

BODISEN BIOTECH, INC
Form 10-K
April 16, 2013

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

FORM 10-K

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

For the fiscal year ended December 31, 2012

OR

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: 001-32616

Bodisen Biotech, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

98-0381367
(I.R.S. Employer Identification No.)

Room 2001, FanMeiBuilding
No. 1 NaguanZhengjie
Xi'an, Shaanxi
People's Republic of China
(Address of principal executive offices)

710068
(Zip Code)

Registrant's telephone number: 011-86-29-87074957

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained herein, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing price of the registrant's common stock on June 29, 2012 of \$0.2915, was approximately \$5,096,367. For purposes of the above statement only, all directors, executive officers and 10% shareholders are assumed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of April 7, 2013, the registrant had 21,510,250 shares of common stock, par value \$0.001 per share, issued and outstanding.

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FOR YEAR ENDED DECEMBER 31, 2012

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FORWARD LOOKING STATEMENTS AND CERTAIN TERMINOLOGY

This annual report contains “forward-looking statements” - that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business and financial performance, and often contain words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” or “will.” Forward-looking statements by their nature address matters that are, to different degrees, uncertain. For us, particular uncertainties that could adversely or positively affect our future results include: our business strategy; expectations of market and customer response; liquidity and capital expenditures; future sources of revenues; expansion of our proposed product line; government policies in the People’s Republic of China; and trends in industry activity generally. These uncertainties may cause our actual future results to be materially different than those expressed in our forward-looking statements. Any “forward-looking statements” contained in this report are only predictions and involve known and unknown risks, uncertainties and other factors, including, but not limited to, the risks outlined under “Risk Factors,” that may cause our or our industry’s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. Although we believe that the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We undertake no obligation to update or revise any forward-looking statements other than as required by applicable law or regulations

As used in this annual report, the terms “we,” “us,” “our,” the “Company” and “Bodisen” mean Bodisen Biotech, Inc., a Delaware corporation, and its subsidiaries (unless the context indicates a different meaning). Bodisen is a trademark of Bodisen Biotech, Inc. All other company names and trademarks included in this annual report are trademarks, registered trademarks or trade names of their respective owners.

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PART I

ITEM 1. BUSINESS

Overview of Business

We are engaged in developing, manufacturing and selling organic fertilizers, liquid fertilizers, pesticides and insecticides in the People's Republic of China, and have developed a product line of over 60 items. We manufacture our proprietary product lines, which are then marketed and sold to distributors, which distributors in turn sell our products to farmers. In addition to our manufacturing and sales and marketing efforts, we conduct research and development to further improve existing products and to develop new formulae and products.

Bodisen Biotech, Inc. was incorporated on January 14, 2000, and our current structure is the result of a series of mergers and other combinations, including a reverse triangular merger with our predecessor, Stratabid.com, Inc. As a result of these transactions, Bodisen Biotech, Inc. owns 100% of Bodisen Agricultural Technology Co., Ltd., or "Bodisen Agricultural," which in turn owns 100% of Yang Ling Bodisen Biology Science and Technology Development Company Limited, or "Yang Ling." Yang Ling, which is our sole operating subsidiary, is located in the People's Republic of China. Further details regarding these transactions are provided below in the summary of our history.

Our over 60 products are considered organic compound fertilizers. Organic compound fertilizer products are our leading product category, accounting for approximately 100% and 100% of our revenue in 2012 and 2011, respectively.

We currently distribute our products solely in the People's Republic of China, and our products are currently sold within a group of approximately 20 Chinese agricultural provinces and government-controlled cities.

Approximately 80% of our sales are attributable to the local Shaanxi province, 8% of sales are attributable to Henan province, and 5% of sales are attributable to Shanxi province. We also sell a smaller percentage of our products to additional provinces and government-controlled cities, including Ningxia province, Guangdong province and Heilongjiang province.

History and Company Structure

Bodisen Biotech, Inc. was incorporated on January 14, 2000 in Delaware, and our principal place of business is based in the People's Republic of China. Our principal executive offices are located at: Room 2001, FanMei Building, No. 1 NaguanZhengjie, Xi'an, Shaanxi, China, 7100068. Our telephone number is +011-86-29-87074957. Our current structure is the result of a series of mergers and other combinations, including a reverse triangular merger with our predecessor, Stratabid.com, Inc. A summary of these transactions is provided below.

Prior to March 1, 2004, we were called Stratabid.com, Inc., which was a startup stage Internet-based commercial mortgage origination business. We operated primarily through our wholly-owned subsidiary, Stratabid.com Online (B.C.) Ltd., or "Stratabid.com Online," which provided services in Canada.

Our sole operating subsidiary, Yang Ling, was founded in the People's Republic of China on August 31, 2001. Yang Ling, which is located in the Yang Ling Agricultural High-Tech Industries Demonstration Zone, was primarily engaged in developing, manufacturing and selling pesticides and compound organic fertilizers in the People's Republic of China. On November 19, 2003, Yang Ling incorporated Bodisen International, Inc., or "Bodisen International," a

Delaware corporation, as a non-operative holding company.

On December 15, 2003, Bodisen International entered in to an agreement with all of the stockholders of Yang Ling to exchange all of the outstanding stocks of Bodisen International for all of the issued and outstanding stocks of Yang Ling. After the consummation of the transaction, the former stockholders of Yang Ling owned 1,500 shares of common stock of Bodisen International, which represented 100% of Bodisen International's issued and outstanding shares, and Bodisen International owned 100% of Yang Ling. 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.

We accounted for the exchange of shares with Yang Ling as a reverse acquisition under the purchase method of accounting because the stockholders of Yang Ling obtained control of the consolidated entity. Accordingly, the merger of the two companies was recorded as a recapitalization of Yang Ling, with Yang Ling being treated as the continuing entity.

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On January 14, 2004, we created a wholly-owned subsidiary corporation currently known as Bodisen Holdings, Inc., a Delaware corporation, or “Bodisen Holdings” (formerly Bodisen Acquisition Corp.), to pursue a merger with Bodisen International, the parent of Yang Ling. On February 11, 2004, we and Bodisen Holdings entered into an Agreement and Plan of Merger with Bodisen International and the shareholders of Bodisen International, providing for the merger of Bodisen International into Bodisen Holdings, with Bodisen Holdings being the surviving entity in the merger. The transactions provided for in the Agreement and Plan of Merger closed on February 24, 2004.

In the merger, we acquired 100% of Bodisen International’s outstanding stocks in exchange for the issuance of 3,000,000 shares of our common stock to the holders of Bodisen International shares. The common stock issued in the merger constituted approximately 66% of our outstanding shares after the merger.

The exchange of shares with Stratabid was accounted for as a reverse acquisition under the purchase method of accounting because the stockholders of Bodisen International obtained control of Stratabid. Accordingly, the merger of the two companies was recorded as a recapitalization of the Company, with the Company being treated as the continuing entity.

On February 25, 2004, we sold Stratabid.com Online to Derek Wasson, our former CEO. In consideration of the sale, Mr. Wasson returned 750,000 (pre-dividend) shares of our common stock to us for cancellation and forgave all of our indebtedness to him. Other than indebtedness of Bodisen International, we 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.

After the merger, we paid a three for one stock dividend and then, by prior agreement, cancelled the shares that were previously returned by our former CEO. After these transactions, the shareholders of Bodisen International held approximately 79% of our outstanding common stock. On March 1, 2004, we changed our name to Bodisen Biotech, Inc.

In March 2005, we formed a new wholly-owned subsidiary by the name of Yang Ling Bodisen Agricultural Technology Co., Ltd., or “BodisenAgriculturee” under the laws of the People’s Republic of China. In June 2005, Bodisen Agriculture completed a transaction with Yang Ling, our operating subsidiary in the People’s Republic of China, which resulted in BodisenAgriculturee owning 100% of Yang Ling.

As a result of the foregoing, we now own 100% of Bodisen Agricultural, which in turn owns 100% of Yang Ling. Bodisen Holdings remains our subsidiary.

In June 2006, Yang Ling created another wholly owned subsidiary in Xinjiang, China by the name of “Xinjiang Bodisen Agriculture Material Co. Ltd.”

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Industry Background and Markets

The People's Republic of China is the exclusive market for our organic compound fertilizers. We sell our products within a group of 20 Chinese agricultural provinces and government-controlled cities. Approximately 80% of our sales are attributable to the local Shaanxi province, 8% of sales are attributable to Henan province, and 5% of sales are attributable to the neighboring Shanxi province. We also sell a smaller percentage of our products to additional provinces and government controlled cities, including Ningxia province, Guangdong province and Heilongjiang province.

Although the People's Republic of China has the world's largest population of over 1.3 billion people, its arable land on a per capita basis is only 0.09 hectares (Source: 2006 China Statistical Yearbook), or less than one-sixth of that present in the United States (Source: U.S. State Department, www.america.gov). This combination of limited arable land and a large and growing population has created a significant need to increase the amount of crops per hectare in the People's Republic of China.

Our Business and Products

As noted above in the "Business Overview" section of this report, we manufacture over 60 products which are considered organic compound fertilizers.

Organic compound fertilizers are our leading products, accounting for approximately 100% and 100% of our revenue in 2012 and 2011, respectively.

Organic fertilizers are composed of natural nutritional elements that not only improve the quality and yield of the crops but also improve the soil quality; this in turn improves the yield. Organic compound fertilizer accelerates reproduction of soil microbes to improve soil quality through the decomposition of organic material and the improvement of the soil's retention of nitrogen. Moreover, this application can activate dormant soil by increasing soil nitrates and moisture content that otherwise is not enhanced by traditional chemical fertilizers. This process controls the release of nutritional elements that enhances the quality, quantity and health of crops. Although organic compound fertilizers typically are more expensive than chemical fertilizers, we believe that the extra cost is justified by the increase of yield and quality and, consequently, the increased margin attained at the market.

Plants tend to easily absorb organic fertilizer without many of the side effects found in chemical fertilizer products, and this organic process strengthens photosynthesis, which improves the overall health of a plant in resisting drought and disease.

Organic fertilizers also improve the cation exchange capacity, or "CEC," of soil, which refers to the soil's ability to hold positively charged ions (cations), making them available for uptake by the plant roots. This not only allows for improved uptake of nutrients by the plant but can also reduce leaching, which is of particular concern in sandy soil. Leaching moves nutrients away from the plant roots and into the subsurface water. Additional functions of organic compound fertilizer include:

- preserving nitrogen and improving soil fertility;
- allowing phosphorus and potash fertilizer to gradually dissolve;
- promoting disease resistance; and
- activating and maintaining soil moisture content.

Our organic fertilizer line includes compound organic fertilizers containing organic matter content levels of 20%, 25%, 35% and 45%. Each of these organic compound fertilizers can then be further narrowed into one of the

following product types: wide field, fruit, vegetable, melon or pepper. We also produce various “Bulk Blend” or “BB” organic fertilizers, which contain organic matter content levels of 35%, 40% and 54%. In addition, we produce various solid organic fertilizers.

Our process for manufacturing organic compound fertilizer products has received ISO 9001: 2000 certification. ISO 9000 has become an international reference for quality management requirements in business-to-business dealings, and the ISO 9000 family is primarily concerned with quality management.

Methods of Distribution

We currently sell each of the products identified above through a network of over 98 regional distributors in the People’s Republic of China. These distributors in turn sell the products to the end-users (typically farmers). Typically, we enter into non-exclusive, short-term written distribution agreements with our distributors. Upon signing a distribution agreement, the distributor will indicate its intent to purchase specified products, and we agree to provide those products upon the distributor’s request. We generally make sales to distributors on a rolling basis. This means that there is a lag between when we deliver our products to our distributors (and recognize revenues for those shipments) and when we receive payment for those products. Typically, accounts are settled anywhere from one to two months and up to seven months after delivery of our products, often in connection with an order for additional product, although we may extend other payment terms to our distributors depending on their ability to pay. We also make advances to suppliers for the purchase of their materials. The products are then sold to farmers and other end-users by the distributor.

Each year we participate in the Yang Ling region’s annual agricultural trade fair and exhibition. Many of our distributors attend this trade fair, and the event accounts for the vast majority of our sales contracts. Sales are then made pursuant to these contracts throughout the year.

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We expect to distribute products that are manufactured in our new Xinjiang facility through similar arrangements with distributors; however, we have not yet established relationships with distributors. The construction of our Xinjiang facility is nearly finished and we are in the process of applying production license from government.

Raw Materials

Production of organic fertilizer products, pesticides and insecticides requires a variety of raw materials, and Shaanxi Province provides numerous suppliers of such materials. We currently maintain short-term (typically one-year) supply contracts with 20 material suppliers, 8 of whom are considered “key” suppliers. This is a decrease from 10 relationships we maintained in the past. We have terminated some of our prior relationships based on problems with the quality of materials and supplier inability to satisfy contract requirements.

Two vendors, Xian Yang Xing Nong Fertilizer Co., Ltd., and Si Chuan Hong Da Co., Ltd. provided 16.30% and 15.19%, respectively, of the Company’s raw materials for the year ended December 31, 2012. Two vendors, Mei County Chun Chen Agricultural Material Co., Ltd., and Fufeng Agricultural Material Co., Ltd. provided 23.5% and 20.35%, respectively, of the Company’s raw materials for the year ended December 31, 2011. During 2012 and 2011, we did not experience any significant delays in receiving raw materials from our suppliers.

The specific raw materials and suppliers used for each of our product lines are described below.

Organic Compound Fertilizer Raw Materials and Suppliers

To manufacture organic compound fertilizer, we use carbamide, monoammonium phosphate, ammonium acid carbonate, humic acid, oil shale, zeolite powder, phosphorus, coarse whiting, potassium, iron oxide red and potassium chloride. We obtain these raw materials for organic compound fertilizers from many different suppliers in the People’s Republic of China.

Liquid Fertilizer Raw Materials and Suppliers

The raw materials we use to manufacture our liquid fertilizer are carbamide, potassium chloride, ammonium bicarbonate, borax, ferrous sulphate, bluestone, zinc sulphate, manganese sulfate, citric acid, chlorocholine chloride, dodecane, peregol, ethene, calcium chloride, monoammonium phosphate, bitter salt, amino acid, sodium humate, polyacrylimide, humic acid and carbon white. There are several suppliers from whom we obtain these raw materials.

Pesticide and Insecticide Raw Materials and Suppliers

The raw materials used to manufacture pesticides and insecticides include jiajiliujunlung, thiram, muzhisuhuanuanna, active floridin, vaseline, meiduowei, phoxin, qingwujuzhi, emulsifying agent, dimethylbenzene, aweijunsu, #0 diesel oil, damanling, sulfur powder, carbendazim, mancozeb, dodecane, hexamethylenamine, french chalk, malathion, shellfish powder, xiuqingjuzhi, together with additional raw materials that constitute part of our proprietary formulae.

We obtain these raw materials for pesticides and insecticides from Shaanxi Tianshun Chemical Industry Co., Ltd. We also have access to additional suppliers for each of the necessary raw materials in the event that our primary supplier is unable to satisfy our manufacturing needs.

