         |
|                 | \$ 6,232,248  | \$ 3,680,098      |

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#### 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. On October 30, 2009, the Company renewed the loan contract for another one year at the same fixed interest rate of 10% per annum. The principal plus interest will be repaid upon maturity. The Company accrued interest income of \$80,000 for the six months ended June 30, 2010 as a result of this transaction.

#### 5. OTHER RECEIVABLES

Other receivables generally consist of advances to employees, interest receivable and tax refund receivable.

#### 6. ADVANCES TO SUPPLIERS

The Company makes advances to certain suppliers for raw materials purchases. The net advances to suppliers were \$4,854,838 and \$7,940,129 as of June 30, 2010 and December 31, 2009, respectively. The Company has made an allowance for these advances in the amount of \$363,430 and \$275,379 as of June 30, 2010 and December 31, 2009, respectively.

#### 7. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consisted of the following:

|  | June 30, 2010 | December 31, 2009 |
|--|---------------|-------------------|
| Building and improvements                | \$ 40,861,976 | \$ 39,079,353     |
| Machinery and equipment                  | 13,416,437    | 13,319,007        |
| Motor Vehicles                           | 387,793       | 416,367           |
|  | 54,666,206    | 52,814,727        |
| less: Accumulated Depreciation           | (12,271,411)  | (10,477,610 )     |
| Construction in Progress                 | 10,953,759    | 4,911,483         |
| Total property, plant and equipment, net | \$ 53,348,554 | \$ 47,248,600     |

Depreciation expense for the three months ended June 30, 2010 and 2009 was \$844,818 and \$522,102, respectively. Depreciation expense for the six months ended June 30, 2010 and 2009 was \$1,790,193 and \$681,988, 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.



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8. INVESTMENT IN UNCONSOLIDATED ENTITY

In the fourth quarter of 2008, the Company entered into an equity investment agreement (“Agreement”) with Beyond E-Tech, Inc (BET) to acquire 49% of the issued and outstanding capital stock of BET for a total payment of \$1,500,000. The Company made the payment in full as of December 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 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 gain (loss) on this investment using the equity method was \$1,876 and \$(67,660) for the six months ended June 30, 2010 and 2009, respectively.

The Company uses its best estimate of future cash flows expected to result from the ownership of this asset in accordance with ASC 820. There were \$235,091 and \$371,743 impairment loss recognized on this investment for the year ended December 31, 2009 and 2008 because the estimated future undiscounted net cash flows related to this investment were less than the carrying amount.

9. INVESTMENT IN ADVANCE

On September 8, 2009, the Company’s board approved the execution of a letter of intent to acquire a battery company in Shenzhen and authorized the current management to negotiate and execute a final acquisition agreement. The Company has made a deposit in amount of RMB 10 million (approximately \$1.47 million as of June 30, 2010), and expects to complete the acquisition in the second half of 2010.

10. DEPOSIT FOR LONG-TERM ASSETS

The Company entered into various agreements to purchase equipment and machinery in an effort to expand its production in 2010. As of June 30, 2010, the Company made down payments in the total amount of \$2,794,323 on those long-term assets and has not received the fixed assets. The Company expects to pay the remaining contract amount of approximately \$1,680,480 by the end of 2010. The deposit will be reclassified to the respective accounts under fixed assets upon delivery and transfer of legal titles.

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## 11. INTANGIBLE ASSETS

Intangible assets consist of land use rights, patents and marketing network resources. 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 Company leases two pieces of land from the PRC Government for a period from August 2003 to September 2043, on which the office and production facilities of Heilongjiang ZQPT are situated. In addition, the Company also leases two pieces of land from the PRC Government for a period from July 2003 to July 2053 and from September 2002 to June 2057 respectively, on which the office and production facilities of Wuxi ZQ are situated. The Company leases the power lines from the local government for a period from July 2003 to July 2013.

Rights to use land and power and patent rights are stated at fair market value less accumulated amortization. The Company amortizes the patents over a 3-10 year period. The Company evaluates finite-lived 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 June 30, 2010 and December 31, 2009, no impairment of intangible assets has been recorded.

Net intangible assets were as follows:

|                                | June 30, 2010 | December 31, 2009 |
|--------------------------------|---------------|-------------------|
| Rights to use land and power   | \$ 13,117,323 | \$ 13,065,389     |
| Patents                        | 1,231,586     | 1,224,986         |
| Marketing network resource     | 1,000,038     | 1,000,038         |
|                                | 15,348,947    | 15,290,413        |
| Less: accumulated amortization | (1,371,684 )  | (972,910 )        |
|                                | \$ 13,977,262 | \$ 14,317,502     |

Amortization expense was \$196,921 and \$141,451 for the three months ended June 30, 2010 and 2009, respectively. Amortization expense was \$393,906 and \$172,149 for the six months ended June 30, 2010 and 2009, respectively.

