BODISEN BIOTECH, INC
Form 10QSB
August 14, 2006

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

FORM 10-QSB

(Mark One)

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

For the quarterly period ended June 30, 2006

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

For the transition period from ________________ to _______________

001-32616
(Commission file number)

BODISEN BIOTECH, INC.
(Exact name of small business issuer as specified in its charter)

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

North Part of Xinquia Road, Yang Ling AG
High-Tech Industries Demonstration Zone
Yang Ling, China 712100
(Address of principal executive offices)

86-29-870749
(Issuer's telephone number)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: As of August 7, 2006 - 18,176,917 shares of common stock

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

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

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2006
(UNAUDITED)

ASSETS	
CURRENT ASSETS:	
Cash & cash equivalents	$ 17,447,381
Accounts receivable, net of allowance for doubtful accounts of $697,209	17,613,943
Other receivable	1,526,114
Inventory	1,145,025
Advances to suppliers	8,934,286
Prepaid expense	47,714
Other current assets	2,083
Total current assets	46,716,546
PROPERTY AND EQUIPMENT, net	5,160,897
CONSTRUCTION IN PROGRESS	2,618,316
MARKETABLE SECURITY	5,716,637
INTANGIBLE ASSETS	2,072,233
TOTAL ASSETS	$ 62,284,629
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 1,852,149
Other payables	154,246
Accrued expenses	497,017
Total current liabilities	2,503,412
STOCKHOLDERS' EQUITY:	
Preferred stock, $0.0001 per share; authorized 5,000,000 shares; none issued	
Common stock, $0.0001 per share; authorized 30,000,000 shares; issued and outstanding 18,176,917	1,818
Additional paid-in capital	32,860,075
Other comprehensive income	3,555,315
Statutory reserve	3,742,991
Retained earnings	19,621,018
Total stockholders' equity	59,781,217
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 62,284,629

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

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED)

	Three Month Periods Ended June 30,		Six Month Periods Ended June 30,	
	2006	**2005**	**2006**	**2005**
Net Revenue	$ 16,382,189	$ 8,416,805	$ 26,917,549	$ 13,118,480
Cost of Revenue	9,970,253	5,161,141	16,269,374	8,208,639
Gross profit	6,411,936	3,255,664	10,648,175	4,909,841
Operating expenses				
Selling expenses	671,469	231,768	1,145,643	379,908
General and administrative expenses	546,738	14,709	850,962	709,882
Total operating expenses	1,218,207	246,477	1,996,605	1,089,790
Income from operations	5,193,729	3,009,187	8,651,570	3,820,051
Non-operating income (expense):				
Other income (expense)	656,916	—	532,375	—
Interest income	29,231	48,055	57,294	48,055
Interest expense	(198)	(365,228)	(678,918)	(379,360)
Total non-operating income (expense)	685,949	(317,173)	(89,249)	(331,305)
Net income	5,879,678	2,692,014	8,562,321	3,488,746
Other comprehensive income				
Foreign currency translation (loss)	158,603	—	118,103	—
Unrealized gain on marketable equity security	(3,384,580)	—	(1,093,797)	—
Comprehensive Income	$ 2,653,701	$ 2,692,014	$ 7,586,627	$ 3,488,746
Weighted average shares outstanding :				
Basic	18,176,917	15,272,926	17,698,731	15,270,759
Diluted	18,310,931	15,692,205	17,848,452	15,562,010
Earnings per share:				
Basic	$ 0.32	$ 0.18	$ 0.48	$ 0.23
Diluted	$ 0.32	$ 0.17	$ 0.48	$ 0.22

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

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2006 AND 2005
(UNAUDITED)

	Six Month Periods Ended June 30, 2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 8,562,321	$ 3,488,746
Adjustments to reconcile net income to net cash provided by (used in) in operating activities:		
Depreciation and amortization	221,588	100,512
Amortization of debt discounts	603,886	259,505
Exchange loss	(249,490)	—
Value of vested option issued to directors	7,523	—
(Increase) / decrease in assets:		
Accounts receivable	(10,019,514)	(2,097,016)
Other receivable	(3,863,855)	—
Inventory	45,776	(276,588)
Advances to suppliers	(4,308,245)	(68,653)
Other assets	14,806	(1,523,272)
Increase / (decrease) in current liabilities:		—
Accounts payable	1,793,559	626,968
Other payables	3,533,183	352,067
Accrued expenses	83,702	(136,680)
Other	—	(68,855)
Net cash provided by (used in) operating activities	(3,574,760)	656,734
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(381,187)	(1,871,116)
Additions to construction in progress	(724,537)	—
Net cash used in investing activities	(1,105,724)	(1,871,116)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on note payable	(5,000,000)	—
Repayments of loans to officers	—	(1,415,217)
Proceeds from issuance of convertible note	—	3,000,000
Proceeds from issuance of common stock	26,682,511	—
Payment of offering costs	(6,132,707)	—
Proceeds from the exercise of warrants	220,160	-
Net cash provided by financing activities	15,769,964	1,584,783
Effect of exchange rate changes on cash and cash equivalents	81,004	—
NET INCREASE IN CASH & CASH EQUIVALENTS	11,170,484	370,401