Intellectual property

We rely on trade secret protection for our proprietary technology and formulae. We currently do not own any patents and have not applied for any patents on our proprietary technology and formulae. A patent application requires a

detailed description of our technology and formulae, which would then be made available to the general public. We believe that a patent application and disclosure would be detrimental to our business, as it would reveal features unique to our products. Most of our intellectual property was developed in-house or with various universities and research laboratories (which may not be owned by our company). For information regarding the potential consequences of our intellectual property strategy, please see the paragraph of Item 1A, “Risk Factors,” titled “We may not be able to adequately protect and maintain our intellectual property. ”

We hold certain government approved intellectual property rights in our trade secrets and proprietary information. Certain intellectual property rights in the People’s Republic of China are decided by the government registry, and we have registered our formulae and proprietary information with the Chinese government. We hold certificates for these rights, which must be registered on an annual basis.

We also own trademarks in the “Bodisen” name, which are used on all products.

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Seasonality and Volatility

The fertilizer and pesticide businesses are highly seasonal, based upon the planting, growing and harvesting cycles. The seasonality of these industries has its primary effect on the sales volume of our product. Typically, we experience a higher sales volume in the second and third quarters, with a lower volume in the first and fourth quarters.

Our sales volume can be volatile as a result of a number of factors, including:

- Weather patterns and field conditions (particularly during periods of high fertilizer consumption);
- Quantities of fertilizers imported to primary markets;
- Current and projected grain inventories and prices, which are heavily influenced by U.S. exports, worldwide grain markets, and domestic demands (food, feed, biofuel);
- Government regulation, intervention and unexpected changes in government policies; and
- The reputation of our products and company in the marketplace.

In addition to the effect on sales volume, certain factors may have an effect on the prices of our organic fertilizer, pesticide and insecticide products. These factors include raw material and other product related costs, as well as expenses related to our workforce and employees.

Inventory and Working Capital

For each of our products, we maintain an inventory system to meet customer demands. Typically, we produce our products upon receipt of customer orders. We do, however, hold excess inventory to ensure an adequate supply of products. We maintain a larger inventory for “in-season” products, while our inventory for out of season products is less.

In order to ensure a continuous allotment of goods and raw materials, we operate on an advanced payment system with our suppliers. We pay our suppliers based on our projected needs for raw materials and other supplies, which allows us to maintain a stock of such materials and supplies sufficient to sustain continued production.

We do not have policies related to warranties or the return of merchandise. We do, however, provide our customers with extended payment terms and payment options.

Although each company in the fertilizer, pesticide and insecticide industry adopts its own practices based on its employees, equipment, materials and other resources, we believe that our operations are generally consistent with those of other companies in the industry. We are continuing in our efforts to ensure that we exceed industry expectations for product quality, development and overall performance.

Sales and Marketing

We market and promote the Bodisen brand through trade fairs, conventions and the print media, and through television and radio advertising in the People’s Republic of China. As noted previously, a significant portion of our sales are generated directly or indirectly via the annual trade fair and agricultural exhibition in Yang Ling. Because the end-users of our products are local farmers, we also conduct educational seminars to promote products and organic fertilizers directly to farmers. In addition, we send our promotional team to the countryside and other agricultural areas to advance product recognition through field tests. To capture additional markets, we distribute free samples of our products to new areas, allowing for a product trial period. The results of these trials are then made known to surrounding areas. The cost of such efforts is not material and is typically offset by new sales in those test zones.

Our primary tasks with respect to sales goals are to strengthen our home market in the Shaanxi province and to expand the market outside the Shaanxi province into new districts where our products are not well established.

It is our intention to increase marketing in regions where our products are not well known. We anticipate that once we commence operations in our new facility in Xinjiang, we will begin efforts to promote and market our products within that region. In addition, we expect to engage in general promotion of our products through national newspapers in the People's Republic of China, where we plan to explain the advantages of the high-tech nature of our environmentally friendly product lines. Although we considered selling exclusive franchise opportunities to new wholesale agents, we have since decided against proceeding with any such projects.

Customers

We sell our products directly to over 98 regional distributors in the People's Republic of China through written sales contracts. Typically, these non-exclusive distribution contracts have a one-year term and, upon signing the contract, the distributor will indicate its intent to purchase a certain quantity of our products. Distributors who fail to place orders for the quantities estimated under these contracts are generally not held responsible for failing to place orders reflecting the estimated quantity.

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All of our sales currently are directed to our distributors, and we do not make any sales directly to farmers or other end users of our products.

2 customers Hao Xi Gang and Feng Yuan Zheng, accounted for 11.59% and 8.85% of the Company's sales for the year ended December 31, 2012. 2 customers Hao Xi Gang and Yang Ling Xin Sheng Trading Company Limited, accounted for 11.66% and 7.99% of the Company's sales for the year ended December 31, 2011, respectively. Three customers accounted for 2.1% and 1.72% of the Company's sales for the year ended December 31, 2010.

In November 2011 agricultural trade fair and exhibition in Yang Ling, we received approximately \$6.6 million in commitments for 2012. In November 2012 agricultural trade fair and exhibition in Yang Ling, we received approximately \$6 million in commitments for 2013.

Competition

The organic fertilizer industry in the People's Republic of China is largely fragmented with most competitors operating small regional factories, serving local requirements. Most companies in this industry do not widely promote their products. We have not yet identified any competitors in the Shaanxi province that operate in all of our product lines (organic compound fertilizer, liquid fertilizer and pesticide and insecticides). We believe that we occupy nearly 20% of the Shaanxi fertilizer market, and that no fertilizer company possesses a larger market share in Shaanxi. This conclusion is based on our knowledge of the Shaanxi Province's land and area and its fertilizer needs. Our competitive position in the fertilizer industry is strengthened by our emphasis on the use of "environmentally friendly" fertilizer products.

We believe that our only international competitor is DuPont.

Research and Development

In 2011, the budget on research and development was \$0 because company is engaged in Xinjiang new facility's operation and test for the last two years and do not develop any new products.

In 2012, the budget on research and development was \$2,536,000 because the company developed new products.

Government and Environmental Regulation

Our products and services are subject to regulation by governmental agencies in the People's Republic of China and Shaanxi Province. Business and company registrations, along with the products, are certified on a regular basis and must be in compliance with the laws and regulations of the People's Republic of China and provincial and local governments and industry agencies, which are controlled and monitored through the issuance of licenses. We believe that we have complied with all registrations and requirements for the issuance and maintenance of the licenses required of us by the governing bodies. As of the date of this annual report, all of our license fees and filings are current. Our licenses include:

National Certificate for Production of Industrial Products

The National Certificate for Production of Industrial Products for compounded fertilizers was issued by the National Industrial Products Production License Office on February 27, 2004. This certificate, on renewal, is valid until February 26, 2014.

Certificate for Pesticide Registration

Pesticide registration is required for the production of liquid fertilizer and issued by the Ministry of Agriculture of the People's Republic of China. This registration also applies to our production of insecticides.

Production standard

We are registered with Bureau of Quality Controls and Technology, Shaanxi Provincial Government, Xi'an.

The cost of obtaining and maintaining these licenses is not prohibitive and it is illegal to do business without these licenses. If we were to lose any of these licenses, we would only have a limited time to reapply for such licenses and would face possible regulatory fines.

While we are subject to relevant environmental laws and regulations that require outlay of capital and the obtaining of relevant permits, we do not anticipate any extraordinary capital expenditures in 2012 for such purposes. We did not make any extraordinary capital expenditures in 2012 or 2011 related to compliance with environmental laws and regulations, including expenditures necessary to obtain relevant permits.

Our new Mancozeb product is awaiting government approval. Prior to the launch of our Mancozeb product, the Chinese government pesticide office instituted a review of all pesticide production companies. As a result, we suspended the installation of our Mancozeb facility pending completion of this government review. Although we continue to work with the government and local authorities to advance the approval process, we have not yet received such approval and do not know when such approval will be received, if at all. Once the government has completed its review and subject to receipt of approval, we expect to continue the installation and launch of the Mancozeb facility.

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Except for approvals that have already been obtained, our anticipated new facility in Xinjiang will not require any additional permits or authorizations.

Employees

As of December 31, 2012, we had a total of 132 employees. Of these employees, approximately 11 were executives and senior managers, 16 were business and accounting staff, 2 were warehouse and purchasing staff, and 4 were drivers or secretaries. The balance consists of production workers. We have not experienced any work stoppages and we consider relations with our employees to be good. We are not a party to any collective bargaining agreements.

Available Information

We file electronically with the Securities and Exchange Commission, or the "SEC," our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is <http://www.sec.gov>.

Our website is located at <http://www.bodisen.com>. We currently do not make our annual reports on Form 10-K, quarterly reports on Form 10-Q or current reports on Form 8-K or amendments thereto available on our website because the information is available via the SEC website. You may, however, obtain a free copy of such reports and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act, as amended (15 U.S.C. 78m(a) or 78o(d)) on the day of filing with the SEC by contacting the Investor Relations Department at our corporate offices by calling +011-86-29-87074957 or by sending an e-mail message to info@bodisen.com.

ITEM 1A. RISK FACTORS

Risks Related To Our Business

Legal actions could result in financial losses or harm to our business.

We were, and in the future may be, subject to legal actions in the ordinary course of our operations, both domestically and internationally. 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. In 2007, the Court consolidated each of the actions into a single proceeding. On September 26, 2008, the Court entered a judgment in favor of the Company and closed the case.

In addition, in November 2009, we settled the litigation regarding our ownership of shares of China Natural Gas, Inc., which was our single largest asset, except construction in progress, based on market value of such shares at December 31, 2008. Pursuant to the settlement terms, we sold our 1,031,884 shares in China Natural Gas, Inc. to Ji Xiang, the original litigant, at a repurchase price of \$3.80 per share, for an aggregate repurchase price of \$3,921,159. Substantial legal liability in these or future legal or regulatory actions could have a material financial effect or cause significant reputational harm, which in turn could seriously harm our business prospects and our ability to continue as a going concern.

We may require additional financing in the future and a failure to obtain such required financing could inhibit our ability to grow.

As of December 31, 2012, we had \$294,539 of cash and cash equivalents. Although we expect that our cash and cash flow from operations will be sufficient to meet our anticipated needs for the next twelve months, if we decide to expand our business more broadly than currently estimated, or if our business grows more rapidly than we expect, we may need to raise additional financing in the future. Our ability to obtain additional funding would be subject to a number of factors, including market conditions, operational performance and investor sentiment. These factors may make the timing, amount, terms and conditions of additional funding unattractive, or unavailable, to us. If we are not able to obtain additional financing in the future, we will not be able to grow our business, which could have a material adverse effect on our financial condition, results of operations and liquidity.

The terms of any future financing may adversely affect your interest as stockholders and could restrict the operation of our business.

If we require additional financing, we may be required to incur indebtedness or issue equity securities, the terms of which may adversely affect your interests in our company. For example, any future indebtedness may be senior in right of payment to your shares upon liquidation. In addition, the terms of any future indebtedness may limit the operation of our business by imposing restrictions on our ability to grant security interests in our assets or make distributions, require us to comply with certain financial covenants or obtain consent before undertaking certain actions. Similarly, the terms of any equity securities we issue may be senior in right of payment of dividends to our common stock and may contain superior rights and other rights as compared to our common stock. Further, any such issuance of equity securities may dilute your interest in our company.

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We may not be able to adequately protect and maintain our intellectual property.

Our success will depend on our ability to continue to develop and market fertilizer and pesticide/insecticide products. We protect our proprietary technology and formulae by keeping such technology or formulae confidential. If such technology or formulae are disclosed to a third party that is not under an obligation to keep the technology confidential, we may not be able to protect our technology or formulae against being exploited by third parties. We currently have not applied for patents for our technology products or formulae as we believe an application for such patents would result in public disclosure of our proprietary technology and formulae with no guarantee that we would have enforceable rights in our intellectual property. Public knowledge of our proprietary technology and formulae without enforceable intellectual property rights could have a material adverse effect on our business, financial condition and results of operations.

Our success depends on our management team and other key personnel, the loss of any of whom could disrupt our business operations.

Our future success will depend in substantial part on the continued service of our senior management. The loss of the services of one or more of our key personnel could impede implementation of our business plan and result in reduced profitability. We do not carry key person life or other insurance in respect of any of our officers or employees (other than Directors' & Officers' (or D&O) insurance). Our future success will also depend on the continued ability to attract, retain and motivate highly qualified technical sales and marketing customer support. Because of the rapid growth of the economy in the People's Republic of China, competition for qualified personnel is intense. We cannot guarantee that we will be able to retain our key personnel or that we will be able to attract, assimilate or retain qualified personnel in the future. If we are unsuccessful in our efforts in this regard, it could have an adverse effect on our business, financial condition and results of operations.

We do not have supplier contracts with all of our trade vendors.

As is typical in the agricultural industry in the People's Republic of China, we do not have supplier contracts with all of our trade vendors. Where we do not have contracts in place, we conduct business on an order-by-order basis. Because we do not have supply contracts in place, we have no guarantee that we will be able to continue to receive adequate supplies for the production of our products or that our suppliers will not continually raise their prices. Despite not having supplier contracts in place in every case, we believe that we have very good relations with the agricultural vendor community. Nonetheless, because we conduct business in this fashion, it exposes us to some risk in the production of our products, which could have an adverse effect on our business, financial condition and results of operations.

We currently rely on a small number of suppliers for raw materials used to produce our products .

For the year ended December 31, 2012, 2 vendors Xian Yang Xing Nong Fertilizer Co., Ltd., and Si Chuan Hong Da Co., Ltd. provided 16.30% and 15.19%, respectively. For the year ended December 31, 2011, two vendors Mei County Chun Chen Agricultural Material Co., Ltd. and Fufeng Agricultural Material Co., Ltd. provided 23.5% and 20.35%, respectively. Although we have written agreements with these suppliers, we cannot guarantee that they will comply with the terms of our agreements, or that they will be able to deliver sufficient quantities of these raw materials in order for us to meet the increasing demand for our products. If we are not able to manufacture our products because of issues in the supply of necessary raw materials, it could have a material adverse effect on our business, financial condition and results of operations.

Amounts indicated in our distribution contracts may not result in sales of the actual contract amount which could have an adverse effect on our financial results.

The Company enters into sales contracts with regional distributors in November ahead of the coming year. Typically, these non-exclusive distribution contracts have a one-year term and, upon signing the contract, the distributor will indicate its intent to purchase a certain quantity of our products. However, the actual demand of the products will be affected significantly by the weather conditions in the coming year. Although we have written sales contracts with these distributors, it cannot be guaranteed that the distributor will be able to place all orders as indicated in their respective contract. A Distributor who fails to place an order for the quantity estimated under its respective contract is generally not held responsible for failing to place an order for such contractual amount. During the fiscal years ended December 31, 2010, manufacturing and sales fell seriously short of the contract amounts as a result of the adverse weather conditions and water flooding. In fiscal 2012, written contracts existed for \$7.5 million sales while actual sales were \$7.0866 million (approximately 94.49% of estimated sales). In fiscal 2011, written contracts existed for \$4.36 million sales while actual sales were \$4.12 million (approximately 94.49% of estimated sales). If any of our customers continue to not place orders for their contractually agreed upon amounts, we could experience a reduction in revenue, profitability and liquidity.

