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ADVANCED BATTERY TECHNOLOGIES, INC.

Form 10QSB

August 23, 2004

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2004

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

For the transition period from _____ to _____

Commission File No. 0-13337

ADVANCED BATTERY TECHNOLOGIES, INC.

(Name of Small Business Issuer in its Charter)

Delaware

22-2497491

(State or Other Jurisdiction of
incorporation or organization)

(I.R.S. Employer I.D. No.)

100 Wall Street, 15th Floor, New York, NY 10005

(Address of Principal Executive Offices)

Issuer's Telephone Number: (212) 232-0120 x 221

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 subject to such filing requirements for the past 90 days. 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 19, 2004

Common Voting Stock: 10,380,169

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

PART 1. FINANCIAL INFORMATION

Advanced Battery Technologies, Inc.
Consolidated Balance Sheet

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June 30, 2004

Assets

| | |
|------------------------------------|-----------|
| Current Assets | |
| Cash | \$ 36,046 |
| Accounts receivable | 319,034 |
| Inventories | 236,491 |
| Prepaid expenses | 239,819 |
| Loan receivable, other | 59,775 |
| | ----- |
| Total Current Assets | 891,165 |
| Property, plant and equipment, net | 2,554,118 |
| Construction in process | 3,324,638 |
| Rights to use land and power, net | 435,302 |
| Patents, net | 101,061 |
| | ----- |
| Total Assets | 7,306,284 |
| | ===== |

Liabilities and Stockholders' Equity

| | |
|--|--------------|
| Current Liabilities | |
| Accounts payable and accrued expenses | 361,636 |
| Notes payable | 362,463 |
| Current maturities of long term debt | 19,936 |
| Customer deposits | 227,800 |
| Welfare payable | 37,908 |
| Taxes payable | 28,752 |
| Loan payable, others | 471,147 |
| | ----- |
| Total Current Liabilities | 1,509,642 |
| Long-term debt, excluding current maturities | 12,233 |
| Minority interest in consolidated subsidiary net assets | 1,720,980 |
| | ----- |
| Total Liabilities | 3,242,855 |
| | ----- |
| Stockholders' Equity | |
| Common stock, \$0.001 par value; 60,000,000 shares authorized, 19,842,582 issued and outstanding | 19,843 |
| Preferred stock, \$0.001 par value; 5,000,000 shares authorized, 806,113 issued and outstanding | - |
| Additional paid in capital | 4,667,783 |
| Accumulated deficit | (664,929) |
| Exchange reserve | 40,732 |
| | ----- |
| Total Stockholders' Equity | 4,063,429 |
| | ----- |
| Total Liabilities and Stockholders' Equity | \$ 7,306,284 |
| | ===== |

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See notes to consolidated financial statements.

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Advanced Battery Technologies, Inc.
 Consolidated Statements of Operations
 For the Three Months Ended June 30, 2004 and 2003
 (Unaudited)

| | Three Months Ended June 30, | |
|---|-----------------------------|-------------|
| | 2004 | 2003 |
| Revenues | \$ 492,666 | \$ - |
| Cost of Sales | 343,552 | - |
| | ----- | ----- |
| Gross Profit | 149,114 | - |
| | ----- | ----- |
| Costs and Expenses: | | |
| Research and development | 13,184 | - |
| General and administrative | 103,412 | 54,474 |
| Selling expense | 6,637 | - |
| | ----- | ----- |
| Total Costs and Expenses | 123,233 | 54,474 |
| | ----- | ----- |
| Income (Loss) From Operations | 25,881 | (54,474) |
| | ----- | ----- |
| Other Income (Expense): | | |
| Interest expense | (781) | - |
| Other expense | (40) | - |
| Interest income | 6 | - |
| | ----- | ----- |
| Total Other Income (Expense) | (815) | - |
| | ----- | ----- |
| Minority Interest in Consolidated Subsidiary | (7,520) | - |
| | ----- | ----- |
| Net Loss | \$ 17,546 | \$ (54,474) |
| | ===== | ===== |
| Loss Per Common Share | | |
| Basic | \$ - | \$ (0.01) |
| | ===== | ===== |
| Diluted | \$ - | \$ (0.01) |
| | ===== | ===== |
| Weighted Average Common Shares Outstanding | | |
| Basic | 19,842,582 | 9,040,427 |
| | ===== | ===== |
| Diluted | 100,453,882 | 9,040,427 |

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See notes to consolidated financial statements.

