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

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

FORM 10-K

x 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

o 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	98-0381367
(State or other jurisdiction of incorporation or organization)	(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 o No þ

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 o No þ

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 þ No o

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).
o Yes o 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. o

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 o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company þ

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

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. o Yes o 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

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 b 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. 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 Agriculturee” 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 Agriculturee 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, muzhisuhuansuanna, 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 markers, 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 $4.38 million in connection with these contracts. At the November 2009 agricultural trade fair and exhibition in Yang Ling, we have received approximately$ 9million 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 ad 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 of Industrial Products

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

Certificate for Pesticide Registration

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

Production standard

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

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

While we are subject to relevant environmental laws and regulations that require outlay of capital and the obtaining of relevant permits, we do not anticipate any extraordinary capital expenditures in 2010 for such purposes. We did not make any extraordinary capital expenditures in 2009 or 2008 related to compliance with environmental laws and regulations, including expenditures necessary to obtain relevant permits.

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

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

Employees

As of December 31, 2009, we had a total of 283 employees. Of these employees, approximately 23 were executive and senior managers, 80 were business and accounting staff, 14 were warehouse and purchasing staff, and 20 were drivers or secretaries. The balance consists of production workers. We have not experienced any work stoppages and we consider relations with our employees to be good. We are not a party to any collective bargaining agreements.

Available Information

We file electronically with the Securities and Exchange Commission, or the "SEC," our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is http://www.sec.gov.

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

ITEM 1A. RISK FACTORS

Risks Related To Our Business

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

We are, and in the future may be, subject to legal actions in the ordinary course of our operations, both domestically and internationally. In late 2006, various shareholders of our company filed eight purported class actions in the U.S. District Court for the Southern District of New York against our company and certain of our officers and directors (among others), asserting claims under the federal securities laws. In 2007, the Court consolidated each of the actions into a single proceeding. On September 26, 2008, the Court entered a judgment in favor of the Company and closed the case.

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

We may be exposed to potential risks relating to our internal control over financial reporting and our ability to have those controls attested to by our independent auditors.

We are (and were required last year) to include a report of management on our internal control over financial reporting in our annual reports on Form 10-K. Although beginning this year, because we are now a smaller reporting issuer, our independent registered public accounting firm is not required to attest to and report on management's assessment of the effectiveness of our internal control over financial reporting as well as the operating effectiveness of such internal controls for this year, such attestation of our independent registered public accounting firm was required in our annual report for the year ended December 2006, when we were considered to be an accelerated filer. We are in the process of instituting changes to satisfy our obligations in under the Sarbanes-Oxley Act. We will need to continue to improve our financial and managerial controls, reporting systems and procedures, and documentation thereof. If our financial and managerial controls, reporting systems or procedures fail, we may not be able to provide accurate financial statements on a timely basis or comply with the Sarbanes-Oxley Act. Any failure of our internal controls or our ability to provide accurate financial statements could cause the trading price of our common stock to decrease substantially. While we have no reason to believe that our reported financial results and other information included in this annual report are inaccurate or incomplete in any material respect, we may nevertheless identify significant deficiencies or material weaknesses in our internal control over financial reporting in connection with the completion of our report. In the event we identify significant deficiencies or material weaknesses in our internal controls that we cannot remediate in a timely manner or we are unable to receive a positive attestation from our independent auditors with respect to our internal controls, it could have a material adverse effect on our business, financial condition and results of operations.

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

As of December 31, 2009, we had $90,716 of cash and cash equivalents. Although we expect that our cash and cash flow from operations will be sufficient to meet our anticipated needs for the next twelve months, if we decide to expand our business more broadly than currently estimated, or if our business grows more rapidly than we expect, we may need to raise additional financing in the future. Our ability to obtain additional funding would be subject to a number of factors, including market conditions, operational performance and investor sentiment. These factors may make the timing, amount, terms and conditions of additional funding unattractive, or unavailable, to us. If we are not able to obtain additional financing in the future, we will not be able to grow our business, which could have a material adverse effect on our financial condition, results of operations and liquidity.

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

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

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

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

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

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

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

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

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

For the year ended December 31, 2009, two vendors provided 28% and 25% of our raw materials (compared to two vendors providing 16%, and 6% of our raw materials in 2008). Although we have written agreements with these suppliers, we cannot guarantee that they will comply with the terms of our agreements, or that they will be able to deliver sufficient quantities of these raw materials in order for us to meet the increasing demand for our products. If we are not able to manufacture our products because of issues in the supply of necessary raw materials, it could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

As is typical in the People’s Republic of China, we generally sell our products to distributors on a rolling basis. This means that there is a lag between when we deliver our products to our distributors (and recognize revenues for those shipments) and when we receive payment for those products. Typically, accounts are settled anywhere from one to two months and up to seven months after delivery of our products, although we may extend other payment terms to our distributors depending on their ability to pay. Often times, if a customer does not order additional products for delivery, we do not have significant leverage to ensure prompt payment of outstanding accounts. In addition to accounts receivables from customers, we also make advances to suppliers for the purchase of their materials. These activities expose us to risk of default. A farmer’s inability to sell his agricultural goods, or grow crops due to inclement weather, could hinder his ability to timely pay his credit obligations to our distributors, which affects their ability to make payment to us. Notably, in 2009, many of our customers did not make payments to our company for products delivered and we no longer believe that we will be able to collect such payments. Further, we have no guarantee that our suppliers will meet their delivery obligations to our company in order for us to produce our goods in a timely fashion. As of December 31, 2009, we had accounts receivable, net of allowance for doubtful accounts, of $241,145.05 compared to $719,607 in 2008, advances to suppliers of $0 compared to $0 in 2008, and we had allowances for doubtful accounts of $4,282,684.01 compared to $6,069,700 in 2008. If an unexpected number of our suppliers and creditors continue to default in their obligations to us, it could have a material adverse effect on our liquidity.

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

Demand for our products fluctuates significantly with weather conditions, which may delay the use of our products on crops or render them unnecessary at all. In addition, demand for our products is also affected by natural disasters such as floods, drought, hail, tornadoes and earthquakes. If demand for our products declines, this would have a negative effect on our revenues. In addition, in the event that crop yields are reduced for any reason, including natural disasters, farmers may default on their payments to our distributors, who, in turn, could default on their payments to our company. Further, we have no guarantee that our suppliers will meet their delivery obligations to our company in order for us to produce our goods in a timely fashion. In 2007, for example, there was unseasonably cold spring weather in Shaanxi, which was followed by a flood and drought in the third quarter of 2007. These events affected crop plantings and the use of fertilizers, which had a material adverse effect on our 2007 revenues. Further, many of our customers did not make payments to our company in 2007 for products delivered and we had allowances for doubtful accounts of $4,282,684.01 at December 31, 2009 compared to $6,069,700 at December 31, 2008. Continued defaults could have a negative effect on our cash flows and results of operations.

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

The People’s Republic of China is currently the world’s most populous country and one of the largest producers and consumers of agricultural products. Over 40% of the People’s Republic of China’s labor force is engaged in agriculture, even though only about 14% of the land is suitable for cultivation. (Source: CIA Factbook) Although the People’s Republic of China hopes to further increase agricultural production, incomes for Chinese farmers are stagnating.

Despite the Chinese government's continued emphasis on agricultural self-sufficiency, inadequate port facilities and a lack of warehousing and cold storage facilities impedes the domestic agricultural trade. If the Chinese agricultural market does not develop, or develops slower than we expect, it could have an adverse effect on our business, financial condition and results of operations.

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

We are a legal entity separate and distinct from Yang Ling, which is our indirect wholly-owned operating subsidiary. Aside from our financing activities, the receipt of dividends from Yang Ling is currently our only other source of cash to pay shareholder dividends and to meet our other obligations. Yang Ling is subject to Chinese regulations that currently permit the payment of dividends only out of accumulated profits as determined in accordance with Chinese accounting standards and regulations. These accounting standards and regulations also require Yang Ling to set aside a portion of its after tax profits to fund certain reserve funds. See Note 11 to our consolidated financial statements included in this annual report for more information about these regulations. Although it has been able to do so, to date Yang Ling has not paid us any dividends. In the future, if Yang Ling does not accumulate sufficient profits under Chinese accounting standards and regulations after funding the required reserves, it will not be able to pay us any dividends, and consequently, we may be unable to pay any dividends to our stockholders.

We do not anticipate paying dividends on our common stock.

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

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

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

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

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

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

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

Risks Related to the People’s Republic of China

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

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

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

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

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

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

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

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

The value of the Renminbi against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in the PRC's political and economic conditions. According to the currency website www.xe.com, as of December 31, 2009, $1 = 6.828 Renminbi. As we rely entirely on revenue earned in the PRC, any significant revaluation of the Renminbi may materially and adversely affect our cash flows, revenue and financial condition. For example, to the extent that we need to convert U.S. dollars we receive from an offering of our securities into Renminbi for Yang Ling's operations, appreciation of the Renminbi against the U.S. dollar would diminish the value of the proceeds of the offering and this could harm Xi'an Pharmaceuticals' business, financial condition and results of operations because it would reduce the proceeds available to us for capital investment in proportion to the appreciation of the Renminbi. Thus if we raise 1,000,000 dollars and the Renminbi appreciates against the U.S. dollar by 15%, then the proceeds will be worth only RMB 5,803,800 as opposed to RMB 6,828,000 prior to the appreciation. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of making payments for dividends on our common shares or for other business purposes and the U.S. dollar appreciates against the Renminbi; the U.S. dollar equivalent of the Renminbi we convert would be reduced in proportion to the amount the U.S. dollar appreciates. In addition, the depreciation of significant RMB denominated assets could result in a charge to our income statement and a reduction in the dollar value of these assets. Thus if Xi'an Pharmaceuticals has RMB 1,000,000 in assets and Renminbi is depreciated against the U.S. dollar by 15%, then the assets will be valued at $124,487 as opposed to $146,456 prior to the depreciation.

