

BODISEN BIOTECH, INC  
Form 10-Q  
May 20, 2008

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

**Form 10-Q**

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

For the quarterly period ended March 31, 2008

Transition report pursuant Section 13 or 15(d) of the Securities Exchange Act of 1934

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

**001-31539**

(Commission file number)

**BODISEN BIOTECH, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or Other Jurisdiction  
of Incorporation or Organization)

**98-0381367**

(IRS Employer  
Identification No.)

**Room 2001, FanMei Building**

**No. 1 Naguan Zhengjie**

**Xi'an, Shaanxi710068**

**People's Republic of China**

(Address of Principal Executive Offices)

**011-86-29-870749**

(Registrant's Telephone Number, Including Area Code)

**N/A**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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(Do not check if a smaller 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

On May 15, 2008 there were 18,310,250 shares of the registrant's common stock outstanding.

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**BODISEN BIOTECH, INC.**  
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## Item 1. Financial Statements

**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**AS OF MARCH 31, 2008 AND DECEMBER 31, 2007**

	<b>March 31, 2008</b>	<b>December 31, 2007</b>
	(unaudited)	
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS:</b>		
Cash & cash equivalents	\$ 768,400	\$ 617,406
Accounts receivable and other receivable, net of allowance for doubtful accounts of \$24,095,816 and \$25,447,689	1,356,605	618,052
Other receivables	3,671,817	2,292,763
Inventory	1,733,654	1,179,448
Advances to suppliers	9,452,441	9,741,090
Prepaid expense and other current assets	5,227,194	5,066,015
<b>Total current assets</b>	<b>22,210,111</b>	<b>19,514,774</b>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>5,433,918</b>	<b>5,306,254</b>
<b>CONSTRUCTION IN PROGRESS</b>	<b>8,122,327</b>	<b>7,722,756</b>
<b>MARKETABLE SECURITY</b>	<b>10,958,608</b>	<b>14,239,999</b>
<b>INTANGIBLE ASSETS, net</b>	<b>2,097,922</b>	<b>2,050,652</b>
<b>OTHER ASSETS</b>	<b>3,911,974</b>	<b>3,720,785</b>
<b>LOAN RECEIVABLE</b>	<b>2,545,300</b>	<b>2,439,275</b>
<b>TOTAL ASSETS</b>	<b>\$ 55,280,160</b>	<b>\$ 54,994,495</b>
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,122,468	\$ 1,186,768
Accrued expenses	183,327	219,936
<b>Total current liabilities</b>	<b>1,305,795</b>	<b>1,406,704</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$0.0001 per share; authorized 5,000,000 shares; nil issued and outstanding		
Common stock, \$0.0001 per share; authorized 30,000,000 shares; issued and outstanding 18,310,250 and 18,310,250	1,831	1,831
Additional paid-in capital	33,860,062	33,860,062
Other comprehensive income	15,139,414	16,520,775

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Statutory reserve	4,314,488	4,314,488
Retained Earnings	658,570	(1,109,365)
Total stockholders' equity	53,974,365	53,587,791
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 55,280,160</b>	<b>\$ 54,994,495</b>

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

**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
	(unaudited)	(unaudited)
<b>Net Revenue</b>	\$ 908,519	\$ 5,008,472
<b>Cost of Revenue</b>	567,288	3,018,250
<b>Gross profit</b>	341,231	1,990,222
Operating expenses		
Selling expenses	182,259	349,014
General and administrative expenses	659,344	3,172,509
Total operating expenses	841,603	3,521,523
<b>Loss from operations</b>	(500,372)	(1,531,301)
Non-operating income (expense):		
Other income (expense)	2,212,059	(67,197)
Interest income	56,248	90,009
Interest expense	-	(1,057)
Total non-operating income (expense)	2,268,307	21,755
<b>Loss before provision for income taxes</b>	1,767,935	(1,509,546)
<b>Provision for income taxes</b>	-	-
<b>Net income (loss)</b>	1,767,935	(1,509,546)
Other comprehensive income (loss)		
Foreign currency translation gain	1,900,030	641,676
Unrealized loss on marketable equity security	(3,281,391)	(2,497,159)
<b>Comprehensive income (loss)</b>	\$ 386,574	\$ (3,365,029)
<b>Weighted average shares outstanding :</b>		
Basic	18,310,250	18,310,250
Diluted	18,310,250	18,310,250
<b>Earnings per share:</b>		
Basic	\$ 0.10	\$ (0.08)
Diluted	\$ 0.10	\$ (0.08)

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



**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**

	<b>Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
	(unaudited)	(unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ 1,767,935	\$ (1,509,546)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	118,141	115,221
Allowance for bad debts	(2,370,691)	1,360,277
(Increase) / decrease in assets:		
Accounts receivable	1,670,737	(1,760,948)
Other receivable & Loan Receivable	(1,264,440)	(1,177,348)
Inventory	(495,907)	(1,851,263)
Advances to suppliers	682,752	487,098
Prepaid expense	49,372	(2,512)
Increase / (decrease) in current liabilities:		
Accounts payable and accrued expenses	(89,350)	354,315
Accrued expenses	(44,532)	1,992
Net cash used in operating activities	24,017	(3,982,714)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	(64,214)	(57,187)
Additions to construction in progress	-	(823,584)
Proceeds from other assets	47,403	43,583
Net cash used in investing activities	(16,811)	(837,188)
Effect of exchange rate changes on cash and cash equivalents	143,788	105,437
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	<b>150,994</b>	<b>(4,714,465)</b>
<b>CASH &amp; CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>617,406</b>	<b>11,824,327</b>
<b>CASH &amp; CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 768,400</b>	<b>\$ 7,109,862</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

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





**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
**(UNAUDITED)**

**Note 1 - Organization and Basis of Presentation**

Organization and Line of Business

Yang Ling Bodisen Biology Science and Technology Development Company Limited (“BBST”) was founded in the People’s Republic of China on August 31, 2001. BBST, located in Yang Ling Agricultural High-Tech Industries Demonstration Zone, is primarily engaged in developing, manufacturing and selling pesticides and compound organic fertilizers in the People’s Republic of China.

