

Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

BODISEN BIOTECH, INC  
Form 10QSB  
November 03, 2005

UNITED STATES  
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 September 30, 2005

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

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

Commission File Number 333-99101

BODISEN BIOTECH, INC.  
(Name of small business issuer in its charter)

Delaware 98-0381367  
(State or other jurisdiction of incorporation) (IRS Employer Identification No.)

North Part of Xinquia Road, Yang Ling Agricultural  
High-Tech Industries Demonstration Zone, Yang Ling, People's  
Republic of China 712100  
(Address of principal executive offices)

86-29-87074957  
(Issuer's telephone number)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of September 30, 2005 there were 15,474,220 shares of common stock, par value \$.0001 per share.

Table of Contents

Part I. Financial Information

Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

Item 1 Financial Statements (Unaudited):  
Consolidated Balance Sheet for the Nine Months Ended September 30, 2005.....  
Consolidated Statements of Income for the Three Months and Nine  
Months Ended September 30, 2005 and 2004.....  
Consolidated Statements of Cash Flows for the Nine Months Ended  
September 30, 2005 and 2004.....  
Notes to Condensed Consolidated Financial Statements.....  
Item 2 Management's Discussion and Analysis or Plan of Operation.....  
Item 3 Controls and Procedures.....  
Part II. Other Information  
Item 6 Exhibits.....  
Signatures .....

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

-----  
BODISEN BIOTECH, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
September 30, 2005  
(Unaudited)

ASSETS

CURRENT ASSETS:

- Cash & cash equivalents
- Accounts receivable, net
- Advances to suppliers
- Prepaid expenses
- Inventory
- Loan receivable
- Investment
- Other assets

Total current assets

PROPERTY AND EQUIPMENT, net

CONSTRUCTION IN PROGRESS

INTANGIBLE ASSETS, net

Sep  
-

\$

Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

TOTAL ASSETS	\$
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	\$
Other payable	
Accrued expenses	
Notes payable	
Convertible debenture, net discount due to beneficial conversion	
Total current liabilities	
STOCKHOLDERS' EQUITY	
Preferred stock, \$0.0001 per share; authorized 5,000,000 shares; none issued	
Common stock, \$0.0001 per share; authorized 30,000,000 shares; issued and outstanding 15,474,220 shares	
Additional paid in capital	
Statutory reserve	
Accumulated other comprehensive income	
Retained earnings	
Total stockholders' equity	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$

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

3

BODISEN BIOTECH, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

	FOR THE THREE MONTH PERIODS ENDED		
	September 30, 2005	September 30, 2004	Septem
Net revenue	\$ 10,516,790	\$ 5,407,841	\$
Cost of revenue	6,561,181	3,388,736	
Gross profit	3,955,609	2,019,105	
Operating expenses			
Selling expenses	294,860	228,624	
General and administrative expenses	299,557	177,695	

Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

Total operating expenses	594,417	406,319	
-----			
Income from operations	3,361,192	1,612,786	
Non-operating Income / (expenses)			
Interest income	(5,461)	-	
Other income	-	3,816	
Interest expense	(484,690)	(19,770)	
-----			
Total non-operating income / (expenses)	(490,151)	(15,954)	
-----			
Income before income tax	2,871,041	1,596,832	
Provision for income tax	-	-	
-----			
Net Income	2,871,041	1,596,832	
Other comprehensive income / (loss)			
Foreign currency translation gain	524,838	30,524	
-----			
Comprehensive Income	\$ 3,395,879	\$ 1,627,356	\$
=====			
Basic weighted average shares outstanding	15,326,344	15,268,000	
=====			
Basic earnings per share	\$ 0.19	\$ 0.10	
=====			
Diluted weighted average shares outstanding	15,619,663	15,324,318	
=====			
Diluted earnings per share	\$ 0.19	\$ 0.10	
=====			

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

4

BODISEN BIOTECH, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2005 AND 2004  
(Unaudited)