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

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

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

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

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

Risks Related to Our Common Stock

Our common stock is no longer listed on the American Stock Exchange, or Amex, and until February 2010 was quoted only on the Pink Sheets in the United States, which may have an unfavorable impact on our stock price and liquidity.

On November 6, 2006, we received notice of deficiency from the Amex that we were not in compliance with certain continued listing standards and on March 22, 2007, we received notice from Amex of its intent to delist our shares of common stock. We decided not to appeal Amex's decision and from April 2007 through January 2010 our common stock was quoted in the United States on the Pink Sheets under the symbol "BBCZ." As of February 1, 2010, we have obtained clearance from FINRA and have been quoted on the Over-the-Counter Bulletin Board (the "OTCBB") under the symbol "BBCZ." See Item 5 of this annual report for more information regarding the market for shares of our common stock. The Pink Sheets and the OTCBB are a significantly more limited market than the Amex and the quotation of our shares on the Pink Sheets or OTCBB may result in a less liquid market available for existing and potential stockholders to trade shares of our common stock in the United States. This could depress the trading price of our common stock and could have a long-term adverse impact on our ability to raise capital in the future.

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

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

We also maintain two separate factories in Yang Ling, China, situated at differing locations within the Yang Ling Agriculture High-Tech Industries Demonstration Zone. These two factories occupy an aggregate of approximately 56,745 square meters of land and contain our three production lines, as well as office buildings, warehouses and two research laboratories. These leases require monthly rental payments of $2,550 and the leases expire in 2013.

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

In connection with an agreement with the city government of A La Er, China (which is located in the Uygur autonomous region of Xinjiang, China), we agreed to invest in the construction of a manufacturing facility that will be able to produce up to 200,000 metric tons of fertilizer and pesticide products. This facility is located in Xinjiang, China and is approximately 120 acres (80,000 square meters). We believe that, with the strong government support that we are receiving and the regional market demand for fertilizer and pesticide products, Xinjiang represents a significant long-term growth opportunity for Bodisen. We began construction of the facility in April 2006 and originally believed construction would be completed in November 2006. However, there have been a series of delays, including delays caused by local weather conditions (an early winter, late spring and frequent sandstorms). To date, we have spent approximately $14.8 million on this facility. Although, as of December 31, 2009, construction of the facility was complete, we are waiting for government approval of our production license before we can commence operations.

In August 2006, we entered into a 30-year land-lease arrangement with the government of the People's Republic of China for the 80,000 square meter plot of land in Xinjiang, under which we pre-paid $2,529,818 upon execution of the contract of lease expense for the next 15 years. We agreed to make a prepayment for the subsequent eight years in November 2021 and will make a final pre-payment in November 2029 for the remaining seven years. The annual lease expense amounts to approximately $169,580. On July 15, 2008, the Company entered into a 50 year land rights agreement for the rights to use the 80,000 square meter plot of land.

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

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

ITEM 3. LEGAL PROCEEDINGS

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

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

The eight actions are Stephanie Tabor vs. Bodisen, Inc., et al., Case No. 06-13220 (filed November 2006), Fraser Laschinger vs. Bodisen, Inc., et al., Case No. 06-13254 (filed November 2006), Anthony DeSantis vs. Bodisen, Inc., et. al., Case No. 06-13454 (filed November 2006), Yuchen Zhou vs. Bodisen, Inc., et. al., Case No. 06-13567 (filed November 2006), William E. Cowley vs. Bodisen, Inc., et. al., Case No. 06-13739 (filed December 2006), Ronald Stubblefield vs. Bodisen, Inc., et. al., Case No. 06-14449 (filed December 2006), Adam Cohen vs. Bodisen, Inc., et. al., Case No. 06-15179 (filed December 2006) and Lawrence M. Cohen vs. Bodisen, Inc., et. al., Case No. 06-15399 (filed December 2006). Plaintiffs have not specified an amount of damages they seek. Last year, the Court consolidated each of the actions into a single proceeding. On September 26, 2008, the Court entered a judgment in favor of the Company and closed the case.

In 2007, Ji Xiang, a shareholder of China Natural Gas (and son of its Chairman and CEO) instituted litigation in the Chinese court system in Shaanxi province challenging the validity of our ownership of 1,031,884 (2,063,768 pre-stock split) shares of China Natural Gas common stock. We obtained these shares in September 2005 in a share transfer agreement and assert that we have fully performed our obligations under the agreement and are entitled to own the shares. Also, in January 2008, the same shareholder instituted litigation in the State of Utah District Court, Salt Lake County, against Yangling Bodisen Biotech Development Co. Ltd. and Interwest Transfer Co. (China Natural Gas's transfer agent) seeking to prevent us from selling our shares in China Natural Gas. Plaintiff obtained an order from the Utah court provisionally preventing us from selling the China Natural Gas shares pending a decision on the merits of the underlying dispute. In May 2009, Ji Xiang and Yangling entered into a settlement agreement through mediation in the Supreme Court of Shaanxi province and the case was dismissed. Pursuant to the settlement agreement, Xiang Ji agreed to withdraw the lawsuit he filed against Yangling in the State of Utah District Court, Salt Lake County, and Yangling agreed to sell back to Ji Xiang the 1,031,884 shares at a repurchase price of $3.80 per share, for an aggregate repurchase price of $3,921,159.

As of October 29, 2009, the Utah court lifted the injunction preventing us from selling our shares in China Natural Gas and allowed for the certificate representing the 1,031,884 shares to be transferred to Ji Xiang. In November 2009, the Company effected a transfer of the shares through a United States transfer agent in accordance with the settlement agreement among the parties. The lawsuit in Utah was thereafter dismissed and has no further potential effect or impact upon the operation or financial condition of the Company.

ITEM 4. (REMOVED AND RESERVED)

PART II

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

Market Information

Since February 1, 2010, our common stock has been traded on the OTCBB under the symbol "BBCZ." From April 2, 2007 to January 29, 2010, our common stock has been traded on the Pink Sheets under the symbol "BBCZ." Prior to April 2, 2007, our common stock was traded on the American Stock Exchange under the symbol "BBC." Prior to August 29, 2005, our common stock traded on the Over-the-Counter Bulletin Board under the symbol "BBOI." In addition, since February 6, 2006, our common stock has been traded on AIM, a market operated by the London Stock Exchange plc, under the symbol "BODI."

The following table sets forth the high and low bid prices of our common stock for the periods indicated. The quotations set forth below reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

QUARTER	HIGH ($)		LOW ($)	
1st Quarter 2008	$	1.01	$	0.65
2nd Quarter 2008	$	0.80	$	0.40
3rd Quarter 2008	$	0.65	$	0.11
4th Quarter 2008	$	0.55	$	0.10
1st Quarter 2009	$	0.40	$	0.12
2nd Quarter 2009	$	0.27	$	0.16
3rd Quarter 2009	$	0.25	$	0.10
4th Quarter 2009	$	0.30	$	0.19

As of March 22, 2010, there were approximately 1,220 holders of record of our common stock.

Of the approximately 1,220 holders of record, 28 holders of record currently hold shares of our common stock on behalf of additional persons residing in the People's Republic of China. Some or all of the 19 stockholders of Bodisen International (which, prior to the "reverse merger," was the parent of Yang Ling, our principal operating subsidiary) who received stock in the "reverse merger" held at least a portion of such shares on behalf of additional persons residing in the People's Republic of China. Prior to the reverse merger that resulted in our current corporate structure, various individuals provided investment capital to Yang Ling. After the reverse merger, we issued share certificates for our common stock to reflect the value of the earlier investments. Pursuant to an arrangement with the initial investors, we issued share certificates to certain individuals other than the initial investors (including Qiong Wang, a Director, and Bo Chen, our Chairman, CEO and President), who held title to those shares as nominee for the benefit of those investors. Following our reverse merger and our payment of a three for one stock dividend, Ms. Wang held legal title to a total of 3,748,780 shares, of which she held 3,028,780 as nominee for the benefit of the initial investors and 720,000 for her own benefit, and Mr. Chen held legal title to 3,584,096 shares, of which he held 2,894,096 as nominee for the benefit of the initial investors and 690,000 for his own benefit. Thus, Ms. Wang and Mr. Chen held 5,922,876 shares beneficially for others, apart from the shares they held for themselves.

In late 2005, some of the initial investors began to request that the beneficially-held shares be transferred to them so that they could hold the shares in their own names. In response, Ms. Wang and Mr. Chen transferred shares they held beneficially for the initial investors to their children, who in turn effectuated the transfer of such shares to the initial investors. Over time, this process continued so that eventually, Ms. Wang and Mr. Chen transferred indirectly through their children all of the 5,922,876 beneficially-held shares to the initial investors, with the exception of approximately 738,000 shares. We hold the originals of 28 stock certificates representing these approximate 738,000 shares in our offices in Xi'an, China.