CASH & CASH EQUIVALENTS, BEGINNING BALANCE		6,276,897		2,121,811
CASH & CASH EQUIVALENTS, ENDING BALANCE	$	17,447,381	$	2,492,212
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Interest paid	$	112,500	$	379,360
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
(UNAUDITED)

Note 1 - Organization and Basis of Presentation

Organization and Line of Business

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

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

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

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

As a result of the reverse merger transaction described above the historical financial statements presented are those of BBST, the operating entity. The financial statements of legal acquirer are not significant; therefore, no pro forma financial information is submitted.

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

Basis of Presentation

The unaudited consolidated financial statements have been prepared by Bodisen Biotech, Inc. (the “Company”), pursuant to the rules and regulations of the Securities and Exchange Commission. The information furnished herein reflects all adjustments (consisting of normal recurring accruals and adjustments) which are, in the opinion of management, necessary to fairly present the operating results for the respective periods. Certain information and footnote disclosures normally present in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-KSB. The results of the six months ended June 30, 2006 are not necessarily indicative of the results to be expected for the full year ending December 31, 2006.

BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Foreign Currency Translation

As of June 30, 2006 and 2005, the accounts of the Company were maintained, and their consolidated financial statements were expressed in the Chinese Yuan Renminbi (RMB). Such consolidated financial statements were translated into U.S. Dollars (USD) in accordance with Statement of Financial Accounts Standards ("SFAS") No. 52, "Foreign Currency Translation," with the RMB as the functional currency. According to the Statement, all assets and liabilities were translated at the exchange rate on the balance sheet date, stockholder's equity are translated at the historical rates and statement of operations items are translated at the weighted average exchange rate for the year. The resulting translation adjustments are reported under other comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income."

Note 2 - Summary of Significant Accounting Policies

Use of Estimates

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

Cash and Cash Equivalents

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

Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Terms of the sales vary from COD through a credit term up to 9 to 12 months. Reserves are recorded primarily on a specific identification basis. Allowance for doubtful debts amounted to $697,209 as at June 30, 2006.

Advances to Suppliers

The Company advances to certain vendors for purchase of its material. The advances to suppliers are interest free and unsecured. The advances to suppliers amounted to $8,934,286 at June 30, 2006.

BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Property & Equipment & Capital Work In Progress

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

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

At June 30, 2006, the following are the details of the property and equipment:

Operating equipment	$ 953,811
Vehicles	578,389
Office equipment	74,806
Buildings	4,319,177
	5,926,183
Less accumulated depreciation	(765,286)
	$ 5,160,897

Depreciation expense for the six months ended June 30, 2006 and 2005 was $154,774 and $35,572, respectively.

On June 30, 2006, the Company has “Capital Work in Progress” representing the construction in progress of the Company’s manufacturing plant amounting $2,618,316.

Marketable Securities

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

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

Intangible Assets

Intangible assets consist of Rights to use land and Fertilizers proprietary technology rights. The Company evaluates intangible assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets and other long-lived assets is measured by comparing their net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss.

BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Revenue Recognition

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

Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with SFAS No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123." The Company recognizes in the statement of operations the grant- date fair value of stock options and other equity-based compensation issued to employees and non-employees. During the six months ended June 30, 2006, the Company recognized compensation expense of $7,523 related to certain employee option issued in 2005 that vested during the six months ended June 30, 2006.

Income Taxes

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

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

In March 2005, Bodisen Biotech Inc. formed a new 100% wholly-owned subsidiary named Yang Ling Bodisen Agricultural Technology Co., Ltd. ("Agricultural") in China. Under Chinese law, a newly formed wholly owned subsidiary of a foreign company enjoys an income tax exemption for the first two years and a 50% reduction of normal income tax rates for the following 3 years. In order to extend such tax benefits, in June 2005, Agricultural completed a transaction with Yang Ling Bodisen Biology Science and Technology Development Company Limited (BBST), which resulted in Agricultural owning 100% of BBST.