FOR THE NINE  
SEPTEMBER 30, 2005  
-----

CASH FLOWS FROM OPERATING ACTIVITIES:  
Net Income

\$ 6,359,787

## Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	498,950
Amortization of beneficial conversion feature	634,285
(Increase) / decrease in current assets:	
Accounts receivable	(2,639,949)
Advances to suppliers	90,686
Inventory	(269,999)
Other assets	(26,087)
Increase / (decrease) in current liabilities:	
Accounts payable	292,786
Unearned revenue	-
Other payable	378,699
Accrued expenses	(307,900)
	-----
Net cash provided by operating activities	5,011,258
	-----
Effect of exchange rate on cash	455,983
	-----
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of property & equipment	(3,393,085)
Work in progress	(356,405)
Loan receivable	(29,274)
Investments	(2,869,360)
	-----
Net cash used in investing activities	(6,648,124)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Loan repayment	(99,700)
Proceeds from convertible debenture	3,000,000
	-----
Net cash provided by / (used in) financing activities	2,900,300
	-----
NET INCREASE / (DECREASE) IN CASH & CASH EQUIVALENTS	1,719,417
CASH & CASH EQUIVALENTS, BEGINNING BALANCE	2,121,811
	-----
CASH & CASH EQUIVALENTS, ENDING BALANCE	\$ 3,841,228
	=====

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

# Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

September 30, 2005  
(unaudited)

## 1. ORGANIZATION AND DESCRIPTION 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. Bodisen International, Inc. ("BII") is a Delaware Corporation, incorporated on November 19, 2003. BII was a non-operative holding company of BBST. On December 15, 2003, BII entered in to an agreement with all the shareholders of BBST to exchange all of the outstanding stock of BII for all the issued and outstanding stock of BBST. After the consummation of the agreement, the former shareholders of BBST owned 1500 shares of common stock of BII, which represents 100% of BII's issued and outstanding shares. For U.S. Federal income tax purpose, the transaction was intended to be qualified as a tax-free transaction under section 351 of the Internal Revenue Code of 1986, as amended.

The exchange of shares with BBST has been accounted for as a reverse acquisition under the purchase method of accounting since the shareholders of the BBST obtained control of the consolidated entity. Accordingly, the merger of the two companies has been recorded as a recapitalization of BBST, with BBST being treated as the continuing entity. The historical financial statements presented are those of BBST. The continuing company has retained December 31 as its fiscal year end. The financial statements of the legal acquirer are not significant; therefore, no pro forma financial information is submitted.

On February 24, 2004, BII consummated a merger agreement with Stratabid.com, Inc. ("Stratabid"), a Delaware corporation, to exchange 12,000,000 shares of Stratabid to the shareholders 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.

6

The exchange of shares with Stratabid has been accounted for as a reverse acquisition under the purchase method of accounting since the shareholders 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 being treated as the continuing entity. The financial statements of legal acquiree are not significant; therefore, no pro forma financial information is submitted.

In March 2005, Bodisen Biotech Inc. completed a \$3 million convertible debenture private placement through an institutional investor. Approximately \$651,000 in expenses relating to this private placement has been amortized over the term of the convertible debenture. The net proceeds from this offering were sent to China towards capital contribution of the registration of a 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

## Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

Ling Bodisen Biology Science and Technology Development Company Limited ("Yang Ling"), Bodisen Biotech, Inc.'s operating subsidiary in China, which resulted in Agricultural owning 100% of Yang Ling.

### 2. BASIS OF PRESENTATION

The accompanying unaudited financial statements of the Company have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the interim periods are not necessarily indicative of the results for any future period. These statements should be read in conjunction with the Company's audited financial statements and notes thereto for the fiscal year ended December 31, 2004.

#### Accounts receivable

The Company maintains reserves for potential credit losses on 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. Terms of the sales vary from COD through a credit term up to 9 to 12 months. Reserves are recorded primarily on a specific identification basis. Allowance for doubtful debts amounted to \$189,896 at September 30, 2005.

#### 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 amounted to \$664,524 at September 30, 2005.

7

#### 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 is exempted from income tax through 2007.

In March 2005, Bodisen Biotech Inc. formed a new 100% wholly-owned subsidiary named Yang Ling Bodisen Agricultural Technology Co., Ltd. ("Agricultural") in China. 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 Yang Ling Bodisen Biology Science and Technology Development Company Limited ("Yang Ling", Bodisen Biotech, Inc.'s operating subsidiary in China), which resulted in Agricultural owning 100% of Yang Ling.

## Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

### Fair value of financial instruments

Statement of financial accounting standard No. 107, Disclosures about fair value of financial instruments, requires that the Company disclose estimated fair values of financial instruments. The carrying amounts reported in the statements of financial position for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value.

### Foreign currency transactions and comprehensive income (loss)

Assets and liabilities in foreign currency are recorded at the balance sheet date at the rate prevailing on that date. Items entered on the income statement are recorded at the average exchange rate. Gains or losses on foreign currency transactions are reflected on the income statement. Gains or losses on financial statement translation from foreign currency are recorded as separate components in the equity section of the balance sheet, under comprehensive income. The functional currency of the Company is the Chinese Renminbi. As of September 30, 2005, comprehensive income in the consolidated statements of operation included \$524,838 translation gain.

8

### Segment reporting

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

On May 15, 2003, the Financial Accounting Standards Board ("FASB") issued FASB Statement No. 150 ("SFAS 150"), "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS 150 changes the accounting for certain financial instruments that, under previous guidance, could be classified as equity or "mezzanine" equity, by now requiring those instruments to be classified as liabilities (or assets in some circumstances) in the statement of financial position. Further, SFAS 150 requires disclosure regarding the terms of those instruments and settlement alternatives. SFAS 150 affects an entity's classification of the following freestanding instruments: a) Mandatorily redeemable instruments b) Financial instruments to repurchase an entity's own equity instruments c) Financial instruments embodying obligations that the issuer must or could choose to settle by issuing a variable number of its shares or other equity instruments based solely on (i) a fixed monetary amount known at inception or (ii) something other than changes in its own equity instruments d) SFAS 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. The guidance in SFAS 150 is generally effective for all financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. For private companies, mandatorily redeemable financial instruments are subject to the provisions of SFAS 150 for the fiscal period beginning after December 15, 2003. The Company does not expect the adoption of SFAS No. 150 to have a material impact on its financial position or results of operations or cash flows.

In December 2003, FASB issued a revised Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46R"). FIN 46R addresses consolidation by business enterprises of variable interest entities and significantly changes the consolidation application of consolidation policies to variable interest entities and, thus improves comparability between enterprises engaged in similar activities when those activities are conducted through variable interest entities. The Company does not hold any variable interest entities.



## Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." This statement applies to all voluntary changes in accounting principles and requires retrospective application to prior periods' financial statements of changes in accounting principle, unless such would be impracticable. This statement also makes a distinction between "retrospective application" of an accounting principle and the "restatement" of financial statements to reflect the correction of an error. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We are evaluating the effect the adoption of this interpretation will have on the Company's financial position, cash flows and results of operations.

9

In June 2005, the EITF reached consensus on Issue No. 05-6, Determining the Amortization Period for Leasehold Improvements ("EITF 05-6") EITF 05-6 provides guidance on determining the amortization period for leasehold improvements acquired in a business combination or acquired subsequent to lease inception. The guidance in EITF 05-6 will be applied prospectively and is effective for periods beginning after June 29, 2005. EITF 05-6 is not expected to have a material effect on its consolidated financial position or results of operations.

### 3. PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the accounts of Bodisen Biotech, Inc. (from the merger date), its 100% wholly-owned subsidiary Bodisen Holdings, Inc. ("BHI"), BHI's 100% wholly-owned subsidiary Yang Ling Bodisen Biology Science and Technology Development Company Limited, and a 100% wholly-owned subsidiary, incorporated in March 2005, named Yang Ling Bodisen Agricultural Technology Co., Ltd. All significant inter-company accounts and transactions have been eliminated in consolidation.

### 4. MAJOR VENDORS

Five vendors provided 81% of the Company's raw materials for the nine month periods ended September 30, 2005. The payable balance for these parties amounted to \$225,780.

### 5. ADVANCE TO OFFICER

During the six months period ending June 30, 2005, the Company advanced \$2,383,217 to an officer as a short term loan. Said loan was interest free, unsecured, and payable upon demand. This loan was repaid during the quarter ended September 30, 2005.