The record holders of the 28 share certificates are nominees only and hold the shares for the benefit of initial investors or their assigns. The nominees have not asserted any interest in or made any claim to these shares. We have confirmed that the share certificates are genuine and that the records of our transfer agent are consistent with the information that appears on the certificates.

Dividends

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

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

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

Accordingly, we established a reserve for the annual contribution of 10% of net income to the welfare fund, and the amount included in the statutory reserve for the years ended December 31, 2009 and 2008 amounted to $0 and $0, respectively.

Recent Issuances of Unregistered Securities

In October 2008, we issued 400,000 shares of common stock to Valuerich, Inc. and its designees as consideration for certain business and management consulting services rendered pursuant to a strategic consulting agreement between the Company and Valuerich, Inc. dated April 14, 2008. In connection with the foregoing, we relied upon the exemption from securities registration afforded by Rule 506 of Regulation D and/or Section 4(2) of the Securities Act, and transfers of such shares were restricted by the Company in accordance with the requirements of the Securities Act. All of the above-referenced persons were provided with access to our Securities and Exchange Commission filings.

Issuer Repurchases of Equity Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

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

FORWARD LOOKING STATEMENTS

The following information should be read in conjunction with our selected consolidated financial and operating data and the accompanying consolidated financial statements and related notes thereto included elsewhere in this annual report. The following discussion may contain forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below and elsewhere in this annual report, particularly in “Risk Factors” and “Note Regarding Forward Looking Statements.”

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

Unless otherwise specified, references to Notes to our consolidated financial statements are to the Notes to our audited consolidated financial statements as of December 31, 2009 and 2008 and for the two-year period ended December 31, 2009.

Overview

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

Results of Operations

Year ended December 31, 2009 compared to year ended December 31, 2008

Revenue:

We generated revenue of $4,351,164 for the year ended December 31, 2009, a decrease of $3,243,294 or 42.7%, compared to $7,594,458 for the year ended December 31, 2008. The decrease in revenue is primarily attributable to the overall slowdown in the economy. Also in order to increase sales volume and to give more customers access our products, we decreased our product's sales price by 25% in 2009. The decrease in revenue is attributed to both lower sales volume and lower sales prices. We anticipate that revenue will increase as the overall global economy increases.

Gross Profit:

We achieved a gross profit of $493,243 for the year ended December 31, 2009, an increase of $88,008 or 21.7%, compared to $405,235 for the year ended December 31, 2008. The gross profit percentage was 11.3% and 5.3% for the years ended December 31, 2009 and 2008, respectively. The increase in gross profit margin was primarily attributable to a large write down in inventory in 2008 that was charged to cost of revenue offset by to higher material costs and a decrease in the selling price for our products as mentioned above in 2009.

Operating expenses:

We incurred net operating expenses of $1,310,654 for the year ended December 31, 2009, a decrease of $6,221,660 or 82.6%, compared to $7,532,314 for the year ended December 31, 2008. The decrease in our operating expenses is primarily attributable to a decrease in our general cost of operations due to the reduction of our revenue during the past few years.

Selling expenses accounted for $151,756 of our operating expenses for the year ended December 31, 2009, a decrease of $2,406,640 or 94.1%, compared to $2,558,396 for the year ended December 31, 2008. The decrease in our selling expenses is primarily attributable to a decrease in marketing costs. General and administrative expenses accounted for $1,054,615 for the year ended December 31, 2009, a decrease of $2,931,924 or 73.5% compared to $3,986,539 for the year ended December 31, 2008. The decrease in general and administrative expenses is primarily related to a decrease in our general cost of operations due to the reduction of our revenue during the past few years, a reduction in personnel resulting in lower payroll costs and a write off of certain loan receivables.

Non Operating Income and Expenses

We had total non-operating income of $1,327,700 for the year ended December 31, 2009, an increase of $1,161,424 or 698.5%, compared to $166,276 for the year ended December 31, 2008. Total non-operating income includes interest income of $2,939 for the year ended December 31, 2009 compared to $155,936 for year ended December 31, 2008. The decrease in interest income is primarily attributable to less cash in the bank generating interest income. Also included in non-operating income (expense) for the year ended December 31, 2009 is $842,145 related to the sale of two investments and $484,794 in equity income of another investment that we account for under the equity method.

Net Income:

For the foregoing reasons, we had a net income of $510,289 for the year ended December 31, 2009, an increase in net income of $7,429,326 or 107.4%, compared to a net loss of $6,919,037 for the year ended December 31, 2008. We had earnings (loss) per share of $0.03 and $(0.37) for the year ended December 31, 2009 and 2008, respectively.

Liquidity and Capital Resources

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

During 2008, we exchanged $3,291,264 of receivables for a 28.8% ownership interest in a Chinese company, Shanxi Jiali Pharmaceutical Co. Ltd (“Jiali”). We have written down the value of this investment by $987,860 at December 31, 2008. This investment is accounted for under the equity method and we recorded equity income in this investment for the year ended December 31, 2009 of $484,728. We received our ownership in Jiali a result of settling an old receivable. We believed that we had a better chance of realizing the value of this receivable by accepting ownership in Jiali than pursuing a cash payment from our customer. In September 2009 Jiali merged with a U.S. public company trading on the OTC Bulletin Board, which should give us liquidity in this investment. At the date of the change, the investment was valued at $2,829,732. As of December 31, 2009, the fair value of the investment is $8,175,290 which is reflected in the consolidated balance sheet at December 31, 2009. The unrealized gain of $5,345,558 is reflected as other comprehensive income in the consolidated statement of stockholder's equity.

During the fourth quarter of 2009, we sold our 1,031,884 shares of China Natural Gas for $3,921,159 or $3.80 a share for a realized gain of $1,053,813. The sale of the stock was due to a settlement agreement with one of the shareholders of China Natural Gas.

As of December 31, 2009, we had $4,824,135 of cash and cash equivalents compared to $90,716 as of December 31, 2008. Based on past performance and current expectations, we believe our cash and cash equivalents and cash generated from operations will satisfy our current working capital needs, capital expenditures and other liquidity requirements associated with our operations. However, to the extent our allowance for bad debts in insufficient to cover our actual bad debt experience, our liquidity would be negatively impacted.

Cash Flows

Operating:

Cash provided by operating for the year ended December 31, 2009 was 79,511compared to $6,161,699 for the year ended December 31, 2008. The decrease in the cash provided by operating activities is principally due to the changes in advances to suppliers. For the year ended December 31, 2009, we had an increase in advances to suppliers of $541,422 compared to a decrease in advance to suppliers of 10,242,896 for the year ended December 31, 2008.

Investing:

Our investing activities generated $4,651,927 of cash for the year ended December 31, 2009, compared to $6,924,024 of cash used in investing activities for the year ended December 31, 2008. The increase is primarily attributable to a sale of assets during 2009.

Financing:

We had no cash provided by financing activities for the year ended December 31, 2009 and 2008.

Contractual Commitments

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

Off-Balance Sheet Arrangements

We currently do not have any material off-balance sheet arrangements except for the remaining pre-payments under the land-lease arrangement described above.

Critical Accounting Policies and Estimates

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

We believe the following is among the most critical accounting policies that impact our consolidated financial statements. We suggest that our significant accounting policies, as described in our condensed consolidated financial statements in the Summary of Significant Accounting Policies, be read in conjunction with this Management's Discussion and Analysis of Financial Condition and Results of Operations. See also Note 2 to our consolidated financial statements for further discussion of our accounting policies.

Accounts receivable

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

Inventories

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

Intangible assets

We evaluate intangible assets for impairment, at least on an annual basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable from its estimated future cash flows. This evaluation requires the use of judgments and estimates, in particular with respect to recoverability. Recoverability of intangible assets, other long-lived assets and, goodwill is measured by comparing their net book value to the related projected undiscounted cash flows from these assets, considering a number of factors including past operating results, budgets, economic projections, market trends and product development cycles. If the net book value of the asset exceeds the related undiscounted cash flows, the asset is considered impaired, and a second test is performed to measure the amount of impairment loss.

Recent Accounting Pronouncements

On July 1, 2009, we adopted Accounting Standards Update (“ASU”) No. 2009-01, “Topic 105 - Generally Accepted Accounting Principles - amendments based on Statement of Financial Accounting Standards No. 168 , “The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles” (“ASU No. 2009-01”). ASU No. 2009-01 re-defines authoritative GAAP for nongovernmental entities to be only comprised of the FASB Accounting Standards Codification™ (“Codification”) and, for SEC registrants, guidance issued by the SEC. The Codification is a reorganization and compilation of all then-existing authoritative GAAP for nongovernmental entities, except for guidance issued by the SEC. The Codification is amended to effect non-SEC changes to authoritative GAAP. Adoption of ASU No. 2009-01 only changed the referencing convention of GAAP in Notes to the Consolidated Financial Statements.

In October 2009, the FASB issued an Accounting Standards Update ("ASU") regarding accounting for own-share lending arrangements in contemplation of convertible debt issuance or other financing. This ASU requires that at the date of issuance of the shares in a share-lending arrangement entered into in contemplation of a convertible debt offering or other financing, the shares issued shall be measured at fair value and be recognized as an issuance cost, with an offset to additional paid-in capital. Further, loaned shares are excluded from basic and diluted earnings per share unless default of the share-lending arrangement occurs, at which time the loaned shares would be included in the basic and diluted earnings-per-share calculation. This ASU is effective for fiscal years beginning on or after December 15, 2009, and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. We are currently evaluating the impact of this ASU on our consolidated financial statements.