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

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## 11. INTANGIBLE ASSETS (Continued)

| As of June |               |
|------------|---------------|
| 30,        |               |
| 2011       | \$ 758,408    |
| 2012       | 640,168       |
| 2013       | 462,809       |
| 2014       | 400,731       |
| 2015       | 394,312       |
| Thereafter | 11,320,834    |
|            | \$ 13,977,262 |

## 12. 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 Heilongjiang ZQPT acquired from the minority shareholders in Heilongjiang ZQPT in 2006. The Company applied step accounting by determining the implied fair value of goodwill by allocating the price paid to acquire the 30% minority interest to all of its assets and liabilities. As of June 30, 2010, no impairment of goodwill was recorded as the management has determined that the carrying amount of goodwill did not exceed its implied fair value. 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.

## 13. SHORT TERM BANK LOANS

When the Company acquired its wholly-owned subsidiary, Wuxi ZQ, in May 2009, it had two loans payable in the aggregate amount of RMB 50,000,000 (approximately \$7.3 million) to Huaxia Bank on the acquisition date. Wuxi ZQ paid off one loan of RMB 30,000,000 (approximately \$4.4 million) during the year ended December 31, 2009 and another loan of RMB 20,000,000 (approximately \$2.9 million) to Huaxia Bank during the six months ended June 30, 2010.

## 14. 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 Company has reserved 5,000,000 shares of common stock for the options and awards under the Plan.

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14. 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 stock, 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 June 30, 2010, and changes for the six months ended June 30, 2010, is presented below:

|   |             |
|---|-------------|
| Unearned stock compensation as of January 1, 2010   | \$1,837,934 |
| Unearned stock compensation granted   | -           |
| Compensation expenses recorded on the statement of operations with a credit to additional paid-in capital | (132,880 )  |
| Unearned stock compensation as of June 30, 2010   | \$1,705,054 |

In addition, the compensation cost recorded 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 \$352,898. 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 June 30, 2010 and 2009 was \$29,094 and \$29,094, respectively. The amortization for the six months ended June 30, 2010 and 2009 was \$58,188 and \$79,375, respectively.

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

| As of June | Amortization |
|------------|--------------|
| 30         |              |
| 2011       | \$ 116,375   |
| 2012       | 95,729       |
| 2013       | 24,419       |
|            | \$ 236,523   |



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14. 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.

A summary of the status of the Company’s unearned stock compensation under the 2006 Equity Incentive Plan as of June 30, 2010 is presented below:

|   |             |
|---|-------------|
| Unearned stock compensation as of January 1, 2010   | \$3,991,119 |
| Unearned stock compensation granted   | 72,030      |
| Compensation expenses recorded on the statement of operations with a credit to additional paid-in capital | (623,693 )  |
| Unearned stock compensation as of June 30, 2010   | \$3,439,456 |

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## 15. 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, HLJ ZQPT is located in a specially designated technology zone which allows foreign-invested enterprises a five-year income tax holiday. HLJ ZQPT 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 the HLJ ZQPT decreased to 12.5% from 2008 to 2010.

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 Six Months<br>Ended June 30, |                    |
|--|--------------------------------------|--------------------|
|  | 2010                                 | 2009<br>(Restated) |
| U.S. statutory income tax rate           | 35.0%                                | 35.0%              |
| Foreign income not recognized in the U.S | (35.0%)                              | (35.0%)            |
| China Statutory income tax rates         | 25.0%                                | 25.0%              |
| China income tax exemption               | (12.5%)                              | (12.5%)            |
| Other items (a)                          | (5.3%)                               | (1.6%)             |
| Effective consolidated income tax rate   | 7.2%                                 | 10.9%              |

(a) The (5.3%) represents \$1,808,065 expenses incurred by the Company's US office (excluding \$5,397,279 other income due to change in fair value of warrants) that are not subject to PRC income tax for the six months ended June 30, 2010. The (1.6%) represents \$1,895,815 of expenses incurred by the Company's US office (excluding \$4,511,492 other expense due to change in fair value of warrants) that are not subject to PRC income tax for six months ended June 30, 2009.

The estimated tax savings as a result of our tax holidays for the six months ended June 30, 2010 and 2009 amounted to \$1,555,284 and \$1,283,693, respectively. The net effect on earnings per share had the income tax been applied would decrease basic earnings per share for the six months ended June 30, 2010 and 2009 from \$0.33 to \$0.30 and from \$0.15 to \$0.12, respectively.



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15. 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 and six months ended June 30, 2010 and 2009. The net operating loss carry forwards, including amortization of share-based compensation, for United States income tax purposes amounted to \$1,808,065 and \$1,895,815 for the six months ended June 30, 2010 and 2009, respectively, which may be available to reduce future years' taxable income. These carry forwards will expire, if not utilized, beginning in 2027 through 2029. For United States income tax purposes, the valuation allowances for the six months ended June 30, 2010 and 2009 were \$632,823 and \$663,535, respectively.