### 6. LOAN RECEIVABLE

The company has a loan receivable from an unrelated party amounting \$997,294 as of September 30, 2005. This loan is unsecured, bears 9% interest per annum and matures on December 7, 2005.

### 7. INVESTMENT

During the nine month period ended September 30, 2005, the company has invested \$2,869,360 for a 13% interest of an investee company. The Company accounts for this investment under the cost method.

### 8. INTANGIBLE ASSETS

Net intangible assets at September 30, 2005 were as follows:

## Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

Rights to use land	\$ 1,710,423
Fertilizers proprietary technology rights	992,000
	-----
	2,702,423
Less Accumulated amortization	(548,073)
	-----
	\$ 2,154,350
	=====

10

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 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, the contractual life, which is shorter than the estimated useful life of the rights.

Amortization expense for the Company's intangible assets for the nine month periods ending September 30, 2005 and 2004 amounted to \$64,940 each period.

Amortization expense for the Company's intangible assets over the next five fiscal years is estimated to be: 2006-\$130,000, 2007-\$130,000, 2008-\$130,000, 2009-\$130,000 and 2010-\$100,000.

### 9. NOTES PAYABLE

As of September 30, 2005, the Company has notes payable in the amount of \$880,400, of which, \$868,000 is from the local bank with the Company's building and "right to use land" as collateral. \$434,000 of the \$868,000 is due on October 28, 2005 with 0.605% monthly interest. The remaining \$434,000 of the \$868,000 is due on June 29, 2006 with 0.651% monthly interest.

### 10. SHAREHOLDERS' EQUITY

On February 24, 2004, BII entered into a merger agreement with Stratabid.com, Inc. ("Stratabid") to exchange 12,000,000 shares of Stratabid to the shareholders of BII. As a part of the merger, Stratabid cancelled 3,000,000 shares of its issued and outstanding stock owned by a majority shareholder 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, after the merger agreement. The Company has a total of 15,474,220 shares of common stock outstanding as of September 30, 2005.

11

### 11. CONVERTIBLE DEBENTURE

On March 16, 2005, the Company completed a private placement offering. The

## Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

Company received the sum of \$3 million and issued a one year 9% debenture convertible into shares of common stock by dividing the aggregate principal and accrued interest by a conversion price of \$4.80; and three year warrants to purchase 187,500 shares of common stock at \$4.80 per share and three year warrants to purchase 40,000 shares of common stock at \$6.88 per share.

This debenture was considered to have an embedded beneficial conversion feature because the conversion price was less than the quoted market price at the time of the issuance. The Company allocated the proceeds of the debt between the warrant and the debt based on relative fair values. Accordingly, the beneficial conversion feature of \$ 803,381 was recorded separately based on the intrinsic value method per EITF 00-27. The debenture is recorded in the balance sheet at face value less the unamortized beneficial conversion feature and unamortized interest on warrants of \$367,574 and \$ 167,403, respectively.

During the year, \$950,000 of debentures was converted into 206,220 shares of common stock.

### 12. STOCK OPTIONS

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock Based Compensation-Transition and Disclosure." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used, on reported results. The Statement is effective for the Company's interim reporting period ending January 31, 2003.

In compliance with SFAS No. 148, the Company has elected to continue to follow the intrinsic value method in accounting for its stock-based employee compensation plan as defined by APB No. 25 and has made the applicable disclosures below.

Had the Company determined employee stock based compensation cost based on a fair value model at the grant date for its stock options under SFAS 123, the Company's net earnings per share would have been adjusted to the pro forma amounts for the nine month periods ended September 30, 2005 as follows (\$ in thousands, except per share amounts):

	Nine month periods ended September 30, 2005	Nine month periods September 30, 2004
Net Income - as reported	\$6,359	\$3,347
Stock-Based employee compensation expense included in reported net income, net of tax		
Total stock-based employee compensation under fair-value-based method for all rewards, net of tax	(12)	
Pro forma net income	\$6,347	\$3,347

## Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

Earnings per share:

	Nine month periods ended September 30, 2005	Nine month periods ended September 30, 2004
Basic, as reported	\$0.42	\$0.25
Diluted, as reported	\$0.41	\$0.25
Basic, pro forma	\$0.42	\$0.25
Diluted, pro forma	\$0.41	\$0.25

In 2004, the board of directors approved the creation of the 2004 Stock Option Plan. This plan provides for the grant of incentive stock options to employees, directors and consultants. Options issued under this plan will expire over a maximum term of five years from the date of grant.