On December 15, 2009, the FASB issued ASU No. 2010-06 Fair Value Measurements and Disclosures Topic 820 “Improving Disclosures about Fair Value Measurements”. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. The FASB’s objective is to improve these disclosures and, thus, increase the transparency in financial reporting. The adoption of this ASU will not have a material impact on our consolidated financial statements.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Bodisen Biotech, Inc. and Subsidiaries
Consolidated Financial Statements
Years Ended December 31, 2009 and 2008

Contents

ACSB Acquavella, Chiarelli, Shuster, Berkower & Co., LLP

517 Route One	1 Penn Plaza
Iselin, New Jersey 08830	36th Floor
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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying balance sheets of Bodisen Biotech, Inc (a Delaware corporation) and subsidiaries as of December 31, 2008 and 2009, and the related statements of income, stockholders' equity and comprehensive income, and cash for the years ended December 31, 2009 and 2008 and the financial statement schedule for the years ended December 31, 2009 and 2008. Bodisen Biotech, Inc's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bodisen Biotech, Inc as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years ended December 31, 2009 and 2008 in conformity with accounting principles generally accepted in the United States of America.

Acquavella, Chiarelli, Shuster, Berkower & Co., LLP
Certified Public Accountants

New York, NY
March 8, 2010

BODISEN BIOTECH, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash & cash equivalents	$ 4,824,135	$ 90,716
Accounts receivable and other receivable, net of allowance for doubtful accounts of $2,751,613 and $6,069,700	1,791,042	719,607
Other receivables	26,298	375,780
Inventory	991,140	2,629,280
Advances to suppliers	541,754	-
Prepaid expense and other current assets	966,942	803,091
Total current assets	9,141,311	4,618,474
PROPERTY AND EQUIPMENT, net	11,837,406	5,373,232
CONSTRUCTION IN PROGRESS	10,422,641	17,542,626
MARKETABLE SECURITY, AVAILABLE-FOR-SALE	8,175,290	6,191,304
INTANGIBLE ASSETS, net	4,873,904	5,093,073
OTHER ASSETS	-	3,669,063
TOTAL ASSETS	$ 44,450,552	$ 42,487,772
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 71,504	$ 710,475
Accrued expenses	161,673	102,556
Total current liabilities	233,177	813,031
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.0001 per share; authorized 5,000,000 shares; nil issued and outstanding		
Common stock, $0.0001 per share; authorized 30,000,000 shares; issued and outstanding 18,710,250 and 18,710,250	1,871	1,871
Additional paid-in capital	33,945,822	33,945,822
Other comprehensive income	13,473,307	11,440,962
Statutory reserve	4,314,488	4,314,488
Retained Earnings	(7,518,113)	(8,028,402)
Total stockholders' equity	44,217,375	41,674,741

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 44,450,552	$ 42,487,772

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

AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

likelihood that an indefinite-lived intangible asset is impaired to determine whether it is necessary to perform a quantitative impairment test.

We completed our qualitative assessment of any potential franchise rights impairment as of April 30, 2013. Based on our qualitative assessment, we determined that it was not more likely than not that the fair values of our franchise rights were less than their carrying amounts and we were therefore not required to perform a quantitative impairment test.

5. LONG-TERM DEBT

Long-term debt consisted of the following:

	June 30, 2013	December 31, 2012
6.75% Senior Notes due 2018	$396.0	$395.6
5.5% Senior Notes due 2020	350.0	350.0
Term loan facility due 2016	500.0	500.0
Revolving credit facility due 2016	400.0	540.0
Mortgage facility (1)	199.1	203.3
Capital leases and other debt	91.7	107.2
	1,936.8	2,096.1
Less: current maturities	(29.6)	(29.8)
Long-term debt, net of current maturities	$1,907.2	$2,066.3

(1) The mortgage facility requires monthly principal and interest payments of $1.7 million based on a fixed amortization schedule with a balloon payment of $155.4 million due November 2017.

Senior Unsecured Notes and Credit Agreement

At June 30, 2013, we had outstanding $396.0 million of 6.75% Senior Notes due 2018, net of debt discount. Interest on the 6.75% Senior Notes due 2018 is payable on April 15 and October 15 of each year. These notes will mature on April 15, 2018.

At June 30, 2013, we had outstanding $350.0 million aggregate principal amount of 5.5% Senior Notes due 2020. Interest is payable on February 1 and August 1 of each year. At any time prior to February 1, 2015, we may redeem up to 35% of the principal amount of these notes with the net cash proceeds of one or more public equity offerings of our common stock at 105.5% of principal. These notes will mature on February 1, 2020.

Under our credit agreement, we have a $500.0 million term loan facility and a $1.2 billion revolving credit facility. The term loan and revolving credit facilities under the credit agreement mature December 7, 2016. As of June 30, 2013, we had borrowings outstanding of $400.0 million under our revolving credit facility. We have a $200.0 million letter of credit sublimit as part of our revolving credit facility. The amount available to be borrowed under the revolving credit facility is reduced on a dollar-for-dollar basis by the cumulative amount of any outstanding letters of credit, which was $56.0 million at June 30, 2013, leaving an additional borrowing capacity under the revolving credit facility of $744.0 million at June 30, 2013.

Our term loan facility provides for various interest rates generally at LIBOR plus 1.75%. Our revolving credit facility provides for a commitment fee on undrawn amounts of 0.30% and various interest rates on borrowings generally at LIBOR plus 1.75%.

The credit spread charged for both our term loan facility and revolving credit facility is affected by our leverage ratio. For instance, an increase in our leverage ratio from greater than or equal to 2.0x but less than 3.25x to greater than or equal to 3.25x would result in a 25 basis point increase in the credit spread under both our term loan facility and revolving credit facility.

Our senior unsecured notes and borrowings under our credit agreement are guaranteed by substantially all of our subsidiaries. Within the meaning of Regulation S-X, Rule 3-10, AutoNation, Inc. (the parent company) has no independent assets or operations, the guarantees of its subsidiaries are full and unconditional and joint and several, and any subsidiaries other than the guarantor subsidiaries are minor.

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AUTONATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Other Debt
At June 30, 2013, we had $199.1 million outstanding under a mortgage facility with an automotive manufacturer's captive finance subsidiary that matures on November 30, 2017. The mortgage facility utilizes a fixed interest rate of 5.864% and is secured by 10-year mortgages on certain of our store properties. At June 30, 2013, we had capital lease and other debt obligations of $91.7 million, which are due at various dates through 2033.
Restrictions and Covenants
Our credit agreement, the indentures for our 6.75% Senior Notes due 2018 and 5.5% Senior Notes due 2020, our vehicle floorplan facilities, and our mortgage facility contain customary financial and operating covenants that place restrictions on us, including our ability to incur additional indebtedness or prepay existing indebtedness, to create liens or other encumbrances, to sell (or otherwise dispose of) assets, and to merge or consolidate with other entities.
Under our credit agreement, we are required to remain in compliance with a maximum leverage ratio and maximum capitalization ratio. The leverage ratio is a contractually defined amount principally reflecting non-vehicle debt divided by a contractually defined measure of earnings with certain adjustments. The capitalization ratio is a contractually defined amount principally reflecting vehicle floorplan payable and non-vehicle debt divided by our total capitalization including vehicle floorplan payable. Under the credit agreement, the maximum capitalization ratio is 65.0% and the maximum leverage ratio is 3.75x. In calculating our leverage and capitalization ratios, we are not required to include letters of credit in the definition of debt (except to the extent of letters of credit in excess of $150.0 million). In addition, in calculating our capitalization ratio, we are permitted to add back to shareholders' equity all goodwill, franchise rights, and long-lived asset impairment charges subsequent to September 30, 2011 plus $1.52 billion.
The indentures for our 6.75% Senior Notes due 2018 and 5.5% Senior Notes due 2020 contain certain limited covenants, including limitations on liens and sale and leaseback transactions. Our mortgage facility contains covenants regarding maximum cash flow leverage and minimum interest coverage.
Our failure to comply with the covenants contained in our debt agreements could permit acceleration of all of our indebtedness. Our debt agreements have cross-default provisions that trigger a default in the event of an uncured default under other material indebtedness of AutoNation.
Under the terms of our credit agreement, at June 30, 2013, our leverage ratio and capitalization ratio were as follows:

	June 30, 2013	
	Requirement	Actual
Leverage ratio	< 3.75x	2.51x
Capitalization ratio	< 65.0%	57.9%

Both the leverage ratio and the capitalization ratio limit our ability to incur additional non-vehicle debt. The capitalization ratio also limits our ability to incur additional vehicle floorplan indebtedness and repurchase shares.
In the event of a downgrade in our credit ratings, none of the covenants described above would be impacted. In addition, availability under our credit agreement described above would not be impacted should a downgrade in our senior unsecured debt credit ratings occur.

6. INCOME TAXES
Income taxes receivable included in Receivables, Net totaled $12.8 million at June 30, 2013. Income taxes payable included in Other Current Liabilities totaled $3.2 million at December 31, 2012.
We file income tax returns in the U.S. federal jurisdiction and various states. As a matter of course, various taxing authorities, including the IRS, regularly audit us. Currently, no tax years are under examination by the IRS, and tax years from 2007 to 2010 are under examination by certain U.S. state jurisdictions. These audits may result in proposed assessments where the ultimate resolution may result in our owing additional taxes. We believe that our tax positions comply with applicable tax law and that we have adequately provided for these matters.