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Advanced Battery Technologies, Inc.
 Consolidated Statements of Operations
 For the Six Months Ended June 30, 2004 and 2003
 (Unaudited)

| | Six Months Ended June 30, | |
|---|---------------------------|-------------|
| | 2004 | 2003 |
| Revenues | \$ 968,675 | \$ - |
| Cost of Sales | 610,118 | - |
| | 358,557 | - |
| Gross Profit | | |
| Costs and Expenses: | | |
| Research and development | 37,017 | - |
| General and administrative | 348,119 | 70,913 |
| Selling expense | 13,742 | - |
| | 398,878 | 70,913 |
| Total Costs and Expenses | | |
| Loss From Operations | (40,321) | (70,913) |
| Other Income (Expense): | | |
| Interest expense | (7,872) | - |
| Interest income | 105 | - |
| | (7,767) | - |
| Total Other Income (Expense) | | |
| Minority Interest in Consolidated Subsidiary | 14,426 | - |
| Net Loss | \$ (33,662) | \$ (70,913) |
| Loss Per Common Share | | |
| Basic | \$ - | \$ (0.01) |
| Diluted | \$ - | \$ (0.01) |
| Weighted Average Common Shares | | |
| Outstanding | | |
| Basic | 19,842,582 | 9,040,427 |
| Diluted | 100,453,882 | 9,040,427 |

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See notes to consolidated financial statements.

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Advanced Battery Technologies, Inc.
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2004 and 2003
(Unaudited)

| | Six Months Ended June 30, | |
|---|---------------------------|-------------|
| | 2004 | 2003 |
| Cash Flows From Operating Activities: | | |
| Net Loss | \$ (33,662) | \$ (70,913) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 80,292 | 20,434 |
| Minority interest | (14,426) | - |
| Loss on foreign currency exchange | - | 25,988 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (318,973) | - |
| Inventory | (133,716) | (13,604) |
| Prepaid expenses | 38,287 | - |
| Taxes payable | 57,247 | (3,771) |
| Welfare payable | 17,362 | 1,404 |
| Customer deposits | 227,731 | - |
| Accounts payable and accrued expenses | 322,418 | - |
| | 242,560 | (40,462) |
| Cash Flows From Investing Activities: | | |
| Purchase of construction in progress | (504,008) | (113,223) |
| Purchase of property and equipment | (127,875) | (60,589) |
| Purchase of patents | (5,065) | (103,766) |
| | (636,948) | (277,578) |
| Cash Flows From Financing Activities: | | |
| Net proceeds from long-term debt | 10,421 | - |
| Net proceeds from loans payable - other | 285,913 | 657,499 |
| Proceeds from (payments on) loan receivable - other | 35,249 | (28,373) |
| Proceeds from officers' advances | 90,788 | 18,226 |
| | 422,371 | 647,352 |
| Net Increase (Decrease) in Cash | 27,983 | 329,312 |

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| | | |
|--|-----------|------------|
| Cash and Cash Equivalents, beginning of period | 8,063 | 2,441 |
| | ----- | ----- |
| Cash and Cash Equivalents, end of period | \$ 36,046 | \$ 331,753 |
| | ===== | ===== |

See notes to consolidated financial statements.

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SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| | | |
|-------------------|-------|-------|
| Interest paid | \$ - | \$ - |
| | ===== | ===== |
| Income taxes paid | \$ - | \$ - |
| | ===== | ===== |

SUPPLEMENTAL SCHEDULE ON NON-CASH INVESTING
AND FINANCING ACTIVITIES

| | | |
|--|-------|------------|
| Capital increase in exchange of property, plant and equipment | \$ - | \$ 415,396 |
| | ===== | ===== |

See notes to consolidated financial statements.