Pursuant to the Stock Option Plan, the Company granted 110,000 stock options to two Directors (55,000 options each) in the year ended December 31, 2004, of which 100,000 stock options was granted on June 4, 2004 and the balance of 10,000 was granted on Dec. 28, 2004.

On the first 100,000 stock options granted, 50,000 stock options vested immediately and 50,000 stock options became vested over 8 equal quarterly installments, with the first installment vesting at the end of the second quarter of 2004. The 10,000 stock options granted on Dec. 28, 2004 vested on Dec. 31, 2004.

The option exercise price was \$5 for the first 100,000 stock options which was the same as fair value of the shares at the time of granting of the options. The option exercise price was \$5.80 for the second 10,000 stock options which was the same as fair value of the shares at the time of granting of the options. Accordingly, no compensation expenses were recorded.

The Company did not grant any option during the nine month period ended September 30, 2005.

### 13. SUPPLEMENTAL DISCLOSURE OF CASH FLOWS

The Company prepares its statements of cash flows using the indirect method as defined under the Statement of Financial Accounting Standard No. 95.

The Company paid \$78,143 and \$58,281 for interest and \$0 for income tax during the nine month periods ended September 30, 2005 and 2004, respectively.

Cash from financing activities excludes the effect on conversion of \$950,000 of debentures into 206,220 shares of common stock.

13

### 14. STATUTORY COMMON WELFARE FUND AND RESERVE

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

## Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

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 shareholders' general meeting.

In accordance with the Chinese Company Law, the company has allocated 15% of its annual net income, amounting \$2,061,054 and \$647,977 as statutory reserve including Statutory common welfare fund for the nine month periods ended September 30, 2005 and 2004, respectively.

The Company makes annual contributions of 14% of all employees' salaries to employee welfare plan. The total expense for the above plan \$50,795 and \$49,642 for the nine month period ended September 30, 2005 and 2004, respectively.

### 15. FACTORY LOCATION AND LEASE COMMITMENTS

BBST's principal executive offices are located at North Part of Xinquia Road, Yang Ling Agricultural High-Tech Industries Demonstration Zone Yang Ling, Shanxi province, People's Republic of China. BBST owns two factories, which includes three production lines, an office building, one warehouse, and two research labs located on 10,900 square meters of land. BBST leases a branch office in Xian City with monthly rents of \$478 from January 6, 2005 through February 5, 2006. BBST also leases a warehouse in Yang Ling near the site of Bodisen's factories. Total lease commitment through September 30, 2005 amounted to \$1,276.

### 16. EARNINGS PER SHARE

Earnings per share for nine month periods ended September 30, 2005 and 2004 were determined by dividing net income for the periods by the weighted average number of basic shares of common stock and common stock equivalents outstanding; and dividing net income plus the interest expense charged for convertible debenture by weighted average number of diluted shares of common stock and common stock equivalents outstanding.

14

The following is an analysis of the differences between basic and diluted earnings per common share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share."

	Nine month periods ended September 30, 2005	Nine month periods September 30, 2004
Weighted average common shares outstanding	15,289,569	
Effect of dilutive securities: stock options	692,437	
Weighted average common shares outstanding and common share equivalents	15,982,006	

## Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

### 17. MERGER AGREEMENT

On February 11, 2004, Stratabid entered into an Agreement and Plan of Merger with Bodisen Acquisition Corp., a Delaware corporation ("BAC") wholly-owned by Stratabid, Bodisen International, Inc., a Delaware corporation ("BII") and the shareholders of BII. BII has one 100% wholly-owned subsidiary in Shanxi, China, Yang Ling Bodisen Biology Science and Technology Development Company Limited ("BBST"). Under the terms of the agreement, BAC acquired 100 percent of BII's stock in exchange for the issuance by Stratabid of three million shares of its common stock to the holders of BII. The new shares constitute approximately 79 percent of the outstanding shares of Stratabid, which changed its name to Bodisen Biotech, Inc. (the "Company"). The Agreement and Plan of Merger was closed on February 24, 2004.