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AUTONATION, INC.
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It is our continuing policy to account for interest and penalties associated with income tax obligations as a component of Income Tax Provision in the accompanying Unaudited Condensed Consolidated Financial Statements.

7. SHAREHOLDERS' EQUITY

A summary of shares repurchased under our stock repurchase program authorized by our Board of Directors follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Shares repurchased	0.1	3.7	0.1	15.4
Aggregate purchase price	$2.7	$126.2	$4.9	$531.6
Average purchase price per share	$42.01	$33.99	$40.81	$34.54

As of June 30, 2013, $314.3 million remained available under our stock repurchase authorization limit.

A summary of shares of common stock issued in connection with the exercise of stock options follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Shares issued	0.1	0.1	0.5	0.1
Proceeds from the exercise of stock options	$2.7	$1.4	$10.6	$1.7
Average exercise price per share	$24.54	$17.15	$20.59	$17.42

The following table presents a summary of shares of common stock issued in connection with grants of restricted stock and shares surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock (in actual number of shares):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Shares issued	—	—	137,144	155,740
Shares surrendered to AutoNation to satisfy tax withholding obligations in connection with the vesting of restricted stock	36,175	28,303	42,306	36,935

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8. EARNINGS PER SHARE

Basic earnings per share (“EPS”) is computed by dividing net income by the weighted average number of common shares outstanding for the period, including outstanding unvested restricted stock awards. Diluted EPS is computed by dividing net income by the weighted average number of shares outstanding adjusted for the dilutive effect of stock options.

The following table presents the calculation of basic and diluted EPS:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income from continuing operations	$90.1	$79.0	$173.3	$152.5
Loss from discontinued operations, net of income taxes	(0.2)	(0.4)	(0.4)	(0.9)
Net income	$89.9	$78.6	$172.9	$151.6
Weighted average common shares outstanding used in calculating basic EPS	121.4	121.7	121.2	126.0
Effect of dilutive stock options	1.9	2.0	2.0	2.0
Weighted average common shares used in calculating diluted EPS	123.3	123.7	123.2	128.0
Basic EPS amounts:				
Continuing operations	$0.74	$0.65	$1.43	$1.21
Discontinued operations	$—	$—	$—	$(0.01)
Net income	$0.74	$0.65	$1.43	$1.20
Diluted EPS amounts:				
Continuing operations	$0.73	$0.64	$1.41	$1.19
Discontinued operations	$—	$—	$—	$(0.01)
Net income	$0.73	$0.64	$1.40	$1.18

A summary of anti-dilutive options excluded from the computation of diluted earnings per share is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Anti-dilutive options excluded from the computation of diluted earnings per share	0.8	1.0	0.7	1.0

9. ACQUISITIONS

We purchased three stores and related assets during the three and six months ended June 30, 2013. The acquisitions were Don Davis Toyota in the Dallas, Texas market, which was completed on May 1, 2013, and SanTan Honda Superstore and Hyundai of Tempe in the Phoenix, Arizona market, which were completed on May 22, 2013. Acquisitions are included in the Unaudited Condensed Consolidated Financial Statements from the date of acquisition. Purchase price allocations for these business combinations are preliminary and subject to final adjustment. We did not purchase any stores during the three and six months ended June 30, 2012.

The acquisitions that occurred during the three and six months ended June 30, 2013 were not material to our financial condition or results of operations. Additionally, the pro forma consolidated income statements as if the results of these acquisitions had been included in our consolidated results for the entire three and six month periods ended June 30, 2013 and 2012, would not have been materially different from our reported consolidated income statements for these periods.

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10. COMMITMENTS AND CONTINGENCIES
Legal Proceedings
We are involved, and will continue to be involved, in numerous legal proceedings arising out of the conduct of our business, including litigation with customers, wage and hour and other employment-related lawsuits, and actions brought by governmental authorities. Some of these lawsuits purport or may be determined to be class or collective actions and seek substantial damages or injunctive relief, or both, and some may remain unresolved for several years. We establish accruals for specific legal proceedings when it is considered probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Our accruals for loss contingencies are reviewed quarterly and adjusted as additional information becomes available. We disclose the amount accrued if material or if such disclosure is necessary for our financial statements to not be misleading. If a loss is not both probable and reasonably estimable, or if an exposure to loss exists in excess of the amount accrued, we assess whether there is at least a reasonable possibility that a loss, or additional loss, may have been incurred. If there is a reasonable possibility that a loss, or additional loss, may have been incurred, we disclose the estimate of the possible loss or range of loss if it is material or a statement that such an estimate cannot be made. Our evaluation of whether a loss is reasonably possible or probable is based on our assessment and consultation with legal counsel regarding the ultimate outcome of the matter. We believe we have adequately accrued for the potential impact of loss contingencies that are probable and reasonably estimable, and there was no indication of a reasonable possibility that a material loss, or additional material loss, may have been incurred. We do not believe that the ultimate resolution of these matters will have a material adverse effect on our results of operations, financial condition, or cash flows. However, the results of these matters cannot be predicted with certainty, and an unfavorable resolution of one or more of these matters could have a material adverse effect on our financial condition, results of operations, and cash flows.
Other Matters
AutoNation, acting through its subsidiaries, is the lessee under many real estate leases that provide for the use by our subsidiaries of their respective store premises. Pursuant to these leases, our subsidiaries generally agree to indemnify the lessor and other related parties from certain liabilities arising as a result of the use of the leased premises, including environmental liabilities, or a breach of the lease by the lessee. Additionally, from time to time, we enter into agreements with third parties in connection with the sale of assets or businesses in which we agree to indemnify the purchaser or related parties from certain liabilities or costs arising in connection with the assets or business. Also, in the ordinary course of business in connection with purchases or sales of goods and services, we enter into agreements that may contain indemnification provisions. In the event that an indemnification claim is asserted, our liability would be limited by the terms of the applicable agreement.
From time to time, primarily in connection with dispositions of automotive stores, our subsidiaries assign or sublet to the store purchaser the subsidiaries' interests in any real property leases associated with such stores. In general, our subsidiaries retain responsibility for the performance of certain obligations under such leases to the extent that the assignee or sublessee does not perform, whether such performance is required prior to or following the assignment or subletting of the lease. Additionally, AutoNation and its subsidiaries generally remain subject to the terms of any guarantees made by us and our subsidiaries in connection with such leases. Although we generally have indemnification rights against the assignee or sublessee in the event of non-performance under these leases, as well as certain defenses, we estimate that lessee rental payment obligations during the remaining terms of these leases with expirations ranging from 2013 to 2034 are approximately $42 million at June 30, 2013. We do not have any material known commitments that we or our subsidiaries will be called on to perform under any such assigned leases or subleases at June 30, 2013. Our exposure under these leases is difficult to estimate and there can be no assurance that any performance of AutoNation or its subsidiaries required under these leases would not have a material adverse effect on our business, financial condition, and cash flows.
At June 30, 2013, surety bonds, letters of credit, and cash deposits totaled $92.9 million, including $56.0 million of letters of credit. In the ordinary course of business, we are required to post performance and surety bonds, letters of

credit, and/or cash deposits as financial guarantees of our performance. We do not currently provide cash collateral for outstanding letters of credit.

In the ordinary course of business, we are subject to numerous laws and regulations, including automotive, environmental, health and safety, and other laws and regulations. We do not anticipate that the costs of such compliance will have a material adverse effect on our business, consolidated results of operations, cash flows, or financial condition, although such outcome is possible given the nature of our operations and the extensive legal and regulatory framework applicable to our

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business. The Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law on July 21, 2010, established the Consumer Financial Protection Bureau (the "CFPB"), a new independent federal agency funded by the United States Federal Reserve with broad regulatory powers and limited oversight from the United States Congress. Although automotive dealers are generally excluded, the Dodd-Frank Act could lead to additional, indirect regulation of automotive dealers, in particular, their sale and marketing of finance and insurance products, through its regulation of automotive finance companies and other financial institutions. In March 2013, the CFPB issued supervisory guidance highlighting its concern that the practice of automotive dealers being compensated for arranging customer financing through discretionary markup of wholesale rates offered by financial institutions ("dealer markup") results in a significant risk of pricing disparity in violation of The Equal Credit Opportunity Act ("ECOA"). The CFPB recommended that financial institutions under its jurisdiction take steps to ensure compliance with the ECOA, which may include imposing controls on dealer markup, monitoring and addressing the effects of dealer markup policies, and eliminating dealer discretion to markup buy rates and fairly compensating dealers using a different mechanism that does not result in discrimination. In addition, we expect that the Patient Protection and Affordable Care Act, which was signed into law on March 23, 2010, will increase our annual employee health care costs that we fund, with the most significant increases commencing in 2014, and significantly increase our cost of compliance and compliance risk related to offering health care benefits. Further, we expect that new laws and regulations, particularly at the federal level, in other areas may be enacted, which could also materially adversely impact our business. We do not have any material known environmental commitments or contingencies.