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Advanced Battery Technologies, Inc.
Notes to Consolidated Financial Statements
(Unaudited)

BASIS OF PRESENTATION

These financial statements should be read in conjunction with a reading of the financial statements included in the Company's Current Report on Form 8-K dated May 6, 2004.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles applicable to interim financial information and with the requirements of Form 10-QSB and Item 310 of Regulation S-B of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Interim results are not necessarily indicative of results for a full year. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial position and the results of operations and cash flows for the interim periods have been included.

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ACQUISITION OF ASSETS

On May 6, 2004 the Company acquired 100% of the outstanding capital stock of Cashtech Investment Limited, a British Virgin Island corporation ("Cashtech"). Cashtech is a holding company which owns 70% of the outstanding capital stock of Heilongjiang ZhongQiang Power-Tech Co., Ltd., a China limited liability company ("ZQ Power-Tech").

In exchange for ownership of Cashtech, the Company issued 9,720,000 shares of its common stock. It also issued 725,503 shares of Series D Preferred Stock. Each share of Series D Preferred Stock was convertible into 100 shares of the Company's common stock. At the closing of the acquisition, the Company also issued 1,080,000 shares of common stock and 80,610 shares of Series D Preferred Stock to Warner Technology and Investment Limited, which had served as advisor to Cashtech in connection with the transaction.

SUBSEQUENT EVENTS

On July 12, 2004 the Company filed a Restated Certificate of Incorporation with the Secretary of State of Delaware. The Restated Certificate of Incorporation amended the Certificate of Incorporation thus:

1.The corporate name of the Company was changed from "Buy It Cheap.com, Inc." to "Advanced Battery Technologies, Inc."

2.The authorized number of shares of capital stock was increased from 20,000,000 common shares and 2,000,000 preferred shares to 60,000,000 common shares and 5,000,000 preferred shares.

3.There was a reverse split of the outstanding common stock on a 1-for-10 basis, effective at 8:00 P.M. on July 12, 2004. The Company will purchase fractional shares resulting from the reverse split on the basis of \$3.50 per share.

Since July 13, 2004, the company's common stock has been listed on the OTC Bulletin Board under the symbol "ABAT."

Subsequent to the reverse stock split, the holders of the Series D Preferred Stock converted their shares into 8,051,130 shares of common stock. After the conversion, there were 10,220,169 common shares outstanding.

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Item 2. Management Discussion and Analysis

Forward-looking Statements

This Report contains certain forward-looking statements regarding the business and financial prospects of Advanced Battery Technologies, Inc. and its subsidiary, ZQ Power-Tech. These statements represent Management's present intentions and its present belief regarding the company's future. Nevertheless, there are numerous risks and uncertainties that could cause our actual results to differ from the results suggested in this Report. Among the more significant factors are:

1. ZQ Power-Tech has only recently initiated marketing. It is not yet known whether it will be able to sell its products in quantities

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- sufficient to support significant growth and profitable operations.
2. A number of competitors who have capital resources far greater than those of ZQ Power-Tech dominate the market for rechargeable batteries. If one or more of them chose to compete aggressively with ZQ Power-Tech, it might prevent ZQ Power-Tech from effectively expanding its customer base.
 3. If the current growth rate of the economy of China were to be significantly reduced or if China were to experience a recession, the market for ZQ Power-Tech's products would be reduced, and the capital available to fund its expansion program might also be reduced.

Because these and other risks may cause the Company's actual results to differ from those anticipated by Management, the reader should not place undue reliance on any forward-looking statements that appear in this Report. Readers should also take note that the Company will not necessarily make any public announcement of changes affecting these forward-looking statements, which should be considered accurate on this date only.