Disruptions to our chain of production could have a material adverse effect on our business.

If there is disruption in our chain of production - from receipt of raw materials, to stoppages at our facilities, to delivery of our products - for whatever reason, it could have a material adverse effect on our business. The manufacture of our products relies on the delivery of raw materials to our facilities, the absence of work stoppages or other problems at our manufacturing facilities, as well as the ability to ship our products in a timely fashion. Although disruptions are infrequent, they can have an effect on our operations. For example, in mid-2006, road construction began in front of one of our manufacturing facilities, which affected our ability to receive supplies and ship products and consequently had a negative effect on our business. Similar road improvement projects over which we have no control could occur in the future. If we are unable to manufacture and deliver our products in a timely fashion, we could suffer harm to our reputation and our revenues and operating expenses could be negatively affected.

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We may be unable to pass along raw materials price increases to our customers, which could negatively affect our results of operations.

The raw materials that we use in the manufacture of our products are subject to fluctuation due to market prices. If raw materials prices significantly increase and we are unable to pass along these costs to our customers, our operating expenses will increase and our results of operations could be negatively affected.

We sell many of our products on credit, which exposes us to risk of payment defaults. We also make interest-free and unsecured advances to suppliers for the purchase of materials, which exposes us to risk of default .

As is typical in the People's Republic of China, we generally sell our products to distributors on a rolling basis. This means that there is a lag between when we deliver our products to our distributors (and recognize revenues for those shipments) and when we receive payment for those products. Typically, accounts are settled anywhere from one to two months and up to seven months after delivery of our products, although we may extend other payment terms to our distributors depending on their ability to pay. Often times, if a customer does not order additional products for delivery, we do not have significant leverage to ensure prompt payment of outstanding accounts. In addition to accounts receivables from customers, we also make advances to suppliers for the purchase of their materials. These activities expose us to risk of default. A farmer's inability to sell his agricultural goods, or grow crops due to inclement weather, could hinder his ability to timely pay his credit obligations to our distributors, which affects their ability to make payment to us. Notably, in 2011 and 2010, many of our customers did not make payments to our company for products delivered and we no longer believe that we will be able to collect such payments. Further, we have no guarantee that our suppliers will meet their delivery obligations to our company in order for us to produce our goods in a timely fashion. As of December 31, 2012, we had accounts receivable, net of allowance for doubtful accounts, of \$3,584,676, advances to suppliers of \$39,576 and we had allowances for doubtful accounts of \$475,122. As of December 31, 2011, we had accounts receivable, net of allowance for doubtful accounts, of \$3,840,546, advances to suppliers of \$498,960 and we had allowances for doubtful accounts of \$158,384. If an unexpected number of our suppliers and creditors continue to default in their obligations to us, it could have a material adverse effect on our liquidity.

Adverse weather conditions could reduce demand for our products, which could have a negative effect on our revenues.

Demand for our products fluctuates significantly with weather conditions, which may delay the use of our products on crops or render them unnecessary at all. In addition, demand for our products is also affected by natural disasters such as floods, drought, hail, tornadoes and earthquakes. If demand for our products declines, this would have a negative effect on our revenues. In addition, in the event that crop yields are reduced for any reason, including natural disasters, farmers may default on their payments to our distributors, who, in turn, could default on their payments to our company. Further, we have no guarantee that our suppliers will meet their delivery obligations to our company in order for us to produce our goods in a timely fashion. In 2007, for example, there was unseasonably cold spring weather in Shaanxi, which was followed by a flood and drought in the third quarter of 2007. These events affected crop plantings and the use of fertilizers, which had a material adverse effect on our 2007 revenues. Further, many of our customers did not make payments to our company in 2007 for products delivered and we had allowances for doubtful accounts of \$475,122 at December 31, 2012 compared to \$158,384 at December 31, 2011. Continued defaults could have a negative effect on our cash flows and results of operations.

Our success depends upon the development of the People's Republic of China's agricultural industry.

The People's Republic of China is currently the world's most populous country and one of the largest producers and consumers of agricultural products. Over 40% of the People's Republic of China's labor force is engaged in agriculture,

even though only about 14% of the land is suitable for cultivation. (Source: CIA Factbook). Although the People's Republic of China hopes to further increase agricultural production, incomes for Chinese farmers are stagnating. Despite the Chinese government's continued emphasis on agricultural self-sufficiency, inadequate port facilities and a lack of warehousing and cold storage facilities impedes the domestic agricultural trade. If the Chinese agricultural market does not develop, or develops slower than we expect, it could have an adverse effect on our business, financial condition and results of operations.

Our operating subsidiary may be restricted from making distributions to our company.

We are a legal entity separate and distinct from Yang Ling, which is our wholly-owned operating subsidiary. Aside from our financing activities, the receipt of dividends from Yang Ling is currently our only other source of cash to pay shareholder dividends and to meet our other obligations. Yang Ling is subject to Chinese regulations that currently permit the payment of dividends only out of accumulated profits as determined in accordance with Chinese accounting standards and regulations. These accounting standards and regulations also require Yang Ling to set aside a portion of its after tax profits to fund certain reserve funds. See Note 10 to our consolidated financial statements included in this annual report for more information about these regulations. Although it has been able to do so, to date Yang Ling has not paid us any dividends. In the future, if Yang Ling does not accumulate sufficient profits under Chinese accounting standards and regulations after funding the required reserves, it will not be able to pay us any dividends, and consequently, we may be unable to pay any dividends to our stockholders.

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We do not anticipate paying dividends on our common stock.

We have never paid dividends on our common stock and do not anticipate paying dividends in the foreseeable future. Our Board of Directors currently intends to follow a policy of retaining all of our earnings, if any, to finance the development and expansion of our business.

Our corporate structure may subject you to two levels of taxation on the payment of dividends or upon a disposition of our operating subsidiary, thereby substantially reducing the return on your investment.

If Yang Ling, our wholly-owned indirect subsidiary, pays a dividend to us, its parent company, for distribution to our stockholders as a dividend, or if Yang Ling (rather than us, its parent company) is ultimately sold, the dividend or the proceeds of that transaction would be subject to two levels of tax: one at the parent corporate level and one at the parent stockholder level. Because we conduct our operations through Yang Ling, any dividends we pay must come from Yang Ling. Additionally, if a sale were to occur, it would most likely be Yang Ling that would be sold, rather than our company. Because of applicable tax laws, if Yang Ling pays a dividend to us in the future or if Yang Ling is sold in the future, those proceeds may be subject to two levels of taxation: (i) we will pay tax on the dividend or sale proceeds received from Yang Ling, and (ii) our stockholders will pay tax on the distribution of the dividend or the proceeds of the sale. These two levels of taxation will effectively reduce the financial return on your investment in our company.

The industry in which we do business is highly competitive and we face competition from numerous fertilizer manufacturers in China and elsewhere.

We compete with numerous local Chinese fertilizer manufacturers. Although we may have greater resources than many of our competitors, most of which are small local fertilizer companies, it is possible that these competitors have better access in certain local markets to customers and prospects, an enhanced ability to customize products to a particular region or locality and established local distribution channels within a small region. Furthermore, we may face competition from international producers and traders who import products into China that generally are of higher quality than those produced in the local Chinese market. Although we believe that we have many competitive strengths that differentiate our products and the Bodisen brand, we nevertheless must compete aggressively to maintain and grow our market share. If we are not successful in our marketing and advertising efforts to increase awareness of our brands, our revenues could decline and it could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to obtain regulatory or governmental approvals for our products.

The manufacture and sale of our agricultural products in the People's Republic of China is regulated by the People's Republic of China and the Shaanxi Provincial Government. The legal and regulatory regime governing our industry is evolving, and we may become subject to different, including more stringent, requirements than those currently applicable to our company. Because we must obtain permits and other regulatory approvals for the manufacture of our products, we may be vulnerable to local and national government agencies or other parties who wish to renegotiate the terms and conditions of, or terminate their agreements or other understandings with us, or implement new or more stringent requirements, which may require us to suspend or delay production of our products. For example, we are still delaying the launch of our Mancozeb product line because the Chinese government pesticide office instituted a review of all pesticide production companies. Although our licenses and regulatory filings are current, we have had to suspend the installation of our Mancozeb facility pending the completion of the government review. If we are unable to manufacture and distribute our products, even temporarily, it could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to the People's Republic of China

The People's Republic of China's Economic Policies could affect our Business.

Virtually all of our assets are located, and virtually all of our revenues are derived from our operations, in the People's Republic of China. Accordingly, our business, financial condition and results of operations are subject, to a significant extent, to the economic, political and legal developments in the People's Republic of China.

While the People's Republic of China's economy has experienced significant growth in the past twenty years, such growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall economy of the People's Republic of China, but they may also have a negative effect on us. For example, operating results and financial condition may be adversely affected by the government control over capital investments or changes in tax regulations.

Over the past 20 years, the Chinese economy has experienced periods of rapid expansion and fluctuating rates of inflation. These factors have led to the adoption by the Chinese government, from time to time, of various corrective measures designed to restrict the availability of credit or regulate growth and contain inflation. High inflation may in the future cause the Chinese government to impose controls on credit and/or prices, or to take other action that could inhibit economic activity in China, and thereby harm the market for our products, which could have a negative effect on our business, financial condition and results of operations.

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The economy of the People's Republic of China has been changing from a planned economy to a more market-oriented economy. In recent years the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform and the reduction of state ownership of productive assets, and the establishment of corporate governance in business enterprises; however, a substantial portion of productive assets in the People's Republic of China are still owned by the Chinese government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. It also exercises significant control over the People's Republic of China's economic growth through the allocation of resources, the control of payment of foreign currency- denominated obligations, the setting of monetary policy and the provision of preferential treatment to particular industries or companies.

Capital outflow policies in the People's Republic of China may hamper our ability to remit income to the United States.

The People's Republic of China has adopted currency and capital transfer regulations. These regulations may require us to comply with complex regulations for the movement of capital. Although we believe that we are currently in compliance with these regulations, should these regulations or the interpretation of them by courts or regulatory agencies change; we may not be able to remit all income earned and proceeds received in connection with its operations or from the sale of its operating subsidiary to our stockholders.

Fluctuation of the Renminbi may indirectly affect our financial condition and your investment by affecting the volume of cross- border money flow.

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. According to the currency website www.xe.com, as of December 31, 2012, \$1 = 6.35 Renminbi. As we rely entirely on revenue earned in the PRC, any significant revaluation of the Renminbi may materially and adversely

affect our cash flows, revenue and financial condition. For example, to the extent that we need to convert U.S. dollars we receive from an offering of our securities into Renminbi for Yang Ling's operations, appreciation of the Renminbi against the U.S. dollar would diminish the value of the proceeds of the offering and this could harm Xi'an Pharmaceuticals' business, financial condition and results of operations because it would reduce the proceeds available to us for capital investment in proportion to the appreciation of the Renminbi. Thus if we raise 1,000,000 dollars and the Renminbi appreciates against the U.S. dollar by 15%, then the proceeds will be worth only RMB 635 as opposed to RMB 650 prior to the appreciation.

Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes and the U.S. dollar appreciates against the Renminbi; the U.S. dollar equivalent of the Renminbi we convert would be reduced in proportion to the amount the U.S. dollar appreciates. In addition, the depreciation of significant RMB denominated assets could result in a charge to our income statement and a reduction in the dollar value of these assets. Thus if Xi'an Pharmaceuticals has RMB 1,000,000 in assets and Renminbi is depreciated against the U.S. dollar by 15%, then the assets will be valued at \$635 as opposed to \$747 prior to the depreciation.

On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in an approximately 17.5% appreciation of the Renminbi against the U.S. dollar as of December 31, 2009. While the international reaction to the Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the

Renminbi against the U.S. dollar.

We may have difficulty establishing adequate management, legal and financial controls in the People's Republic of China.

The People's Republic of China historically has not adopted a Western style of management and financial reporting concepts and practices, modern banking, computer or other control systems. We may have difficulty in hiring and retaining a sufficient number of qualified employees to work in the People's Republic of China. As a result of these factors, we may experience difficulty in establishing management, legal and financial controls, collecting financial data and preparing financial statements, books of account and corporate records and instituting business practices that meet Western standards.

Because most of our directors and all of our officers reside outside of the United States and virtually all of our assets are located in the People's Republic of China, you may have difficulty enforcing certain rights.

Any parties who file litigation against our officers and directors may have difficulty serving their lawsuit and acquiring personal jurisdiction because all of our executive officers and most of our directors reside in the People's Republic of China. For the same reason, it may be difficult for parties who file litigation against those of our officers and directors who reside in the People's Republic of China to enforce judgments that a jurisdiction other than the People's Republic of China enters against them. In addition, because virtually all of our assets are located in the People's Republic of China, it may be difficult to access those assets to satisfy any monetary judgment that a jurisdiction other than the People's Republic of China enters against us.

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Risks Related to Our Common Stock

Our common stock is quoted on the Over-the-Counter Bulletin Board (the “OTCBB”) in the United States, which may have an unfavorable impact on our stock price and liquidity.

Since July 23, 2012, we have been quoted on the middle tier of the OTC Markets Group, Inc. (f/k/a Pinksheets) (the “OTCQB”) under the symbol “BBCZ.” From February 1, 2010 until July 23, 2012, we were quoted on the Over-the-Counter Bulletin Board (the “OTCBB”) under the symbol “BBCZ.” See Item 5 of this annual report for more information regarding the market for shares of our common stock. The Pink Sheets and the OTCBB are a significantly more limited market than the NYSE AMEX or NASDAQ and the quotation of our shares on the Pink Sheets or OTCBB may result in a less liquid market available for existing and potential stockholders to trade shares of our common stock in the United States. This could depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future.

The market price for our common stock may be volatile, which could result in a complete loss of your investment.

Our common stock is not widely traded or traded in great volume. Because of the limited trading market and volume, the market price for our common stock is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our operating results;
- changes in financial estimates by securities analysts;
- market conditions, including new product announcements by us or our competitors, changes in the economic performance or market valuations of competitor companies, as well as acquisition announcements;
- additions or departures of key personnel; and
- legal and regulatory developments.

Volatility in our common stock price may make the value of an investment in our shares more speculative.

We could become subject to penny stock regulations and restrictions, which could make it difficult for our stockholders to sell their shares of stock in our company.

SEC regulations generally define “penny stocks” as equity securities that have a market price of less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exemptions. As of March 25, 2009, the closing bid price for our common stock was \$0.25 per share. Although we currently meet the net worth exemption from the “penny stock” definition, no assurance can be given that such exemption will be maintained. If we lose the exemption, our common stock may become subject to Rule 15g-9 under the Exchange Act, which regulations are commonly referred to as the “Penny Stock Rules.” The Penny Stock Rules impose additional sales practice requirements on broker-dealers prior to selling penny stocks, which may make it burdensome to conduct transactions in our shares. If our shares become subject to the Penny Stock Rules, it may be difficult to sell shares of our stock, and because it may be difficult to find quotations for shares of our stock, it may be impossible to accurately price an investment in our shares. There can be no assurance that our common stock will continue to qualify for an exemption from the Penny Stock Rules. In any event, even if our common stock continues to remain exempt from the Penny Stock Rules, we remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person

from participating in a distribution of a penny stock if the SEC determines that such a restriction would be in the public interest.