In addition, there are net operating loss carry-forwards from Wuxi ZQ. Management believes that the realization of the benefits arising from these losses appear to be uncertain due to Wuxi ZQ's limited operating history. Accordingly, the Company has provided a 100% valuation allowance at June 30, 2010 for the temporary difference related to loss carry-forwards. Management reviews this valuation allowance periodically and makes adjustments. For PRC income tax purposes, the valuation allowances were \$1,331,206 and \$3,074,202 as of June 30, 2010 and December 31, 2009, respectively.

16. EARNINGS PER SHARE

Earnings per share 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 ASC 260, "Earnings Per Share."

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## 16. EARNINGS PER SHARE (Continued)

The following demonstrates the calculation for earnings per share for the three months ended March 31, 2010 and 2009:

|  | For the Three Months<br>Ended<br>June 30, |                    | For the Six Months Ended<br>June 30, |                    |
|--|---|--------------------|--------------------------------------|--------------------|
|  | 2010                                      | 2009<br>(Restated) | 2010                                 | 2009<br>(Restated) |
| Basic earning per share  |   |                    |                                      |                    |
| Net Income   | \$12,510,240                              | \$3,013,926        | \$20,034,811                         | \$7,078,909        |
| Weighted average number of common shares outstanding - Basic   | 61,549,661                                | 48,901,584         | 61,544,259                           | 47,983,579         |
| Earnings per share-Basic                                       | \$0.20                                    | \$0.06             | \$0.33                               | \$0.15             |
| Diluted earnings per share                                     |   |                    |                                      |                    |
| Net Income   | \$12,510,240                              | \$3,013,926        | \$20,034,811                         | \$7,078,909        |
| Weighted average number of common shares outstanding -Basic    | 61,549,661                                | 48,901,584         | 61,544,259                           | 47,983,579         |
| Effect of conversion of preferred stock                        | 528                                       | 1,177,535          | 528                                  | 592,020            |
| Effect of exercise of options                                  | 64,268                                    | 340,000            | 64,268                               | 340,000            |
| Effect of diluted securities-unvested shares                   | 7,047,333                                 | 7,637,500          | 7,047,333                            | 7,637,500          |
| Weighted average number of common shares outstanding - Diluted | 68,661,790                                | 58,056,619         | 68,656,388                           | 56,553,099         |
| Earnings per share-Diluted                                     | \$0.18                                    | 0.05               | \$0.29                               | 0.13               |

As of June 30, 2010 and 2009, the Company had unvested stock awards of 7,047,333 and 7,637,500, 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 June 30, 2010 and 2009, the Company had outstanding warrants of 6,825,113 and 9,175,725, respectively. Warrants were excluded in the diluted earnings per share calculation as the stock market price is below warrants' exercise price for the six months ended June 30, 2010 and 2009, respectively. 340,000 outstanding options issued in 2009, with an exercise price below the market price during the six months ended June 30, 2010, were included in the diluted earnings per share calculation as they are dilutive. Additionally, for the six months ended June 30, 2010, 2 shares of preferred stock were diluted and included in the diluted earnings per share calculation. Dilution is computed by applying the treasury stock method.

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17. STOCKHOLDERS' EQUITY

1) Issuance of Preferred Stock

As of June 30, 2010, there were 2 shares of the preferred stock outstanding. The shares have a liquidation preference of \$1,000 each and are each convertible into 264 shares of common stock.

2) Issuance of Common Stock

In January 2010, according to a two-year employment contract, the company issued 3,000 shares to one employee for first year employment.

During the quarter ended March 31, 2010 the Company granted a total of 15,608 shares of common stock with an aggregate market value of \$60,000 to two of its independent directors pursuant to their respective Service Agreements. These shares were issued in May 2010.

There are 68,796,720 shares of common stock issued and 68,602,139 shares outstanding as of June 30, 2010.

3) Stock Options

During the year ended December 31, 2009, the Company issued 340,000 fully vested stock options in connection with the services rendered by the Company's senior executives and recorded total stock option compensation expenses of \$777,661 for the year ended December 31, 2009.

The following table summarizes the stock option activities of the Company:

|                              | Outstanding | Exercise Price | Life in years | Value      |
|------------------------------|-------------|----------------|---------------|------------|
| Outstanding, January 1, 2010 | 340,000     | \$ 2.66        | 4.00          | \$ 571,200 |
| Granted                      | 0           | -              |               | -          |
| Forfeited                    | -           |                |               | -          |
| Exercised                    | -           |                |               | -          |
| Outstanding, June 30, 2010   | 340,000     | \$ 2.66        | \$ 3.50       | \$ 713,119 |

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## 17. STOCKHOLDERS' EQUITY (Continued)

## 4) Stock Warrants

Following is a summary of the status of warrants activities as of June 30, 2010:

|                                 | Warrants<br>Outstanding | Weighted<br>Average<br>Exercise Price | Average<br>Remaining<br>Life in years | Aggregate<br>Intrinsic<br>Value |
|---------------------------------|-------------------------|---------------------------------------|---------------------------------------|---------------------------------|
| Outstanding, January 1,<br>2010 | 6,825,113               | \$ 5.16                               | 4.50                                  | \$ -                            |
| Granted                         | -                       | -                                     | -                                     | -                               |
| Forfeited                       | -                       | -                                     | -                                     | -                               |
| Exercised                       | -                       | -                                     | -                                     | -                               |
| Outstanding, June 30,<br>2010   | 6,825,113               | \$ 5.16                               | \$ 4.00                               | \$ -                            |

The Company has determined that both the Investor Warrants and the Placement Agent Warrants do not meet the conditions for equity classification pursuant to ASC 815 "Accounting for Derivatives" and ASC 815-40 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." Therefore, these warrants were classified as warrant liability.