11. SEGMENT INFORMATION

At June 30, 2013 and 2012, we had three operating and reportable segments: (1) Domestic, (2) Import, and (3) Premium Luxury. Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by Ford, General Motors, and Chrysler. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, and Nissan. Our Premium Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Mercedes-Benz, BMW, Lexus, and Audi. The franchises in each segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

"Corporate and other" is comprised of our other businesses, including collision centers, a customer lead generation business, and an auction operation, each of which generates revenues, as well as unallocated corporate overhead expenses and retrospective commissions for certain financing and insurance transactions that we arrange under agreements with third parties.

The operating segments identified above are the business activities of the Company for which discrete financial information is available and for which operating results are regularly reviewed by our chief operating decision maker to allocate resources and assess performance. Our chief operating decision maker is our Chief Executive Officer. We have determined that our three operating segments also represent our reportable segments.

Reportable segment revenue and segment income are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenue:				
Domestic	$1,515.3	$1,295.1	$2,893.3	$2,524.2
Import	1,629.3	1,475.8	3,133.0	2,842.4
Premium Luxury	1,242.4	1,093.4	2,415.3	2,115.6
Total segment revenue	4,387.0	3,864.3	8,441.6	7,482.2
Corporate and other	39.5	40.2	81.3	79.3
Total consolidated revenue	$4,426.5	$3,904.5	$8,522.9	$7,561.5

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Segment income*:				
Domestic	$66.1	$53.6	$124.7	$103.3
Import	72.9	67.2	143.9	129.1
Premium Luxury	75.7	68.3	144.5	127.1
Total segment income	214.7	189.1	413.1	359.5
Corporate and other	(47.4)	(35.7)	(89.3)	(68.1)
Other interest expense	(22.0)	(22.5)	(44.3)	(43.0)
Interest income	—	0.1	0.1	0.2
Other income (loss), net	1.3	(1.4)	2.9	0.6
Income from continuing operations before income taxes	$146.6	$129.6	$282.5	$249.2

* Segment income for each of our segments is defined as operating income less floorplan interest expense.

12. BUSINESS AND CREDIT CONCENTRATIONS

We are subject to a concentration of risk in the event of financial distress of or other adverse event related to a major vehicle manufacturer. The core brands of vehicles that we sell are manufactured by Toyota, Ford, Honda, Nissan, General Motors, Mercedes-Benz, BMW, Chrysler, and Volkswagen. Our business could be materially adversely impacted by a bankruptcy of or other adverse event related to a major vehicle manufacturer or related lender.
We had receivables from manufacturers or distributors of $138.4 million at June 30, 2013, and $159.9 million at December 31, 2012. Additionally, a large portion of our Contracts-in-Transit included in Receivables, Net, in the accompanying Unaudited Condensed Consolidated Balance Sheets, are due from automotive manufacturers' captive finance subsidiaries, which provide financing directly to our new and used vehicle customers. Concentrations of credit risk with respect to non-manufacturer trade receivables are limited due to the wide variety of customers and markets in which our products are sold as well as their dispersion across many different geographic areas in the United States. Consequently, at June 30, 2013, we do not consider AutoNation to have any significant non-manufacturer concentrations of credit risk.

13. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The fair value of a financial instrument represents the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Fair value estimates are made at a specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore cannot be determined with precision. The assumptions used have a significant effect on the estimated amounts reported.
Accounting standards define fair value as the price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Accounting standards establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and also establishes the following three levels of inputs that may be used to measure fair value:

Level 1	Quoted prices in active markets for identical assets or liabilities
Level 2	Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted market prices in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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The following methods and assumptions were used by us in estimating fair value disclosures for financial instruments:

- Cash and cash equivalents, accounts receivable, other current assets, vehicle floorplan payable, accounts payable, other current liabilities, and variable rate debt: The amounts reported in the accompanying Unaudited Condensed Consolidated Balance Sheets approximate fair value due to their short-term nature or the existence of variable interest rates that approximate prevailing market rates.
- Fixed rate debt: Our fixed rate debt primarily consists of amounts outstanding under our senior unsecured notes and mortgages. We estimate the fair value of our senior unsecured notes using quoted prices for the identical liability (Level 1). We estimate the fair value of our mortgages using a present value technique based on our current market interest rates for similar types of financial instruments (Level 2). A summary of the aggregate carrying values and fair values of our fixed rate debt is as follows:

	June 30, 2013	December 31, 2012
Carrying value	$1,036.8	$1,056.1
Fair value	$1,111.0	$1,138.0

Nonfinancial assets such as goodwill, other intangible assets, and long-lived assets held and used are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized or for a business combination. The fair values less costs to sell of long-lived assets held for sale are assessed each reporting period they remain classified as held for sale. Subsequent changes in the held for sale long-lived asset’s fair value less cost to sell (increase or decrease) is reported as an adjustment to its carrying amount, except that the adjusted carrying amount cannot exceed the carrying amount of the long-lived asset at the time it was initially classified as held for sale.

Goodwill and Other Intangible Assets

Under accounting standards, we chose to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it was necessary to calculate the fair values of our reporting units under the two-step goodwill impairment test. We completed our qualitative assessment of potential goodwill impairment as of April 30, 2013 and 2012, and we determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts. Accordingly, no impairment charges were recorded for the carrying value of goodwill during the three and six months ended June 30, 2013 and 2012.

Our principal identifiable intangible assets are individual store rights under franchise agreements with vehicle manufacturers, which have indefinite lives and are tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred. Under accounting standards, we chose to make a qualitative evaluation about the likelihood of franchise rights impairment to determine whether it was necessary to perform a quantitative impairment test. We completed our qualitative assessment of franchise rights impairment as of April 30, 2013 and we determined that it was not more likely than not that the fair values of our franchise rights were less than their carrying amounts. Accordingly, no impairment charges were recorded for the carrying value of franchise rights during the three and six months ended June 30, 2013.

During the three and six months ended June 30, 2012, we recorded $4.2 million of non-cash impairment charges related to rights under a Premium Luxury store’s franchise agreement. The non-cash impairment charge was recorded to reduce the carrying value of the store’s franchise agreement to its fair value, and is classified as Franchise Rights Impairment in the accompanying Unaudited Condensed Consolidated Statements of Income.

The development of the assumptions used in our annual impairment tests are coordinated by our financial planning and analysis group, and the assumptions are reviewed by management.

Long-Lived Assets

The fair value measurement valuation process for our long-lived assets is established by our corporate real estate services group, which reports to the Company’s President and Chief Operating Officer. Fair value measurements, which are based on Level 3 inputs, and changes in fair value measurements are reviewed and assessed each quarter for properties classified as held for sale, or when an indicator of impairment exists for properties classified as held and used, by the corporate real estate services group. Our corporate real estate services group utilizes its knowledge of the automotive industry and historical

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experience in real estate markets and transactions in establishing the valuation process, which is generally based on a combination of the market and replacement cost approaches.

In a market approach, the corporate real estate services group uses transaction prices for comparable properties that have recently been sold. These transaction prices are adjusted for factors related to a specific property. The corporate real estate services group also evaluates changes in local real estate markets, and/or recent market interest or negotiations related to a specific property. In a replacement cost approach, the cost to replace a specific long-lived asset is considered, which is adjusted for depreciation from physical deterioration, as well as functional and economic obsolescence, if present and measurable.

To validate the fair values determined under the valuation process noted above, our corporate real estate services group also obtains independent third-party appraisals for our properties and/or third-party brokers' opinions of value, which are generally developed using the same valuation approaches described above, and evaluates any recent negotiations or discussions with third-party real estate brokers related to a specific long-lived asset or market.

During the three and six months ended June 30, 2013 and 2012, no impairment charges were recorded for the carrying value of long-lived assets held and used in continuing operations, and no impairment charges were recorded for the carrying value of long-lived assets held for sale in continuing operations.

During the three and six months ended June 30, 2013, no impairment charge was recorded for the carrying value of long-lived assets held for sale in discontinued operations.

During the three and six months ended June 30, 2012, long-lived assets held for sale in discontinued operations with a carrying amount of $3.8 million were written down to their fair value of $3.7 million, resulting in a non-cash impairment charge of $0.1 million. The non-cash impairment charge was included in Loss from Discontinued Operations in our Consolidated Statements of Income.

As of June 30, 2013, we had long-lived assets held for sale of $71.1 million in continuing operations and $34.5 million in discontinued operations.

14. CASH FLOW INFORMATION

We consider all highly liquid investments with a maturity of three months or less as of the date of purchase to be cash equivalents unless the investments are legally or contractually restricted for more than three months. We had non-cash investing activities related to the increase in property acquired under capital leases of $7.3 million for the six months ended June 30, 2013, and $19.1 million for the six months ended June 30, 2012. The effect of non-cash transactions is excluded from the accompanying Unaudited Condensed Consolidated Statements of Cash Flows.

We made interest payments of $68.4 million during the six months ended June 30, 2013, and $55.4 million during the six months ended June 30, 2012. We made income tax payments, net of income tax refunds, of $112.9 million during the six months ended June 30, 2013, and $90.2 million during the six months ended June 30, 2012.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Unaudited Condensed Consolidated Financial Statements and notes thereto included under Part I, Item 1 of this Quarterly Report on Form 10-Q. In addition, reference should be made to our audited Consolidated Financial Statements and notes thereto and related "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our most recent Annual Report on Form 10-K.