We have not paid cash dividends in the past and do not expect to pay cash dividends in the foreseeable future. Any return on investment may be limited to the value of our common stock.

We have never paid cash dividends on our capital stock and do not anticipate paying cash dividends on our capital stock in the foreseeable future. The payment of dividends on our capital stock will depend on our earnings, financial condition and other business and economic factors affecting us at such time as the board of directors may consider relevant. If we do not pay dividends, our common stock may be less valuable because a return on your investment will only occur if the common stock price appreciates.

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Securities analysts may not initiate coverage or continue to cover our common stock, and this may have a negative impact on its market price.

The trading market for our securities could depend in part on the research and reports that securities analysts publish about our business and us. We do not have any control over these analysts. There is no guarantee that securities analysts will cover our securities. If securities analysts do not cover our securities, the lack of research coverage may adversely affect their market prices. If we are covered by securities analysts, and our securities are the subject of an unfavorable report, the prices for our securities would likely decline. If one or more of these analysts ceases to cover us or fails to publish regular reports on us, we could lose visibility in the financial markets, which could cause our stock price and/or trading volume to decline.

The exercise of options and warrants and other issuances of shares of common stock or securities convertible into or exercisable for shares of common stock will dilute the ownership interests of our current stockholders and may adversely affect the future market price of our common stock.

Sales of our common stock in the public market, either by us or by our current stockholders, or the perception that these sales could occur, could cause a decline in the market price of our securities. Nearly all of the shares of our common stock held by those of our current stockholders who are not affiliates may be immediately eligible for resale in the open market either in compliance with an exemption under Rule 144 promulgated under the Securities Act of 1933, as amended, or the Securities Act, or pursuant to an effective resale registration statement that we have previously filed with the SEC. Such sales, along with any other market transactions, could adversely affect the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our principal executive offices are located in leased office space located at Room 2001, FanMei Building No. 1 NaguanZhengjie, Xian, Shaanxi province, People's Republic of China, 710068, and the telephone number is +011-86-29-87074957. The office space is approximately 328 square meters in area and we lease the space at a rate of RMB 53 per square meter per year.

We also maintain two separate factories in Yang Ling, China, situated at differing locations within the Yang Ling Agriculture High-Tech Industries Demonstration Zone. These two factories occupy an aggregate of approximately 56,745 square meters of land and contain our three production lines, as well as office buildings, warehouses and two research laboratories. These leases require monthly rental payments of \$2,755, and the leases expire in 2013.

We have entered into land-lease arrangements for the above-mentioned factories. We do not own any land because, under the People's Republic of China's governmental regulations, the government owns all land.

In connection with an agreement with the city government of A La Er, China (which is located in the Uygur autonomous region of Xinjiang, China), we agreed to invest in the construction of a manufacturing facility that will be able to produce up to 200,000 metric tons of fertilizer and pesticide products. This facility is located in Xinjiang, China and is approximately 120 acres (80,000 square meters). We believe that, with the strong government support that we are receiving and the regional market demand for fertilizer and pesticide products, Xinjiang represents a significant long-term growth opportunity for Bodisen. We began construction of the facility in April 2006 and originally believed construction would be completed in November 2006. However, there have been a series of delays,

including delays caused by local weather conditions (an early winter, late spring and frequent sandstorms). To date, we have spent approximately \$14.8 million on this facility. Although, as of December 31, 2009, construction of the facility was complete, we are waiting for government approval of our production license before we can commence operations.

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In August 2006, we entered into a 30-year land-lease arrangement with the government of the People's Republic of China for the 80,000 square meter plot of land in Xinjiang, 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 subsequent 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. On July 15, 2008, the Company entered into a 50 year land rights agreement for the rights to use the 80,000 square meter plot of land.

Following the 2006 admission of our shares to trading on the AIM market of the London Stock Exchange plc, we indicated that we intended to use certain proceeds from that offering to construct an additional facility in Northeast China. We have since decided not to pursue this project at this time.

We believe that our owned and leased properties, along with the properties being developed in our current facility expansion plans, will be sufficient for our current and immediately foreseeable operating needs.

ITEM 3. 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. 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.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Since July 23, 2012, we have been quoted on the middle tier of the OTCQB under the symbol “BBCZ.” From February 1, 2010 until July 23, 2012, we were quoted on the OTCBB under the symbol “BBCZ.” In addition, since February 6, 2006, our common stock has been traded on AIM, a market operated by the London Stock Exchange plc, under the symbol “BODI.”

The following table sets forth the closing price of our common stock as quoted on the OTCQB and the OTCBB for the periods indicated. The quotations set forth below reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

| QUARTER | HIGH (\$) | LOW (\$) |
|------------------|-----------|-----------|
| 1st Quarter 2011 | \$ 0.80 | \$ 0.41 |
| 2nd Quarter 2011 | \$ 1.00 | \$ 0.38 |
| 3rd Quarter 2011 | \$ 0.47 | \$ 0.27 |
| 4th Quarter 2011 | \$ 0.45 | \$ 0.30 |
| 1st Quarter 2012 | \$ 0.39 | \$ 0.24 |
| 2nd Quarter 2012 | \$ 0.33 | \$ 0.2311 |
| 3rd Quarter 2012 | \$ 0.2915 | \$ 0.11 |
| 4th Quarter 2012 | \$ 0.1525 | \$ 0.06 |

As of March 14, 2013, there were approximately 2,567 holders of record of our common stock.

Securities Authorized for Issuance under Equity Compensation Plans

The following table gives information about the Company’s common stock that may be issued upon the exercise of options granted to employees, directors under its stock option and incentive plans.

| Plan category | Equity Plan Information | | |
|------------------------------------------------------------|---------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
| | (a) | (b) | (c) |
| Equity compensation plans approved by security holders | 2,800,000 | \$ 0 | - |
| Equity compensation plans not approved by security holders | | | |
| Total | 2,800,000 | \$ 0 | - |

Pursuant to our 2004 Stock Option Plan, we are authorized to issue stock options for up to 1,000,000 shares of our common stock. On June 4, 2004, we granted David Gatton and Patrick McManus, who were each members of our Board of Directors at such time, 50,000 stock options each, having an exercise price of \$5.00 per share, which was the same as the market price of the shares at the time of granting of the option. Of the options subject to such grants, 25,000 of each grant vested immediately and the remaining 25,000 vested over 8 equal quarterly installments, where the first installment vested at the end of the second quarter 2004.

We granted Messrs. Gatton and McManus an additional 5,000 options each on December 28, 2004, which vested on December 31, 2004. The option exercise price for these options was \$5.80 per share, which was the same as the market price of the shares at the time of granting of the options.

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On October 4, 2005, we granted an additional 13,000 stock options to each Messrs. Gatton and McManus. Of each grant, 10,000 stock options vested immediately, with the remaining 3,000 stock options vesting over the next three months. The option exercise price was \$6.72, which was the same as fair value of the shares at the time of granting of the options.

On December 6, 2010, we also granted 2,800,000 shares of our common stock to certain employees of the Company either as stock or stock options, and the subsequent exercise of any stock options under the Company's 2010 Stock Incentive Plan.

Recent Sales of Unregistered Securities

None.

Dividends

We have never declared or paid any cash dividends on our common stock. We currently intend to retain future earnings, if any, to finance the expansion of our business. As a result, we do not anticipate paying any cash dividends in the foreseeable future.

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

- making up cumulative prior years' losses, if any;
- allocations to the "statutory surplus reserve" of at least 10% of income after tax, as determined under the People's Republic of China's accounting rules and regulations, until the fund amounts to 50% of a company's registered capital;
- allocations of 5-10% of income after tax, as determined under the People's Republic of China's accounting rules and regulations, to a company's "statutory common welfare fund," which is established for the purpose of providing employee facilities and other collective benefits to a company's employees; and
- allocations to the discretionary surplus reserve, if approved in the stockholders' general meeting.

Accordingly, we established a reserve for the annual contribution of 10% of net income to the welfare fund, and the amount included in the statutory reserve for the years ended December 31, 2012 and 2011 amounted to \$0 and \$0, respectively.

Issuer Repurchases of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

The following information should be read in conjunction with our selected consolidated financial and operating data and the accompanying consolidated financial statements and related notes thereto included elsewhere in this annual report. 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 elsewhere in this annual report, particularly in “Risk Factors” and “Note Regarding Forward Looking Statements.” Virtually all of our revenues and expenses are 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.” We do not engage in currency hedging and to date, inflation has not had a material impact on our business. Unless otherwise specified, references to Notes to our consolidated financial statements are to the Notes to our audited consolidated financial statements as of December 31, 2012 and 2011 and for the two-year period ended December 31, 2012.

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.

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Critical Accounting Policies and Estimates

Our financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States ("US GAAP"). US GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenues and expenses amounts reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

We believe the following is among the most critical accounting policies that impact our consolidated financial statements. We suggest that our significant accounting policies, as described in our condensed consolidated financial statements in the Summary of Significant Accounting Policies, be read in conjunction with this Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 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

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.

Revenue Recognition

Our revenue recognition policies are in compliance with Staff accounting bulletin (SAB) 104. Because collection is not reasonably assured, sales revenue is recognized using the cost recovery method. Under the cost recovery method, no profit is recognized until cash payments exceed the cost of the goods sold.

Recent Accounting Pronouncements

In December 2011, the FASB issued guidance on offsetting assets and liabilities and disclosure requirements in Accounting Standards Update No. 2011-11, Disclosures about Offsetting Assets and Liabilities (“Update 2011-11”). Update 2011-11 requires that entities disclose both gross and net information about instruments and transactions eligible for offsetting the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting agreement. In addition, the standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. Update 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods with those annual periods. The implementation of the disclosure requirement is not expected to have a material impact on the Company’s consolidated results of operations, financial position or cash flows.

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In February 2013, the FASB issued ASU No. 2013-02, which amends the authoritative accounting guidance under ASC Topic 220 “Comprehensive Income.” The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under generally accepted accounting principles in the United States of America (“GAAP”) to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this update are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. Adoption of this update is not expected to have a material effect on the Company’s consolidated results of operations or financial condition.

Results of Operations

Year Ended December 31, 2012 as Compared to Year Ended December 31, 2011

| | Year ended December 31 | | Change | |
|-------------------------------------------------|------------------------|----------------|-----------------|---------|
| | 2012 | 2011 | \$ | % |
| Revenue | \$ 8,055,958 | \$ 7,684,778 | \$ 371,180 | 4.8 |
| Cost of revenue | 6,942,342 | 5,608,858 | 1,333,484 | 23.8 |
| Gross profit | 1,113,616 | 2,075,920 | (962,304) | (46.4) |
| Operating expenses | | | | |
| Selling expenses | 637,058 | 844,903 | (207,845) | (24.6) |
| General and administrative expenses | 4,950,485 | 3,491,847 | 1,458,638 | 41.8 |
| Write down of property and equipment | 9,057,267 | - | 9,057,267 | 100.0 |
| Total operating expenses | 14,644,810 | 4,336,750 | 10,308,060 | 237.7 |
| Loss from operations | (13,531,194) | (2,260,830) | (11,270,364) | 498.5 |
| Non-operating income (expense): | | | | |
| Other income (expense) | (856) | (111,757) | 110,901 | (99.2) |
| Write down of investment in marketable security | (2,774,742) | - | (2,774,742) | 100.0 |
| Interest income | 21,369 | 207,962 | (186,593) | (89.7) |
| Interest expense | (84,379) | (145,747) | 61,368 | (42.1) |
| Total non-operating income(expense) | (2,838,608) | (49,542) | (2,789,066) | 5,629.7 |
| Net loss | \$ (16,369,802) | \$ (2,310,372) | \$ (14,059,430) | 608.5 |

Revenue: We generated revenue of \$8,055,958 for the year ended December 31, 2012, an increase of \$371,180 or 4.8%, compared to \$7,684,778 for the year ended December 31, 2011. The increase in revenue is primarily attributable to increased demand from customers for our new fertilizer.

Gross Profit: We generated a gross profit of \$1,113,616 for the year ended December 31, 2012, a decrease of \$962,304 or 46.4%, compared to \$2,075,920 for the year ended December 31, 2011. Gross margin (gross profit as a percentage of revenue), was 13.8% for the year ended December 31, 2012, compared to 27.0% for the year ended December 31, 2011. The decrease in the gross margin percentage was primarily attributable to the provision of deferred revenue under the cost recovery method which is affected by the timing of collections of our accounts receivable, offset by higher costs for raw materials.

Selling Expenses: Aggregated selling expenses accounted for \$637,058 of our operating expenses for the year ended December 31, 2012, a decrease of \$207,845 or 24.6%, compared to \$844,903 for the year ended December 31, 2011. The decrease in our aggregated selling expense is primarily attributable to a decrease in advertising expenses in China of approximately \$226,000 during the year ended December 31, 2012 compared to the year ended December 31, 2011 off set by an increase in stevedoring expenses of approximately \$18,000 for the year ended December 31, 2012 compared to the year ended December 31, 2011.

General and Administrative Expenses: General and administrative expenses accounted for \$4,950,485 of our operating expenses for the year ended December 31, 2012, an increase of \$1,458,638 or 41.8%, compared to \$3,491,847 for the year ended December 31, 2011. The increase is principally due to:

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- i. an increase in research and development expenses of approximately \$2,536,000 for the year ended December 31, 2012 compared to the year ended December 31, 2011;
- ii. a decrease in our bad debt expense (due to our strengthening its control policy over credit extended to customers) for the year ended December 31, 2012 compared to the year ended December 31, 2011 of approximately \$422,000;
- iii. a decrease in repair expenses of approximately \$752,000 for the year ended December 31, 2012 compared to the year ended December 31, 2011.

Non Operating Income and Expenses: We had total non-operating expenses of \$2,838,608 for the year ended December 31, 2012, a change of \$2,789,066 compared to \$49,542 for the year ended December 31, 2011. The change is principally due to:

- i. a decrease in interest income of approximately \$186,000 (due to full repayment of the note receivable in January 2012) during the year ended December 31, 2012 compared to the year ended December 31, 2011;
- ii. a decrease in interest expense of approximately \$62,000 (due to full settlement of the bank loan in January 2012) during the year ended December 31, 2012 compared to the year ended December 31, 2011.
- iii. a write down investment in marketable security of approximately \$2,775,000 of a long-term equity investment that was deemed to be other than temporary. There was no such write down in 2011.

Net loss: We had a net loss of \$16,369,802 for the year ended December 31, 2012, a change of \$14,059,430 compared to \$2,310,372 for the year ended December 31, 2011. The change is due to reasons described above, principally the increase in cost of revenue, and general and administrative expenses and the write down of property and equipment and investment in marketable security.

Liquidity and Capital Resources

We are primarily a parent holding company for the operations carried out by our 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 December 31, 2012, we had \$294,539 of cash compared to \$935,375 as of December 31, 2011.