BII's Chairman of the Board was appointed the Company's Chief Executive Officer.

At the Effective Time, by virtue of the Merger and without any action on the part of the BAC, BII or the BII Shareholders, the shares of capital stock of each of BII and the BAC were converted as follows:

(a) Capital Stock of the BAC. Each issued and outstanding share of the BAC's capital stock continued to be issued and outstanding and was converted into one share of validly issued, fully paid, and non-assessable common stock of the Surviving Company (Bodisen Holdings, Inc.). Each stock certificate of the BAC evidencing ownership of any such shares continued to evidence ownership of such shares of capital stock of the Surviving Company.

(b) Conversion of BII Shares. Each BII Share that was issued and outstanding at the Effective Time was automatically cancelled and extinguished and converted, without any action on the part of the holder thereof, into the right to receive at the time and in the amounts described in the Agreement an amount of Acquisition Shares equal to the number of Acquisition Shares divided by the number of BII Shares outstanding immediately prior to Closing. All such BII Shares, so converted, were no longer outstanding and were automatically cancelled and retired and ceased to exist, and each holder of a certificate representing any such shares ceased to have any rights with respect thereto, except the right to receive the Acquisition Shares paid in consideration therefore upon the surrender of such certificate in accordance with the Agreement.

(c) Within thirty (30) days from the Closing Date, Stratabid was required to sell its business operations, as they exist immediately prior to the Closing, to Derek Wasson, former president. In consideration of the sale, Mr. Wasson returned 750,000 Company Common Shares to Stratabid for cancellation. In addition, Mr. Wasson forgave all indebtedness owed by Stratabid to Mr. Wasson. Other than indebtedness of BII, Stratabid had no indebtedness or other liability of any kind or nature after the sale of the business to Mr. Wasson, save and except for liabilities incurred in connection with the Merger.

15

### 18. CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

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.

## Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

### 19. RECLASSIFICATIONS

Certain prior period amounts have been reclassified to conform to the period ended September 30, 2005 presentation.

#### Item 2. Management's Discussion and Analysis or Plan of Operation

##### BODISEN BIOTECH, INC.

##### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Three Months Ended September 30, 2005 Compared To Three Months Ended September 30, 2004

Revenue. For the three-month period ended September 30, 2005 as compared to the three-month period ended September 30, 2004, the Company generated net revenues of \$10,516,790 and \$5,407,841, respectively, reflecting an increase of \$5,108,949 or 94%. The increase in revenues was the result of new marketing and distribution programs, which resulted in increases in our customer base and related volume of recurring and new customer sales as well the completion of our new manufacturing facility which had a major impact on our capacity.

Gross profit. The Company achieved a gross profit of \$3,955,609 for the three months ended September 30, 2005, an increase of \$1,936,504 or 96 %, compared to \$2,019,105 for the three months ended September 30, 2004. Gross margin, as a percentage of revenues, increased from 37.3% for the three months ended September 30, 2004, to 37.6% for the three months ended September 30, 2005. The increase in gross margin was primarily attributable to increased sales of products with a higher profit margin such as liquid fertilizers and pesticides, and as well as an intense effort to control the costs of our raw materials in an environment of rising raw material costs and the rise of shipping costs chiefly associated with higher fuel costs.

Operating expenses. The Company incurred operating expenses of \$594,417 for the three months ended September 30, 2005, an increase of \$188,098 or 46%, compared to \$406,319 for the three months ended September 30, 2004. This increase is a direct result of the increase in the use of sales and marketing staff, higher transportation costs and increased reliance on advertising. Aggregated selling expenses of \$294,860 account for expenses related to costs associated with sales and marketing of the Company's products. Operating expenses include general and administrative expenses of \$299,557 for third quarter 2005 and relate to cost of maintaining the company's facilities, salaries and research and development.

16

Net income. The Company's net income was \$2,871,041 for the three months ended September 30, 2005, an increase of \$1,274,209 or 80% compared to \$1,596,832 for the three months ended September 30, 2004. The increase is attributed to the growth in the demand for the Company's products as we enter new markets throughout China. This growth has occurred despite a proportionally small increase in gross margins as a result of management's discipline with respect to costs and attention to the importance of successful marketing.