On February 24, 2004, Bodisen International, Inc. (“BII”), the non-operative holding company of BBST (accounting acquirer) consummated a merger agreement with Stratabid.com, Inc. (legal acquirer) (“Stratabid”), a Delaware corporation, to exchange 12,000,000 shares of Stratabid to the stockholders of BII, in which BII merged into Bodisen Holdings, Inc. (BHI), an acquisition subsidiary of Stratabid, with BHI being the surviving entity. As a part of the merger, Stratabid cancelled 3,000,000 shares of its issued and outstanding stock owned by its former president and declared a stock dividend of three shares on each share of its common stock outstanding for all stockholders on record as of February 27, 2004.

Stratabid was incorporated in the State of Delaware on January 14, 2000 and before the merger, was a start-up stage Internet based commercial mortgage origination business based in Vancouver, BC, Canada.

The exchange of shares with Stratabid has been accounted for as a reverse acquisition under the purchase method of accounting because the stockholders of BII obtained control of Stratabid. On March 1, 2004, Stratabid was renamed Bodisen Biotech, Inc. (the “Company”). Accordingly, the merger of the two companies has been recorded as a recapitalization of the Company, with the Company (BII) being treated as the continuing entity. The historical financial statements presented are those of BII.

As a result of the reverse merger transaction described above the historical financial statements presented are those of BBST, the operating entity.

In March 2005, Bodisen Biotech Inc. completed a \$3 million convertible debenture private placement through an institutional investor. Approximately \$651,000 in incremental and direct expenses relating to this private placement has been amortized over the term of the convertible debenture. None of the expenses were paid directly to the institutional investor. The net proceeds from this offering were invested as initial start-up capital in a newly created wholly-owned Bodisen subsidiary by the name of “Yang Ling Bodisen Agricultural Technology Co., Ltd. (“Agricultural”). In June 2005, Agricultural completed a transaction with Yang Ling Bodisen Biology Science and Technology Development Company Limited (“BBST”), Bodisen Biotech, Inc.’s operating subsidiary in China, which resulted in Agricultural owning 100% of BBST.

In June 2006, BBST created another wholly owned subsidiary in the Uygur autonomous region of Xinjiang, China by the name of Bodisen Agriculture Material Co. Ltd. (“Material”). Material had no operations during the year ended December 31, 2006.

**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
**(UNAUDITED)**

Basis of Presentation

The unaudited consolidated financial statements have been prepared by Bodisen Biotech, Inc. (the "Company"), pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K. The results of the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year ending December 31, 2008.

Foreign Currency Translation

As of March 31, 2008, the accounts of the Company were maintained, and their consolidated financial statements were expressed in the Chinese Yuan Renminbi (CNY). Such consolidated financial statements were translated into U.S. Dollars (USD) in accordance with Statement of Financial Accounts Standards ("SFAS") No. 52, "Foreign Currency Translation," with the CNY as the functional currency. According to the Statement, all assets and liabilities were translated at the exchange rate on the balance sheet date, stockholder's equity are translated at the historical rates and statement of operations items are translated at the weighted average exchange rate for the year. The resulting translation adjustments are reported under other comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income".

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. However, as discussed in Note 14, there are certain law suits filed by investors against the Company and the company is subject to potential claims from certain investors who have a right to receive the Company's shares. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

Management's responses in regard to these matters are also described in Note 14. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**Note 2 – Summary of Significant Accounting Policies**

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. It is possible that accounting estimates and assumptions may be material to the Company due to the levels of subjectivity and judgment involved.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

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**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
**(UNAUDITED)**

Accounts Receivable

The Company maintains reserves for potential credit losses for accounts receivable. Management 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 adequacy of these reserves. Reserves are recorded based on the Company's historical collection history.

Advances to Suppliers

The Company advances to certain vendors for purchase of its material. The advances to suppliers are interest free and unsecured. The advances to suppliers amounted to \$9,452,441 and \$9,741,090 at March 31, 2008 and December 31, 2007, respectively.

Inventories

Inventories are valued at the lower of cost (determined on a weighted average basis) or market. The Management compares the cost of inventories with the market value and allowance is made for writing down their inventories to market value, if lower.

Property & Equipment and Capital Work In Progress

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives of:

	10
Operating equipment	years
Vehicles	8 years
Office equipment	5 years
	30
Buildings	years

The following are the details of the property and equipment at March 31, 2008 and December 31, 2007, respectively:

	March 31, 2008	December 31, 2007
Operating equipment	\$ 1,068,681	\$ 1,025,862
Vehicles	740,523	722,360
Office equipment	85,230	81,671
Buildings	4,933,330	4,735,665
	6,827,764	6,565,558
Less accumulated depreciation	(1,393,846)	(1,259,304)
	\$ 5,433,918	\$ 5,306,254



**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
**(UNAUDITED)**

Depreciation expense for the three months ended March 31, 2008 and 2007 was \$90,215 and \$80,618, respectively.

On March 31, 2008 and December 31, 2007, the Company had "Capital Work in Progress" representing the construction in progress of the Company's manufacturing plant amounting \$8,122,327 and \$7,722,756 respectively.

