

CD INTERNATIONAL ENTERPRISES, INC.  
Form 10-Q  
September 03, 2013

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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 quarterly period ended June 30, 2013

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

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

Commission file number: 001-33694

CD INTERNATIONAL ENTERPRISES, INC.  
(Exact name of registrant as specified in its charter)

Florida  
(State or other jurisdiction of incorporation or  
organization)

13-3876100  
(I.R.S. Employer Identification No.)

431 Fairway Drive, Suite 200, Deerfield Beach, Florida  
(Address of principal executive offices)

33441  
(Zip Code)

954-363-7333  
(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 [ü]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark 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 check mark 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 registrant's classes of common stock, as of the latest practicable date, there are 57,164,037 shares of common stock are issued and outstanding as of August 28, 2013.

CD INTERNATIONAL ENTERPRISES, INC.  
FORM 10-Q  
June 30, 2013

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Cautionary Note Regarding Forward-Looking Information and Factors That May Affect Future Results

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. This report and other written and oral statements that we make from time to time contain such forward-looking statements that set out anticipated results based on management's plans and assumptions regarding future events or performance. We have tried, wherever possible, to identify such statements by using words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "will" and similar expressions in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, future performance or results of current and anticipated sales efforts, expenses, the outcome of contingencies, such as legal proceedings, and financial results. A list of factors that could cause our actual results of operations and financial condition to differ materially is set forth below, and these factors are discussed in greater detail under Item 1A – "Risk Factors" of our Annual Report on Form 10-K for the year ended September 30, 2012, our subsequent filings with the Securities and Exchange Commission and in Item 1A. of this report:

- Our ability to continue as a going concern.
- Continued global economic weakness is expected to reduce demand for our products in each of our segments.
- Fluctuations in the pricing and availability of magnesium and in levels of customer demand.
- Changes in the prices of magnesium and magnesium-related products.
- Our ability to implement our expansion plans for growing our business through increased magnesium production capacity and acquisitions and development of our commodity trading business.
- Fluctuations in the cost or availability of coke gas and coal.
- Loss of orders from any of our major customers.
- The value of the equity securities we accept as compensation is subject to adjustment which could result in losses to us in future periods.
- Our need for additional financing which we may not be able to obtain on acceptable terms, the dilutive effect additional capital raising efforts in future periods may have on our current shareholders and the increased interest expense in future periods related to additional debt financing.
- Adverse outcome of the bankruptcy of our subsidiary CDII Trading, Inc. ("CDII Trading").
- Our dependence on certain key personnel.
- Difficulties we have in establishing adequate management, cash, legal and financial controls in the PRC.
- Our ability to maintain an effective system of internal control over financial reporting.
- The lack various legal protections in certain agreements to which we are a party and which are material to our operations which are customarily contained in similar contracts prepared in the United States.
- Potential impact of PRC regulations on our intercompany loans.
- Our ability to assure that related party transactions are fair to our company and possible violations of the Sarbanes-Oxley Act of 2002.
- The scope of our related party transactions and potential conflicts of interest arising from these transactions.
- The impact of a loss of our land use rights.

- Our ability to comply with the United States Foreign Corrupt Practices Act which could subject us to penalties and other adverse consequences.
- Limits under the Investment Company Act of 1940 on the value of securities we can accept as payment for our business consulting services.
- Our acquisition efforts in future periods may be dilutive to our then current shareholders.
- Our inability to enforce our rights due to policies regarding the regulation of foreign investments in the PRC.
- The impact of environmental and safety regulations, which may increase our compliance costs and reduce our overall profitability.
- The effect of changes resulting from the political and economic policies of the Chinese government on our assets and operations located in the PRC.
- The impact of Chinese economic reform policies.
- The influence of the Chinese government over the manner in which our Chinese subsidiaries must conduct our business activities.
- The impact on future inflation in the PRC on economic activity in the PRC.
- The impact of any natural disasters and health epidemics in China.
- The impact of labor laws in the PRC may adversely affect our results of operations.
- The limitation on our ability to receive and use our revenues effectively as a result of restrictions on currency exchange in the PRC.
- Fluctuations in the value of the RMB may have a material adverse effect on your investment.
- The market price for shares of our common stock has been and may continue to be highly volatile and subject to wide fluctuations and the impact of penny stock rules on the liquidity of our common stock.

We caution that the factors described herein and other factors could cause our actual results of operations and financial condition to differ materially from those expressed in any forward-looking statements we make and that investors should not place undue reliance on any such forward-looking statements. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of anticipated or unanticipated events or circumstances. New factors emerge from time to time, and it is not possible for us to predict all of such factors. Further, we cannot assess the impact of each such factor on our results of operations 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.