#### Nine Months Ended September 30, 2005 Compared To Nine Months Ended September 30, 2004

Revenue. For the nine-month period ended September 30, 2005 as compared to the nine-month period ended September 30, 2004, the Company generated net revenues of \$23,635,270 and \$11,824,135 respectively, reflecting an increase of \$11,811,135 or 100%. The increase in revenues was the result of new marketing and distribution programs, which resulted in increases in our customer base and related volume of recurring and new customer sales as well the completion of our

## Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

new manufacturing facility which had a major impact on our capacity.

Gross profit. The Company achieved a gross profit of \$8,865,450 for the nine months ended September 30, 2005, an increase of \$3,986,188 or 82%, compared to \$4,879,262 for the nine months ended September 30, 2004. Gross margin, as a percentage of revenues, decreased from 41.3% for the nine months ended September 30, 2004, to 37.5% for the nine months ended September 30, 2005. The decrease in gross margin was primarily attributable to increased costs of raw materials, as well as an increase in the costs of shipping our products. The main component of the shipping cost is the increase in the cost of fuel. Our gross margins have decreased as a result of the widespread increase in the cost of all raw materials in China.

Operating expenses. The Company incurred operating expenses of \$1,684,207 for the nine months ended September 30, 2005, an increase of \$693,479 or 70%, compared to \$990,728 for the nine months ended September 30, 2004. This increase represents our continued development and implementation of our business during 2005, and the increase in revenue from the 2004 to 2005 period. Aggregated selling expenses of \$674,768 account for expenses related to costs associated with sales and marketing of the Company's products and with transportation of Company's products. Operating expenses include general and administrative expenses of \$1,009,439 for the first nine months of 2005 and relate to cost of maintaining the company's facilities, salaries and research and development.

Net income. The Company's net income was \$6,359,787 for the nine months ended September 30, 2005, an increase of \$2,517,965 or 65.5% compared to \$3,841,822 for the nine months ended September 30, 2004. The increase was attributed to the growth in the demand for the Company's products as we enter new markets throughout China. This growth has occurred despite a decrease in gross margins as a result of management's discipline with respect to costs and attention to the bottom line.

17

### Liquidity and Capital Resources

As of September 30, 2005 the Company had \$3,841,228 cash and cash equivalents, and it believes that its current cash needs for at least the next twelve months can be met from working capital. The Company had net cash flows provided by operations of \$5,011,258 for the nine month period ended September 30, 2005 as compared to net cash provided by operations of \$1,127,798 in the corresponding period last year. The increase in net cash flows from operations in the current period as compared to corresponding period last year was mainly due to increase in net income by \$6,359,787.

Cashflows from investing activities resulted in net usage of \$6,648,124 in the current period as compared to net usage of \$1,584,176 in the corresponding period last year. The greater usage in the current period was mainly due to increase of investment in property and equipment of \$3,393,085 in the nine-month period ended September 30, 2005 as compared to \$305,633 in the corresponding period last year. The Company also invested in the common stock of Xi Lan Natural Gas Co., Ltd., a Chinese private company headquartered in the Xi'An province. The purchase of common stock represents approximately 13% of Xi Lan's common stock outstanding which resulted in usage of \$2,869,360.

The Company had a net increase in cash and cash equivalent of \$1,719,417 in the current period as compared to a net decrease of \$389,753 in the corresponding period last year.

The majority of the Company's revenues and expenses were denominated primarily in Renminbi ("RMB"), the currency of the People's Republic of China. There is no assurance that exchange rates between the RMB and the U.S. Dollar will remain



## Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

stable. The Company does not engage in currency hedging. Inflation has not had a material impact on the Company's business.