The fair value of outstanding warrants was \$11,824,055 and \$17,221,335 as of June 30, 2010 and December 31, 2009, respectively. The change in fair value of warrants was recorded as other income for the three and six months ended June 30, 2010.

## 18. CONCENTRATION OF RISKS

The Company maintains certain bank accounts in the PRC which are not protected by FDIC insurance or other insurance. Cash balances held in PRC bank accounts were \$59,391,678 and \$43,868,543 as of June 30, 2010 and December 31, 2009, respectively. As of June 30, 2010 and December 31, 2009, the Company held \$3,024,612 and \$9,054,816 of cash balances within the United States of which \$2,191,447 and \$8,222,219 was in excess of FDIC insurance limits, respectively.

Four (4) major customers accounted for approximately 30.0% of the net revenue for the six months ended June 30, 2010, with the customers individually accounting for 9.8%, 9.2%, 5.8% and 5.2%, respectively. At June 30, 2010, the total receivable balance due from these customers was \$4,260,871, representing 19.4% of total accounts receivable. Four (4) major customers accounted for 41.1% of the net revenue for the six months ended June 30, 2009. At June 30, 2009, the total receivable balance due from these customers was \$4,495,266, representing 30.0% of total accounts receivable.

Four (4) major vendors provided approximately 40.4% of the Company's purchases of raw materials for the six months ended June 30, 2010, with the vendors individually accounting for 14.3%, 10.3%, 8.5% and 7.3%, respectively. The Company's accounts payable to these vendors was \$489,869 as of June 30, 2010. Four (4) vendors provided around

43.9% of the Company's purchase of raw materials for the six months ended June 30, 2009, with the vendors individually accounting for 17.8%, 11.7%, 7.2% and 7.1%, respectively. The Company's accounts payable to these vendors was \$369,824 as of June 30, 2009, representing 24.5% of total accounts payable.



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19. LITIGATION

On September 30, 2009, the Company was named as a defendant in an action filed in the United States District Court for the Southern District of New York. The action, brought by the Company's former Chief Technological Officer, Mr. Sui-yang Huang, alleges that based on his Employment Contract, he should have been paid certain additional stock benefits by November 30, 2008; in an Amended Complaint filed in November 2009, Mr. Huang also purported to state ancillary quasi-contract and tort claims related to his contract claim and his eventual dismissal from the Company. Mr. Huang's Amended Complaint demanded between approximately \$1.25 and \$5 million in compensatory damages, plus an unspecified amount of punitive and other damages. The Company believes that all of Mr. Huang's alleged claims are without merit. The Company filed a motion to dismiss the Amended Complaint, both on forum non conveniens grounds and for failure to state a claim for relief. On May 26, 2010, the Court granted the Company's motion to dismiss on forum non conveniens grounds. The dismissal is subject to the following conditions: (a) Mr. Huang is able, if he so chooses, to bring a similar action against the Company in a court near his residence in China, (b) the Chinese forum accepts jurisdiction over the dispute, and (c) the Company agrees to (1) consent to a Chinese court's jurisdiction for these civil actions, (2) toll any applicable statute of limitations for 120 days after the Court's dismissal on forum non conveniens grounds, (3) make available in the courts of China any evidence or witnesses in its possession, custody, or control in the United States that a Chinese court hearing these cases may deem relevant, and (4) pay any final, post-appeal judgment awarded against it by a Chinese court. Huang did not file a notice of appeal of the Court's order dismissing the action.

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 a 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 its 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 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 and 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. The Parties are currently in the midst of the discovery process, which should be completed by the end of the year. Once discovery is complete, the Court will issue a schedule for the trial date.

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## 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.

The Company entered into various agreements to purchase equipment and machinery in an effort to expand its production in 2010. As of June 30, 2010, the Company made a total down payment of \$2,794,323 on those long-term assets. Additionally, the Company entered into several contracts and already made payment of \$10,953,759 for undergoing construction projects. The Company still has the commitment to pay the remaining contract amount of \$1,710,490 in 2010.

The Company entered into a lease agreement with Pantheon Realty, Inc. to lease its prior administrative office. Under the agreement, the Company is obligated to pay \$4,000 monthly from June 1, 2009 to May 31, 2011. The Company entered into another lease agreement with 15 W 39th St. NY LLC to lease its administrative office in New York City from June 1, 2009 to May 31, 2012. Under the agreement, the Company is obligated to pay \$8,000, \$8,200 and \$8,405 monthly for the first, second and third year, respectively.