Marketable Securities

Marketable securities consist of 2,063,768 shares of China Natural Gas, Inc. (traded on the OTCBB: CHNG). This investment is classified as available-for-sale as the Company plans to hold this investment for the long-term. This investment is reported at fair value with unrealized gains and losses included in other comprehensive income. The fair value is determined by using the securities quoted market price as obtained from stock exchanges on which the security trades.

Investment income, principally dividends, is recorded when earned. Realized capital gains and losses are calculated based on the cost of securities sold, which is determined by the "identified cost" method.

Long-Lived Assets

The Company applies the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations for a Disposal of a Segment of a Business." The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. Based on its review, the Company believes that, as of March 31, 2008 there were no significant impairments of its long-lived assets.

Intangible Assets

Intangible assets consist of Rights to use land and Fertilizers proprietary technology rights. 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.

**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
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Fair Value of Financial Instruments

On January 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements. SFAS No. 157 defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The carrying amounts reported in the balance sheets for receivables and current liabilities each qualify as financial instruments and are a reasonable estimate of fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels are defined as follow:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table represents our assets and liabilities by level measured at fair value on a recurring basis at March 31, 2008.

Description	Level 1	Level 2	Level 3
<b>Assets</b>			
Marketable securities	\$ -	\$ 10,958,608	\$ -

Revenue Recognition

The Company's revenue recognition policies are in compliance with Staff accounting bulletin (SAB) 104. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectibility is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

The Company's revenue is earned in three product lines, which are as follows:

	<b>For the Three Months Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Compound fertilizer	\$ 856,268	\$ 3,034,750
Liquid fertilizer	16,140	1,128,166
Pesticide	36,111	845,556



\$ 908,519 \$ 5,008,472

**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
**(UNAUDITED)**

Advertising Costs

The Company expenses the cost of advertising as incurred or, as appropriate, the first time the advertising takes place. Advertising costs for the years ended March 31, 2008 and 2007 were insignificant.

Stock-Based Compensation

The Company adopted SFAS No. 123 (Revised 2004), *Share Based Payment* (“SFAS No. 123R”), under the modified-prospective transition method on January 1, 2006. SFAS No. 123R requires companies to measure and recognize the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value. Share-based compensation recognized under the modified-prospective transition method of SFAS No. 123R includes share-based compensation based on the grant-date fair value determined in accordance with the original provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, for all share-based payments granted prior to and not yet vested as of January 1, 2006 and share-based compensation based on the grant-date fair-value determined in accordance with SFAS No. 123R for all share-based payments granted after January 1, 2006. SFAS No. 123R eliminates the ability to account for the award of these instruments under the intrinsic value method prescribed by Accounting Principles Board (“APB”) Opinion No. 25, *Accounting for Stock Issued to Employees*, and allowed under the original provisions of SFAS No. 123. Prior to the adoption of SFAS No. 123R, the Company accounted for our stock option plans using the intrinsic value method in accordance with the provisions of APB Opinion No. 25 and related interpretations.

Income Taxes

The Company utilizes SFAS No. 109, “Accounting for Income Taxes,” which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

According to the Provisional Regulations of the People’s Republic of China on Income Tax, the Document of Reductions and Exemptions of Income Tax for the Company had been approved by the local tax bureau and the Yang Ling Agricultural High-Tech Industries Demonstration Zone. The Company was exempted from income tax through October 2007.

In March 2005, Bodisen Biotech Inc. formed Agricultural. Under Chinese law, a newly formed wholly owned subsidiary of a foreign company enjoys an income tax exemption for the first two years and a 50% reduction of normal income tax rates for the following 3 years. In order to extend such tax benefits, in June 2005, Agricultural completed a transaction with BBST, which resulted in Agricultural owning 100% of BBST.

Foreign Currency Transactions and Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or

loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. The functional currency of the Company is the Chinese Yuan Renminbi. Translation gains of \$7,048,152 at March 31, 2008 are classified as an item of other comprehensive income in the stockholders' equity section of the consolidated balance sheet. During the three months ended March 31, 2008 and 2007, other comprehensive income in the consolidated statements of operations and other comprehensive income included translation gains of \$1,900,030 and \$641,676, respectively.

**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2008 AND 2007**  
**(UNAUDITED)**

Basic and Diluted Earnings Per Share

Earnings per share is calculated in accordance with the Statement of Financial Accounting Standards No. 128 (SFAS No. 128), "Earnings per share." SFAS No. 128 superseded Accounting Principles Board Opinion No.15 (APB 15). Earnings (loss) per share for all periods presented has been restated to reflect the adoption of SFAS No. 128. Basic net loss per share is based upon the weighted average number of common shares outstanding. Diluted net loss per share is based on the assumption that all dilutive convertible shares and stock options were converted or exercised. 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

Statement of Cash Flows

In accordance with Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows," cash flows from the Company's operations are calculated based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

Segment Reporting

Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosure About Segments of an Enterprise and Related Information" 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. SFAS 131 has no effect on the Company's consolidated financial statements as the Company consists of one reportable business segment. All revenue is from customers in People's Republic of China. All of the Company's assets are located in People's Republic of China.

Recent Pronouncements

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements," which is an amendment of Accounting Research Bulletin ("ARB") No. 51. This statement clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This statement changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both parent and the noncontrolling interest. This statement is effective for the fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Based on current conditions, the Company does not expect the adoption of SFAS 160 to have a significant impact on its results of operations or financial position.

**BODISEN BIOTECH, INC. AND SUBSIDIARIES**  
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In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations." This statement replaces FASB Statement No. 141, "Business Combinations." This statement retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. This statement defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. This statement requires an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions specified in the statement. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company does not expect the adoption of SFAS 141 to have a significant impact on its results of operations or financial position.