Foreign Currency Transactions and Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain statements, however, require entities to report specific changes in assets and liabilities, such as gain or loss on foreign currency translation, as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income. The functional currency of the Company is Chinese Renminbi. The unit of Renminbi is in Yuan. Translation gains of $706,024 at June 30, 2006 are classified as an item of other comprehensive income in the stockholders' equity section of the consolidated balance sheet. During the six months ended June 30, 2006 and 2005, other comprehensive income in the consolidated statements of income and other comprehensive income included translation loss of $118,103 and $0, respectively.

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Segment Reporting

Statement of Financial Accounting Standards No. 131 (“SFAS 131”), “Disclosure About Segments of an Enterprise and Related Information” requires use of the “management approach” model for segment reporting. The management approach model is based on the way a company’s management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. SFAS 131 has no effect on the Company’s consolidated financial statements as the Company consists of one reportable business segment. All revenue is from customers in People’s Republic of China. All of the Company’s assets are located in People’s Republic of China.

Recent Pronouncements

In February 2006, FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments”. SFAS No. 155 amends SFAS No 133, “Accounting for Derivative Instruments and Hedging Activities”, and SFAF No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”. SFAS No. 155, permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS No. 133, establishes a requirement to evaluate interest in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and amends SFAS No. 140 to eliminate the prohibition on the qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This statement is effective for all financial instruments acquired or issued after the beginning of the Company’s first fiscal year that begins after September 15, 2006.

In March 2006 FASB issued SFAS 156 ‘Accounting for Servicing of Financial Assets’ this Statement amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement:

1. Requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract.

2. Requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable.

3. Permits an entity to choose ‘Amortization method’ or Fair value measurement method’ for each class of separately recognized servicing assets and servicing liabilities.

4. At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity’s exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value.

BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

5. Requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities.

This Statement is effective as of the beginning of the Company's first fiscal year that begins after September 15, 2006. Management believes that this statement will not have a significant impact on the consolidated financial statements.

Note 3 - Principles of Consolidation

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

Note 4 - Marketable Security

During the year ended December 31, 2005, the Company purchased 2,063,768 shares of China Natural Gas, Inc. (traded on the OTCBB: CHNG) for $2,867,346. At June 30, 2006, the fair value of this investment was $5,716,637 which resulted in an unrealized loss of $1,093,797 for the six months ended June 30, 2006, which is included in other comprehensive income. At June 30, 2006, this represented an 8.6% interest in China Natural Gas, Inc. Unrealized gains of $2,849,291 at June 30, 2006 are classified as an item of other comprehensive income in the stockholders' equity section of the consolidated balance sheet.

Note 5 - New subsidiary

In June 2006, the Company invested $6,253,439 to own 100% equity in a new compound fertilizer production company, Sinkiang Bodisen Agriculture Material Co., Ltd., located in Xinjiang Province A La Er City. The investment amount is kept in a bank account in Urumuqi City and has been reflected as a part of cash and cash equivalents in the accompanying financial statements.

Note 6- Intangible Assets

Net intangible assets at June 30, 2006 were as follows:

Rights to use land	$ 1,709,632
Fertilizers proprietary technology rights	1,000,550
	2,710,182
Less Accumulated amortization	(637,949)
	$ 2,072,233

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.

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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

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

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

Amortization expense for the Company's intangible assets for the six months ended June 30, 2006 and 2005 amounted to $66,814 and $64,940, respectively.

Amortization expense for the Company's intangible assets over the next five fiscal years is estimated to be: 2007-$130,000, 2008-$130,000, 2009-$130,000, 2010-$130,000 and 2011-$130,000.

Note 7 - Other Payable

Other Payable represents fees and commission payable to third parties in connection wit the financing in the United Kingdom.

Note 8 - Note Payable

On December 8, 2005, the Company issued a $5,000,000 note payable to Amaranth Partners LLC that accrues interest at 9% per annum and was due on March 8, 2006. In connection with this note payable agreement, the Company also issued to Amaranth Partners LLC a warrant to purchase 133,333 shares of the Company common stock for $7.50 per shares. The Company first determined the value of the note and the fair value of the detachable warrants issued in connection with this note payable. The estimated value of the warrants of $968,282 was determined using the Black-Scholes option pricing model and the following assumptions: term of 5 years, a risk free interest rate of 4.00%, a dividend yield of 0% and volatility of 31%. The face amount of the note payable of $5,000,000 was proportionately allocated to the note payable and the warrant in the amount of $4,188,810 and $811,190, respectively. The amount allocated to the warrants of $811,190 was recorded as a discount on the note payable and will be amortized over the year life of the note payable. For the three months ended March 31, 2006, $603,886 has been amortized to interest expense as the note was repaid. The $5,000,000 note plus $112,500 of accrued interest were repaid in March 2006.