Results of Operations

Advanced Battery Technologies, Inc. is a holding company with one subsidiary. Its subsidiary owns 70% of the equity in Heilongjiang ZhongQiang Power-Tech Co., Ltd., a China limited liability company ("ZQ Power-Tech"), which is engaged in the business of designing, manufacturing and marketing rechargeable polymer lithium-ion ("PLI") batteries.

During the year ended December 31, 2003 ZQ Power-Tech's activities were focused on development of its product line and the build-out of its manufacturing facility. ZQ Power-Tech recorded its first significant revenues in the first quarter of 2004, ending March 31, 2004. All but a trace of the \$476,009 in sales recorded in that quarter were made to two customers. In the second quarter of 2004 ZQ Power-Tech's sales were only slightly greater, as revenue of \$492,666 was recorded. Most of the second quarter sales were made to three customers.

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Deliveries in the second quarter were slow in part because the operations personnel at ZQ Power-Tech were focused throughout the quarter on completing additional factory facilities at ZQ Power-Tech's campus in Heilongjiang. These facilities have now been completed, resulting in a substantial increase in the manufacturing capacity of ZQ Power-Tech.

Currently, ZQ Power-Tech has a backlog of \$21 million. Almost the entire backlog consists of an order placed by Aiyingsi Enterprise Co., Ltd. of Taiwan for standard 3.7 volt PLI battery sets. Deliveries to Aiyingsi are scheduled monthly from September 30, 2004 through August 30, 2005.

ZQ Power-Tech realized a 44% gross margin on its sales in the first quarter of 2004. In the second quarter gross margin was reduced to 30%, reflecting a different mix of products sold in the second quarter. The gross margin ratio in the future will depend considerably upon which of ZQ Power-Tech's products are dominating sales. So it is premature to predict whether the 37% level achieved in the six months ended June 30, 2004 will be maintained.

The general and administrative expenses recorded in the three months ended June 30, 2004 equaled approximately 21% of revenue. This was a substantial improvement over the first three months of 2004, when general and

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administrative expenses exceeded 50% of revenue. In both quarters, however, general and administrative expenses were disproportionate to revenue, primarily due to ZQ Power-Tech's ongoing expansion program. At the same time, ZQ Power-Tech incurred significant expenses in connection with its entry into the U.S. securities market through a reverse merger into a U.S. public company. Both of these factors will continue to swell general and administrative expenses for the immediate future. However the expected increase in ZQ Power-Tech's net sales should result in a better ratio of expenses to sales.

ZQ Power-Tech reported a net loss of \$48,088 for the six months ended June 30, 2004. However, because Advanced Battery owns only 70% of ZQ Power-Tech, the loss was reduced by \$14,426 on Advanced Battery's statements of operations. If, in the future, ZQ Power-Tech reports earnings, the earnings will be similarly discounted by 30% on Advanced Battery's statements of operations, as long as there remains 30% of ZQ Power-Tech that is not owned by Advanced Battery.

Liquidity and Capital Resources

To date, the development and initial operations of ZQ Power-Tech have been financed primarily by contributions to capital made by Zhiguo Fu, the Company's Chairman. At June 30, 2004 ZQ Power-Tech had a working capital deficit of \$618,477, an increase in the deficit of \$411,346 since March 31, 2004. Among the principal factors in the deficit were customer deposits totaling \$227,800, which will be amortized as products are delivered, and an unsecured note payable to a Chinese institutional lender in the amount of \$362,463. The note, which had been due on June 1, 2004, was recently restructured and is now due on January 1, 2005.

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Despite its negative working capital, ZQ Power-Tech has sufficient liquidity to fund its near-term operations. The principal capital resource available is \$5,878,756 in property, plant and equipment and construction in process, which ZQ Power-Tech owns without lien. Based on the substantial backlog of orders that ZQ Power-Tech has accumulated, it believes that secured financing will be available to it on favorable terms when needed. Until then, if short-term cash shortages occur, Mr. Fu has committed to provide financing as needed. In addition, the Shuangcheng Science and Technology Bureau has committed to grant \$604,105 to ZQ Power-Tech if its products have achieved international standards or the standards of the local bureau by the end of 2004.