**Note 3 – Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Bodisen Biotech, Inc., its 100% wholly-owned subsidiaries Bodisen Holdings, Inc. (BHI), Yang Ling Bodisen Agricultural Technology Co., Ltd (Agricultural), which was incorporated in March 2005, and Sinkiang Bodisen Agriculture Material Co., Ltd. (Material), which was incorporated in June 2006, as well as the accounts of Agricultural's 100% wholly-owned subsidiary Yang Ling Bodisen Biology Science and Technology Development Company Limited (BBST). All significant inter-company accounts and transactions have been eliminated in consolidation.

**Note 4 – Inventory**

Inventory at March 31, 2008 and December 31, 2007 consisted of the following:

	March 31, 2008	December 31, 2007
Raw Material	\$ 605,187	\$ 425,542
Packaging	293,521	250,018
Finished Goods	1,030,629	691,730
Consumables	350	336
	1,929,689	1,367,626
Less Obsolescence Reserve	(196,033)	(188,178)
Inventory, net	\$ 1,733,654	\$ 1,179,448

**Note 5 – Marketable Security**

During the year ended December 31, 2005, the Company purchased 2,063,768 shares of China Natural Gas, Inc. (traded on the OTCBB: CHNG) for \$2,867,346. At March 31, 2008 and December 31, 2007, the fair value of this investment was \$10,958,608 and \$14,239,999, respectively. As a result of the change in fair value of this investment the Company recorded an unrealized loss of \$3,281,391 and \$2,497,159 for the three months ended March 31, 2008 and 2007, respectively; which is included in other comprehensive income (loss). At March 31, 2008, this represented a 7.1% interest in China Natural Gas, Inc.



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**Note 6 -Other Long-term Assets**

During 2006, the Company acquired a 19.5% and a 19.8% interest in two local companies by investing a total amount of \$1,156,861 in cash.

In August, 2006, the Company entered into a land lease agreement for 30 years. The annual lease expense approximately amounts to \$169,580. The lease expense for the next 15 years amounting to \$2,529,818 has been prepaid on signing of the agreement. The payment schedule for the remaining 15 years as follows :

- in November, 2021 - prepayment for next 8 years commencing on November 2021 and
- in November, 2029 - prepayment of remaining 7 years commencing on November 2029

The land lease prepayment as of March 31, 2008 and December 31, 2007 can be summarized as follows:

	2008	2007
Prepaid Lease (for 15 years)	\$ 2,727,235	\$ 2,617,962
Current portion	193,080	185,344
Long-term portion	\$ 2,534,155	\$ 2,432,618

The amortization expense for the three months ended March 31, 2008 and 2007 was \$48,270-and \$43,584 respectively.

Amortization expense for the prepayment of land lease over the next five fiscal years is estimated to be: 2008-\$169,500, 2009-\$169,500, 2010-\$169,500, 2011-\$169,500, 2012 - \$169,500.

**Note 7 - Loan Receivable**

In August 2006, the Company entered into an agreement to loan \$1,165,320 to an unrelated party. The loan is unsecured, payable by August 2008 and carries an interest rate of 13% per annum. Interest receivable on this loan was \$230,345 and \$192,472 as of March 31, 2008 and December 31, 2007, respectively.

In November 2006, the Company entered into an agreement to loan \$762,638 to an unrelated party. The loan is unsecured, payable by November 2008 and carries an interest rate of 13% per annum. Interest receivable on this loan was \$150,747 and \$125,962 as of March 31, 2008 and December 31, 2007, respectively.

**Note 8- Intangible Assets**

Net intangible assets at March 31, 2008 and December 31, 2007 were as follows:

	2008	2007
Rights to use land	\$ 1,952,146	\$ 1,873,929
Fertilizers proprietary technology rights	1,142,480	1,096,704
	3,094,626	2,970,633
	(996,704)	(919,981)

Less Accumulated  
amortization

\$	2,097,922	\$	2,050,652
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The Company's office and manufacturing site is located in Yang Ling Agricultural High-Tech Industries Demonstration Zone in the province of Shanxi, People's Republic of China. The Company leases land per a real estate contract with the government of People's Republic of China for a period from November 2001 through November 2051. Per the People's Republic of China's governmental regulations, the Government owns all land.

During July 2003, the Company leased another parcel of land per a real estate contract with the government of the People's Republic of China for a period from July 2003 through June 2053.

The Company has recognized the amounts paid for the acquisition of rights to use land as intangible asset and amortizing over a period of fifty years. The "Rights to use land" is being amortized over a 50 year period.

The Company acquired Fluid and Compound Fertilizers proprietary technology rights with a life ending December 31, 2011. The Company is amortizing Fertilizers proprietary technology rights over a period of ten years.

Amortization expense for the Company's intangible assets for the three month periods ended March 31, 2008 and 2007 amounted to \$37,635 and \$34,603, respectively.

