

# American Oriental Bioengineering Reports Third Quarter 2009 Financial Results

**New York, November 16, 2009** – American Oriental Bioengineering, Inc. (NYSE: AOB), (“the Company” or “AOBO”), a pharmaceutical company dedicated to improving health through the development, manufacture and commercialization of a broad range of prescription and over the counter (“OTC”) products, today announced financial results for the third quarter ended September 30, 2009.

## **Third Quarter 2009 Financial Performance**

Revenue in the third quarter of 2009 increased 11.7% to \$78.8 million from \$70.6 million in the third quarter of 2008, reflecting continued demand for the Company’s core pharmaceutical and nutraceutical products. Revenue from pharmaceutical products increased 6.3% to \$66.0 million from \$62.1 million in the third quarter of 2008. Revenue from prescription pharmaceutical products increased 22.7% to \$29.8 million during the third quarter of 2009, reflecting a year over year increase in sales from prescription formulated Jinji capsule, Boke and CCXA products, which offset declines in sales of Shuanghuanglian Injection Powder (“SHL”). The overall increase in sales was also supported by continuous marketing efforts, an increase in new product offerings, as well as expansion of coverage to previously unaddressed rural markets. OTC pharmaceutical products generated \$36.2 million in revenue during the third quarter of 2009, in comparison to \$37.8 million in the prior year’s period, primarily reflecting lower sales performance of Jinji Yimucao, a drug included in China’s Essential Drug list, as distributors reduced orders in anticipation of pricing uncertainty related to healthcare reform. Nutraceutical products generated revenue of approximately \$9.2 million in the third quarter of 2009, up 8.7% from \$8.5 million in the prior year period, reflecting increased sales of new beverage products launched in the beginning of 2009. The Company generated \$3.6 million from its distribution business in the third quarter of 2009.

Gross profit in the third quarter of 2009 was \$44.1 million compared to \$47.2 million in the third quarter of 2008. Gross margin was 56.0%, compared to 66.8% in the prior year period, reflecting continued revenue mix shift to CCXA’s generic product sales, increasing raw material prices and lower margin distribution business from Nuo Hua.

Operating income in the third quarter of 2009 was \$15.0 million compared to \$21.6 million in the third quarter of 2008. Selling and marketing expenses increased 23.2% to \$12.2 million from \$9.9 million in the prior year period. The increase primarily reflects increased marketing and promotional initiatives related to enhancing prescription product sales. Advertising expense was \$9.0 million in the third quarter of 2009, compared to \$9.9 million in the prior year period, reflecting a greater focus on promotional activities and direct sales efforts. General and administrative expenses increased 37.7% to \$6.5 million from \$4.7 million in the prior year period, primarily driven by expenses related to improving production efficiency and testing equipment and technology upgrades as a result of more stringent GMP manufacturing standards.

Net income attributable to controlling interest for the third quarter of 2009 was \$10.0 million, compared to \$16.3 million in the prior year period. Excluding \$0.9 million of interest expense on convertible securities and \$0.2 million of amortized financing costs related to the Company’s outstanding convertible notes, the Company’s net income attributable to controlling interest was \$11.2 million, or \$0.13 per diluted share. In the third quarter of 2008, net income per diluted share was approximately \$0.21.

## **Nine Months Ended September 30, 2009 Financial Performance**

Revenue for the nine months ended September 30, 2009 increased 16.5% to \$196.1 million from \$168.4 million in the first nine months of 2008. During the same time period, gross profit increased slightly by 0.5% to \$114.2 million from \$113.6 million in the first nine months of 2008. Operating income in the first nine months of 2009 was \$43.9 million compared to \$51.9 million in the first nine months of 2008. Net income attributable to controlling interest for the first nine months of 2009 was \$29.7 million, compared to \$39.2 million in the prior year period. Excluding \$3.8 million of interest expense on convertible securities and \$0.7 million of amortized financing costs related to the Company’s outstanding convertible notes, the Company’s net income attributable to controlling interest was \$34.2 million, or \$0.39 per diluted share. In the first nine months of 2008, net income per diluted share was approximately \$0.50.

## **Balance Sheet**

As of September 30, 2009, the Company had \$115.9 million in cash and generated approximately \$44.3 million of operating cash flow during the first nine months of 2009.

Mr. Tony Liu, Chairman and Chief Executive Officer of American Oriental Bioengineering, commented, “Despite the tough business environment we are currently experiencing, we are pleased with our third quarter performance as we continued to enhance our diversified product portfolio and pursue further vertical integration. We are witnessing uncertainty around product pricing related to healthcare reform, and this has caused select disruption in purchasing patterns. Nonetheless, we continue to actively monitor the regulatory landscape and we will adapt our business strategy accordingly. For example, the

potential inclusion of our Jinji products in the upcoming national insurance catalog, along with our marketing capabilities, extensive distribution platform, diversified product offering and ongoing rural expansion, should help us navigate the challenging sales environment related to healthcare reform. We continue to drive revenue growth and consistently generate cash despite the uncertain regulatory environment, and we appreciate the hard work and contributions by our entire team.”

