

Big Tree Group, Inc.  
Form 10-Q  
August 14, 2014

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

Form 10-Q

(Mark One)

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

For the period ended June 30, 2014

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

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

Commission File No. 000-27845

BIG TREE GROUP, INC.  
(Name of registrant as specified in its charter)

Colorado  
(State or other jurisdiction of incorporation or organization)

84-1304106  
(I.R.S. Employer Identification No.)

South Part 1-101, Nanshe Area, Pengnan Industrial Park on North  
Yingbinbei Road, Waisha Town of Longhu District, Shantou, Guangdong,  
China

(Address of principal executive offices) 515023  
(Zip Code)

(86)-754-8323888  
(Registrant's telephone number, including area code)

Not applicable  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark 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," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the most practicable date: 22,212,217 shares of common stock are issued and outstanding as of August 5, 2014.

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BIG TREE GROUP, INC. AND SUBSIDIARIES  
FORM 10-Q  
June 30, 2014

TABLE OF CONTENTS

	Page No.	
<b>PART I - FINANCIAL INFORMATION</b>		
Item 1.	Financial Statements:	
	Condensed Consolidated Balance Sheets - As of June 30, 2014 (unaudited) and December 31, 2013	1
	Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income - For the Three and Six Months Ended June 30, 2014 and for the Three and Six Months Ended June 30, 2013 (restated) (unaudited)	2
	Condensed Consolidated Statements of Cash Flows - For the Six Months Ended June 30, 2014 and for the Six Months Ended June 30, 2013 (restated)(unaudited)	3
	Notes to Unaudited Condensed Consolidated Financial Statements.	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.	21
Item 3.	Quantitative and Qualitative Disclosures About Market Risk.	27
Item 4	Controls and Procedures.	28
<b>PART II - OTHER INFORMATION</b>		
Item 1.	Legal Proceedings.	28
Item 1A.	Risk Factors.	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	28
Item 3.	Defaults Upon Senior Securities.	29
Item 4.	Mine Safety Disclosures.	29
Item 5.	Other Information.	29
Item 6.	Exhibits.	29

We used in this report, the terms "Big Tree," "we," "our," and "us" or the "Company" refers to Big Tree Group, Inc., a Colorado corporation, and its wholly-owned subsidiaries Big Tree International Co., Ltd., a Brunei company, ("BT Brunei") and Shantou Big Tree Toys Co., Ltd., a Chinese company ("BT Shantou").

## EXPLANATORY NOTE

This Quarterly Report on Form 10-Q of Big Tree Group, Inc. for the three and six months ended June 30, 2014 reflects the restatement of our unaudited condensed consolidated financial statements as of June 30, 2013 and for the three and six months ended June 30, 2013. Based upon analysis of current tax research and interpretations of China tax regulations, we have determined that our subsidiary, Big Tree International Co., Ltd., a Brunei company, may be considered a non-resident PRC company and may be subject to China income taxes and other payroll benefit taxes. Accordingly, we have decided to accrue China income taxes and payroll benefit taxes pursuant to China tax regulations. At June 30, 2013, we increased our current liabilities by \$1,544,401, reduced net income by \$199,400 or \$0.02 per common share (basic and diluted), and \$299,329 or \$0.03 per common share (basic and diluted) for the three and six months ended June 30, 2013, respectively, to reflect the accrual of income taxes, payroll benefit taxes and all related estimated penalties and interest, we reduced beginning retained earnings by \$1,208,543 to reflect the accrual of such taxes and penalties for the 2012 and 2011 periods, and decreased accumulated other comprehensive income by \$36,529. Currently, we are reviewing our corporate tax structure and plan on restructuring our tax structure to ensure that Big Tree International Co., Ltd. is not subject to such taxes in China.

Please see Note 12 - Restatement contained in the Notes to Unaudited Condensed Consolidated Financial Statements appearing later in this Form 10-Q which further describes the effect of this restatement.

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report includes forward-looking statements that relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Words such as, but not limited to, "believe," "expect," "anticipate," "estimate," "intend," "plan," "targets," "likely," "aim," "will," "would," "could," and similar expressions or phrases identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and future events and financial trends that we believe may affect our financial condition, results of operation, business strategy and financial needs. Forward-looking statements include, but are not limited to, statements about:

The circumstances resulting in the restatement of our financial statements and the material weaknesses in our internal control over financial reporting and in our disclosure controls and procedures;

Terms of the convertible notes we have issued and sold and the significant dilution to our shareholders upon the conversion of those notes;

Transactions with our related parties which may have resulted in violations of the Sarbanes-Oxley Act of 2002;

Fluctuations in our revenues based upon our revenue recognition policy;

Factors affecting consumer preferences and customer acceptance of new products;

Competition in the toy industry;

Loss of one or more key customers;

Dependence on third-party contract manufacturers;

Dependence on certain key personnel;

Inability to manage our business expansion;

Infringement by third parties on our intellectual property rights;

Our inadvertent infringement of third-party intellectual property rights;

Availability of skilled and unskilled labor and increasing labor costs;

Lack of insurance coverage and the impact of any loss resulting from product liability or third party liability claims or casualty losses;  
Violation of Foreign Corrupt Practices Act or China anti-corruption laws;  
Economic, legal restrictions and business conditions in China;  
Limited public market for our common stock; and  
Potential conflicts of interest between our controlling shareholders and our shareholders.