### Item 3. Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. There were no significant changes in internal controls over financial reporting that occurred during the third quarter of 2005 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

18

## PART II. OTHER INFORMATION

### Item 6. Exhibits.

- 3.1 Certificate of Incorporation of the Company
- 3.2 Amendment to Certificate of Incorporation of the Company, changing name to Bodisen Biotech, Inc.
- 3.3 By-Laws of the Company
- 4.1 Form of Debenture issued March 16, 2005
- 10.1 Loan Agreement, dated as of September 28, 2003, between the Company and Xianyang City Commercial Bank
- 10.2 Bodisen Biotech, Inc. 2004 Stock Option Plan
- 10.3 Form of Bodisen Biotech, Inc. Nonstatutory Stock Option Agreement
- 10.4 Securities Subscription Agreement dated March 16, 2005 between the Company and Amulet Limited
- 10.5 Registration Rights Agreement dated March 16, 2005 between the Company and Amulet Limited
- 10.6 Form of Common Stock Warrant issued March 16, 2005
- 31.1 Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a)
- 31.2 Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a)
- 32.1 Certification of the Chief Executive Officer and the Chief Financial Officer pursuant 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

19

## 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

Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

authorized.

Bodisen Biotech, Inc.

By: /s/ Wang Qiong

-----  
Name: Wang Qiong  
Title: Chief Executive Officer

Date: November 2, 2005

/s/ Wang Qiong

-----  
Wang Qiong  
Chief Executive Officer

Date: November 2, 2005

/s/ Lai Yiliang

-----  
Lai Yiliang  
Chief Financial Officer

20

EXHIBIT INDEX

Exhibit Number	Description	Method of Filing
3.1	Certificate of Incorporation of the Company	Filed as Exhibit registration statement filed with the Commission on September 3, 2002
3.2	Amendment to Certificate of Incorporation of the Company, changing name to Bodisen Biotech, Inc.	Filed as Exhibit report on Form 10 Commission on Mar
3.3	By-Laws of the Company	Filed as Exhibit registration statement filed with the Commission on September 3, 2002
4.1	Form of Debenture issued March 16, 2005	Filed as Exhibit registration statement filed with the Commission on March 22, 2005
10.1	Loan Agreement, dated as of September 28, 2003, between the Company and Xianyang City Commercial Bank	Filed as Exhibit report on Form 10 the Commission
10.2	Bodisen Biotech, Inc. 2004 Stock Option Plan	Filed as Exhibit report on Form 10 Commission on Mar
10.3	Form of Bodisen Biotech, Inc. Nonstatutory Stock Option Agreement	Filed as Exhibit report on Form 10

## Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

		Commission on Mar
10.4	Securities Subscription Agreement dated March 16, 2005 between the Company and Amulet Limited	Filed as Exhibit registration stat filed with the Co 22, 2005
10.5	Registration Rights Agreement dated March 16, 2005 between the Company and Amulet Limited	Filed as Exhibit registration stat filed with the Co 22, 2005
10.6	Form of Common Stock Warrant issued March 16, 2005	Filed as Exhibit registration stat filed with the Co 22, 2005
31.1	Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a)	Filed herewith as
31.2	Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a)	Filed herewith as
32.1	Certification of the Chief Executive Officer and the Chief Financial Officer pursuant 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith as

21

Exhibit 31.1

### CERTIFICATION

I, Wang Qiong, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Bodisen Biotech, 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 officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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

Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) Disclosed in this report any change in the small business issuer's internal control 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 officer(s) and I have disclosed, based on our most recent evaluation of internal control 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 control 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 control over financial reporting.

Date: November 2, 2005

/s/ Wang Qiong

-----  
Wang Qiong  
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Lai Yiliang, certify that:

1. I have reviewed this Quarterly Report on Form 10-QSB of Bodisen Biotech, 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;

Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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 prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) Disclosed in this report any change in the small business issuer's internal control 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 officer(s) and I have disclosed, based on our most recent evaluation of internal control 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 control 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 control over financial reporting.

Date: November 2, 2005

/s/ Lai Yiliang

-----

Lai Yiliang

Chief Financial Officer

Exhibit 32.1

CERTIFICATION

In connection with the Quarterly Report of Bodisen Biotech, Inc. (the "Company") on Form 10-QSB for the period ended September 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the

Edgar Filing: BODISEN BIOTECH, INC - Form 10QSB

undersigned certify pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 2, 2005

/s/ Wang Qiong

-----

Wang Qiong

Chief Executive Officer

Date: November 2, 2005

/s/ Lai Yiliang

-----

Lai Yiliang

Chief Financial Officer