Cash balance decreased \$640,836 as of December 31, 2012 as compared with \$935,375 as of December 31, 2011 due to raw material costs increasing significantly during the year. For the purpose of cost reduction, the Company has implemented a policy to build up a higher reserve of raw materials inventory through careful procurements in light of anticipated rising prices on raw materials. As raw materials relate to the manufacturing of organic fertilizers, liquid fertilizers, pesticides and insecticides, they are better preserved in the nature of finished goods. As of December 31, 2012, the Company therefore maintained an inventory of finished goods of \$1,673,812 in line with the Company's budgeted sales for the first half of 2013. This has a negative impact on the cash balance. On March 19, 2013, the chairman issued an undertaking that the chairman will give his every endeavor and best effort to obtain necessary and adequate funding to meet the Company's financial obligations as and when they are required thereby warranting that the manufacturing operations of the Company will not be affected.

While we have funded our operations since inception from operations and through private placements of equity securities and loans, there can be no assurance that adequate financing will continue to be available to us and, if available, on terms that are favorable to us.

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We believe that we will require additional financing to carry out our intended objectives during the next twelve months. There can be no assurance, however, that such financing will be available or, if it is available, that we will be able to structure such financing on terms acceptable to us and that it will be sufficient to fund our cash requirements until we can reach a level of profitable operations and positive cash flows. If we are unable to obtain the financing necessary to support our operations, we may be unable to continue as a going concern. We currently have no firm commitments for any additional capital.

A downturn in the United States stock and debt markets could make it more difficult to obtain financing through the issuance of equity or debt securities. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek alternative financing. Further, if we issue additional equity or debt securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences or privileges senior to those of existing holders of our shares of common stock or the debt securities may cause us to be subject to restrictive covenants. Even if we are able to raise the funds required, it is possible that we could incur unexpected costs and expenses, fail to collect significant amounts owed to us, or experience unexpected cash requirements that would force us to seek additional financing. If additional financing is not available or is not available on acceptable terms, we will have to curtail our operations.

Cash Flows

Operating: We used \$2,069,399 of cash for operating activities for the year ended December 31, 2012 compared to \$2,816,911 of cash used in operating activities for the year ended December 31, 2011. The cash used in operating consisted of a net loss of \$16,369,802 offset by non cash expenses of depreciation and amortization of \$1,695,280. We had a loss of \$9,057,267 for the write down of property and equipment and a loss of \$2,774,742 for the write down of an investment which are a non cash transaction.

Investing: Our investing activities for the year ended December 31, 2012 provided cash of \$1,420,690, representing the addition of property and equipment of \$16,005 and proceeds from a note receivable of \$1,425,600 compared to cash provided by investing activities of \$142,114 for the year ended December 31, 2011 representing the addition of property and equipment from \$12,686 and proceeds from a note receivable of \$154,800 during this comparable period.

Financing. During the year ended December 31, 2012, we used \$1,425,600 of cash for the full repayment of our bank loan and received \$1,424,700 from the proceeds of another new bank loan. Our financing activities used \$154,800 cash as a result of the partial repayment of a bank loan for the year ended December 31, 2011.

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.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The full text of our audited consolidated financial statements as of December 31, 2012 and 2011, begins on page F-1 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

On September 6, 2011, the Company was notified that its principal independent accountant, Acquavella, Chiarelli, Shuster, Berkower & Co., LLP (“ACSB”), had resigned its engagement with the Company, effective immediately.

No report of ACSB on the Company’s financial statements for the fiscal years ended December 31, 2009 and 2010 and through September 6, 2011 contained an adverse opinion or disclaimer of opinion, or was qualified or modified as to uncertainty, audit scope or accounting principles.

During the Company’s fiscal years ended December 31, 2009 and 2010 and through September 6, 2011: (i) there were no disagreements with ACSB on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to ACSB’s satisfaction, would have caused it to make reference to the subject matter of the disagreement in connection with its reports and (ii) ACSB did not advise the Company of any of the events requiring reporting under Item 304(a)(1) of Regulation S-K.

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The Company provided ACSB with a copy of the disclosure contained herein, and requested ACSB to furnish a letter addressed to the Securities and Exchange Commission stating whether it agrees with the above statements made by the Company herein and, if not, stating the respects in which it does not agree. A copy of this letter, dated September 9, 2011, from ACSB to the Securities and Exchange Commission is filed as Exhibit 16.1 to this Annual Report on Form 10-K and incorporated herein by reference.

On October 11, 2011, the board of directors of the Company ratified and approved the Company's engagement of Clement C. W. Chan & Co. ("Clement") as independent auditors for the Company and its subsidiaries.

During the years ended December 31, 2010 and 2009 and through October 11, 2011, neither the Company nor anyone on its behalf consulted Clement regarding (i) the application of accounting principles to a specific completed or contemplated transaction, (ii) the type of audit opinion that might be rendered on the Company's financial statements, or (iii) any matter that was the subject of a disagreement or event identified in response to Item 304(a)(1) of Regulation S-K (there being none).

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, our management, including Lin Wang, our Chief Executive Officer, and Junyan Tong, our Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2012.

Disclosure controls and procedures refer to controls and other procedures designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating and implementing possible controls and procedures.

Management conducted its evaluation of disclosure controls and procedures under the supervision of our chief executive officer and our chief financial officer. Based on that evaluation, Messrs. Wang and Tong concluded that because of the material weakness in internal control over financial reporting described below, our disclosure controls and procedures were not effective as of December 31, 2012.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. Our management is also required to assess and report on the effectiveness of our internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"). Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework.

During management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2011, management identified deficiencies related to (i) the U.S. GAAP expertise of our internal accounting staff, (ii) a

lack of segregation of duties within accounting functions, (iii) our internal risk assessment functions, and (iv) our communication functions. Management believes that these deficiencies amount to a material weakness that render our internal controls over financial reporting ineffective as of December 31, 2011.

A material weakness (within the meaning of PCAOB Auditing Standard No. 5) is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

In order to correct the foregoing deficiencies, we have taken the following remediation measures:

- Although our accounting staff is professional and experienced in accounting requirements and procedures generally accepted in the PRC, management has determined that they require additional training and assistance in U.S. GAAP matters. Management has determined that our internal audit function is also significantly deficient due to insufficient qualified resources to perform internal audit functions. We retained an outside consulting firm in September 2006, which has since been assisting us in the implementation of Section 404.

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- We have committed to the establishment of effective internal audit functions and have instituted various anti-fraud control and financial and account management policies and procedures to strengthen our internal controls over financial reporting. Due to the scarcity of qualified candidates with extensive experience in U.S. GAAP reporting and accounting in the region, we were not able to hire sufficient internal audit resources before the end of 2012. However, we will increase our search for qualified candidates with assistance from recruiters and through referrals.
- Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, we will implement procedures to assure that the initiation of transactions, the custody of assets and the recording of transactions will be performed by separate individuals.
- As of the fiscal year ended December 31, 2012, we have not yet established an effective risk assessment system that enables us to collect related information comprehensively and systematically, assess risks in a timely, realistic manner, and take appropriate measures to control risks effectively. The Company is working with its outside consultant to devise an effective risk assessment system and our Chief Financial Officer Junyan Tong is responsible for overseeing such measures.
- As of the fiscal year ended December 31, 2012, we are working to strengthen efforts to establish an effective communication system with clear procedures that will enable us to collect, process and deliver information related to internal controls in a timely fashion. Due to our limited staff, our Chief Financial Officer, Mr. Tong, will initially be primarily responsible for collecting and delivering such information among the different levels of Company management.

We believe that the foregoing steps will remediate the significant deficiency identified above, and we will continue to monitor the effectiveness of these steps and make any changes that our management deems appropriate.

Notwithstanding the conclusion that our internal control over financial reporting was 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. Nothing has come to the attention of management that causes them to believe that any material inaccuracies or errors exist in our financial statements as of December 31, 2012. The reportable conditions and other areas of our internal control over financial reporting identified by us as needing improvement have not resulted in a material restatement of our financial statements. Nor are we aware of any instance where such reportable conditions or other identified areas of weakness have resulted in a material misstatement of omission in any report we have filed with or submitted to the Commission.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Auditor Attestation

This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to such attestation pursuant to rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting (as defined in Rule 13a-15f under the Exchange Act) that occurred during the quarter ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Below are the names and certain information regarding our executive officers and directors as of April 15, 2013:

| Name | Age | Position |
|----------------|-----|-----------------------------------------------------------|
| Lin Wang | 46 | Chairman, Chief Executive Officer, President and Director |
| Bo Chen | 55 | Director |
| Junyan Tong | 41 | Chief Financial Officer |
| Chuangjun Yang | 39 | Chief Operating Officer |
| Chenglin Guo | 44 | Director |
| Qiong Wang | 49 | Director |

Officers are elected annually by the Board of Directors, at our annual meeting, to hold such office until an officer's successor has been duly appointed and qualified, unless an officer sooner dies, resigns or is removed by the Board.

Background of Executive Officers and Directors

Lin Wang, Chief Executive Officer, and President - Mr. Lin Wang has served as chief executive officer and president of Bodisen since April 29, 2011. Mr. Wang Lin has been general manager of Bodisen Biotech, Inc. since 1999. From 1997 to 1999, Mr. Wang worked at Yangling Kangyuan Agricultural Chemical Co. Ltd, a fertilizer company where he was general manager. Mr. Wang graduated from Northwest Agriculture University in 1989. Mr. Wang Lin holds an agronomist certification.

Bo Chen, Director of the Company and of its subsidiary, Yang Ling - Mr. Chen is one of Bodisen's original founders and stockholders. He served as Bodisen's chairman from January 5, 2007 until April 19, 2012, as chief executive officer from January 5, 2007 through April 29, 2011, and as president from 2004 through April 29, 2011. From August 1997 to August 2001, Mr. Bo Chen was Chief Operations Officer and Chief Technology Officer of Shaanxi Bodisen Chemical Co., Ltd. From July 1994 to December 1997, he was the Chief Executive Officer and President of Yang Ling Shikanglu Chemurgical Technology Development Co., Ltd. Mr. Chen received his Bachelor of Science degree from Shaanxi Normal College in July 1984.

Junyan Tong, Chief Financial Officer of Bodisen and Yang Ling - Promoted to the position of Chief Financial Officer on June 4, 2007. Since 2005, Ms. Tong was serving as the Company's Assistant Chief Financial Officer. From 1998-2002, Ms. Tong was Chief Financial Officer of Shenzhen Rongxun Industry Co., Ltd, a fitness equipment manufacturing company, where she was in charge of banking, tax matters, foreign currency issues, general ledgers, budgeting and financial analysis. From 1995-1998, Ms. Tong served as Financial Manager of Guangdong Zhongyunhui Electric Co., Ltd., a telecommunications company. There, Ms. Tong was responsible for cost control, budgeting and foreign currency issues. From 1991-1995, Ms. Tong was Accounting Manager at Guangdong Dongguan Anbao Industry Co., Ltd., a China-based electronics appliance company. As Accounting Manager, Ms. Tong handled financial statements, general ledger and cost control matters. Ms. Tong holds a degree in financial management from Harbin Economic Management Institute

Chuangjun Yang, Chief Operating Officer of Bodisen. Mr. Yang was appointed as chief operating officer of Bodisen on April 29, 2011. Mr. Yang has worked at Bodisen Biotech, Inc. since 2003, holding various positions including accounting department manager and assistant to the President. From 2002 to 2003, Mr. Yang was an accounting manager at Wugong Shenguo Co. Ltd., a beverage company. Mr. Yang graduated from Northwest Technology

University in 1996 with a degree in accounting.

Chenglin Guo, Director of Bodisen - Mr. Guo has an economic management Bachelor Degree from TianjingCommercialUniversity. He is also an engineer and from 1995 to 1996 Mr. Guo was the Manager of Yangling Industry and CommercialUnionTraining School. From 1997 to 1999 he was the head of Xianyang Industry and CommercialUnionTraining School, the Vice Head Secretary of Xianyang Commercial Union, and Manager of Xianyang Industry and CommercialEconomicConsultingCenter. From 2000 to present, he has been working in a social service position.

Qiong Wang, Director of Bodisen; Director of Yang Ling - Mrs. Qiong Wang has served as a Director of Bodisen since the merger of Bodisen Holding and Bodisen International and she has been on the board of Yang Ling since Yang Ling was founded in August 2001. She also served as the Chairman of the Board of Bodisen Biotech, Inc. until January 5, 2007. Mrs. Wang Qiong has over 10 years experience in the fertilizer and chemical industry. From 1997 to May 2001, she was the Chief Executive Officer and President of Shaanxi Bodisen Chemical Co., Ltd., which changed its name to Yang Ling Bodisen Biology Science and Technology Development Company Limited on August 31, 2001. From May 1996 to December 1997, she was the President of Yang Ling Kangyuan Agricultural Chemical Company, a company dedicated to the research and development of agricultural products. Mrs. Wang Qiong graduated from North-West Agronomy College, with a Bachelor of Science degree in 1986.

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Board of Directors

Our Directors are elected by the vote of a plurality in interest of the holders of our voting stock and hold office for a term of one year and until a successor has been elected and qualified.

A majority of the authorized number of directors constitutes a quorum of the Board for the transaction of business. The directors must be present at the meeting to constitute a quorum. However, any action required or permitted to be taken by the Board may be taken without a meeting if all members of the Board individually or collectively consent in writing to the action.

The board and its committees held the following number of meetings during the fiscal year of 2012:

| | |
|------------------------|---|
| Board of Directors | 4 |
| Compensation Committee | 4 |
| Nominating Committee | 4 |

The meetings include meetings that were held by means of a conference telephone call, but do not include actions taken by unanimous written consent.

Each director attended at least 75% of the total number of meetings of the board and those committees on which he served during the year. Our non-management directors did not meet in executive session during 2012.

Director Experience

The Board believes that each of the Company’s directors should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the Company’s shareholders. When evaluating candidates for election to the Board, the Nominating Committee seeks candidates with certain qualities that it believes are important, including integrity, an objective perspective, good judgment, and leadership skills. The Board has also considered the fact that all of our directors have worked for, or served on the boards of directors of, a variety of companies in a range of industries. The Board believes that through their varying backgrounds, the Company’s directors bring a wealth of experiences, new ideas and solutions to the Board. Specifically, the Board has noted that our directors have the following skills and qualifications that, among others, have made them particularly suited to serve as a director of Bodisen:

- Mr. Lin Wang has served in executive level positions at Bodisen since 1999. He has extensive knowledge of Bodisen and the fertilizer and chemical industries.
- Mr. Bo Chen is a founder of Bodisen and has served in executive level positions at Bodisen since 2004. He has extensive knowledge of Bodisen and the fertilizer and chemical industries.
- Ms. Qiong Wang is the former Chairwoman and CEO of Bodisen and also is a founder of Bodisen and has served in executive level positions at Bodisen since 2004. She has extensive knowledge of Bodisen and the fertilizer and chemical industries and substantial experience in sales and marketing.
- Mr. Chenglin Guo is the independent director of Bodisen. He has substantial management and sales experience.

Committees

Our Board of Directors has a Nominating Committee and a Compensation Committee.

Chenglin Guo serves on the Nominating and Compensation Committees. The Board is currently in the process of looking for additional members to serve on these committees.

