

BODISEN BIOTECH, INC
Form 10-K
March 30, 2010

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, 2009

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, FanMei Building
No. 1 Naguan Zhengjie
Xi'an, Shaanxi 710068
People's Republic of China
(Address of principal executive offices)

(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: Common Stock

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 ☒

At June 30, 2009, the end of our second fiscal quarter, the aggregate market value of common stock held by non-affiliates of the registrant was approximately \$3,791,154 based on the closing price of \$0.22 as quoted by Nasdaq OTC Bulletin Board on June 30, 2009.

**APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ☐ Yes ☒ No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Number of shares of common stock outstanding as of March 22, 2010: 18,710,250.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

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FOR YEAR ENDED DECEMBER 31, 2008

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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; trends in industry activity generally and litigation concerning the matters surrounding our delisting from the American Stock Exchange, or Amex, as well as litigation concerning our ownership of shares in China Natural Gas. 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.

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 cover three categories: organic compound fertilizers, liquid fertilizers, and pesticides and insecticides. Organic compound fertilizer products are our leading product category, accounting for approximately 97.9% and 48.6% of our revenue in 2008 and 2007, respectively. Liquid fertilizers accounted for approximately 1.2% and 34.9% of our revenue in 2008 and 2007, respectively. Pesticides and insecticides accounted for approximately 0.9% and 16.5% of our revenue in 2008 and 2007, 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 Naguan Zhengjie, 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 stock of Bodisen International for all of the issued and outstanding stock 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.

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 stock 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 “Bodisen Agriculture” 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 Bodisen Agriculture 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.”

Industry Background and Markets

The People’s Republic of China is the exclusive market for our organic compound fertilizers, liquid fertilizers, pesticides and insecticides. 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 can be broken down into the following categories:

- Organic compound fertilizers;
- Liquid fertilizers; and
- Pesticides and insecticides.

Organic Compound Fertilizers

Organic compound fertilizers are our leading products, accounting for approximately 80.48% and 97.9% of our revenue in 2009 and 2008, 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.

Liquid Fertilizers

Liquid fertilizer products accounted for approximately 1.89% and 4.25% of our revenue in 2009 and 2008, respectively.

The early application of liquid fertilizers aids absorption of the key elements and nutrients of the fertilizer, which may increase the rate of photosynthesis and improve the health of the plant, making it more resistant to disease, drought and cold weather. Liquid fertilizer increases the plant's yield and shortens the time to harvest while heightening the color and luster of fruit and vegetables. These products may also prolong growing periods, guarantee sufficient nutrition during different crop stages and improve pest resistance in certain fruits and vegetables and other crops. Liquid fertilizer is sold to farmers in a concentrated form and needs to be mixed with water before it is sprayed onto plants.

Our liquid fertilizer line includes the following products: "New Guo Li Dan (500G and 250G)," "New Shi Kang Lu (500G)," "New Jia An Gai," "An Fu Lv Ye Wang," "Tian Feng," and "Feng Chan Su (20KG)."

Pesticides and Insecticides

Our pesticides and insecticides account for approximately 1.3% and 9.59% of our revenues in 2009 and 2008 respectively.

Our pesticide products can be applied to all fruit trees and vegetable crops, and are used to kill various insects and pests that reduce crop yield. Our insecticide products are applied to various fruit trees, vegetables and other crops to kill bacteria and to prevent the reproduction of harmful insects and pests.

Our pesticides and insecticides include the following products: "Wei Te Li Oil," "A Wei Chai Oil," "Lun Mei Su," "Li Jun Sha," "Jin Li Sheng," and "Lun Mei Qing."

Methods of Distribution

We currently sell each of the products identified above through a network of over 150 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.

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 11 material suppliers, 7 of whom are considered “key” suppliers. This is a decrease from 19 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.

Three vendors provided 30%, 23% and 20% of the Company’s raw materials for the year ended December 31, 2009, and one vendor provided 16% of the Company’s raw materials for the year ended December 31, 2008. During 2009 and 2008, 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, peregal, 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.

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 150 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.

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.

Three customers accounted for 24% and 12% of the Company's sales for the year ended December 31, 2009. One customer accounted for 7% of the Company's sales for the year ended December 31, 2008.

In November 2007 we entered into contracts providing for approximately \$9.4 million worth of sales for 2008. As of December 31, 2008, we had received approximately \$5.1 million in net revenues in connection with these and other sales contracts.

Following the November 2008 agricultural trade fair and exhibition in Yang Ling, we have received approximately \$9 million in commitments for 2009. We had received approximately \$4.38 million in connection with these contracts. At the November 2009 agricultural trade fair and exhibition in Yang Ling, we have received approximately \$9 million in commitments for 2010.

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 10% 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 2008, we budgeted to spend approximately \$2,100 for research and development and in 2008, we focused our research and development efforts on our liquid fertilizer product line.

In 2009, we budgeted approximately \$12,000 for research and development, which we also used towards research and development of our liquid fertilizer product line. Currently, we have not budgeted any funds to spend in 2010 on research and development due to the financial crisis

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 o