Note 9 - Stockholders' Equity

On February 3, 2006, the Company entered into a placing agreement (the "Placing Agreement") with Charles Stanley Securities ("Charles Stanley") relating to the sale of up to 1,643,836 shares of the Company's common stock. Pursuant to the Placing Agreement, Charles Stanley has agreed to use its reasonable effort to sell all such shares of common stock at a price of 730 pence (approximately US$12.99) per share, resulting in gross proceeds of approximately 12 million British pounds sterling (US$21,360,005). The Company incurred offering costs and expenses of $5,144,356 related to this sale of common stock.

On March 15, 2006, the Company completed financing of $5,322,506 by issuing 380,179 restricted shares of common stock of the Company at $14.00 per share to institutional investors in a private placement pursuant to Regulation S. The Company incurred offering costs and expenses of $988,351 related to this sale of common stock. The proceeds from this financing were used to repay the $5 million short term note that the Company entered in December 2005.

BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

During the three months ended March 31, 2006, 32,000 warrants were exercised and the Company received proceeds of $220,160.

Note 10 - Stock Options and Warrants

Stock Options

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

Primarily as a result of adopting SFAS No. 123R, the Company recognized $7,523 in share-based compensation expense for the six months ended June 30, 2006. The impact of this share-based compensation expense on the Company's basic and diluted earnings per share was $0.00 per share. The fair value of our stock options was estimated using the Black-Scholes option pricing model.

For periods presented prior to the adoption of SFAS No. 123R, pro forma information regarding net income and earnings per share as required by SFAS No. 123R has been determined as if the Company had accounted for its employee stock options under the original provisions of SFAS No. 123. The fair value of these options was estimated using the Black-Scholes option pricing model. For purposes of pro forma disclosure, the estimated fair value of the options is amortized to expense over the option's vesting period. The pro forma expense to recognize during the six months ended June 30, 2005 is as follows:

BODISEN BIOTECH, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Net icome:		
As reported	$	3,488,746
Compensation recognized under APB 25		—
Compensation recognized under SFAS 123		(12,000)
Pro forma	$	3,476,746
Basic earnings per share:		
As reported	$	0.23
Pro forma	$	0.23
Diluted earnings per share:		
As reported	$	0.22
Pro forma	$	0.22

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

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

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

The option exercise price was $5 for the first 100,000 stock options which was the same as fair value of the shares at the time of granting of the options. The option exercise price was $5.80 for the second 10,000 stock options which was the same as fair value of the shares at the time of granting of the options.

On October 4, 2005, the Company granted 26,000 stock options to two directors (13,000 options each). 20,000 stock options vested immediately and the remaining 6,000 stock options became vested 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. Following is a summary of the stock option activity:

	Options outstanding		Weighted Average Exercise Price		Aggregate Intrinsic Value
Outstanding, December 31, 2005	136,000	$	5.39	$	1,171,280
Granted	—		—		
Forfeited	—		—		
Exercised	—		—		
Outstanding, June 30, 2006	136,000	$	5.39	$	1,104,640

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Following is a summary of the status of options outstanding at June 30, 2006:

Outstanding Options				Exercisable Options	
Exercise Price	Number	Average Remaining Contractual Life	Average Exercise Price	Number	Average Exercise Price
$5.00	100,000	2.93	$ 5.00	100,000	$ 5.00
$5.80	10,000	3.50	$ 5.80	10,000	$ 5.80
$6.72	26,000	4.27	$ 6.72	26,000	$ 6.72

For options granted during the year ended December 31, 2005, the weighted-average fair value of such options was $3.76.

The assumptions used in calculating the fair value of options granted using the Black-Scholes option- pricing model are as follows:

Risk-free interest rate	4.0%
Expected life of the options	5.00 years
Expected volatility	62%
Expected dividend yield	0

For options granted during the year ended December 31, 2004, the weighted-average fair value of such options was $1.92.

The assumptions used in calculating the fair value of options granted using the Black-Scholes option- pricing model are as follows:

First 100,000 stock options granted on June 4, 2004:

Risk-free interest rate	4.0%
Expected life of the options	5.00 years
Expected volatility	35%
Expected dividend yield	0

Second 10,000 stock options granted on December 28, 2004

Risk-free interest rate	4.0%
Expected life of the options	5.00 years
Expected volatility	40%
Expected dividend yield	0

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Warrants

Following is a summary of the warrant activity:

Outstanding, December 31, 2005	165,333
Granted	—
Forfeited	—
Exercised	32,000
Outstanding, June 30, 2006	133,333

Following is a summary of the status of warrants outstanding at June 30, 2006:

