

ADVANCED BATTERY TECHNOLOGIES, INC.
Form 10QSB
August 14, 2007

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2007

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

For the transition period to

Commission File No. 0-13337

ADVANCED BATTERY TECHNOLOGIES, INC.

(Name of Small Business Issuer in its Charter)

Delaware
(State of Other Jurisdiction of
incorporation or organization)

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

21 West 39th Street, Suite 2A New York, NY 10018

Edgar Filing: ADVANCED BATTERY TECHNOLOGIES, INC. - Form 10QSB

(Address of Principal Executive Offices)

212-391-2752

(Issuer's telephone number, including area code)

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

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

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

Title of each class of Common Stock	Outstanding as of August 10, 2007
Common Stock, \$0.001 par value	49,627,710

Transitional Small Business Disclosure Format (check one): Yes No

PART I - FINANCIAL INFORMATION

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEET

		June 30, 2007 Unaudited
ASSETS		
Current assets:		
Cash and cash equivalents	\$	871,082
Accounts receivable		8,212,025
Inventory		529,990
Other receivables		752,950
Advance to suppliers		2,780,819
Loan to related parties		69,011
Taxes receivable		1,641,012
Total Current Assets		14,856,889
Property, plant and equipment, net of accumulated depreciation of \$1,568,284		12,963,050
Other assets:		
Intangible assets, net		1,526,263
Goodwill		127,180
Total other assets		1,653,444
Total Assets	\$	29,473,383
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable		1,940,496
Customer deposits		98,129
Accrued expenses and other payables		259,648
Total Current Liabilities		2,298,273
Long-term liabilities:		
Note payable		418,817

Total Liabilities	2,717,090
Commitments and Contingencies	
Stockholders' Equity	
Common stock, \$0.001 par value, 60,000,000 shares authorized; 49,627,710 shares issued and outstanding as of June 30, 2007	49,628
Additional paid-in-capital	17,518,843
Accumulated other comprehensive income	1,578,459
Retained earnings	7,609,362
Total Stockholders' Equity	26,756,293
Total Liabilities and Stockholders' Equity	\$ 29,473,383

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

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the six and three months ended June 30, 2007 and 2006

	Three-Month Ended		Six-Month Ended	
	June 30,	June 30,	June	June 30,
	2007	2006	30,	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		(Restated)		(Restated)
	\$	\$	\$	\$
Revenues	7,697,363	3,175,452	13,049,083	5,084,449
Cost of Goods Sold	4,023,604	2,133,663	6,821,830	3,340,483
Gross Profit	3,673,759	1,041,789	6,227,253	1,743,966
Operating Expenses				
Selling, general and administrative	393,589	399,628	1,664,847	772,384
Operating income	3,280,171	642,161	4,562,406	971,582
Other Income (Expenses)	4,778	(70,496)	5,636	(131,384)
Income Before Income Taxes	3,284,948	571,665	4,568,042	840,198
Provision for Income Taxes	-	-	-	-
Net Income	\$ 3,284,948	\$ 571,665	\$ 4,568,042	\$ 840,198
Basic and diluted income per common share	\$ 0.07	\$ 0.01	\$ 0.09	\$ 0.02

Weighted average number of common shares outstanding	49,627,710	44,664,450	49,627,710	44,015,591
--	------------	------------	------------	------------

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

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

**For the Six months ended
June 30,**

	2007	2006
	Unaudited	Unaudited
		(Restated)

Cash Flows From Operating Activities:

Net income	\$ 4,568,042	\$ 840,198
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	304,770	363,543
Amortization of prepaid consulting expenses	178,668	177,218
Amortization of stock compensation	249,561	164,178
Changes in operating assets and liabilities:		
Accounts receivable	(3,265,054)	(862,427)
Inventory	(217,612)	69,310
Other receivable & prepayments	(1,721,771)	105,738
Prepaid taxes	(1,641,012)	-
Accounts payable, accrued expenses and other payables	1,267,573	(578,786)
Unearned revenue	49,277	(15,598)
Net cash provided by (used in) operating activities	(227,558)	263,374
Cash Flows From Investing Activities:		
Purchase of property, plant and equipment	(922)	(8,801)
Collection on loan to related parties	815,918	-
Net cash provided by (used in) investing activities	814,996	(8,801)
Cash Flows From Financing Activities		
Repayments of notes payable	-	(292,365)
Proceeds from notes payable	34,404	-
Net cash provided by (used in) financing activities	34,404	(292,365)