## 21. RELATED PARTY TRANSACTIONS

In July 2009, the Company signed a lease agreement with the Chairman of the Company, Mr Zhiguo Fu, to lease a house owned by Mr. Fu for the purpose of accommodating the frequent travel lodging needs for the Company's employees in China traveling to the U.S. The monthly rent is \$4,000 and the lease will expire in three years.

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## 22. SEGMENT INFORMATION

The Company follows the provisions of ASC 280, “Segment Reporting,” which establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company’s chief operating decision maker has been identified as the Chief Executive Officer.

The Company has two operating segments, which are batteries and electric vehicles segments.

The batteries segment develops, manufactures, and markets rechargeable Polymer Lithium-Ion (PLI) products. The batteries segment includes the operation of Heilongjiang ZQPT.

The electric vehicles segment develops and manufactures various types of electric vehicles through the operation of Wuxi ZQ. Wuxi ZQ owns three types of products listed in the E-Bike directory, with more than 20 different specifications, including electric bicycles, electric scooters, and various electric sports utility vehicles. Wuxi ZQ products are exported to the countries and regions in Europe, the United States and Asia.

The measurement of segment income is determined as earnings before income taxes. The measurement of segment assets is based on the total assets of the segment, including intercompany advances among the PRC entities. Segment income and segment assets are reported to the Company’s chief operating decision maker (“CODM”) using the same accounting policies as those used in the preparation of these consolidated financial statements. Historically, there have been sale transactions between the two operating segments in addition to intersegment advances.

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## 22. SEGMENT INFORMATION (Continued)

| For the Six Months Ended June<br>30, 2010 | Batteries   | Electric<br>Vehicles | Non-operating<br>Entities | Inter-segment<br>Elimination | Consolidated<br>Total |
|---|-------------|----------------------|---------------------------|------------------------------|-----------------------|
| Net Sales                                 | 27,403,861  | 21,703,953           | -                         | (6,723,439 )                 | 42,384,375            |
| Interest Income (expense)                 | 91,931      | (39,793 )            | 95,405                    |                              | 147,543               |
| Depreciation and Amortization             | 850,945     | 838,995              | 98,365                    | 421,948                      | 2,210,253             |
| Segment assets                            | 113,074,511 | 50,508,940           | 147,591,880               | (138,901,034)                | 172,274,298           |
| Segment net income (loss) before<br>tax   | 12,442,271  | 6,971,983            | (1,942,642 )              | 4,121,226                    | 21,592,837            |

| Reconciliation of segment<br>incomes to consolidated incomes | For the Six Months<br>Ended June 30, 2010 |
|--|---|
| Total segment income   | 17,471,612                                |
| Elimination of intersegment<br>profits                       | (1,276,055)                               |
| Change in fair value of warrants                             | 5,397,280                                 |
| Consolidated income before<br>income taxes                   | 21,592,837                                |

| Reconciliation of segment assets<br>to consolidated assets | As of June 30, 2010 |
|--|---------------------|
| Total segment net assets                                   | 311,175,331         |
| Elimination of intersegment<br>receivables                 | (148,034,389 )      |
| Increased asset value not<br>allocated to segments         | 9,133,355           |
| Consolidated assets  | 172,274,298         |

ADVANCED BATTERY TECHNOLOGIES, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
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## 23. RESTATEMENT

We have restated the consolidated financial statements for the three and six months period ended June 30, 2009 for the following reasons:

Both Investor Warrants and Placement Agent Warrants issued in 2008 were originally treated as equity and included in Additional Paid-in Capital. Upon adoption of new codification ASC 815-40-15, "Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock", which became effective for the fiscal years beginning after December 15, 2008 as the guiding literature toward evaluating the criteria whether an instrument is indexed to its own stock, the Company has determine that these warrants do not meet the conditions for equity classification pursuant to the guidance of ASC 815-40-15 and therefore it is appropriate to reclassify these warrants from equity to liability. As a result of this change, the Company has reevaluated the fair value of the warranty liabilities for the three and six months ended June 30, 2009 and adjusted the warrants to their respective fair value through earnings for each reporting period.