You should read thoroughly this report and the documents that we refer to herein with the understanding that our actual future results may be materially different from and/or worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements including those made in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2013 as filed with the Securities and Exchange Commission. Other sections of this report include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an evolving environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this report, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

## Item 1. Financial Statements

**BIG TREE GROUP INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 29,006	\$ 220,585
Restricted Cash	167,338	4,910
Accounts receivable, net of allowance of \$288,009 and \$291,011, respectively	9,561,524	9,171,976
Inventories	1,428,165	134,699
Other receivables	902,195	1,181,321
Prepaid expenses	12,445	56,754
Due from related party	-	292,943
Advances to suppliers	86,650	113,792
<b>Total Current Assets</b>	<b>12,187,323</b>	<b>11,176,980</b>
Security deposit - related party	58,487	58,916
Property and equipment, net	274,667	131,198
Intangible assets, net	23,496	7,751
<b>Total Assets</b>	<b>\$ 12,543,973</b>	<b>\$ 11,374,845</b>
<b>LIABILITIES AND SHAREHOLDERS' (DEFICIT) EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and accrued expenses	\$ 5,608,621	\$ 3,286,443
Loans payable	3,891,019	4,303,659
Convertible loans payable	572,306	205,716
Derivative liabilities	34,195	182,096
Advances from customers	221,702	124,851
Salaries and benefits payable	519,382	426,186
Other payables	437,410	569,995
Taxes payable	1,131,329	1,133,075
Due to related parties	489,900	444,749
<b>Total Current Liabilities</b>	<b>12,905,864</b>	<b>10,676,770</b>
<b>Total Liabilities</b>	<b>12,905,864</b>	<b>10,676,770</b>
Commitment and Contingencies	-	-
<b>SHAREHOLDERS' (DEFICIT) EQUITY:</b>		
Preferred stock No par value; 20,000,000 shares authorized; none issued and outstanding at June 30, 2014 and December 31, 2013	-	-
Common stock \$0.00001 par value; 100,000,000 shares authorized; 14,273,557 and 10,350,192 shares	143	104

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issued and outstanding at June 30, 2014 and December 31, 2013, respectively

Additional paid-in capital	677,792	302,399
Retained earnings	1,855,493	1,964,561
Accumulated other comprehensive income	39,294	61,591
Advances due from related party	(2,934,613 )	(1,630,580 )
Total Shareholders' (Deficit) Equity	(361,891 )	698,075
Total Liabilities and Shareholders' (Deficit) Equity	\$ 12,543,973	\$ 11,374,845

See accompanying notes to unaudited condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS)  
INCOME  
(UNAUDITED)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2014	2013 (As Restated)	2014	2013 (As Restated)
Revenues	\$ 4,831,712	\$ 11,863,274	\$ 9,600,367	\$ 19,310,975
Cost of revenues	4,267,757	10,974,138	8,276,112	17,727,189
Gross profit	563,955	889,136	1,324,255	1,583,786
<b>OPERATING EXPENSES:</b>				
Selling expenses	162,410	181,734	307,474	295,925
Rent - related party	136,583	58,041	195,449	115,394
General and administrative	317,387	255,542	670,077	667,319
Total operating expenses	616,380	495,317	1,173,000	1,078,638
Operating (loss) income	(52,425 )	393,819	151,255	505,148
<b>OTHER INCOME (EXPENSES):</b>				
Other income (expenses)	24,645	(32,335 )	8,558	(41,043 )
Realized gain (loss) from foreign currency exchange	42,409	(58,239 )	121,774	(74,351 )
Gain from change in fair value of derivative liabilities	30,694	-	103,328	-
Interest expense, net	(80,951 )	(65,743 )	(434,705 )	(129,476 )
Total other income (expenses)	16,797	(156,317 )	(201,045 )	(244,870 )
(Loss) income before income taxes	(35,628 )	237,502	(49,790 )	260,278
Income taxes	6,359	(103,429 )	(59,278 )	(160,753 )
Net (loss) income	\$ (29,269 )	\$ 134,073	\$ (109,068 )	\$ 99,525
<b>COMPREHENSIVE (LOSS) INCOME:</b>				
Net (loss) income	\$ (29,269 )	\$ 134,073	\$ (109,068 )	\$ 99,525
Foreign currency translation income (loss)	4,179	31,833	(22,297 )	42,507
COMPREHENSIVE (LOSS) INCOME	\$ (25,090 )	\$ 165,906	\$ (131,365 )	\$ 142,032
<b>NET (LOSS) INCOME PER COMMON SHARE:</b>				



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Basic	\$ (0.00 )	\$ 0.01	\$ (0.01 )	\$ 0.01
Diluted	\$ (0.00 )	\$ 0.01	\$ (0.01 )	\$ 0.01

WEIGHTED AVERAGE  
COMMON SHARES  
OUTSTANDING:

Basic	12,812,447	10,350,192	10,886,205	10,347,699
Diluted	12,812,447	10,350,192	10,886,205	10,347,699

See accompanying notes to unaudited condensed consolidated financial statements

BIG TREE GROUP INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)

	For the Six Months Ended June 30, 2014	2013 (As Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (109,068 )	\$ 99,525
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	50,202	39,606
Gain from change in fair market value of derivative liabilities	(103,328 )	-
Stock issued for interest	235	94,501
Bad debt expense	(886 )	