Edgar Filing: ADVANCED BATTERY TECHNOLOGIES, INC. - Form 10QSB

Effect of exchange rate changes on cash and cash equivalents	236,610	21,598
Increase (decrease) in cash and cash equivalents	858,452	(16,194)
Cash and Cash Equivalents - Beginning of period	12,630	17,708
Cash and Cash Equivalents - End of period	\$ 871,082	\$ 1,514

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

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

**For the Six months ended
 June 30,**

**2007
 Unaudited**

**2006
 Unaudited
 (Restated)**

SUPPLEMENTAL CASH FLOW INFORMATION:

During the year, cash was paid for the following:

Interest expense	\$	-	\$	131,384
Income taxes	\$	-	\$	-

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Common stock issued for acquisition of minority interest	\$	-	\$	5,890,297
Common stock issued for acquisition of the patent	\$	-	\$	4,400
Common stock issued for consulting services	\$	-	\$	34,800
Common stock issued for incentive stock options	\$	-	\$	5,207,000

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

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (UNAUDITED)

1. ORGANIZATION AND DESCRIPTION OF THE COMPANY

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Reporting

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Item 310 of Regulation S-B. 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 six months ended June 30, 2007 and 2006 are not necessarily indicative of the results that may be expected for the full years. The information included in this Form 10-QSB should be read in conjunction with Management's Discussion and Analysis and the financial statements and notes to thereto included in the Company's 2006 Form 10-KSB.

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

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassification

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

Principles of consolidation

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

Use of estimates

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

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and cash equivalents and accounts and other receivables. As of June 30, 2007, substantially all of the Company's cash and cash equivalents were held by major banks located in the PRC of which the Company's management believes are of high credit quality. With respect to accounts receivable, the Company extends credit based on an evaluation of the customer's financial condition and without requiring collateral. The Company conducts periodic reviews of its customers' financial condition and customer payment practices to minimize collection risk on accounts receivable.

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

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

The functional currency of ZQPT is the Chinese Renminbi (RMB). For financial reporting purposes, RMB has been translated into United States dollars ("USD") as the reporting currency. Assets and liabilities are translated at the exchange rate in effect at the balance sheet date. Income statement accounts are translated at the average rate of exchange prevailing for the period. Capital accounts are translated at their historical exchange rates when the capital transaction occurred. Translation adjustments arising from the use of different exchange rates from period to period are included as a component of stockholders' equity as "Accumulated other comprehensive income". Gains and losses resulting from foreign currency transactions are included in accumulated other comprehensive income.

Recently Issued Accounting Standards

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, (FAS 157). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The adoption of FAS 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 108, Quantifying Misstatements. SAB 108 provides interpretative guidance on how public companies quantify financial statement misstatements. There have been two common approaches used to quantify such errors. Under an income statement approach, the roll-over method, the error is quantified as the amount by which the current year income statement is misstated. Alternatively, under a balance sheet approach, the iron curtain method, the error is quantified as the cumulative amount by which the current year balance sheet is misstated. In SAB 108, the SEC established an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the company's financial statements and the related financial statement disclosures. SAB 108 is effective for the first fiscal year ending after November 15, 2006. The adoption of SAB 108 did not have a material impact on the Company's consolidated financial position and results of operations.

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115," which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value at specified election dates. Subsequent unrealized gains and losses on items for which the fair value option has been elected will be reported in earnings. We are currently evaluating the potential impact of this statement.

3. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment consist of the following at June 30, 2007:

Building and improvements	\$	10,959,536
Machinery and equipment		3,201,849
Motor Vehicles		160,288
		14,531,334
less: Accumulated Depreciation		(1,568,284)
 Total property, plant and equipment, net	 \$	 12,963,050

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

Depreciation expense for the six months ended June 30, 2007 and 2006 was \$251,956 and \$299,463, 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. The costs involved with construction in progress were \$ - 0 - and \$4,324,079 for the six months ended June 30, 2007 and 2006, respectively.