Outstanding Warrants				Exercisable Warrants	
Exercise Price	**Number**	**Average Remaining Contractual Life**	**Average Exercise Price**	**Number**	**Average Exercise Price**
$7.50	133,333	4.44	$ 7.50	133,333	$ 7.50

Note 11 - Employee Welfare Plans

The Company has established its own employee welfare plan in accordance with Chinese law and regulations. The Company makes annual contributions of 14% of all employees' salaries to employee welfare plan. The total expense for the above plan $0 and $36,924 for the six months ended June 30, 2006 and 2005, respectively. The Company has recorded welfare payable of $263,034 at June 30, 2006 which is included in accrued expenses in the accompanying consolidated balance sheet.

Since September, 2005, the Company was not required to accrue welfare contributions as the Company became a foreign investment Company.

Note 12 - 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;

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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.

The Company established a reserve for the annual contribution of 5% of net income to the welfare fund in 2006 and 2005. The amount included in the statutory reserve for the six months ended June 30, 2006 and 2005 amounted to $458,687 and $174,437, respectively.

Note 13 - Statutory Reserve

In accordance with the Chinese Company Law, the company has allocated 10% of its annual net income, amounting $917,373 and $348,875 as statutory reserve for the six months ended June 30, 2006 and 2005, respectively.

Note 14 - Earnings Per Share

Earnings per share for six months June 30, 2006 and 2005 were determined by dividing net income for the periods by the weighted average number of both basic and diluted shares of common stock and common stock equivalents outstanding.

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

	Three Months Ended June 30,					
	2006			2005		
	Income	**Shares**	**Per Share**	**Income**	**Shares**	**Per Share**
Basic earnings per share						
Net income	$ 5,879,678			$ 2,692,014		
Weighed shares outstanding		18,176,917			15,272,926	
			$ 0.32			$ 0.18
Diluted earnings per share						
Net income	$ 5,879,678			$ 2,692,014		
Weighed shares outstanding		18,176,917			15,272,926	

Effect of dilutive securities				
Options	78,777		419,279	
Warrants	55,237		—	
	18,310,931		15,692,205	
		$ 0.32		$ 0.17

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BODISEN BIOTECH, INC. AND SUBSIDIARIES
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	Six Months Ended June 30,					
	2006			2005		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic earnings per share						
Net income	$ 8,562,321			$ 3,488,746		
Weighed shares outstanding		17,698,731			15,270,759	
			$ 0.48			$ 0.23
Diluted earnings per share						
Net income	$ 8,562,321			$ 3,488,746		
Weighed shares outstanding		17,698,731			15,270,759	
Effect of dilutive securities						
Options		85,419			291,251	
Warrants		64,302			—	
		17,848,452			15,562,010	
			$ 0.48			$ 0.22

Note 15 - Current Vulnerability Due to Certain Concentrations

Four vendors provided 79% of the Company’s raw materials for the six months ended June 30, 2006 and five vendors provided 81% of the Company’s raw materials for the six months ended June 30, 2005. The payable balance for these parties amounted to $1,532,101 at June 30, 2006.

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 16 - Reclassifications

Certain prior period amounts have been reclassified to conform to the six months ended June 30, 2006 presentation.

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

INTRODUCTION

The following discussion should be read in conjunction with the Audited Financial Statements and Notes thereto included in our Annual Report on Form 10KSB for the year ended December 31, 2005. This document contains certain forward-looking statements including, among others, anticipated trends in our financial condition and results of operations and our business strategy. (See "Factors Which May Affect Future Results"). These forward-looking statements are based largely on our current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Important factors to consider in evaluating such forward-looking statements include (i) changes in external factors or in our internal budgeting process which might impact trends in our results of operations; (ii) unanticipated working capital or other cash requirements; (iii) changes in our business strategy or an inability to execute our strategy due to unanticipated changes in the industries in which the Company operates; and (iv) various competitive market factors that may prevent us from competing successfully in the marketplace.

Overview

The Company is incorporated under the laws of the state of Delaware and its operating subsidiary, Yang Ling Bodisen Biology Science and Technology Development Company Limited ("BBST"), is headquartered in the Shaanxi Province, the People's Republic of China. The Company engages in the business of manufacturing and marketing organic fertilizers, pesticides, and agricultural raw materials in the People's Republic of China. It produces numerous product lines, from pesticides to crop specific fertilizers. These products are then marketed and distributed through approximately 600 distribution centers throughout the 20 provinces of the People's Republic of China. The Company conducts research and development to further improve existing products and develop new formulas and products.

Critical Accounting Policies

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that 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.