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

|  | June 30, 2009                     |                |                                     |                |
|--|-----------------------------------|----------------|-------------------------------------|----------------|
|  | As Reported                       |                | As Restated                         |                |
| Total Assets   | \$ 133,641,097                    | \$ 133,641,097 | \$ 133,641,097                      | \$ 133,641,097 |
| Warrant liability  | -                                 | -              | 17,455,917                          | 17,455,917     |
| Additional paid-in capital                                 | 66,097,910                        | 66,097,910     | 53,153,485                          | 53,153,485     |
| Retained earnings  | 42,983,451                        | 42,983,451     | 38,471,959                          | 38,471,959     |
|  |                                   |                |                                     |                |
| Year 2009  | For the Six months ended June 30, |                | For the Three months ended June 30, |                |
|  | As Reported                       | As Restated    | As Reported                         | As Restated    |
| Total Assets   | \$ 133,641,097                    | \$ 133,641,097 | \$ 133,641,097                      | \$ 133,641,097 |
| Warrant liability  | -                                 | 17,455,917     | -                                   | 17,455,917     |
| Additional paid-in capital                                 | 66,097,910                        | 53,153,485     | 66,097,910                          | 53,153,485     |
| Retained earnings  | 42,983,451                        | 38,471,959     | 42,983,451                          | 38,471,959     |
|  |                                   |                |                                     |                |
| Revenues   | 24,457,320                        | 24,457,320     | 13,771,583                          | 13,771,583     |
| Gross profits  | 11,347,531                        | 11,347,531     | 6,312,983                           | 6,312,983      |
| Other income (expenses) - Change in fair value of warrants | -                                 | (4,511,492 )   | -                                   | (4,976,178 )   |
| Net income   | 11,590,401                        | 7,078,909      | 7,990,104                           | 3,013,926      |
|  |                                   |                |                                     |                |
| Income per share - basic                                   | \$ 0.24                           | \$ 0.15        | \$ 0.16                             | \$ 0.06        |
| Income per share - diluted                                 | \$ 0.20                           | \$ 0.13        | \$ 0.14                             | \$ 0.05        |

|                               |            |            |            |            |
|-------------------------------|------------|------------|------------|------------|
| Outstanding<br>shares-basic   | 47,983,579 | 47,983,579 | 48,901,584 | 48,901,584 |
| Outstanding<br>shares-diluted | 56,553,099 | 56,553,099 | 58,056,619 | 58,056,619 |

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, 2009 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

The Development of our Business

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 facilities has increased from 300 to 845 as of June 30, 2010. The increase has occurred because we more than doubled our battery production capacity and we acquired an electric vehicle manufacturer in May 2009.

In 2008 our battery production capacity was \$45 million per year with 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. In July 2009, the two new production lines, "C" and "D", became operational with automated equipment. In August 2009, we decided to upgrade the capacity of "A" and "B" with further investment in automated equipment. We expect to invest approximately \$6.5 million in this upgrade of "A" and "B", which will increase our annual battery production capacity to over \$100 million when the upgrade is completed in the third quarter of 2010.

On May 4, 2009, Cashtech Investment Limited, a wholly-owned subsidiary of the Company, acquired ownership of 100% of the registered capital of Wuxi Angell Autocycle Co., Ltd. in exchange for three million shares of the Company's common stock. Immediately after the completion of acquisition, Wuxi Angell Autocycle Co. Ltd. was renamed as Wuxi Zhongqiang Autocycle Co., Ltd. ("Wuxi ZQ"). In June and October 2009, in order to support the future growth of our newly acquired electric vehicle business and to facilitate an expansion of our battery production, we completed additional equity placements, obtaining net proceeds of approximately \$16,091,868 in June and \$18,017,350 in October and \$6,679,499 in December.





The following tables present certain consolidated statement of operations information. Financial information is presented for the three months and six months ended June 30, 2010 and 2009 respectively.

| For the Three Months Ended June 30, |               |                 |                  |         |
|-------------------------------------|---------------|-----------------|------------------|---------|
|                                     | 2010          | 2009 (Restated) | Change<br>Amount | %       |
| Revenues                            | \$ 22,835,358 | \$ 13,771,583   | \$ 9,063,775     | 65.8%   |
| Cost of Goods Sold                  | 11,796,140    | 7,458,600       | 4,337,540        | 58.2%   |
| Gross Profit                        | 11,039,218    | 6,312,983       | 4,726,235        | 74.9%   |
| Operation Expenses                  | 1,992,830     | 3,928,551       | (1,935,721)      | (49.3%) |
| Operation Income                    | 9,046,388     | 2,384,432       | 6,661,956        | 279.4%  |
| Net Income                          | \$ 12,510,240 | \$ 3,013,926    | \$ 9,496,314     | 315.1%  |

| For the Six Months Ended June 30, |               |                 |                  |        |
|-----------------------------------|---------------|-----------------|------------------|--------|
|                                   | 2010          | 2009 (Restated) | Change<br>Amount | %      |
| Revenues                          | \$ 42,384,375 | \$ 24,457,320   | \$ 17,927,055    | 73.3%  |
| Cost of Goods Sold                | 21,729,456    | 13,109,789      | 8,619,667        | 65.7%  |
| Gross Profit                      | 20,654,919    | 11,347,531      | 9,307,388        | 82.0%  |
| Operation Expenses                | 4,608,779     | 4,824,870       | (216,091)        | (4.5%) |
| Operation Income                  | 16,046,140    | 6,522,661       | 9,523,479        | 146.0% |
| Net Income                        | \$ 20,034,810 | \$ 7,078,909    | \$ 12,955,901    | 183.0% |

#### Revenues

We had total revenues of \$22,835,358 for the three months ended June 30 2010, an increase of \$9,063,775 or 65.8%, compared to \$13,771,583 for the three months ended June 30 2009. The increase in revenues was primarily due to the contribution of sales from the electric vehicle business, which the Company acquired on May 4, 2009. Sales of electric vehicles for the three months ended June 30, 2010 totaled \$12,633,974. During the three months ended June 30, 2009 our sales of electric vehicles totaled only \$3,627,379.