Overview

AutoNation, Inc., through its subsidiaries, is the largest automotive retailer in the United States. As of June 30, 2013, we owned and operated 265 new vehicle franchises from 224 stores located in the United States, predominantly in major metropolitan markets in the Sunbelt region. Our stores, which we believe include some of the most recognizable and well known in our key markets, sell 32 different new vehicle brands. The core brands of new vehicles that we sell, representing approximately 96% of the new vehicles that we sold during the six months ended June 30, 2013, are manufactured by Toyota, Ford, Honda, Nissan, General Motors, Mercedes-Benz, BMW, Chrysler, and Volkswagen.

On January 31, 2013, we announced that we would be marketing our Domestic and Import stores under the AutoNation retail brand. The rebranding of these stores, which previously operated under various local market retail brands, commenced in the first quarter of 2013 and was completed in the second quarter of 2013.

We offer a diversified range of automotive products and services, including new vehicles, used vehicles, "parts and service," which includes automotive repair and maintenance services as well as wholesale parts and collision businesses, and automotive "finance and insurance" products, which include vehicle service, insurance, and other products, as well as the arranging of financing for vehicle purchases through third-party finance sources. We believe that the significant scale of our operations and the quality of our managerial talent allow us to achieve efficiencies in our key markets by, among other things, leveraging our market brands and advertising, improving asset management, implementing standardized processes, and increasing productivity across all of our stores.

At June 30, 2013, we had three operating and reportable segments: (1) Domestic, (2) Import, and (3) Premium Luxury. Our Domestic segment is comprised of retail automotive franchises that sell new vehicles manufactured by Ford, General Motors, and Chrysler. Our Import segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Toyota, Honda, and Nissan. Our Premium Luxury segment is comprised of retail automotive franchises that sell new vehicles manufactured primarily by Mercedes-Benz, BMW, Lexus, and Audi. The franchises in each segment also sell used vehicles, parts and automotive repair and maintenance services, and automotive finance and insurance products.

For the six months ended June 30, 2013, new vehicle sales accounted for approximately 56% of our total revenue, but approximately 21% of our total gross profit. Used vehicle sales accounted for approximately 24% of our total revenue, and approximately 13% of our total gross profit. Our parts and service and finance and insurance operations, while comprising approximately 19% of our total revenue for the six months ended June 30, 2013, contributed approximately 65% of our total gross profit for the same period.

Results of Operations

Second Quarter 2013 compared to Second Quarter 2012

During the three months ended June 30, 2013, we had net income from continuing operations of $90.1 million or $0.73 per share on a diluted basis, as compared to net income from continuing operations of $79.0 million or $0.64 per share on a diluted basis during the same period in 2012.

Results for the three months ended June 30, 2012, were adversely impacted by a non-cash franchise rights impairment charge of $4.2 million ($2.6 million after-tax, or $0.02 per share).

First Six Months 2013 compared to First Six Months 2012

During the six months ended June 30, 2013, we had net income from continuing operations of $173.3 million or $1.41 per share on a diluted basis, as compared to net income from continuing operations of $152.5 million or $1.19 per share on a diluted basis during the same period in 2012.

Results for the six months ended June 30, 2012, were adversely impacted by a non-cash franchise rights impairment charge of $4.2 million ($2.6 million after-tax, or $0.02 per share).

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Market Conditions

In the second quarter of 2013, U.S. industry new vehicle unit sales increased 9% compared to the second quarter of 2012, driven in part by replacement demand. Based on industry data, the average age of cars and trucks in the United States is at a record high of 11.4 years compared to an average age of 9.8 years during the period from 2002 to 2007. While a robust consumer credit environment and an increase in new product offerings from automotive manufacturers were supportive of a strong selling environment, increased product competition, particularly in the mid-size vehicle market, pressured Import new vehicle margins. New vehicle margin compression was partially offset by an increase in finance and insurance gross profit per vehicle retailed.

We continue to anticipate full-year U.S. industry new vehicle unit sales will be at the mid-15 million unit level, an improvement compared to 2012 but still below pre-recession levels.

After several years of decline, the number of recent-model-year vehicles in operation, our primary service base, has stabilized due to increases in the annual rate of new vehicle sales in the United States since 2009. As a result, our parts and service business has begun to benefit, and we expect that it will continue to benefit over the next several years as this service base is expected to gradually return to pre-recession levels.

Inventory Management

Our new and used vehicle inventories are stated at the lower of cost or market on our consolidated balance sheets. We monitor our vehicle inventory levels closely based on current economic conditions and seasonal sales trends.

We have generally not experienced losses on the sale of new vehicle inventory, in part due to incentives provided by manufacturers to promote sales of new vehicles and our inventory management practices. We had 64,649 units in new vehicle inventory at June 30, 2013, 58,819 units at December 31, 2012, and 49,187 units at June 30, 2012.

We recondition the majority of used vehicles acquired for retail sale in our parts and service departments and capitalize the related costs to the used vehicle inventory. In general, used vehicles that are not sold on a retail basis are liquidated at wholesale auctions. We record estimated losses on used vehicle inventory. Our used vehicle inventory balance was net of cumulative write-downs of $1.1 million at June 30, 2013, and $1.2 million at December 31, 2012.

Parts, accessories, and other inventory are carried at the lower of acquisition cost (first-in, first-out method) or market. We estimate the amount of potential obsolete inventory based upon past experience and market trends. Our parts, accessories, and other inventory balance was net of cumulative write-downs of $3.3 million at June 30, 2013, and $3.2 million at December 31, 2012.

Critical Accounting Policies and Estimates

We prepare our Unaudited Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States, which require us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. We evaluate our estimates on an ongoing basis, and we base our estimates on historical experience and various other assumptions we believe to be reasonable. Actual outcomes could differ materially from those estimates in a manner that could have a material effect on our Unaudited Condensed Consolidated Financial Statements. For additional discussion of our critical accounting policies and estimates, please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our most recent Annual Report on Form 10 K.

Goodwill

Goodwill for our Domestic, Import, and Premium Luxury reporting units is tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred. Under accounting standards, we chose to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it was necessary to calculate the fair values of our reporting units under the two-step goodwill impairment test. We completed our qualitative assessment of potential goodwill impairment as of April 30, 2013, and we determined that it was not more likely than not that the fair values of our reporting units were less than their carrying amounts. The fair values of the Domestic, Import, and Premium Luxury reporting units were substantially in excess of their carrying values as of April 30, 2011, the date of our most recent quantitative annual impairment test.

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Other Intangible Assets

Our principal identifiable intangible assets are individual store rights under franchise agreements with vehicle manufacturers, which have indefinite lives and are tested for impairment annually as of April 30 or more frequently when events or changes in circumstances indicate that impairment may have occurred. Under accounting standards, we chose to make a qualitative evaluation about the likelihood of franchise rights impairment to determine whether it was necessary to perform a quantitative impairment test. We completed our qualitative assessment of franchise rights impairment as of April 30, 2013 and we determined that it was not more likely than not that the fair values of our franchise rights were less than their carrying amounts.

Long-Lived Assets

We estimate the depreciable lives of our property and equipment, including leasehold improvements, and review them for impairment when events or changes in circumstances indicate that their carrying amounts may be impaired. Such events or changes may include a significant decrease in market value, a significant change in the business climate in a particular market, a current expectation that more-likely-than-not a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life, or a current-period operating or cash flow loss combined with historical losses or projected future losses.

When property and equipment is identified as held for sale, we reclassify the held for sale assets to Other Current Assets and cease recording depreciation. We measure each long-lived asset or disposal group at the lower of its carrying amount or fair value less cost to sell and recognize a loss for any initial adjustment of the long-lived asset's or disposal group's carrying amount to fair value less cost to sell in the period the "held for sale" criteria are met. We periodically evaluate the carrying value of assets held for sale to determine if, based on market conditions, the values of these assets should be adjusted.

As of June 30, 2013, we had long-lived assets held for sale of $71.1 million in continuing operations and $34.5 million in discontinued operations.

During the three and six months ended June 30, 2013, no impairment charges were recorded for the carrying value of long-lived assets held and used in continuing operations, and no impairment charges were recorded for the carrying value of long-lived assets held for sale in continuing or discontinued operations.

The fair value measurements for our property and equipment and assets held for sale are based on Level 3 inputs, which considered information from third-party real estate valuation sources, or, in certain cases, pending agreements to sell the related assets. See Note 13 of the Notes to Unaudited Condensed Consolidated Financial Statements for more information on our fair value measurement valuation process. Although we believe our property and equipment and assets held for sale are appropriately valued, the assumptions and estimates used may change and we may be required to record impairment charges to reduce the value of these assets.

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Reported Operating Data
Historical operating results include the results of acquired businesses from the date of acquisition.