Accounts receivable

The Company maintains reserves for potential credit losses on accounts receivable. It 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 primarily on a specific identification basis.

Inventories

Inventories are valued at the lower of cost (determined on a weighted average basis) or market. The Company compares the cost of inventories with the market value and allowance is made for writing down the inventories to their 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: 30 years for building, 10 years for machinery, 5 years for office equipment and 8 years for vehicles.

Intangible assets

Intangible assets consist of rights to use land and proprietary technology rights to fertilizers. The Company evaluates intangible assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. Recoverability of intangible assets and other long-lived assets 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

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

Stock-based compensation

The Company accounts for its stock-based compensation in accordance with SFAS No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123." The Company recognizes in the statement of operations the grant- date fair value of stock options and other equity-based compensation issued to employees and non-employees.

Income taxes

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

According to the Provisional Regulations of the People’s Republic of China on Income Tax, the Document of Reductions and Exemptions of Income Tax for the Company have been approved by the local tax bureau and the Management Regulation of Yang Ling Agricultural High-Tech Industries Demonstration Zone. The Company is exempted from income tax in its first two years of operations.

Foreign currency transactions and comprehensive income (loss)

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. Transactions occur in Chinese Renminbi. The unit of Renminbi is in Yuan.

Recent Accounting Pronouncements

In March 2006 FASB issued SFAS 156 'Accounting for Servicing of Financial Assets' this Statement amends FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement:

1. Requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract.

2. Requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable.

3. Permits an entity to choose 'Amortization method' or 'Fair value measurement method' for each class of separately recognized servicing assets and servicing liabilities.

4. At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value.

5. Requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities.

This Statement is effective as of the beginning of the Company's first fiscal year that begins after September 15, 2006. Management believes that this statement will not have a significant impact on the consolidated financial statements.

Three months ended June 30, 2006 compared to three months ended June 30, 2005

Revenue. The Company generated revenues of $16,382,189 for the three months ended June 30, 2006, an increase of $7,965,384 or 94.6%, compared to $8,416,805 for the three months ended June 30, 2005. We have had an extremely strong quarter this period, as we continue to increase our customer base, but more significantly our existing loyal customers are now buying our full product line. In the past many customers were trying out our products but were nervous to try the whole product line at once. As they had success with one of our products they kept trying different products for their various crops. In addition, word of mouth, favorable press, and local agricultural ministries have spoken favorably about our products and had a tremendous impact on the farming population. Their message has served to educate the farmers about the impact of our products on crop yields and the environmentally friendly nature of our products.

Gross profit. The Company achieved a gross profit of $6,411,936 for the three months ended June 30, 2006, an increase of $3,156,272 or 96.9%, compared to $3,255,664 for the three months ended June 30, 2005. Gross margin, as a percentage of revenues, increased from 38.7% for the three months ended June 30, 2005, to 39.1% for the three months ended June 30, 2006. The increase in gross margin was primarily attributable to an across the board increase in the selling price of our products. During the first quarter of 2006 the Company raised its prices twice. The first increase was industry wide reflecting an increase in the cost of raw materials. With a growing demand for the Bodisen brand name it was realized that the marketplace would accept paying a premium for Bodisen brand products, so the Company raised its prices again. In addition, the Company used the $5,000,000 from the short term note that was issued in December 2005, to enter into purchasing agreements that locked in the 2005 price levels for all raw materials the Company purchases during 2006. Gross profit is calculated by deducting from revenues the raw materials used to produce the finished products as well as charges for depreciation, employee welfare, repairs to machinery and equipment, all inventoriable costs and all other costs incident to or necessary for the production of our products.

Operating expenses. The Company incurred operating expenses of $1,218,207 for the three months ended June 30, 2006, an increase of $971,730 or 394.2%, compared to $246,477 for the three months ended June 30, 2005. While the road construction that was started in early April 2006 and completed in mid June of 2006, in front of one of our factories, did not have a significant effect on our revenues it did impact our operating costs. The operating expenses are also related to increased sales and marketing costs associated to the 94% increase in sales for the three months ended June 2006.

Aggregated selling expenses of $671,469 for the three months ended June 30, 2006, an increase of $439,701 or 189.7% compared to $231,768 for the three months ended June 30, 2005, account for expenses related to costs associated with sales and marketing of the Company’s products and with transportation of its products. As the Company continues to grow revenues, it is selling Bodisen products greater distances from its factories, leading to increased shipping costs, most notably on the compound fertilizer product which is sold in 50 kilogram (110 pounds) units. The increase in the cost of fuel has also had an effect on operating expenses. Operating expenses include general and administrative expenses of $546,738 for the three months ended June 30, 2006 and $14,709 for the three months ended June 30, 2005, an increase of $532,029 or 3,617.0%. Operating expenses are related to the cost of maintaining the company's non manufacturing facilities, salaries of administrative and sales staff, and other non manufacturing expenses.