Compensation Committee

Our compensation committee assists the board in reviewing and approving the compensation structure of our directors and executive officers, including all forms of compensation to be provided to our directors and executive officers. Members of the compensation committee are not prohibited from direct involvement in determining their own compensation. Our chief executive officer may not be present at any committee meeting during which his compensation is deliberated. The compensation committee is responsible for, among other things:

- approving and overseeing the compensation package for our executive officers;

- reviewing and making recommendations to the board with respect to the compensation of our directors;

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Establish and review at least annually the Company's general compensation policies applicable to our chief executive officer and other executive officers, evaluating the performance of our chief executive officer and other employees whose compensation is within the jurisdiction of the committee, and setting the compensation level of our chief executive officer and other executive officers based on this evaluation; and

reviewing periodically and making recommendations to the board regarding any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans; and

reviewing and advising the board (and if deemed appropriate, retain consultants) with respect to regional and industry-wide compensation practices and trends in order to assess the adequacy and competitiveness of the our executive compensation programs among comparable companies in our industry.

Our board of directors has adopted a written compensation committee charter. The charter is currently available on our website at www.bodisen.com. ChenglinGuo, the director who currently serves on the compensation committee is an "independent" director based on the definition of independence in the listing standards of the National Association of Securities Dealers.

Nominating Committee

The corporate governance and nominating committee assists the board of directors in identifying individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

identifying and recommending to the board nominees for election or re-election to the board, or for appointment to fill any vacancy;

identifying and recommending to the board the directors to serve as members of the board's committees;

Regularly reporting its activities to the board; and

Evaluating the performance of the nominating committee.

Chenglin Guo, the director who currently serves on the nominating committee is an "independent" director based on the definition of independence in the listing standards of the National Association of Securities Dealers. The nominating committee has a written charter. The charter is currently available on our website at www.bodisen.com.

At this time, no additional specific procedures to propose a candidate for consideration by the nominating committee, nor any minimum criteria for consideration of a proposed nomination to the board, have been adopted.

Code of Ethics

We have adopted a code of ethics to apply to all of our executive officers, including our principal executive, financial and accounting officers, our directors, our financial managers and all employees are expected to adhere and promote regarding individual and peer responsibilities, and responsibilities to other employees, the Company, the public and other stakeholders. Shareholders may request a free copy of the Code of Ethics by contacting the Investor Relations

Department at our corporate offices by calling +86-29-87895373, or by sending an e-mail message to info@bodisen.com.

Audit Committee

At the present time, we believe that the members of Board of Directors are collectively capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for financial reporting. We do, however, recognize the importance of good corporate governance and intend to appoint an audit committee comprised entirely of independent directors, including at least one financial expert, in the near future.

Board Leadership and Risk Oversight

Our Chief Executive Officer also serves as Chairman of the Board. The Board believes that the Company's Chief Executive Officer is best situated to serve as Chairman of the Board because he is the director most familiar with our business and industry and the director most capable of identifying strategic priorities and executing our business strategy. In addition, having one person serve as both Chairman and Chief Executive Officer eliminates potential for confusion and provides clear leadership for the Company, with a single person setting the tone and managing our operations. The Board oversees specific risks, including, but not limited to:

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- appointing, retaining and overseeing the work of the independent auditors, including resolving disagreements between the management and the independent auditors relating to financial reporting;
- approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing annually the independence and quality control procedures of the independent auditors;
- Reviewing, approving, and overseeing risks arising from proposed related party transactions;
- discussing the annual audited financial statements with the management;
- meeting separately with the independent auditors to discuss critical accounting policies, management letters, recommendations on internal controls, the auditor’s engagement letter and independence letter and other material written communications between the independent auditors and the management; and
- monitoring the risks associated with management resources, structure, succession planning, development and selection processes, including evaluating the effect the compensation structure may have on risk decisions.

Employment Agreements

There are currently no employment agreements between the Company and any of its named executive officers.

Family Relationships

Mr. Bo Chen and Mrs. Qiong Wang are husband and wife. Mrs. Qiong Wang and Mr. Ying Wang are brother and sister.

Nominating Procedures

During 2012 there were no material changes to the procedures by which security holders may recommend nominees to our Board of Directors.

ITEM 11. EXECUTIVE COMPENSATION

Executive Compensation

The following table contains information concerning the compensation of our executive officers and other most highly compensated executive officers for the fiscal year ended December 31, 2012.

Summary Compensation Table

| Name And Principal Position | Year | Salary(1) (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan | Nonqualified Deferred Compensation | All Other Compensation (\$) | Total (\$) |
|-----------------------------|------|-------------------|---------------|----------------------|-----------------------|---------------------------|------------------------------------|--------------------------------|---------------|
|-----------------------------|------|-------------------|---------------|----------------------|-----------------------|---------------------------|------------------------------------|--------------------------------|---------------|

| | | | | | | Compen- sation (\$) | sation Earnings (\$) | | |
|--------------------------------------|------|----|-------|---|---|---------------------------|----------------------------|---|-----------|
| Lin Wang, Chief Executive Officer | 2012 | \$ | 3,380 | — | — | — | — | — | —\$ 3,380 |
| | 2011 | \$ | 3,380 | — | — | — | — | — | —\$ 3,380 |

(1) All compensation for the officers identified in this table was paid in Chinese Renminbi, and is expressed in U.S. dollars based on the exchange rate in effect as of the last day of the relevant period. The exchange rates between the Renminbi and the U.S. dollar was 6.35 and 6.8 Renminbi to every one U.S. dollar at December 31, 2012 and 2011, respectively.

Outstanding Equity Awards at Fiscal Year-End

There were no outstanding unexercised options, unvested stock, and/or equity incentive plan awards issued to our named executive officers as of December 31, 2012.

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Compensation of Directors

Directors of the Company did receive compensation for their services and reimbursement for their expenses as determined by the Board of Directors from time to time.

| Name | Year | Fees Earned or Paid in Cash(1) (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation (\$) | Total (\$) |
|--------------|------|-------------------------------------------|----------------------|-----------------------|---------------------------------------------------|--------------------------------------------------------------|-----------------------------------|---------------|
| Bo Chen | 2012 | 9,048 | - | - | - | - | - | 9,048 |
| Qiong Wang | 2012 | 7,159 | - | - | - | - | - | 7,159 |
| Chenglin Guo | 2012 | - | - | - | - | - | - | - |

(1) All compensation for the officers identified in this table was paid in Chinese Renminbi, and is expressed in U.S. dollars based on the exchange rate in effect as of the last day of the relevant period. The exchange rates between the Renminbi and the U.S. dollar was 6.35 Renminbi to every one U.S. dollar at December 31, 2012.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information, as of April 15, 2013, with respect to the beneficial ownership of the outstanding common stock by (i) any holder of more than five (5%) percent of our common stock; (ii) each of our current executive officers and directors; and (iii) our current directors and executive officers as a group. Except as otherwise indicated, each of the stockholders listed below has sole voting and investment power over the shares beneficially owned.

| Name of Beneficial Owner (1) | Number of Shares Beneficially Owned | Percentage of Shares Beneficially Owned (2) |
|--------------------------------------------------------------------------------------|----------------------------------------|---------------------------------------------------|
| Lin Wang | 0 | * |
| Bo Chen (3) | 1,810,000 | 8.41% |
| Qiong Wang (3) | 1,810,000 | 8.41% |
| Junyan Tong | 0 | * |
| ChenglinGuo | 0 | * |
| All officers and directors as a group (5 persons) | 1,810,000 | 8.41% |
| 5% or greater Shareholder | | |
| Ana G. Brandt c/o LaRue Brandt 789 Meadow Brook Lane, Chambersburg, PA17201 | 2,217,000 | 10.3% |

* Less than 1%.

(1) Except as otherwise indicated, the address of each beneficial owner is c/o Bodisen Biotech, Inc., Room 2001, FanMei Building, No. 1 NaganZhengjie, Xi'an, Shaanxi, China, 710068.

- (2) Applicable percentage ownership is based on 21,510,250 shares of common stock outstanding as of April 7, 2013, together with securities exercisable or convertible into shares of common stock within 60 days of April 7, 2013, for each stockholder. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of April 7, 2013, are deemed to be beneficially owned by the person holding such securities for the purpose of computing the percentage of ownership of such person, but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

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- (3) Bo Chen, Chairman, and Qiong Wang, chief executive officer, president and director, are husband and wife. The shares reflected as being owned by Mr. Chen and Ms. Wang represent (i) 890,000 shares owned by Mr. Chen and (ii) 920,000 shares owned by Ms. Wang. Each of Mr. Chen and Ms. Wang disclaims beneficial ownership in the shares of beneficially owned by the other.
- (4) Based on information in a Schedule 13D filed with the SEC which provided beneficial ownership as of June 29, 2012.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Related Party Transactions

None.

Director Independence

Our Board of Directors has determined that Chenglin Guo meets the criteria for independence set forth in Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Our Board of Directors has also determined that Mr. Guo has no material relationships with us - either directly or as a partner, stockholder or officer of any entity which could be inconsistent with a finding of their independence as members of our Board of Directors.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The aggregate fees billed for each of the fiscal years ended December 31, 2012 and 2011 for professional services rendered by the principal accountant for the audit our annual financial statements and review of the financial statements included our Form 10-K or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were as follows:

| | Year Ended December 31, 2012 | | Year Ended December 31, 2011 | |
|--------------------|------------------------------|---------|------------------------------|---------|
| Audit Fees | \$ | 98,311 | \$ | 98,311 |
| Audit Related Fees | \$ | 39,312 | | 39,312 |
| Tax Fees | | 39,875 | | 39,875 |
| All Other Fees | | | | - |
| Total | \$ | 177,498 | \$ | 177,498 |

Audit services include fees associated with the annual audit and the review of documents filed with the Securities and Exchange Commission. Audit-related fees principally include fees reasonably related to the performance of the audit or review of our financial statements and that are not reported as Audit Fees. Tax fees included tax compliance, tax advice and tax planning work.

Pre-Approval Policies and Procedures

Because we no longer have an audit committee, the following protocol by which we approve in advance any audit or permissible non-audit services to be provided to the Company by its independent auditor is now performed by our full Board of Directors. Prior to the engagement of the independent auditor for any fiscal year's audit, our Board discusses with management anticipated recurring audit, audit-related, tax and other services expected to be provided by the auditor during that fiscal year. The Board establishes terms for the performance of the recurring services that it has pre-approved, and informs on a timely basis, and in any event for the next scheduled meeting, of any such services rendered by the independent auditor and the related fees.

The fees for any services thus approved are budgeted, and our Board requires the independent auditor and management to report actual fees versus the budget periodically throughout the year. Our Board will require additional pre-approval if circumstances arise where it becomes necessary to engage the independent auditor for additional services above the amount of fees originally pre-approved. Any audit or non-audit service must be separately pre-approved by our Board on a case-by-case basis.

Every request to provide services that are not pre-approved must include a statement by the independent auditor as to whether, in its view, the request is consistent with the SEC's rules on auditor independence.

Our Board will not grant approval for:

- any services prohibited by applicable law or by any rule or regulation of the SEC or other regulatory body applicable to the Company;
- provision by the independent auditor to the Company of strategic consulting services of the type typically provided by management consulting firms; or

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- the retention of the independent auditor in connection with a transaction initially recommended by the independent auditor, the tax treatment of which may not be clear under the Internal Revenue Code and related regulations and which it is reasonable to conclude will be subject to audit procedure during an audit of the Company’s financial statements.

Tax services proposed to be provided by the auditor to any director, officer or employee of the Company who is in an accounting role or financial reporting oversight role must be approved by our Board on a case-by-case basis where such services are to be paid for the by the Company, and our Board will be informed of any services to be provided to such individuals that are not to be paid for by the Company.

In determining whether to grant pre-approval of any non-audit services in the “all other” category, our Board will consider all relevant facts and circumstances, including the following four basic guidelines:

- whether the service creates a mutual or conflicting interest between the auditor and the Company;
- whether the service places the auditor in the position of auditing his or her own work;
- whether the service results in the auditor acting as management or an employee of the Company; and
- whether the service places the auditor in a position of being an advocate for the Company.

PART IV

ITEM 15.EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Financial Statements

A list of the financial statements of the Company filed as part of this Report can be found in the Index to Financial Statements on page F-1.

Exhibit

| Exhibit Number | Description of Exhibit |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 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. 2010 Incentive stock Option Plan (incorporated by reference to Company’s Form S-8 filed December 17, 2010) |
| 10.2 | Bodisen Biotech, Inc. 2004 Stock Option Plan (incorporated by reference to Company’s Form 10-KSB filed March 31, 2005). |
| 10.3 | Form of Bodisen Biotech, Inc. Nonstatutory Stock Option Agreement (incorporated by reference to Company’s Form 10-KSB filed March 31, 2005). |
| 14.1 | Code of Ethics and Business Conduct for Officers, Directors and Employees of Bodisen Biotech, Inc. (incorporated by reference to the Company’s Form 10-K filed April 30, 2007). |
| 16.1 | Letter dated September 9, 2011 from Acquavella, Chiarelli, Shuster, Berkower& Co., LLP to the Securities and Exchange Commission (incorporated by reference to Exhibit 16.1 to the Company’s Current Report on Form 8-K filed on September 12, 2011). |

| | |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <u>21.1</u> | <u>Schedule of Subsidiaries.*</u> |
| <u>31.1</u> | <u>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.*</u> |
| <u>31.2</u> | <u>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.*</u> |
| <u>32.1</u> | <u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*</u> |
| EX-101.INS | XBRL INSTANCE DOCUMENT** |
| EX-101.SCH | XBRL TAXONOMY EXTENSION SCHEMA DOCUMENT** |
| EX-101.CAL | XBRL TAXONOMY EXTENSION CALCULATION LINKBASE** |
| EX-101.DEF | XBRL TAXONOMY EXTENSION DEFINITION LINKBASE** |
| EX-101.LAB | XBRL TAXONOMY EXTENSION LABELS LINKBASE** |
| EX-101.PRE | XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE** |

* Filed herewith

** The XBRL related information in Exhibit 101 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

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SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Bodisen Biotech, Inc.

| | | |
|----------------|-----|--------------------------------------------------------------------------------------------------------------|
| April 16, 2013 | By: | /s/ Lin Wang Lin Wang Chairman, Chief Executive Officer and President (Principal Executive Officer) |
| April 16, 2013 | By: | /s/ Junyan Tong Junyan Tong Chief Financial Officer (Principal Financial and Accounting Officer) |

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|----------------------------------|----------------------------------------------------------------------------------|----------------|
| /s/ Lin Wang Lin Wang | Chairman, Chief Executive Officer and President (Principal Executive Officer) | April 16, 2013 |
| /s/ Junyan Tong Junyan Tong | Chief Financial Officer (Principal Financial and Accounting Officer) | April 16, 2013 |
| /s/ Bo Chen Bo Chen | Director | April 16, 2013 |
| /s/ Chenglin Guo Chenglin Guo | Director | April 16, 2013 |
| /s/ Qiong Wang Qiong Wang | Director | April 16, 2013 |

Bodisen Biotech, Inc. and Subsidiaries
Consolidated Financial Statements
For The Years Ended December 31, 2012 and 2011