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

Item 3. Controls and Procedures

Zhiguo Fu, our Chief Executive Officer, and John Leo, our Chief Financial Officer, performed an evaluation of the Company's disclosure controls and procedures as of June 30, 2004. Based on their evaluation, they concluded that the controls and procedures in place are sufficient to assure that material information concerning the Company which could affect the disclosures in the Company's quarterly and annual reports is made known to them by the other officers and employees of the Company, and that the

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communications occur with promptness sufficient to assure the inclusion of the information in the then-current report.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date on which Messrs. Fu and Leo performed their evaluation.

PART II OTHER INFORMATION

Item 2. Changes in Securities and Small Business Issuer Purchase of Equity Securities

(c) Unregistered sales of equity securities

On May 6, 2004 Advanced Battery issued common stock and common stock derivatives to the nineteen shareholders of Cashtech Investment Limited. The number of shares issued, after the derivatives were fully converted into common stock, totaled 8,227,030 (after taking into account the recent 1-for-10 reverse split). The shares were issued in exchange for the capital stock of Cashtech Investment Limited. The transaction was exempt pursuant to Section 4(2) of the Act since the exchange was not made in a public offering and was made to individuals who had access to detailed information about Advanced Battery and who were acquiring the shares for their own accounts. There were no underwriters.

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On May 6, 2004 Advanced Battery issued 10,000 shares (after taking into account the recent 1-for-10 reverse split) of common stock to Hoi Yat Kam. The shares were issued in exchange for the Series C Preferred Stock previously issued by Advanced Battery to Dr. Hoi. The transaction was exempt pursuant to Section 4(2) of the Act since the exchange was not made in a public offering and was made to an individuals who had access to detailed information about Advanced Battery and who was acquiring the shares for his own account. There were no underwriters.

(e) Purchases of equity securities

The Company did not repurchase any of its equity securities that were registered under Section 12 of the Securities Exchange Act during the 2nd quarter of 2004.

Item 6. Exhibits and Reports on Form 8-K.

Reports on Form 8-K:

- Report dated April 13, 2004 announcing contract to acquire Cashtech Investment Limited.
- Report dated May 6, 2004 announcing acquisition of Cashtech Investment Limited.

Exhibits:

- 31 Rule 13a-14(a) Certifications
- 32 Rule 13a-14(b) Certification

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

ADVANCED BATTERY TECHNOLOGIES, INC.

Date: August 20, 2004

By: /s/ Zhiguo Fu

Zhiguo Fu, Chief Executive Officer

Date: August 20, 2004

By: /s/ John C. Leo

John C. Leo, Chief Financial Officer

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* * * * *

EXHIBIT 31: Rule 13a-14(a) Certifications

I, Zhiguo Fu, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Advanced Battery Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the small business issuer and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being

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prepared;

b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the small business issuer's internal controls over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal controls over financial reporting.

Date: August 20, 2004 /s/ Zhiguo Fu

 Zhiguo Fu, Chief Executive Officer

I, John C. Leo, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Advanced Battery Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the small business issuer and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within

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those entities, particularly during the period in which this report is being prepared;

b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) Disclosed in this report any change in the small business issuer's internal controls over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal controls over financial reporting.

Date: August 20, 2004

/s/ John C. Leo

JohnC. Leo, Chief Financial Officer

* * * * *

EXHIBIT 32: Rule 13a-14(b) Certification

The undersigned officers certifies that this report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, and that the information contained in the report fairly presents, in all material respects, the financial condition and results of operations of Advanced Battery Technologies, Inc.

A signed original of this written statement required by Section 906 has been provided to Advanced Battery Technologies, Inc. and will be retained by Advanced Battery Technologies, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Date: August 20, 2004

/s/ Zhiguo Fu

Zhiguo Fu (Chief Executive Officer)

Date: August 20, 2004

/s/ John C. Leo

John C. Leo (Chief Financial Officer)