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 during the 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 and six onths ended June 30, 2010, the contribution of batteries in these categories as well as the contribution of electric vehicles to our total revenues was:

| Three months ended June 30, 2010 | Amount (US\$) | % (of total revenue) |   |
|----------------------------------|---------------|----------------------|---|
| Small Capacity Battery           | 870,283       | 3.81                 | % |
| Medium Capacity Battery          | 2,691,335     | 11.79                | % |
| Large Capacity Battery           | 4,111,822     | 18.01                | % |
| Miner's Lamp                     | 2,527,944     | 11.07                | % |
| Electric Vehicle                 | 12,633,974    | 55.33                | % |
| Total                            | 22,835,358    | 100.00               | % |

| Six months ended June 30, 2010 | Amount (US\$) | % (of total revenue) |   |
|--------------------------------|---------------|----------------------|---|
| Small Capacity Battery         | 2,067,985     | 4.88                 | % |
| Medium Capacity Battery        | 7,558,590     | 17.83                | % |
| Large Capacity Battery         | 6,589,801     | 15.55                | % |
| Miner's Lamp                   | 4,464,374     | 10.53                | % |
| Electric Vehicle               | 21,703,624    | 51.21                | % |
| Total                          | 42,384,375    | 100.00               | % |

The increase in the portion of our revenue attributable to medium and large capacity batteries and electric vehicles has been beneficial to our overall business. The margins that we are able to achieve in selling larger capacity batteries are significantly greater than the margins we achieve in selling smaller capacity batteries, due primarily to the relative amount of competition in the different markets.

At July 31, 2010 we had a backlog of approximately \$63.3 million for delivery throughout the next 12 months, including a battery backlog of approximately \$50.5 million. Therefore we expect to expand on the level of operations that we achieved during 2009 and the first half of the current year.

#### Gross Profit.

Our cost of goods sold consists of the cost of raw materials, labor costs and production overhead. In the three months ended June 30, 2010, our revenue increased by 65.8% and our cost of goods sold increased by 58.2%, from \$7,458,600 to \$11,796,140, compared to the same period in 2009. This disparity in growth between revenue and cost of goods sold is mainly attributable to the higher average selling price of electric vehicle sales in 2010 than in 2009. During the three months ended June 30 2010, the electric vehicles' gross margin was 40.5%, higher than the 21.0% margin achieved in the same period of 2009. The overall result was an increase in our gross margin from 45.8% in the three months ended June 30 2009 to 48.3% in the same period of 2010.



In the six months ended June 30, 2010, our revenue increased by 73.3% and our cost of goods sold increased by 65.7%, from \$13,109,789 to \$21,729,456, compared to the same period of 2009. This higher growth in revenue is mainly attributable to the improvement on selling price of electrical vehicle sales. The result was an improvement in our gross margin from 46.4% in the six months ended June 30, 2009 to 48.7% in the same period of 2010.

Our expectation is that the operations of ZQ Power Tech will be stable before we complete the upgrade of two battery production lines, but we will generate more profit from Wuxi ZQ in 2010. The transfer of ownership and management in 2009 led to inefficiencies in the operations of that company. In addition, since the acquisition, our management has been working aggressively to reduce unnecessary expenses at Wuxi ZQ.

#### Operating expenses

The Company's operating expenses decreased by 49.3%, from \$3,928,551 in the three months ended June 30, 2009 to \$1,992,830 in the same period of 2010. The Company incurred operating expenses of \$4,608,779 for the six months ended June 30, 2010, a decrease of \$216,091 or approximately 4.5%, compared to \$4,824,870 for the six months ended June 30, 2009. The decrease is primarily due to the fact that Wuxi ZQ incurred certain selling and administration expenses when we acquired it in 2009: specifically a bad debt allowance of approximately \$640,000 and a charge for satisfaction of unrecorded debts of approximately \$1,200,000. Our operating expenses also decreased because our US office incurred lower administration expenses in the second quarter of 2010 than the same period of 2009. However, considering only the operating expenses in Heilongjiang ZQPT, our main battery production base in China, our operating expenses increased by approximately \$0.35 and \$0.67 million during the three and six month periods ended June 30, 2010. Those increases were mainly attributable to our expanded operation.

Included in our general and administrative expense during the three and six months ended June 30, 2010 were \$399,170 and \$814,761 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 9.8 years.

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

At June 30, 2010 there remained \$5,130,084 in unamortized stock compensation on the Company's books. The amortization of this sum will contribute to our future operating expenses as described above.