### Restatement of Certain Historical Results

During the review of its third quarter 2009 operating results, the Company identified historical accounting errors in: (i) the calculation of stock based compensation, (ii) the recognition of deferred tax liabilities of certain acquired assets and (iii) the provision of deferred tax liabilities on undistributed earnings of foreign subsidiaries. The accounting errors have resulted in the misstatement of certain balance sheet and income statement items and the cumulative net earnings since 2006. The errors did not result from any fraud or intentional misconduct and the Company undertook a review to determine the total amount of the errors and the accounting periods in which the errors occurred. As a result, the Company chose to restate its previously reported financial statements.

The Company has restated its consolidated balance sheets and the related consolidated statements of income, statements of shareholders' equity and statements of cash flows as of and for the years ended December 31, 2008, 2007 and 2006 as reported in its amended annual report on Form 10K/A for the fiscal year ended December 31, 2008. The restated financial information for each of the three interim quarterly periods for 2008 and 2007 were also included in the amended annual report on Form 10-K/A for the fiscal year ended December 31, 2008.

The effects of the restatement on selected income statement line items for the years ended December 31, 2008 and 2007 are as follows:

Increase/(Decrease) in income statement line items	2008	2007
General and administrative	\$ 838,190	\$ 466,954
Income before income tax	(838,190)	(466,954)
Income tax	(91,916)	(1,042,151)
Net income attributable to common shareholders	(746,274)	575,197
Net income per common share attributable to common shareholders — basic	-	0.01
Net income per common share attributable to common shareholders — diluted	\$ -	\$ 0.01

The cumulative effects of the restatement on selected balance sheet line items as of December 31, 2008 and 2007 are as follows:

Increase/(Decrease) in balance sheet line items	2008	2007
Goodwill	\$ 4,620,895	\$ 4,620,895
Deferred tax assets	-	15,297
Deferred tax liability – current	(667,095)	(109,733)
Deferred tax liability - non current	1,551,743	4,050,444
Accumulated other comprehensive income	2,602,180	(346,670)
Retained earnings	(171,077)	575,197
Additional paid-in capital	1,305,144	466,954

### Conference Call

The Company will hold a conference call at 8:00 am ET on Tuesday, November 17, 2009 to discuss third quarter 2009 results. Listeners may access the call by dialing 1-866-770-7051 or 1-617-213-8064 for international callers, access code: 89648638. A webcast will also be available through AOB's website at <http://www.bioaobo.com>.

A replay of the call will be available through November 24, 2009. Listeners may access the replay by dialing 1-888-286-8010 or 1-617-801-6888 for international callers, access code: 58148119.

### About American Oriental Bioengineering, Inc.

American Oriental Bioengineering, Inc. is a pharmaceutical company dedicated to improving health through the development, manufacture and commercialization of a broad range of prescription and over the counter products.

Statements made in this press release are forward-looking and are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties that may cause actual results to differ materially from those set forth in these statements. The economic, competitive, governmental, technological and other factors identified in the Company's filings with the Securities and Exchange Commission, including the Form 10-K for the

year ended December 31, 2008, may cause actual results or events to differ materially from those described in the forward looking statements in this press release. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether because of new information, future events, or otherwise.

Contact:

Integrated Corporate Relations, Inc.

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American Oriental Bioengineering, Inc. and Subsidiaries					
Condensed Consolidated Statements of Income and Comprehensive Income (Unaudited)					
	THREE MONTHS ENDED SEPTEMBER 30			NINE MONTHS ENDED SEPTEMBER 30	
	2009	2008	2009	2008	
		As Restated		As Restated	
<b>REVENUES</b>	\$ 78,818,666	\$ 70,593,949	196,117,893	\$ 168,372,552	
<b>COST OF GOODS SOLD</b>	34,687,505	23,402,407	81,942,766	54,808,490	
<b>GROSS PROFIT</b>	44,131,161	47,191,542	114,175,127	113,564,062	
Selling and marketing	12,245,746	9,938,877	26,853,377	22,656,477	
Advertising	9,013,087	9,913,728	22,360,380	21,760,300	
General and administrative	6,457,734	4,690,793	15,981,195	14,235,806	
Depreciation and amortization	1,409,399	1,024,436	5,118,588	3,012,107	
Total operating expenses	29,125,966	25,567,834	70,313,540	61,664,690	
<b>INCOME FROM OPERATIONS</b>	15,005,195	21,623,708	43,861,587	51,899,372	
<b>EQUITY IN EARNINGS (LOSS) FROM UNCONSOLIDATED ENTITIES</b>	(563,608)	49,417	(299,072)	(591,650)	
<b>INTEREST INCOME (EXPENSE), NET</b>	(1,106,805)	(1,143,013)	(4,306,143)	(1,156,782)	
<b>OTHER (EXPENSE), NET</b>	(49,165)	91,986	(164,103)	(264,515)	
<b>INCOME BEFORE INCOME TAXES</b>	13,285,617	20,622,098	39,092,269	49,886,425	
<b>INCOME TAXES</b>	3,257,771	4,339,045	9,463,093	10,655,299	
<b>NET INCOME</b>	10,027,846	16,283,053	29,629,176	39,231,126	
<b>NON-CONTROLLING INTEREST</b>	(651)	0	118,866	0	
<b>NET INCOME ATTRIBUTE TO CONTROLLING INTEREST</b>	10,027,195	16,283,053	29,748,042	39,231,126	
<b>OTHER COMPREHENSIVE INCOME</b>					
Foreign currency translation gain, net of tax	142,118	646,405	655,400	15,743,396	
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>	142,118	646,405	655,400	15,743,396	
<b>COMPREHENSIVE INCOME</b>	\$ 10,169,313	\$ 16,929,458	30,403,442	\$ 54,974,522	
<b>NET INCOME PER COMMON SHARE</b>					
<b>BASIC</b>	\$ 0.13	\$ 0.22	0.40	\$ 0.51	
<b>DILUTED</b>	\$ 0.13	\$ 0.21	0.39	\$ 0.50	
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>					
<b>BASIC</b>	74,636,155	75,101,869	74,592,447	77,164,602	
<b>DILUTED</b>	88,868,828	85,417,621	88,825,120	80,553,647	