Net Income. Net income increased by 118.4% to $5,879,678 during the three months ended June 30, 2006, an increase of $3,187,664, from $2,692,014 for the three months ended June 30, 2005. Earnings per share (EPS) rose to $0.32 for the three months ended June 30, 2006 from $0.18 for the three months ended June 30, 2005. The increase was attributed to a very strong marketing campaign focused on increasing cross selling of all our products to our loyal customers , and growing the demand in new markets and regions throughout China. The strong growth in net income also occurred as a result of management's strategic decision to place the $5,000,000 note in December 2005 and lock in raw material costs before any announced increases.

Six months ended June 30, 2006 compared to six months ended June 30, 2005

Revenue. The Company generated revenues of $26,917,549 for the six months ended June 30, 2006, an increase of $13,799,069 or 105.2%, compared to $13,118,480 for the six months ended June 30, 2005. We have had an extremely strong first half of the year, that was made possible by a strong loyal base of customers buying more items from our product line as they keep achieving greater crop yields. Bodisen’s brand strength is also growing through word of mouth and the local press in China’s agricultural community. The company has also benefited from the provincial and central government agricultural ministries that have promoted the use of organic fertilizers to enhance the environment and produce a healthy food supply for the Chinese people.

Gross profit. The Company achieved a gross profit of $10,648,175 for the six months ended June 30, 2006, an increase of $5,738,334 or 116.9%, compared to $4,909,841 for the six months ended June 30, 2005. Gross margin, as a percentage of revenues, increased from 37.4% for the six months ended June 30, 2005, to 39.6% for the six months ended June 30, 2006. The increase in gross margin was primarily attributable to an across the board increase in the selling price of our products. During the first quarter the Company raised its prices twice. The first increase was industry wide reflecting an increase in the cost of raw materials. With a growing demand for the Bodisen brand name it was realized that the marketplace would accept paying a premium for Bodisen brand products, so the Company raised its prices again. In addition, the Company used the $5,000,000 from the short term note that was issued in December 2005, to enter into purchasing agreements that locked in the 2005 price levels for all raw materials the Company purchases during 2006. Gross profit is calculated by deducting from revenues the raw materials used to produce the finished products as well as charges for depreciation, employee welfare, repairs to machinery and equipment, all inventoriable costs and all other costs incident to or necessary for the production of our products.

Operating expenses. The Company incurred operating expenses of $1,996,605 for the six months ended June 30, 2006, an increase of $906,815 or 83.2%, compared to $1,089,790 for the six months ended June 30, 2005. While the road construction that was started in early April 2006 and completed in mid June of 2006, in front of one of our factories, did not have a significant effect on our revenues it did impact our operating costs. The operating expenses are also related to increased sales and marketing costs associated to the 105.2% increase in sales for the first six months ended June 2006.

Aggregated selling expenses of $1,145,643 for the six months ended June 30, 2006, an increase of $765,735 or 201.6% compared to $379,908 for the six months ended June 30, 2005, account for expenses related to costs associated with sales and marketing of the Company’s products and with transportation of its products. As the Company continues to grow revenues, it is selling Bodisen products greater distances from its factories, leading to increased shipping costs, most notably on the compound fertilizer product which is sold in 50 kilogram (110 pounds) units. The increase in the cost of fuel has also had an effect on operating expenses. Operating expenses include general and administrative expenses of $850,962 for the six months ended June 30, 2006 and $709,882 for the six months ended June 30, 2005, an increase of $141,080 or 19.9%. Operating expenses are related to cost of maintaining the company's non manufacturing facilities, salaries of administrative and sales staff, and other non manufacturing expenses.

Net Income. Net income increased by 145.4% to $8,562,321 during the six months ended June 30, 2006, an increase of $5,073,575, from $3,488,746 for the six months ended June 30, 2005. Earnings per share (EPS) rose to $0.48 for the six months ended June 30, 2006 from $0.23 for the six months ended June 30, 2005. The increase was attributed to a very strong marketing campaign focused on increasing cross selling of all our products to our loyal customers , and growing the demand in new markets and regions throughout China. The strong growth in net income also occurred as a result of management's strategic decision to place the $5,000,000 note in December 2005 and lock in raw material costs before any announced increases.