($ in millions, except per vehicle data)	Three Months Ended June 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance	Six Months Ended June 30, 2013	2012	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
New vehicle	$2,493.6	$2,196.1	$ 297.5	13.5	$4,751.3	$4,190.4	$ 560.9	13.4
Retail used vehicle	954.0	829.5	124.5	15.0	1,853.2	1,630.6	222.6	13.7
Wholesale	102.5	117.9	(15.4)	(13.1)	213.0	235.6	(22.6)	(9.6)
Used vehicle	1,056.5	947.4	109.1	11.5	2,066.2	1,866.2	200.0	10.7
Finance and insurance, net	173.9	145.1	28.8	19.8	329.5	275.3	54.2	19.7
Total variable operations(1)	3,724.0	3,288.6	435.4	13.2	7,147.0	6,331.9	815.1	12.9
Parts and service	655.9	602.5	53.4	8.9	1,292.5	1,202.4	90.1	7.5
Other	46.6	13.4	33.2		83.4	27.2	56.2	
Total revenue	$4,426.5	$3,904.5	$ 522.0	13.4	$8,522.9	$7,561.5	$ 961.4	12.7
Gross profit:								
New vehicle	$149.2	$145.5	$ 3.7	2.5	$290.9	$279.5	$ 11.4	4.1
Retail used vehicle	83.3	75.1	8.2	10.9	166.7	153.6	13.1	8.5
Wholesale	0.8	2.0	(1.2)		3.4	4.6	(1.2)	
Used vehicle	84.1	77.1	7.0	9.1	170.1	158.2	11.9	7.5
Finance and insurance	173.9	145.1	28.8	19.8	329.5	275.3	54.2	19.7
Total variable operations(1)	407.2	367.7	39.5	10.7	790.5	713.0	77.5	10.9
Parts and service	280.2	253.4	26.8	10.6	552.5	503.6	48.9	9.7
Other	8.7	6.9	1.8		17.1	14.4	2.7	
Total gross profit	696.1	628.0	68.1	10.8	1,360.1	1,231.0	129.1	10.5
Selling, general, and administrative expenses	494.1	438.6	(55.5)	(12.7)	967.4	871.5	(95.9)	(11.0)
Depreciation and amortization	23.3	20.8	(2.5)		46.0	42.0	(4.0)	
Franchise rights impairment	—	4.2	4.2		—	4.2	4.2	
Other expenses (income), net	(2.2)	0.2	2.4		(3.6)	0.4	4.0	
Operating income	180.9	164.2	16.7	10.2	350.3	312.9	37.4	12.0
Non-operating income (expense) items:								
Floorplan interest expense	(13.6)	(10.8)	(2.8)		(26.5)	(21.5)	(5.0)	
Other interest expense	(22.0)	(22.5)	0.5		(44.3)	(43.0)	(1.3)	
Interest income	—	0.1	(0.1)		0.1	0.2	(0.1)	
Other income (loss), net	1.3	(1.4)	2.7		2.9	0.6	2.3	
Income from continuing operations before income taxes	$146.6	$129.6	$ 17.0	13.1	$282.5	$249.2	$ 33.3	13.4

Retail vehicle unit sales:								
New vehicle	74,352	66,987	7,365	11.0	141,511	128,503	13,008	10.1
Used vehicle	52,116	46,236	5,880	12.7	102,621	92,352	10,269	11.1
	126,468	113,223	13,245	11.7	244,132	220,855	23,277	10.5
Revenue per vehicle retailed:								
New vehicle	$33,538	$32,784	$ 754	2.3	$33,575	$32,609	$ 966	3.0
Used vehicle	$18,305	$17,941	$ 364	2.0	$18,059	$17,656	$ 403	2.3
Gross profit per vehicle retailed:								
New vehicle	$2,007	$2,172	$ (165)	(7.6)	$2,056	$2,175	$ (119)	(5.5)
Used vehicle	$1,598	$1,624	$ (26)	(1.6)	$1,624	$1,663	$ (39)	(2.3)
Finance and insurance	$1,375	$1,282	$ 93	7.3	$1,350	$1,247	$ 103	8.3
Total variable operations[2]	$3,213	$3,230	$ (17)	(0.5)	$3,224	$3,208	$ 16	0.5

[1] Total variable operations includes new vehicle, used vehicle (retail and wholesale), and finance and insurance results.
[2] Total variable operations gross profit per vehicle retailed is calculated by dividing the sum of new vehicle, retail used vehicle, and finance and insurance gross profit by total retail vehicle unit sales.

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	Three Months Ended June 30, 2013 (%)	2012 (%)	Six Months Ended June 30, 2013 (%)	2012 (%)
Revenue mix percentages:				
New vehicle	56.3	56.2	55.7	55.4
Used vehicle	23.9	24.3	24.2	24.7
Parts and service	14.8	15.4	15.2	15.9
Finance and insurance, net	3.9	3.7	3.9	3.6
Other	1.1	0.4	1.0	0.4
Total	100.0	100.0	100.0	100.0
Gross profit mix percentages:				
New vehicle	21.4	23.2	21.4	22.7
Used vehicle	12.1	12.3	12.5	12.9
Parts and service	40.3	40.4	40.6	40.9
Finance and insurance	25.0	23.1	24.2	22.4
Other	1.2	1.0	1.3	1.1
Total	100.0	100.0	100.0	100.0
Operating items as a percentage of revenue:				
Gross profit:				
New vehicle	6.0	6.6	6.1	6.7
Used vehicle - retail	8.7	9.1	9.0	9.4
Parts and service	42.7	42.1	42.7	41.9
Total	15.7	16.1	16.0	16.3
Selling, general, and administrative expenses	11.2	11.2	11.4	11.5
Operating income	4.1	4.2	4.1	4.1
Operating items as a percentage of total gross profit:				
Selling, general, and administrative expenses	71.0	69.8	71.1	70.8
Operating income	26.0	26.1	25.8	25.4
			June 30, 2013	June 30, 2012
Days supply:				
New vehicle (industry standard of selling days, including fleet)			67 days	60 days
Used vehicle (trailing calendar month days)			30 days	31 days

The following table details net new vehicle inventory carrying benefit, consisting of new vehicle floorplan interest expense, net of floorplan assistance earned (amounts received from manufacturers specifically to support store financing of new vehicle inventory). Floorplan assistance is accounted for as a component of new vehicle gross profit.

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions)	2013	2012	Variance	2013	2012	Variance
Floorplan assistance	$23.8	$18.5	$5.3	$42.4	$35.7	$6.7
Floorplan interest expense (new vehicles)	(13.1)	(10.3)	(2.8)	(25.4)	(20.7)	(4.7)
Net new vehicle inventory carrying benefit	$10.7	$8.2	$2.5	$17.0	$15.0	$2.0

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Same Store Operating Data

We have presented below our operating results on a same store basis to reflect our internal performance. The "Same Store" amounts presented below include the results of our stores for the identical months in each period presented in the comparison, commencing with the first full month in which the store was owned by us.

	Three Months Ended June 30,				Six Months Ended June 30,			
($ in millions, except per vehicle data)	2013	2012	Variance Favorable / (Unfavorable)	% Variance	2013	2012	Variance Favorable / (Unfavorable)	% Variance
Revenue:								
New vehicle	$2,398.4	$2,196.1	$ 202.3	9.2	$4,586.9	$4,190.4	$ 396.5	9.5
Retail used vehicle	919.6	829.5	90.1	10.9	1,789.9	1,630.6	159.3	9.8
Wholesale	99.5	117.9	(18.4)	(15.6)	204.5	235.6	(31.1)	(13.2)
Used vehicle	1,019.1	947.4	71.7	7.6	1,994.4	1,866.2	128.2	6.9
Finance and insurance, net	168.6	145.1	23.5	16.2	320.1	275.3	44.8	16.3
Total variable operations(1)	3,586.1	3,288.6	297.5	9.0	6,901.4	6,331.9	569.5	9.0
Parts and service	638.4	602.5	35.9	6.0	1,261.5	1,202.4	59.1	4.9
Other	45.9	13.4	32.5		80.1	27.2	52.9	
Total revenue	$4,270.4	$3,904.5	$ 365.9	9.4	$8,243.0	$7,561.5	$ 681.5	9.0
Gross profit:								
New vehicle	$143.1	$145.5	$ (2.4)	(1.6)	$280.0	$279.5	$ 0.5	0.2
Retail used vehicle	80.9	75.1	5.8	7.7	161.9	153.6	8.3	5.4
Wholesale	1.0	2.0	(1.0)		3.4	4.6	(1.2)	
Used vehicle	81.9	77.1	4.8	6.2	165.3	158.2	7.1	4.5
Finance and insurance	168.6	145.1	23.5	16.2	320.1	275.3	44.8	16.3
Total variable operations(1)	393.6	367.7	25.9	7.0	765.4	713.0	52.4	7.3
Parts and service	272.2	253.4	18.8	7.4	538.5	503.6	34.9	6.9
Other	8.7	6.9	1.8		17.1	14.4	2.7	
Total gross profit	$674.5	$628.0	$ 46.5	7.4	$1,321.0	$1,231.0	$ 90.0	7.3
Retail vehicle unit sales:								
New vehicle	71,696	66,987	4,709	7.0	136,988	128,503	8,485	6.6
Used vehicle	50,377	46,236	4,141	9.0	99,578	92,352	7,226	7.8
	122,073	113,223	8,850	7.8	236,566	220,855	15,711	7.1
Revenue per vehicle retailed:								
New vehicle	$33,452	$32,784	$ 668	2.0	$33,484	$32,609	$ 875	2.7
Used vehicle	$18,254	$17,941	$ 313	1.7	$17,975	$17,656	$ 319	1.8
Gross profit per vehicle retailed:								
New vehicle	$1,996	$2,172	$ (176)	(8.1)	$2,044	$2,175	$ (131)	(6.0)
Used vehicle	$1,606	$1,624	$ (18)	(1.1)	$1,626	$1,663	$ (37)	(2.2)
Finance and insurance	$1,381	$1,282	$ 99	7.7				