#### **Note 9 – Stock Options and Warrants**

##### Stock Options

Following is a summary of the stock option activity:

	Options outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding, December 31, 2007	136,000	\$ 5.39	\$ 0
Granted	-	-	
Forfeited	-	-	
Exercised	-	-	
Outstanding, March 31, 2008	136,000	\$ 5.39	\$ 0

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Following is a summary of the status of options outstanding at March 31, 2008:

Exercise Price	Outstanding Options			Average Exercise Price	Exercisable Options		
	Number	Average Remaining Contractual Life	Average Exercise Price		Number	Average Exercise Price	
\$ 5.00	100,000	1.18	\$ 5.00	100,000	\$ 5.00		
\$ 5.80	10,000	1.75	\$ 5.80	10,000	\$ 5.80		
\$ 6.72	26,000	2.51	\$ 6.72	26,000	\$ 6.72		

**Note 10 – Employee Welfare Plans**

The Company has established its own employee welfare plan in accordance with Chinese law and regulations. The Company makes annual contributions of 14% of all employees' salaries to employee welfare plan. The total expense for the above plan were \$0 and \$0 for the three months ended March 31, 2008 and 2007, respectively. The Company has recorded welfare payable of \$58,893 and \$71,908 at March 31, 2008 and December 31, 2007, respectively, which is included in accrued expenses in the accompanying consolidated balance sheet.

**Note 11 – Statutory Common Welfare Fund**

As stipulated by the Company Law of the People's Republic of China (PRC), net income after taxation can only be distributed as dividends after appropriation has been made for the following:

- i. Making up cumulative prior years' losses, if any;
- ii. Allocations to the "Statutory surplus reserve" of at least 10% of income after tax, as determined under PRC accounting rules and regulations, until the fund amounts to 50% of the Company's registered capital;
- iii. Allocations of 5-10% of income after tax, as determined under PRC accounting rules and regulations, to the Company's "Statutory common welfare fund", which is established for the purpose of providing employee facilities and other collective benefits to the Company's employees; and
- iv. Allocations to the discretionary surplus reserve, if approved in the stockholders' general meeting.

Pursuant to the new Corporate Law effective on January 1, 2006, there is now only one "Statutory surplus reserve" requirement. The reserve is 10 percent of income after tax, not to exceed 50 percent of registered capital.

Pursuant to the "Circular of the Ministry of Finance (MOF) on the Issue of Corporate Financial Management after the Corporate Law Enforced" (No.67 [2006]), effective on April 1, 2006, issued by the MOF, the companies will transfer the balance of SCWF as of December 31, 2005 to Statutory Surplus Reserve. Any deficit in the SCWF will be charged in turn to Statutory Surplus Reserve, additional paid-in capital and undistributed profit of previous years. If a deficit still remains, it should be transferred to retained earnings and be reduced to zero by a transfer from after tax profit of following years. At December 31, 2006, the Company did not have a deficit in the SCWF.

The Company has appropriated \$0 and \$0 as reserve for the statutory surplus reserve and welfare fund for the three months ended March 31, 2008 and 2007, respectively.

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**Note 12 – Earnings Per Share**

Earnings per share for three months ended March 31, 2008 and 2007 were 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. There is no difference between basic and diluted earnings per shares for the three months ended March 31, 2008 and 2007. For 2007, the Company reported a net loss therefore and common stock equivalents would be anti-dilutive. For 2008, the exercise price for all options outstanding was greater than the average stock price for the quarter, therefore there were no common stock equivalents.

**Note 13 – Current Vulnerability Due to Certain Concentrations**

Three vendors provided 74.8%, 14.3% and 5.0% of the Company's raw materials for the three months ended March 31, 2008 and three vendors provided 70.3%, 10.5% and 7.5%, of the Company's raw materials for the three months ended March 31, 2007.

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, by the general state of the PRC's economy. The Company's business may be influenced 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.

**Note 14 – Litigation**

The Company is involved in a variety of claims, suits, investigations and proceedings that arise from time to time in the ordinary course of its business, including actions with respect to contracts, intellectual property (IP), product liability, employment, benefits, securities, and other matters. These actions may be commenced by a number of different constituents, including competitors, partners, clients, current or former employees, government and regulatory agencies, stockholders, and representatives of the locations in which it does business. The following is a discussion of some of the more significant legal matters involving the Company.

In late 2006, various shareholders of the Company filed eight purported class actions in the U.S. District Court for the Southern District of New York against the Company and certain of its officers and directors (among others), asserting claims under the federal securities laws. The complaints contain allegations about prior financial disclosures and its internal controls and a prior, now-terminated relationship with a financial advisor.

The eight actions are Stephanie Tabor vs. Bodisen, Inc., et al., Case No. 06-13220 (filed November 2006), Fraser Laschinger vs. Bodisen, Inc., et al., Case No. 06-13254 (filed November 2006), Anthony DeSantis vs. Bodisen, Inc., et. al., Case No. 06-13454 (filed November 2006), Yuchen Zhou vs. Bodisen, Inc., et. al., Case No. 06-13567 (filed November 2006), William E. Cowley vs. Bodisen, Inc., et. al., Case No. 06-13739 (filed December 2006), Ronald Stubblefield vs. Bodisen, Inc., et. al., Case No. 06-14449 (filed December 2006), Adam Cohen vs. Bodisen, Inc., et. al., Case No. 06-15179 (filed December 2006) and Lawrence M. Cohen vs. Bodisen, Inc., et. al., Case No. 06-15399 (filed December 2006). Plaintiffs have not specified an amount of damages they seek. Last year, the Court consolidated each of the actions into a single proceeding.



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In 2008, defendants in the action, including the Company, filed motions to dismiss the proceeding and to strike certain allegations in the complaint. The Court has not scheduled a hearing on these motions.

Because these consolidated actions are in an early stage, the Company cannot comment on whether an adverse outcome is probable or otherwise. While the Company believes it has meritorious defenses to each of these actions and intends to defend them vigorously, an adverse outcome in one or more of these matters could have a material adverse effect on its business, financial condition, results of operations or liquidity.