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| Report of Independent Registered Public Accounting Firm | F-1 |
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| Consolidated Statements of Operations and Other Comprehensive Loss for the years ended December 31, 2012 and 2011 | F-3 |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 2012 and 2011 | F-4 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2012 and 2011 | F-5 |
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Bodisen Biotech, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Bodisen Biotech, Inc. and Subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of operations and other comprehensive loss, stockholders' equity and cash flows for years ended December 31, 2012 and 2011. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bodisen Biotech, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for years ended December 31, 2012 and 2011 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company incurred a net loss of \$16,369,802 for the year ended December 31, 2012 and has accumulated losses of \$30,730,206 at December 31, 2012. These matters are discussed in Note 2 to the consolidated financial statements that raises substantial doubt about the Company's ability to continue as a going concern. Financial support from the Company's Chairman in regard to these matters are described in Note 2. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Clement C. W. Chan & Co.
Certified Public Accountants

3/F., & 5/F., Heng Shan Centre, 145 Queen's Road East, Wanchai, Hong Kong
April 11, 2013

BODISEN BIOTECH, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011

| | Notes | 2012 | 2011 |
|-------------------------------------------------------------------------------------------------------------|----------|---------------------|---------------------|
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash | | \$294,539 | \$935,375 |
| Accounts receivable, net of allowance for doubtful accounts of \$475,122 and \$158,384 | 3 | 3,584,676 | 3,840,546 |
| Other receivables | | 3,963 | 19,215 |
| Note receivable | 4, 8 | - | 1,415,700 |
| Inventory | 5 | 2,166,992 | 2,149,262 |
| Advances to suppliers | 3 | 39,576 | 498,960 |
| Prepaid expense and other current assets | | 4,391 | 6,944 |
| Total current assets | | 6,094,137 | 8,866,002 |
| PROPERTY AND EQUIPMENT, net | 3 | 11,541,347 | 22,003,784 |
| MARKETABLE SECURITY, AVAILABLE-FOR-SALE | 6 | 282,603 | 1,211,154 |
| INTANGIBLE ASSETS, net | 7 | 4,776,979 | 4,852,720 |
| TOTAL ASSETS | | \$22,695,066 | \$36,933,660 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Accounts payable | | \$532,266 | \$702,253 |
| Accrued expenses | | 76,984 | 81,437 |
| Deferred revenue | 3 | 753,616 | 556,449 |
| Bank loan | 4, 8 | 1,426,500 | 1,415,700 |
| Total current liabilities | | 2,789,366 | 2,755,839 |
| Long-term bank loan | | - | - |
| TOTAL LIABILITIES | | 2,789,366 | 2,755,839 |
| STOCKHOLDERS' EQUITY: | | | |
| Preferred stock, \$0.0001 per share; authorized 5,000,000 shares; nil issued and outstanding | | - | - |
| Common stock, \$0.0001 per share; 30,000,000 shares authorized and 21,510,250 shares issued and outstanding | | 2,151 | 2,151 |
| Additional paid-in capital | | 35,345,542 | 35,345,542 |
| Accumulated other comprehensive income | 3 | 10,973,725 | 8,876,044 |
| Statutory reserve | 11 | 4,314,488 | 4,314,488 |
| Accumulated deficit | | (30,730,206) | (14,360,404) |

| | | |
|---------------------------------------------------|---------------------|---------------------|
| Total stockholders' equity | 19,905,700 | 34,177,821 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$22,695,066 | \$36,933,660 |

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

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND
OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | 2012 | 2011 |
|------------------------------------------------------------------------------|----------------|---------------|
| Revenue | \$8,055,958 | \$7,684,778 |
| Cost of revenue | 6,942,342 | 5,608,858 |
| Gross profit | 1,113,616 | 2,075,920 |
| Operating expenses | | |
| Selling expenses | 637,058 | 844,903 |
| General and administrative expenses (note 2) | 4,950,485 | 3,491,847 |
| Write down of property and equipment (note 3) | 9,057,267 | - |
| Total operating expenses | 14,644,810 | 4,336,750 |
| Loss from operations | (13,531,194) | (2,260,830) |
| Non-operating income (expense): | | |
| Other income (expense) | (856) | (111,757) |
| Write down of investment in marketable security (note 6) | (2,774,742) | - |
| Interest income | 21,369 | 207,962 |
| Interest expense | (84,379) | (145,747) |
| Total non-operating income | (2,838,608) | (49,542) |
| Net loss | (16,369,802) | (2,310,372) |
| Other comprehensive loss | | |
| Foreign currency translation gain | 479,103 | 1,220,453 |
| Unrealized (loss) on marketable equity security | (1,156,164) | (7,569,713) |
| Reclassification for other-than-temporary loss on marketable equity security | 2,774,742 | - |
| Total other comprehensive loss | 2,097,681 | (6,349,260) |
| Comprehensive loss | \$(14,272,121) | \$(8,659,632) |
| Weighted average shares outstanding : | | |
| Basic | 21,510,250 | 21,510,250 |
| Diluted | 21,510,250 | 21,510,250 |
| Earnings (loss) per share: | | |
| Basic | \$(0.76) | \$(0.11) |
| Diluted | \$(0.76) | \$(0.11) |

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

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

| | Common Shares | Stock Amount | Additional Paid in Capital | Accumulated Other Comprehensive Income | Statutory Reserve | Accumulated Deficit | Total Stockholders' Equity |
|------------------------------------------------------------------------------|------------------|-----------------|----------------------------------|-------------------------------------------------|----------------------|------------------------|----------------------------------|
| Balance, December 31, 2010 | 21,510,250 | 2,151 | \$35,345,542 | 15,225,304 | 4,314,488 | (12,050,032) | 42,837,453 |
| Change in foreign currency translation gain | - | - | - | 1,220,453 | - | - | 1,220,453 |
| Change in unrealized loss on marketable equity security, net of tax | - | - | - | (7,569,713) | - | - | (7,569,713) |
| Net loss | - | - | - | - | - | (2,310,372) | (2,310,372) |
| Transfer to statutory reserve | - | - | - | - | - | - | - |
| Balance, December 31, 2011 | 21,510,250 | \$2,151 | \$35,345,542 | \$8,876,044 | \$4,314,488 | \$(14,360,404) | \$34,177,821 |
| Change in foreign currency translation gain | - | - | - | 479,103 | - | - | 479,103 |
| Change in unrealized loss on marketable equity security, net of tax | - | - | - | (1,156,164) | - | - | (1,156,164) |
| Reclassification for other-than-temporary loss on marketable equity security | - | - | - | 2,774,742 | - | - | 2,774,742 |
| Net loss | - | - | - | - | - | (16,369,802) | (16,369,802) |
| Transfer to statutory reserve | - | - | - | - | - | - | - |

| | | | | | | | |
|-------------------------------|------------|---------|--------------|--------------|-------------|----------------|--------------|
| Balance, December 31, 2012 | 21,510,250 | \$2,151 | \$35,345,542 | \$10,973,725 | \$4,314,488 | \$(30,730,206) | \$19,905,700 |
|-------------------------------|------------|---------|--------------|--------------|-------------|----------------|--------------|

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

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | 2012 | 2011 |
|-----------------------------------------------------------------------------|-------------------|--------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(16,369,802) | \$(2,310,372) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,695,280 | 1,832,487 |
| Allowance for (recovery of) bad debts | 315,530 | 722,965 |
| Write down of property and equipment | 9,057,267 | - |
| Write down of investment | 2,774,742 | - |
| (Gain) on disposal of equipment | (4,579) | - |
| (Increase) / decrease in assets: | | |
| Accounts receivable | (30,361) | 89,152 |
| Other receivables | 15,399 | (9,536) |
| Inventory | (1,334) | (892,486) |
| Advances to suppliers | 463,190 | 188,339 |
| Prepaid expense | 2,605 | 1,941 |
| Increase / (decrease) in current liabilities: | | |
| Accounts payable | (175,265) | (590,891) |
| Accrued expenses | 192,921 | (54,650) |
| Deferred revenue | 3,552 | (1,101,280) |
| Other payables | (8,544) | (692,580) |
| Net cash used in operating activities | (2,069,399) | (2,816,911) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of property and equipment | (16,005) | (12,686) |
| Proceeds from sale of property and equipment | 11,095 | - |
| Proceeds from repayment of note receivable | 1,425,600 | 154,800 |
| Net cash provided by investing activities | 1,420,690 | 142,114 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from bank loan | 1,424,700 | - |
| Repayment of bank loan | (1,425,600) | (154,800) |
| Net cash used in financing activities | (900) | (154,800) |
| Effect of exchange rate changes on cash and cash equivalents | 8,773 | 89,763 |
| NET DECREASE IN CASH | (640,836) | (2,739,834) |
| CASH, BEGINNING OF PERIOD | 935,375 | 3,675,209 |
| CASH, END OF PERIOD | \$294,539 | \$935,375 |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | | |
|-------------------|----------|---------|
| Interest paid | \$84,379 | 145,747 |
| Income taxes paid | \$- | \$- |

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

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECMEBER 31, 2012 AND 2011

Note 1 - Organization and Basis of Presentation

Organization and Line of Business

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”). The Company is engaged in developing, manufacturing and selling organic fertilizers, liquid fertilizers, pesticides and insecticides in the People’s Republic of China and produces numerous proprietary product lines, from pesticides to crop-specific fertilizers. The Company markets and sells its products to distributors throughout the People's Republic of China, and these distributors, in turn, sell the products to farmers.

Note 2 – Going Concern

The accompanying audited consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the accompanying consolidated financial statements, the Company incurred a net loss of \$16,369,802 for the year ended December 31, 2012 and had accumulated losses of \$30,730,206 at December 31, 2012. These create an uncertainty about the Company’s ability to continue as a going concern. In this regard, the Company’s Chairman has issued a letter of undertaking that he will provide financial support to the Company (Note 16). The consolidated financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Note 3 – Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. All significant intercompany transactions and balances have been eliminated. The Company’s functional currency is the Chinese Yuan Renminbi (“RMB”); however the accompanying consolidated financial statements have been translated and presented in United States Dollars (\$) or “USD”.

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.

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought. There were no contingencies of the type as of December 31, 2012 and 2011.

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECMEBER 31, 2012 AND 2011

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but it is reasonably possible, or is probable but cannot be estimated, then the nature of the contingency liability, together with an estimate of the range of possible loss if determinable and material would be disclosed. There were no contingencies of this type as of December 31, 2012 and 2011.

Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

Cash and Cash Equivalents

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

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. Allowance for doubtful accounts as of December 31, 2012 and 2011 were \$475,122 and \$158,384, respectively.

Advances to Suppliers

The Company advances to certain vendors for purchase of its material. The advances to suppliers are interest free and unsecured.

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 and Equipment

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:

| | |
|---------------------|----------|
| Operating equipment | 10 years |
| Vehicles | 8 years |
| Office equipment | 5 years |

Buildings

30 years

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECMEBER 31, 2012 AND 2011

The following are the details of the property and equipment at December 31, 2012 and 2011, respectively:

| | 2012 | 2011 |
|-------------------------------|--------------|--------------|
| Operating equipment | \$4,036,291 | \$10,500,004 |
| Vehicles | 64,510 | 633,860 |
| Office Equipment | 7,594 | 76,011 |
| Buildings | 7,432,952 | 15,432,646 |
| | 11,541,347 | 26,642,521 |
| Less accumulated depreciation | - | (4,638,737) |
| Property and equipment, net | \$11,541,347 | \$22,003,784 |

Depreciation expense for the years ended December 31, 2012 and 2011 was \$1,582,519 and \$1,696,310, respectively. During the year ended December 31, 2012, the Company took an impairment charge of \$9,057,267 related to its property and equipment. There was no impairment charge taken during the year ended December 31, 2011.

Impairment losses are required to be reflected as a permanent write-down of the cost basis of the affected assets. Accordingly, previously recorded depreciation on the impaired property and equipment (i.e., accumulated depreciation) has been eliminated as of December 31, 2012 which was the date of the impairment charge. Depreciation will be recorded based on the new cost basis and remaining estimated useful life of property and equipment beginning January 1, 2013.

Marketable Securities

The Company applies the guidance of ASC Topic 320 “Investments-Debt and Equity Securities,” which requires investments in equity securities to be classified as either trading securities or available-for-sale securities. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings. Marketable equity securities not classified as trading are classified as available for sale, and are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of comprehensive income and reported in shareholders’ equity.

Long-Lived Assets

The Company applies the provisions of ASC Topic 360, “Property, Plant, and Equipment,” which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. ASC 360 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 value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair values are reduced for the cost of disposal. Based on its review at December 31, 2012, the Company took an impairment charge related to its property and equipment for \$9,057,267. At December 31, 2011, there was no impairment of its long-lived assets.

Intangible Assets

Intangible assets consist of Rights to use land and Fertilizers proprietary technology rights. The Company follows ASC Topic 350 in accounting for intangible assets, which requires impairment losses to be recorded when indicators of impairment are present and the undiscounted cash flows estimated to be generated by the assets are less than the assets' carrying amounts. There were no impairment losses recorded on intangible assets for the years ended December 31, 2012 and 2011 as the valuation report for the fair value of the land use rights exceeded the carrying value.

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECMEBER 31, 2012 AND 2011

Fair Value of Financial Instruments

For certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, other receivables, notes receivable, advances to suppliers and accounts payable, the carrying amounts approximate their fair values due to their short maturities. In addition, the Company has a note payable with financial institutions. The carrying amount of note payable approximates its fair values based on current rates of interest for instruments with similar characteristics.

Fair Value Measurements

ASC Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices 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 as of December 31, 2012 and 2011.

| December 31, 2012 | | | | |
|-----------------------|-------------|---------|---------|--|
| Description | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Marketable securities | \$282,603 | \$- | \$- | |
| December 31, 2011 | | | | |
| Description | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Marketable securities | \$1,211,154 | \$- | \$- | |

The following table represents our assets and liabilities by level measured at fair value on a non-recurring basis as of December 31, 2012 and 2011.

| December 31, 2012 | | | | Loss for the year ended December 31, 2012 |
|------------------------|---------|---------|--------------|-------------------------------------------------------|
| Description | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Property and equipment | \$- | \$- | \$11,541,347 | \$9,057,267 |

| December 31, 2011 | | | | Loss for the year ended December 31, 2011 |
|------------------------|---------|---------|---------|-------------------------------------------------------|
| Description | Level 1 | Level 2 | Level 3 | |
| Assets | | | | |
| Property and equipment | \$- | \$- | \$- | \$- |

Based on a quotation made by an independent third party, whose quotation was arrived at with reference to second-hand market conditions, and estimated remaining useful lives of the property and equipment in the nature of machineries. Property and equipment with carrying amount of \$20,598,614 were written down to their fair value of \$11,541,347, resulting in an impairment charge of \$9,057,267, which was included in net loss for the year ended December 31, 2012.

BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECMEBER 31, 2012 AND 2011

Revenue Recognition and Deferred Revenue

The Company's revenue recognition policies are in compliance with Staff accounting bulletin (SAB) 104. Because collection is not reasonably assured, sales revenue is recognized using the cost recovery method. Under the cost recovery method, no profit is recognized until collections exceed the cost of the goods sold. Profit not yet recognized is recorded as deferred revenue as a current liability.