Our total “other income” for the three and six month periods ended June 30, 2010 was not materially different from “other income” in the three and six month periods ended June 30, 2009, although the components of other income varied significantly:

In the three and six months ended June 30, 2010, we realized \$80,005 and \$147,543 in net interest income. The \$39,793 that we incurred in interest on Wuxi ZQ’s \$2,916,071 short-term bank loan was offset by \$160,000 in the interest income 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 by interest on our cash deposited in Chinese banks.

For the six months ended June 30 2010, we recognized a \$1,876 investment gain 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 gain of \$ 3,829 in the six months ended June 30, 2010, the value of our investment was increased on our balance sheet by 49% of that sum – i.e. \$1,876 – and we incurred “equity gain” in that amount.

Our acquisition of Wuxi ZQ in May 2009 resulted in a \$9,909,320 gain on bargain purchase. This occurred because the fair value of the net assets of Wuxi ZQ was \$19,779,320, but the 3,000,000 common shares that we paid to acquire Wuxi ZQ had a market value of only \$9,870,000. We recorded the \$9,909,320 difference as “other income” in accordance with SFAS 141R in the three and six months ended June 30, 2009. There was no corresponding income in 2010.

In 2008 and 2009, the Company issued warrants in conjunction with the issuance of common shares or convertible preferred stock. The warrants permit the investors to buy additional common shares at the prices specified in the warrant agreements. Because the Company may be required to repurchase the warrants at their fair value in certain circumstances, the fair value of the warrants has been recorded as a liability on our balance sheet. At the end of each quarter, we re-calculate the fair value of the warrants using the Black-Scholes model, and record any increase or decrease in that fair value as other income or other expense. During the three and six months ended June 30 2010, the decrease in the fair value of warrants was \$4,191,406 and \$5,397,280 respectively, which were recognized as other income. If in future quarters the warrants increase in value (e.g. by reason of an increase in the market price of our common stock), we will record an “other expense” equal to the amount of the increase.

The Company’s revenue less expenses produced pre-tax income of \$13,317,799 and \$21,589,522 for the three and six months ended June 30, 2010, representing increases of \$6,154,400 and \$9,758,658 from the same period of 2009. In the three and six months ended June 30 2010, domestic (U.S.) pre-tax incomes were \$3,313,451 and \$3,589,214 respectively (including \$4,191,406 and \$5,397,280 other income due to change in fair value of warrants in the three and six months ended June 30 2010 respectively); foreign (China) pre-tax incomes were \$11,096,775 and \$19,299,039. The deferred income tax because of gain on bargain purchase for the three and six months ended June 30 2009 were \$3,468,262. 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 \$810,875 and \$1,558,027 realized in the three and six months ended June 30 2010, our net incomes were \$12,506,925 and \$20,031,496 respectively, representing 315.0% and 183.0% increases over the same periods of 2009.

## Liquidity and Capital Resources

The growth of our Company has been funded by capital contributions - initially those of our founders and in recent years capital raised by the sale of equity to private investors. As a result, at June 30, 2010 we had no debt, having satisfied the bank loans that Wuxi ZQ carried when we acquired it.

At June 30, 2010 the Company had a working capital balance of \$94,388,425, an improvement from our working capital balance of \$83,453,937 at December 31, 2009. We had \$62,416,290 cash, an increase of \$9,492,932 from our cash balance of \$52,923,358 at December 31, 2009. The primary reason for the improvement in working capital and cash was the strong positive operating cash flows partially offset by further investment in our facilities and repayment of one bank loan.

At June 30, 2010 we had two long term liabilities:

a deferred tax liability of \$3,468,262 attributable to the gain we realized when we acquired Wuxi ZQ in May 2009 for a price less than the fair value of its net assets; and

a "warrant liability" of \$11,824,055 attributable to the warrants that we issued in our three equity financing transactions in 2008 and 2009. Pursuant to provisions of ASC 815 (previously: EITF 07-05) that became effective for 2009 and subsequent years, the present value of the outstanding warrants is considered a liability.

ZQ Power-Tech and Wuxi ZQ have sufficient liquidity to fund their near-term operations and to fund the working capital demands of future expansion. If we determine that additional funds are needed for other attractive growth opportunities or for the full implementation of our long term expansion plans for Wuxi ZQ, we have available over \$53 million in property, plant and equipment that ZQ Power-Tech and Wuxi ZQ own free of liens, for potential collateral loans. On July 31, 2010 our backlog of firm orders was approximately \$63.3 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 the Company, 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 subsidiaries, ZQ Power-Tech and Wuxi ZQ, carry on business exclusively in Chinese Renminbi. Therefore the Company 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 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 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.

During the six months ended June 30, 2010, there was no material change in the status of any of the legal proceedings described in the Annual Report on Form 10-K for the year ended December 31, 2009.

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, 2009.

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

(a) Unregistered Sale of Equity Securities

The Company did not effect any unregistered sales of equity securities during the three months ended June 30, 2010.

(c) Repurchase of Equity Securities

The Company did not repurchase any shares of its common stock during the three months ended June 30 2010.

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: August 9, 2010

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

Date: August 9, 2010

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