In 2007, Ji Xiang, a shareholder of China Natural Gas (and son of its Chairman and CEO) instituted litigation in the Chinese court system in Shaanxi province challenging the validity of the Company's ownership of 2,063,768 shares of China Natural Gas common stock. The Company obtained these shares in September 2005 in a share transfer agreement and asserts that it has fully performed its obligations under the agreement and is entitled to own the shares. The parties in the Chinese litigation have submitted their evidence and now await a decision from the Chinese court. Also, in January 2008, the same shareholder instituted litigation in a Utah state court against Yangling Bodisen Biotech Development Co. Ltd. and Interwest Transfer Co. (China Natural Gas's transfer agent) seeking to prevent the Company from selling its shares in China Natural Gas. Plaintiff has obtained an order from the Utah court provisionally preventing the Company from selling the China Natural Gas shares pending a decision on the merits of the underlying dispute. The Company intends to vigorously and thoroughly defend itself against this claim. While the Company believes it will prevail in these litigation matters and establish its right of ownership to the China Natural Gas shares, an adverse outcome could have a material adverse effect on its business, financial condition, results of operations or liquidity.

## **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following information should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this quarterly report and our annual audited consolidated financial statements and related notes included in our annual report on Form 10-K for the year ended December 31, 2007, which was filed with the Securities and Exchange Commission on April 15, 2008 (the "Form 10-K"). The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and in the Form 10-K, particularly under "Risk Factors" and "Note Regarding Forward-Looking Statements."

Virtually all of our revenues and expenses were denominated in Renminbi ("RMB"), the currency of the People's Republic of China. Because we report our financial statements in U.S. dollars, we are exposed to translation risk resulting from fluctuations of exchange rates between the RMB and the U.S. dollar. There is no assurance that exchange rates between the RMB and the U.S. dollar will remain stable. A devaluation of the RMB relative to the U.S. dollar could adversely affect our business, financial condition and results of operations. See "Risk Factors" in the Form 10-K. We do not engage in currency hedging and to date, inflation has not had a material impact on our business.

### **Overview**

We are incorporated under the laws of the state of Delaware and our operating subsidiary, Yang Ling, is headquartered in Shaanxi Province, the People's Republic of China. We are engaged in developing, manufacturing and selling organic fertilizers, liquid fertilizers, pesticides and insecticides in the People's Republic of China and produce numerous proprietary product lines, from pesticides to crop-specific fertilizers. We market and sell our products to distributors throughout the People's Republic of China, and these distributors, in turn, sell our products to farmers. We also conduct research and development to further improve existing products and develop new formulas and products.

### **Critical Accounting Policies**

The accounting and reporting policies that we use affect our consolidated financial statements. Certain of our accounting and reporting policies are critical to an understanding of our results of operations and financial condition, and in some cases, the application of these policies can be significantly affected by the estimates, judgments and assumptions made by management during the preparation of our consolidated financial statements. These accounting and reporting policies are described below. See Note 2 to our consolidated financial statements for further discussion of our accounting policies.

#### *Accounts receivable*

We maintain reserves for potential credit losses on accounts receivable and record them primarily on a specific identification basis. In order to establish reserves, we review the composition of accounts receivable and analyze historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. This analysis and evaluation requires the use of judgments and estimates. Because of the nature of the evaluation, certain of the judgments and estimates are subject to change, which may require adjustments in future periods.

### *Inventories*

We value inventories at the lower of cost (determined on a weighted average basis) or market. When evaluating our inventory, we compare the cost with the market value and make allowance to write them down to market value, if lower. The determination of market value requires the use of estimates and judgment by our management.

### *Intangible assets*

Since July 1, 2002, we have evaluated potential goodwill impairment in accordance with SFAS No. 142, which applied to our financial statements beginning July 1, 2002. We evaluate 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. This evaluation requires the use of judgments and estimates, in particular with respect to recoverability. 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.

### **Recent Accounting Pronouncements**

In December 2007, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standard, or SFAS, No. 141 (Revised 2007), "Business Combinations." SFAS No. 141 (Revised 2007) changes how a reporting enterprise accounts for the acquisition of a business. SFAS No. 141 (Revised 2007) requires an acquiring entity to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value, with limited exceptions, and applies to a wider range of transactions or events. SFAS No. 141 (Revised 2007) is effective for fiscal years beginning on or after December 15, 2008 and early adoption and retrospective application is prohibited. We do not expect the adoption of SFAS 141 to have a significant impact on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements," which is an amendment of Accounting Research Bulletin, or ARB, No. 51. SFAS No. 160 clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and changes the way the consolidated income statement is presented, thus requiring consolidated net income to be reported at amounts that include the amounts attributable to both parent and the noncontrolling interest. SFAS No. 160 is effective for the fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Based on current conditions, we do not expect the adoption of SFAS 160 to have a significant impact on our results of operations or financial position.

For information regarding these and other recent accounting pronouncements and their expected impact on our future financial condition or results of operations, see Note 2 to our consolidated financial statements.

### **Results of Operations**

*Three months ended March 31, 2008 compared to Three months ended March 31, 2007.*



Revenue. We generated revenues of \$908,519 for the three months ended March 31, 2008, a decrease of \$4,009,953 or 81.9%, compared to \$5,008,472 for the three months ended March 31, 2007. The significant decrease in revenue was due to fact that we had a much smaller customer base in the three months ended March 31, 2008 as compared to March 31, 2007 (as a result of the loss of customers following our delisting from the American Stock Exchange, or Amex), as well as a snow storm that occurred in the first quarter of 2008, which affected crop plantings and led to a decrease in the use of fertilizer.