Advertising Costs

The Company expenses the cost of advertising as incurred or, as appropriate, the first time the advertising takes place. For the years ended December 31, 2012 and 2011, the Company incurred advertising expenses of \$494,925 and \$716,337, respectively.

Shipping and Handling Costs

Shipping and handling costs consist primarily of transportation charges for delivery of goods to customers and are included in selling, general and administrative expenses. The Company expenses all shipping cost when they are incurred. For the years ended December 31, 2012 and 2011, the Company incurred transportation charges of \$54,791 and \$50,121, respectively.

Research and Development

The Company accounts for research and development costs in accordance with ASC 730-10, all research and development costs must be charged to expense as incurred. Accordingly, internal research and development costs are expensed as incurred. Third party research and development costs are expensed when the contract work has been performed or as milestone results have been achieved as defined under the applicable agreement. Company-sponsored research and development costs related to both present and future products are expensed in the period incurred.

Included in general and administrative expenses are substantial research and development expenditure that the Company incurred during the year for development of a new fertilizer (to be more exact, this is not a new fertilizer but different mixes and proportion of components making up the fertilizer for different regions in China, see explanation below), approximately \$2,536,000 (RMB 16 million). Substantial research and development expenses were incurred as:

- i. Fertilizer is made up of different components at different mixes (or proportions).
- ii. However, because China is such a vast country, different farming areas have different climates (weather, moisture, rainfall period over the year, how much rainfall in different periods of the year and so forth).
- iii. Research and development are incurred to ascertain what are the correct mixes or proportions of components of the fertilizers to satisfy farmers in different regions. In fact, the local farmers voice out problems with the fertilizer they have been sold. To meet customer's needs, the Company has to and needs to continue with such kind of research and development investment.

BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECMEBER 31, 2012 AND 2011

Stock-Based Compensation

The Company records stock-based compensation in accordance with ASC Topic 718, “Compensation – Stock Compensation.” ASC 718 requires companies to measure compensation cost for stock-based employee compensation at fair value at the grant date and recognize the expense over the employee’s requisite service period. The Company recognizes in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees. The Company recognizes in the statement of operations the fair value at the vesting date for stock options and other equity-based compensation issued to non-employees. There were no options outstanding as of December 31, 2012.

Income Taxes

The Company accounts for income taxes in accordance with ASC Topic 740, “Income Taxes.” ASC 740 requires a company to use the asset and liability method of accounting for income taxes, whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or all of, the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Under ASC 740, a tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The adoption had no effect on the Company’s consolidated financial statements.

Foreign Currency Translation

The accounts of the Company’s Chinese subsidiaries are maintained in the RMB and the accounts of the U.S. parent company are maintained in the USD. The accounts of the Chinese subsidiaries are were translated into USD in accordance with Accounting Standards Codification (“ASC”) Topic 830 “Foreign Currency Matters,” with the RMB as the functional currency for the Chinese subsidiaries. According to Topic 830, all assets and liabilities were translated at the exchange rate on the balance sheet date, stockholders’ equity is translated at historical rates and statement of operations items are translated at the weighted average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with ASC Topic 220, “Comprehensive Income.” Gains and losses resulting from the translations of foreign currency transactions and balances are reflected in the statement of operations.

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’s Chinese subsidiaries is the Chinese Yuan Renminbi. Translation gains of \$10,973,725 and \$10,494,622 at December 31, 2012 and 2011, respectively are classified as an item of other comprehensive income in the stockholders’ equity section of the consolidated balance sheet. During the years ended December 31, 2012 and 2011 other comprehensive income in

the consolidated statements of operations and other comprehensive income included translation gains of \$479,103 and \$1,220,453, and unrealized (loss) on marketable equity security of \$(1,156,164) and \$(7,569,713), respectively. A detail of accumulated other comprehensive income is summarized below:

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE YEARS ENDED DECMEBER 31, 2012 AND 2011

| | Foreign Currency | Unrealized Gain (loss) | Other Comprehensive Income |
|---------------------------------------------------------------------------------|---------------------|---------------------------|----------------------------------|
| Balance, December 31, 2010 | 9,274,169 | 5,951,135 | 15,225,304 |
| Adjustments | 1,220,453 | (7,569,713) | (6,349,260) |
| Balance, December 31, 2011 | \$10,494,622 | \$(1,618,578) | \$ 8,876,044 |
| Adjustments | 479,103 | (1,156,164) | (677,061) |
| Reclassification for other-than-temporary loss on marketable equity security | - | 2,774,742 | 2,774,742 |
| Balance, December 31, 2012 | \$10,973,725 | \$- | \$ 10,973,725 |

Basic and Diluted Earnings Per Share

Earnings per share is calculated in accordance with the ASC Topic 260, "Earnings Per Share." Basic earnings per share is based upon the weighted average number of common shares outstanding. Diluted earnings per share is based on the assumption that all dilutive convertible shares and stock warrants were converted or exercised. Dilution is computed by applying the treasury stock method. Under this method, 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. There were no options as of December 31, 2012 and 426,000 options as of December 31, 2011 that were excluded from the diluted loss per share calculation due to their exercise price being greater than the Company's average stock price for the year.

Statement of Cash Flows

In accordance with ASC Topic 230, "Statement of Cash Flows," cash flows from the Company's operations are calculated based upon the local currencies using the average translation rates. As a result, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets.

Segment Reporting

ASC Topic 280, "Segment Report," 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. ASC Topic 280 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 and all of the Company's assets are located in People's Republic of China.

Recent Accounting Pronouncements

In December 2011, the FASB issued guidance on offsetting assets and liabilities and disclosure requirements in Accounting Standards Update No. 2011-11, Disclosures about Offsetting Assets and Liabilities ("Update 2011-11"). Update 2011-11 requires that entities disclose both gross and net information about instruments and transactions eligible for offsetting the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting agreement. In addition, the standard requires disclosure of collateral received and posted in connection with master netting agreements or similar arrangements. Update 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods with those annual periods. The

implementation of the disclosure requirement is not expected to have a material impact on the Company's consolidated results of operations, financial position or cash flows.

In February 2013, the FASB issued ASU No. 2013-02, which amends the authoritative accounting guidance under ASC Topic 220 "Comprehensive Income." The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under generally accepted accounting principles in the United States of America ("GAAP") to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this update are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. Adoption of this update is not expected to have a material effect on the Company's consolidated results of operations or financial condition.

BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECMEBER 31, 2012 AND 2011

As of December 31, 2012, there are no recently issued accounting standards not yet adopted that would have a material effect on the Company's financial statements.

Note 4 – Note Receivable

The note receivable balance at December 31, 2011 was unsecured, interest bearing at 9.1% per annum and was repaid in full on January 18, 2012. The proceeds received on January 18, 2012 were used to pay back the bank loan (see note 8). The note receivable arose during the quarter ended March 31, 2012 and was unsecured, non interest bearing and was originally due on April 22, 2012. The note receivable was repaid in full on April 22, 2012

Note 5 – Inventory

Inventory at December 31, 2012 and 2011 consisted of the following:

| | 2012 | 2011 |
|----------------|-------------|-------------|
| Raw materials | \$407,837 | \$638,878 |
| Packaging | 85,343 | 74,343 |
| Finished goods | 1,673,812 | 1,436,041 |
| | \$2,166,992 | \$2,149,262 |

Note 6 – Marketable Security

During 2008, the Company exchanged \$3,291,264 of receivables for a 28.8% ownership interest in a Chinese company, Shanxi Jiali Pharmaceutical Co. Ltd (“Jiali”). The Company had written down the value of this investment by \$987,860 at December 31, 2008. This investment was originally accounted for under the equity method and the Company recorded equity income in this investment through September 30, 2009. During the fourth quarter of 2009, Jiali was purchased by China Pediatric Pharmaceuticals, Inc. (“China Pediatric”), a public company. After the transaction, the Company owned 18.8% (or 2,018,590 shares) of China Pediatric. The Company then changed the accounting method for the investment from the equity method to the fair value method. At the date of the change, the investment was valued at \$2,829,732. As of December 31, 2012 and 2011, the fair value of the investment is \$282,603 and \$1,211,154, respectively, which is reflected in the consolidated balance sheet. The Company recognized an unrealized (loss) of \$(1,156,164) and \$(7,569,713) for the years ended December 31, 2012 and 2011, respectively, in equity. At December 31, 2012, the Company determined that the decline in value of its investment in China Pediatric (a marketable equity security) was other-than-temporary resulting in the cumulative unrealized loss on this marketable equity security totaling \$2,774,742 being reclassified from accumulated other comprehensive income to retained earnings.

Note 7– Intangible Assets

Net intangible assets at December 31, 2012 and 2011 were as follows:

| | 2012 | 2011 |
|-------------------------------------------|-------------|-------------|
| Rights to use land | \$5,406,639 | \$5,365,705 |
| Fertilizers proprietary technology rights | 1,268,000 | 1,258,400 |
| | 6,674,639 | 6,624,105 |
| Less accumulated amortization | (1,897,660) | (1,771,385) |
| Intangibles, net | \$4,776,979 | \$4,852,720 |

BODISEN BIOTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECMEBER 31, 2012 AND 2011

The Company's office and manufacturing site is located in Yang Ling Agricultural High-Tech Industries Demonstration Zone in the province of Shaanxi, 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 on January 1, 2001 with a life ended December 31, 2011. The amortization of Fertilizers proprietary technology rights was over a period of ten years and was amortized in full during 2011.

On July 15, 2008, the Company entered into a 50 year land rights agreement.

Amortization expense for the Company's intangible assets amounted to \$112,761 and \$136,177 for the years ended December 31, 2012 and 2011, respectively. Amortization of intangible assets for the next five years are as follows:

| Year End | Amount | |
|----------|------------|-------------|
| | 2013 | 108,133 |
| | 2014 | 108,133 |
| | 2015 | 108,133 |
| | 2016 | 108,133 |
| | 2017 | 108,133 |
| | Thereafter | 4,236,314 |
| | | \$4,776,979 |

Note 8 – Bank Loan

On March 19, 2010, the Company obtained a bank loan for 10,000,000 RMB (approximately \$1,517,000). The loan bears an 8.1% annual interest rate, matures on March 19, 2012 and was secured by the Company's rights to use land and facility. This bank loan was repaid in full on January 18, 2012. During the quarter ended June 30, 2012, the Company obtained another bank loan for 9,000,000 RMB (approximately \$1,425,600). The loan bears a 9.84% annual interest rate, matures on May 27, 2013 and is secured by the Company's intangible assets in the nature of rights to use the land.

Note 9 – Stockholders Equity

Common stock

There was no stock based compensation incurred during the years ended December 31, 2012.

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. From January 1, 2007 onwards, no provision for employee welfare is allowed in accordance with the revised PRC regulations. The total expense for the above plan were \$0 for the years ended December 31, 2012 and 2011. The Company has recorded welfare payable of \$0 at December 31, 2012 and 2011.

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BODISEN BIOTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECMEBER 31, 2012 AND 2011

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.

The Company did not appropriate a reserve for the statutory surplus reserve and welfare fund for the years ended December 31, 2012 and 2011.

Note 12 – Factory Location and Lease Commitments

The Company’s principal executive offices are located in the Shaanxi province, People’s Republic of China. BBST owns two factories, which includes three production lines, an office building, one warehouse, and two research labs and, is located on 10,900 square meters of land. The Company leases its office premises under an operating lease agreement that requires monthly rental payments of \$2,755 and the leases expire in 2013.

Future minimum lease payments under operating leases are as follows, by years as of December 31, 2012:

| Year | Amount |
|------|---------|
| 2013 | \$4,030 |

Note 13 – Current Vulnerability Due to Certain Concentrations

Three vendors provided 16%, 16% and 15% of the Company’s raw materials for the year ended December 31, 2012 and two vendors provided 23%, and 21% of the Company’s raw materials for the year ended December 31, 2011.

Two customers accounted for 14% and 9% of the Company’s sales for the year ended December 31, 2012. Two customers accounted for 17% and 12% of the Company’s sales for the year ended December 31, 2011.

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 – Income Taxes

At December 31, 2012, the Company has available for US and China income tax purposes a net operating loss carry forward of approximately \$6,120,000 and \$13,120,000, respectively that begin to expire in 2019 and 2022, respectively. These net operating loss carry forwards may be used to offset future taxable income. The Company is no longer subject to US income tax examinations by tax authorities for years before 2009. The Company has provided a valuation reserve against the full amount of the net operating loss benefit, since in the opinion of management based upon the earnings history of the Company; it is more likely than not that the benefits will not be realized. All or portion of the remaining valuation allowance may be reduced in future years based on an assessment of earnings sufficient to fully utilize these potential tax benefits. Currently the Company is not subject to examination by major tax jurisdictions, but the tax authority in PRC has the right to examine the Company's tax position in all past years.

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BODISEN BIOTECH, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECMEBER 31, 2012 AND 2011

At December 31, 2012 and 2011, the significant components of the deferred tax assets (liabilities) are summarized below:

| | 2012 | 2011 |
|----------------------------------------------|-------------|-------------|
| Deferred tax assets: | | |
| Net operating loss - United States | \$2,082,000 | \$1,985,000 |
| Net operating loss - China | 3,279,000 | 1,651,000 |
| Write down of property and equipment - China | 2,264,000 | - |
| Unrealized investment loss | - | 405,000 |
| Deferred revenue | 188,000 | 139,000 |
| Allowance for doubtful accounts | 119,000 | 40,000 |
| Total deferred tax assets | 7,932,000 | 4,220,000 |
| Deferred tax liability: | | |
| Unrealized investment gain | - | - |
| Total deferred liability | - | - |
| Net deferred tax asset | 7,932,000 | 4,220,000 |
| Less valuation allowance | (7,932,000) | (4,220,000) |
| | \$- | \$- |

The valuation allowance increased by \$3,712,000 and \$2,499,000, respectively, during the years ended December 31, 2012 and 2011.

The reconciliation of the effective income tax rate to the federal statutory rate for the years ended December 31, 2012 and 2011 is as follows:

| | 2012 | | 2011 | |
|---------------------------------|-------|---|-------|---|
| Federal income tax rate | -34.0 | % | -34.0 | % |
| Foreign tax rate difference | 9.0 | % | 9.0 | % |
| Use of prior year NOLs | 0.0 | % | 0.0 | % |
| Increase in valuation allowance | 25.0 | % | 25.0 | % |
| Effective income tax rate | 0.0 | % | 0.0 | % |

Note 15 – Litigation

From time to time, the Company 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 the Company's business. The Company is currently not aware of any such legal proceedings or claims that it believes would or could have, individually or in the aggregate, a material adverse affect on the Company's business, financial condition, results of operations or liquidity.

Note 16 – Chairman Financial Undertaking

On March 19, 2013, the Chairman of the Board issued an undertaking that he will give his every endeavor and effort to obtain necessary and adequate funding to meet the Company's financial obligations as when they are required

thereby warranting that the manufacturing operations of the Company will not be affected. As of the date hereof no such funding has been needed by the Company. However, there can be no assurance that the Chairman will be successful in this undertaking.

Note 17 – Subsequent Events

Pursuant to ASC 855-10, the Company has evaluated all events or transactions that occurred from January 1, 2013, through the filing with the SEC. The Company did not have any material recognizable subsequent events during this period.

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