ADVANCED BATTERY TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

4. INTANGIBLE ASSETS

Intangible assets consist of land use rights and patents. All land in the People's Republic of China is government owned and cannot be sold to any individual or company. However, the government grants the user a land use right (the Right) to use the land and the power line underneath. The Group leases two pieces of land per real estate contract from the PRC Government for a period from August 2003 to September 2043, on which the office and production facilities of ZQ Power-Tech are situated. The Group leases power from the local government for a period from July 2003 to July 2013.

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

The Company amortizes the patents over a 10 year period. The Company evaluates intangible assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets, other long-lived assets, and goodwill is measured by comparing their net book value to the related projected undiscounted cash flows from these assets, 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, 2007, no impairment of intangible assets has been recorded.

Net intangible assets at June 30, 2007 were as follows:

Rights to use land and power	\$	904,778
Patents		793,811
		1,698,589
Less: accumulated amortization		(172,326)
	\$	1,526,263

Amortization expense was \$52,814 and \$60,730 for the six months ended June 30, 2007 and 2006.

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

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

5. GOODWILL

Upon acquisition of the 30% minority interest (Note 1), the Company allocated amounts to the fixed assets, equipments and intangibles to reflect their fair value. Goodwill represents the excess of the purchase price over the fair value of those net tangible and identifiable intangible assets of the 30% minority interest acquired. Goodwill is tested for impairment on an annual basis and in between annual test dates if events or circumstances indicate that the fair value of the Company's net assets is below its book value.

At the end of the fiscal year 2006, the Company performed a goodwill valuation test and determined that they had in fact overpaid for the acquisition of the 30% minority interest at the beginning of the year. A goodwill impairment loss in the amount of \$2,050,204 was recognized to reflect the proper value of the goodwill.

6. LOAN TO RELATED PARTIES

The Company has loans receivable in the amount of \$69,011 from its affiliates, which are also owned by the CEO of the Company. All loans are unsecured and interest free. The management of the Company expects the entire amount of the outstanding loans will be repaid within one year.

7. STOCK-BASED COMPENSATION

(1)

2004 Equity Incentive Plan

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

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

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

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

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

7. STOCK-BASED COMPENSATION (Continued)

A summary of the status of the Company's unearned stock compensation under the 2004 Equity Incentive Plan as of June 30, 2007, and changes for the six months ended June 30, 2007 is presented below :

Unearned stock compensation as of January 1, 2007	\$	2,635,214
Unearned stock compensation granted		-
Compensation expenses debited to statement of operations		
with a credit to additional paid-in capital		(132,880)
Unearned stock compensation as of June 30, 2007	\$	2,502,334

In addition, the compensation cost capitalized as an offset to additional paid-in capital in relation to shares issued to non-employee consultants under the 2004 plan in prior years and current period was \$941,057. The amortization for the six months ended June 30, 2007 and 2006 was \$178,668 and \$177,218, respectively.

(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.

7. STOCK-BASED COMPENSATION (Continued)

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.

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

FOR THE SIX MONTHS ENDED JUNE, 2007 AND 2006 (UNAUDITED)

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

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

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

A summary of the status of the Company's unearned stock compensation under the 2006 Equity Incentive Plan as of June 30, 2007 is presented below:

Unearned stock compensation as of January 1, 2007	\$	4,052,777
Unearned stock compensation granted		-
Compensation expenses debited to statement of operations		
with a credit to additional paid-in capital		(116,682)
Unearned stock compensation as of June 30, 2007	\$	3,936,095

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

8. WARRANTIES

The Company warrants that all equipment manufactured by it will be free from defects in materials and workmanship under normal use for a period of one year from the date of shipment. The Company's experience for costs and expenses in connection with such warranties has been minimal and during the six months ended June 30, 2007 and 2006, no amounts have been considered necessary to reserve for warranty costs.

9. COMMITMENTS AND CONTINGENCIES

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

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