American Oriental Bioengineering, Inc. and Subsidiaries		
Condensed Consolidated Balance Sheets (Unaudited)		
	September 30,	December 31,
	2009	2008
		As Restated
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 115,923,399	\$ 70,636,510
Accounts receivable, net of reserve of \$512,013 and \$226,330 at September 30, 2009 and December 31, 2008, respectively	37,961,967	36,982,167
Inventories, net of provision for slow moving inventories	15,291,710	13,042,123
Advances to suppliers	2,798,860	3,593,979
Notes receivable	122,300	708,076
Refundable deposit	-	6,396,996
Deferred tax assets	398,563	347,216
Other current assets	1,154,315	744,903
<b>Total Current Assets</b>	<b>173,651,114</b>	<b>132,451,970</b>
<b>LONG-TERM ASSETS</b>		
Property, plant and equipment, net	96,085,233	98,154,443
Land use rights, net	154,233,322	148,988,870
Deposit for long-term assets	-	6,347,174
Construction in progress	26,645,307	25,385,835
Deferred tax assets	127,823	1,313,832
Other intangible assets, net	19,911,767	23,690,440
Goodwill	33,164,121	33,164,121
Investments in and advances to equity investments	54,995,237	54,963,064
Unamortized financing costs	3,519,766	4,215,983
<b>Total Long-Term Assets</b>	<b>388,682,576</b>	<b>396,223,762</b>
<b>TOTAL ASSETS</b>	<b>\$ 562,333,690</b>	<b>\$ 528,675,732</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
	September 30,	December 31,
	2009	2008
		As Restated
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 10,082,129	\$ 12,287,887
Notes payables	4,084,893	3,262,877
Other payables and accrued expenses	19,556,446	19,766,652
Taxes payable	1,108,783	420,671
Short-term bank loans	9,652,509	7,140,148
Current portion of long-term bank loans	59,771	58,659
Other liabilities	2,334,788	2,253,440
Deferred tax liability	176,449	178,931
<b>Total Current Liabilities</b>	<b>47,055,768</b>	<b>45,369,265</b>
<b>LONG-TERM LIABILITIES</b>		
Long-term bank loans	759,597	804,521
Long-term notes payable	-	269,908
Deferred tax liabilities	15,502,047	17,635,511
Unrecognized tax benefits	1,903,342	
Convertible Note	115,000,000	115,000,000
<b>Total Long-Term Liabilities</b>	<b>133,164,986</b>	<b>133,709,940</b>
<b>TOTAL LIABILITIES</b>	<b>180,220,754</b>	<b>179,079,205</b>
<b>EQUITY</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock, \$0.001 par value; 2,000,000 shares authorized; 1,000,000 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively	1,000	1,000
Common stock, \$0.001 par value; 150,000,000 shares authorized; 78,321,439 and 78,249,264 shares issued and outstanding at September 30, 2009 and December 31, 2008, respectively.	78,321	78,249
Common stock to be issued	291,000	376,335
Prepaid forward repurchase contract	(29,998,616)	(29,998,616)
Additional paid-in capital	199,363,784	197,046,688
Retained earnings (the restricted portion of retained earnings is at September 30, 2009 and December 31, 2008, respectively)	179,500,646	149,752,604
Accumulated other comprehensive income	32,343,586	31,688,186
<b>Total Shareholders' Equity</b>	<b>381,579,721</b>	<b>348,944,446</b>
<b>NONCONTROLLING INTEREST</b>	533,215	652,081
<b>TOTAL EQUITY</b>	<b>382,112,936</b>	<b>349,596,527</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 562,333,690</b>	<b>\$ 528,675,732</b>