Liquidity and Capital Resources

As of June 30, 2006 the Company had $17,447,381 of cash and cash equivalents on hand, compared to $6,276,897 cash and cash equivalents on hand as of December 31, 2005. The significant increase is due to the sale of Company stock during the six months ended June 30, 2006 that resulted in gross proceeds of $26,682,511. The Company invested $6,253,439 to establish a new compound fertilizer production company in Xinjiang Province A la Er City. The investment amount is kept in a bank account in Uramuqi City, Xinjiang Province.

On March 16, 2005, the Company completed a $3 million convertible debenture private placement through an institutional investor. The Company issued a one year 9% debenture convertible into shares of common stock by dividing the aggregate principal and accrued interest by a conversion price of $4.80; and three year warrants to purchase 187,500 shares of common stock at $4.80 per share, In connection with the placement a three year warrant was issued to purchase 40,000 shares of common stock at $6.88 per share. During the course of 2005 the note was fully converted to 657,402 shares of common stock. 195,500 of the warrants were exercised during December 2005 and 32,000 warrants were exercised during January 2006. The net proceeds from this offering were used towards capital contribution of the registration of a wholly-owned Bodisen subsidiary by the name of Yang Ling Bodisen Agricultural Technology Co., Ltd.

On February 3, 2006, we entered into an agreement to sell 1,643,836 shares of the Company’s common stock at 730 pence (approximately $12.99). These shares are to be traded on the AIM Market of the London Stock Exchange. The resulting proceeds were approximately 12,000,000 British pounds sterling (approximately $21,360,000). The proceeds are intended for construction of two factories in the Northwest and Northeast of China, allowing the Company to greatly increase the geographical area in which it can sell its products by overcoming the logistical issues in selling and shipping its products over increasingly greater distances. In June 2006, the Company invested $6,235,439 in a new subsidiary to establish the factory in Xinjiang Province in Northwest China. In addition, proceeds will also be used to purchase raw materials and for general corporate purposes.

On March 15, 2006 the Company completed a financing of US$5,322,506 by issuing 380,179 restricted shares of common stock at $14.00 per share to private institutional investors in a private placement. The proceeds of this financing were used to repay the $5,000,000 short term note plus interest which the Company entered into on December 2005.

As of June 30, 2006 accounts payable was $1,852,149, other payables were $154,246 and accrued expenses were $497,017. Cash outflows from financing activities increased from $1,584,783 for the six months ended June 30, 2005 to $15,769,964 for the six months ended June 30, 2006, as a result of the issuance of common stock during the six month period ended June 30, 2006. Accounts receivable at June 30, 2006, were $17,613,943.

Based on past performance and current expectations, we believe our cash and cash equivalents, cash generated from operations as well as from recent financings will satisfy our working capital needs, capital expenditures and other liquidity requirements associated with our operations for the short term. Upon, completion of the factory that we expect to build in the Northeast of China from the proceeds of the February 3, 2006 listing of the company’s common stock on the AIM Market of the London Stock Exchange, we will reevaluate our capital needs.

The majority of Bodisen Biotech, Inc. revenues and majority of the expenses in 2006 are denominated primarily in Renminbi ("RMB"), the currency of the People's Republic of China. There is no assurance that exchange rates between the RMB and the U.S. dollar will remain stable. A devaluation of the RMB relative to the U.S. dollar could adversely affect our business, financial condition and results of operations. Bodisen does not engage in currency hedging. Inflation has not had a material impact on Bodisen’s business.

Item 3. Controls and Procedures

The Chief Executive Officer and Chief Financial Officer conducted an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. There were no changes in internal control over financial reporting (as defined in Rule 13a-15f under the Exchange Act) that occurred during the first quarter of 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits

Exhibit Number	Description of Exhibit
3.1	Certificate of Incorporation (incorporated by reference to Company's Form SB-2 filed September 3, 2002).
3.2	Amendment to Certificate of Incorporation (incorporated by reference to Company's Form 10-KSB filed March 30, 2004).
3.3	By-Laws (incorporated by reference to Company's Form SB-2 filed September 3, 2002).
10.1	Loan Agreement, dated as of September 28, 2003, between the Company and Xianyang City Commercial Bank. (incorporated by reference to Company's Form 10-KSB filed March 30, 2004).
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).

21.1	Schedule of Subsidiaries (incorporated by reference to Company's Form 10-KSB filed March 31, 2005).
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14 and Rule 15d 14(a), promulgated under the Securities and Exchange Act of 1934, as amended
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer)
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer)

SIGNATURES

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

	Bodisen Biotech, Inc.
August 14, 2006	By: /s/ Wang Qiong
	Wang Qiong Chief Executive Officer (Principal Executive Officer)
August 14, 2006	By: /s/ Yiliang Lai
	Yiliang Lai Chief Financial Officer (Principal Financial and Accounting Officer)