Gross Profit. We achieved a gross profit of \$341,231 for the three months ended March 31, 2008, a decrease of \$1,648,991 or 82.9%, compared to \$1,990,222 for the three months ended March 31, 2007. The significant decrease in gross profit was due to the significant decrease in sales revenue. Gross margin (gross profit as a percentage of revenues), decreased from 39.7% for the three months ended March 31, 2007, to 37.6% for the three months ended March 31, 2008, primarily as a result of a small increase in raw material costs.

Operating expenses. We incurred net operating expenses of \$841,603 for the three months ended March 31, 2008, a decrease of \$2,679,920 or 76.1% compared to \$3,521,523 for the three months ended March 31, 2007. The significant decrease was primarily a result of the fact that operating expenses for the three months ended March 31, 2007 were higher than normal due to a \$1,360,277 allowance for bad debts recorded during that period. The decrease was also due to an overall reduction in overhead due to the decrease in sales.

Aggregated selling expenses accounted for \$182,259 of our operating expenses for the three months ended March 31, 2008, a decrease of \$166,755 or 47.8% compared to \$349,014 for the three months ended March 31, 2007. The decrease in our aggregated selling expenses is due to the significant decrease in sales. General and administrative expenses accounted for the remainder of our operating expenses of \$659,344 for the three months ended March 31, 2008, which decreased \$2,513,165 or 79.2% compared to \$3,172,509 for the three months ended March 31, 2007. The significant decrease in general and administrative expenses was a result of the fact that such expenses for the three months ended March 31, 2007 were higher than normal due to a \$1,360,277 allowance for bad debts recorded during that period. The decrease was also due to an overall reduction in overhead due to the decrease in sales.

Non Operating Income and Expenses. We had total non-operating income of \$2,268,307 for the three months ended March 31, 2008 compared to total non-operating income of \$21,755 for the three months ended March 31, 2007. Other income was \$2,212,059 for the three months ended March 31, 2008 compared to other expense of \$67,197 for three months ended March 31, 2007. The change is primarily due to a bad debt recovery of \$2,184,912 during the three months ended March 31, 2008. Interest income was \$56,248 for the three months ended March 31, 2008 compared to \$90,009 of interest income for the three months ended March 31, 2007. The decrease in 2008 is due to a decrease in our overall cash balance.

Net Income (loss). We had net income of \$1,767,935 for the three months ended March 31, 2008 compared to a net loss of \$(1,509,546) for the three months ended March 31, 2007. We had earnings (loss) per share of \$0.10 and \$(0.08) for the three months ended March 31, 2008 and 2007, respectively.

### **Liquidity and Capital Resources**

We are primarily a parent holding company for the operations carried out by our indirect operating subsidiary, Yang Ling, which carries out its activities in the People's Republic of China. Because of our holding company structure, our ability to meet our cash requirements apart from our financing activities, including payment of dividends on our common stock, if any, substantially depends upon the receipt of dividends from our subsidiaries, particularly Yang Ling.

As of March 31, 2008, we had \$768,400 of cash and cash equivalents compared to \$617,046 as of December 31, 2007. The increase in cash was provided by our operating activities as a result of customer payment receipts and increase in net income.

Based on past performance and current expectations, we believe our cash and cash equivalents and cash generated from operations will satisfy our current working capital needs, capital expenditures and other liquidity requirements associated with our operations. However, to the extent our allowance for bad debts is insufficient to cover our actual bad debt experience, our liquidity would be negatively impacted.

#### *Cash Flows*

Our operating activities provided a net cash of \$24,017 for the three months ended March 31, 2008 compared to net cash of \$3,984,706 used for operating activities for the three months ended March 31, 2007. This decrease in the use of cash in operating activities is principally due to the increase in net income from operations and receipts of customer payments.

Our investing activities used \$16,811 of cash for the three months ended March 31, 2008, compared to \$837,188 of cash used for investing activities for the three months ended March 31, 2007.

#### *Loan Receivables*

In August 2006, we made an unsecured loan of \$1,306,745 to one of our suppliers. Because we will receive interest payments (at a rate of 13% per annum) on this amount from the supplier, we account for this as a loan rather than an advance to a supplier. This loan is to be repaid by August 2008. In November 2006, we made an unsecured \$814,096 advance payment to a company for the installation of a facility to house a new compound fertilizer production line in a new building. The installation of that facility occurred in November 2007. We accounted for this as a loan under applicable accounting rules because the advance payment bears interest at rate of 13% per annum and is to be repaid by November 2008. For more information relating to these loan receivables, see Note 7 to our condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

#### *Contractual Commitments*

In August 2006, we entered into a 30-year land-lease arrangement with the government of the People's Republic of China, under which we pre-paid \$2,529,818 upon execution of the contract of lease expense for the next 15 years. We agreed to make a prepayment for the next eight years in November 2021, and will make a final pre-payment in November 2029 for the remaining seven years. The annual lease expense amounts to approximately \$169,580. For further information regarding this arrangement, see Note 7 to our annual consolidated financial statements included in the Form 10-K. Our land-lease arrangement is currently our only material on- and off-balance sheet expected or contractually committed future obligation.

#### *Off-Balance Sheet Arrangements*

We currently do not have any material off-balance sheet arrangements except for the remaining pre-payments under the land-lease arrangement described above and in Note 7 to our annual consolidated financial statements included the Form 10-K.

### ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Intentionally Omitted

### Item 4T. Controls and Procedures

#### **Evaluation of Disclosure Controls and Procedures**

Our Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of December 31, 2007. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this report to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. The reasons that our Chief Executive Officer and Chief Financial Officer arrived at this conclusion include:

- *Our inability to timely file this quarterly report on Form 10-Q.* Effective disclosure controls and procedures ensure that management receives information as appropriate to allow timely decisions regarding required disclosures. The recent earthquakes in the People's Republic of China have negatively impacted our ability to assemble all of the necessary information required to be included in this quarterly report on Form 10-Q, including financial information, with sufficient time to permit timely filing of this quarterly report on Form 10-Q. For this reason, we were not able to file this quarterly report within the time period prescribed and our management is not able to make a determination at this time that our disclosure controls and procedures were effective as of the end of the period covered by this report.
- *Our inability to complete the Management's Annual Report on Internal Control over Financial Reporting.* For the reasons described in the Form 10-K under "Internal Control over Financial Reporting," our management's assessment of our internal controls over financial reporting was substantially delayed and was not complete as of the date of the Form 10-K. Because we were not able to complete this report within the time period prescribed and include such report in the Form 10-K, our management is not able to make a determination at this time that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Notwithstanding the conclusion that our disclosure controls and procedures were not effective as of the end of the period covered by this report, the Chief Executive Officer and the Chief Financial Officer believe that the financial statements and other information contained in this annual report present fairly, in all material respects, our business, financial condition and results of operations.

#### **Changes in Internal Control over Financial Reporting**

During the quarter ended March 31, 2008, there were no changes in our internal control over financial reporting that have materially affected our internal control over financial reporting.

## **Part II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time, we may become involved in various lawsuits and legal proceedings that arise in the ordinary course of business. Litigation is, however, subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. Other than the matters described below, we are currently not aware of any such legal proceedings or claims that we believe would or could have, individually or in the aggregate, a material adverse affect on our business, financial condition, results of operations or liquidity.

In late 2006, various shareholders of our company filed eight purported class actions in the U.S. District Court for the Southern District of New York against our company and certain of our officers and directors (among others), asserting claims under the federal securities laws. The complaints contain allegations about our prior financial disclosures and our internal controls and a prior, now-terminated relationship with a financial advisor. The complaints do not specify an amount of damages that plaintiffs seek.

The eight actions are Stephanie Tabor vs. Bodisen, Inc., et al., Case No. 06-13220 (filed November 2006), Fraser Laschinger vs. Bodisen, Inc., et al., Case No. 06-13254 (filed November 2006), Anthony DeSantis vs. Bodisen, Inc., et. al., Case No. 06-13454 (filed November 2006), Yuchen Zhou vs. Bodisen, Inc., et. al., Case No. 06-13567 (filed November 2006), William E. Cowley vs. Bodisen, Inc., et. al., Case No. 06-13739 (filed December 2006), Ronald Stubblefield vs. Bodisen, Inc., et. al., Case No. 06-14449 (filed December 2006), Adam Cohen vs. Bodisen, Inc., et. al., Case No. 06-15179 (filed December 2006) and Lawrence M. Cohen vs. Bodisen, Inc., et. al., Case No. 06-15399 (filed December 2006).

In 2008, defendants in the action, including our company, filed motions to dismiss the proceeding and to strike certain allegations in the complaint. The Court has not scheduled a hearing on these motions.

Because these consolidated actions are in an early stage, we cannot comment on whether an adverse outcome is probable or otherwise. While we believe we have meritorious defenses to each of these actions and intend to defend them vigorously, an adverse outcome in one or more of these matters could have a material adverse effect on our business, financial condition, results of operations or liquidity.

In 2007, Ji Xiang, a shareholder of China Natural Gas (and son of its Chairman and CEO) instituted litigation in the Chinese court system in Shaanxi province challenging the validity of our ownership of 2,063,768 shares of China Natural Gas common stock. We obtained these shares in September 2005 in a share transfer agreement and assert that we have fully performed our obligations under the agreement and are entitled to own the shares. The parties in the Chinese litigation have submitted their evidence and now await a decision from the Chinese court. Also, in January 2008, the same shareholder instituted litigation in a Utah state court against Yangling Bodisen Biotech Development Co. Ltd. and Interwest Transfer Co. (China Natural Gas's transfer agent) seeking to prevent us from selling our shares in China Natural Gas. Plaintiff has obtained an order from the Utah court provisionally preventing us from selling the China Natural Gas shares pending a decision on the merits of the underlying dispute. We intend to vigorously and thoroughly defend our company against this claim. While we believe we will prevail in these litigation matters and establish our right of ownership to the China Natural Gas shares, an adverse outcome could have a material adverse effect on our business, financial condition, results of operations or liquidity.

### **Item 1A. Risk Factors**

There have been no material changes from the disclosure provided in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2007.

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

None

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**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**

(a) Exhibits

**Exhibit  
No.**

**Exhibit Description**

- |      |  |
|------|--|
| 3.1  | Certificate of Incorporation (incorporated by reference to Company's Form SB-2 filed September 3, 2002)  |
| 3.2  | By-Laws (incorporated by reference to Company's Form SB-2 filed September 3, 2002).  |
| 10.1 | Bodisen Biotech, Inc. 2004 Stock Option Plan (incorporated by reference to Company's Form 10-KSB filed March 31, 2005)   |
| 10.2 | Form of Bodisen Biotech, Inc. Nonstatutory Stock Option Agreement (incorporated by reference to Company's Form 10-KSB filed March 31, 2005)                    |
| 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended |
| 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002   |

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**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Bodisen Biotech, Inc.

May 20, 2008

By: /s/ Bo Chen  
Bo Chen  
Chairman, Chief Executive Officer and  
President  
(Principal Executive Officer)

May 20, 2008

By: /s/ Junyan Tong  
Junyan Tong  
Chief Financial Officer  
(Principal Financial and Accounting  
Officer)

**EXHIBIT INDEX**

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