#### Index of Certain Defined Terms Used in this Report

We used in this report the terms:

- "CD International", "we", "us" or "our" refers to CD International Enterprises, Inc., a Florida corporation formerly known as China Direct Industries, Inc., and our subsidiaries;
- "CDI China", refers to CDI China, Inc., a Florida corporation, and a wholly owned subsidiary of CD International; and
- "PRC" refers to the People's Republic of China.

#### Magnesium Segment

- "Chang Magnesium", refers to Taiyuan Changxin Magnesium Co., Ltd., a company organized under the laws of the PRC and a 51% owned subsidiary of CDI China;
- "Chang Trading", refers to Taiyuan Changxin YiWei Trading Co., Ltd., a company organized under the laws of the PRC and a wholly owned subsidiary of Chang Magnesium;
- "Asia Magnesium", refers to Asia Magnesium Corporation Limited, a company organized under the laws of Hong Kong and a wholly owned subsidiary of Capital One Resource;
- "Golden Magnesium" refers to Shanxi Gu County Golden Magnesium Co., Ltd., a company organized under the laws of the PRC and a 100% owned subsidiary of CDI China;
- "Baotou Changxin Magnesium", refers to Baotou Changxin Magnesium Co., Ltd., a company organized under the laws of the PRC, a 51% owned subsidiary of CDI China;
- "IMG" or "International Magnesium Group", refers to International Magnesium Group, Inc., a Florida corporation and a 100% owned subsidiary of CD International Industries;
- "IMTC" or "International Magnesium Trading", refers to International Magnesium Trading Corp., a company organized under the laws of Brunei and a 100% owned subsidiary of IMG;
- "Ruiming Magnesium", refers to Taiyuan Ruiming Yiwei Magnesium Co., Ltd., a company organized under the laws of the PRC and an 80% majority owned subsidiary of CDI China;
- "Beauty East" refers to Beauty East International, Ltd., a Hong Kong company and a wholly owned subsidiary of CDI China.
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"Marvelous Honor" refers to Marvelous Honor Holdings Inc., a Brunei company and a wholly owned subsidiary of CDI China.

- "Golden Trust" refers to Golden Trust Magnesium Industry Co., Ltd. a company organized under the laws of the PRC and a wholly owned subsidiary of CDI China; and
- "Lingshi Magnesium" refers to Lingshi Xinghai Magnesium Industry Co., Ltd. a company organized under the laws of the PRC and a wholly owned subsidiary of Ruiming Magnesium.

#### Basic Materials Segment

- "Lang Chemical", refers to Shanghai Lang Chemical Co., Ltd. a company organized under the laws of the PRC and a 51% owned subsidiary of CDI China which we disposed of in the fourth quarter of fiscal 2012;
- "CDI Jingkun Zinc", refers to CDI Jingkun Zinc Industry Co., Ltd., a company organized under the laws of the PRC and a 95% owned subsidiary of CDI Shanghai Management;
- "CDI Jixiang Metal", refers to CDI Jixiang Metal Co., Ltd., a company organized under the laws of the PRC and a wholly owned subsidiary of CDI China;
- "CDI Metal", refers to Shanghai CDI Metal Material Co., Ltd. (a/k/a Shanghai CDI Metal Recycling Co., Ltd.), a company organized under the laws of the PRC and a wholly owned subsidiary of CDI Shanghai Management; and
- "CDI Beijing" refers to CDI (Beijing) International Trading Co., Ltd., a company organized under the laws of the PRC and a 51% owned subsidiary of CDI Shanghai Management, which we disposed of in the fourth quarter of fiscal 2012.
- "CDII Trading" refers to CDII Trading, Inc., a Florida corporation and a 100% owned subsidiary of CD International.
- "CDII Minerals" refers to CDII Minerals, Inc., a Florida corporation and a 100% owned subsidiary of CD International.
- "CDII Chile" refers to Inversiones CDII Chile, Ltda, a Chilean corporation and a 100% owned subsidiary of CDII Minerals.

#### Consulting Segment

- "China Direct Investments", refers to China Direct Investments, Inc., a Florida corporation, and a wholly owned subsidiary of CD International;
- "CDI Shanghai Management", refers to CDI Shanghai Management Co., Ltd., a company organized under the laws of the PRC and a wholly owned subsidiary of CDI China; and
- "Capital One Resource", refers to Capital One Resource Co., Ltd., a Brunei company, and a wholly owned subsidiary of CDI Shanghai Management.



## PART 1 – FINANCIAL INFORMATION

## Item 1. Financial Statements.

CD INTERNATIONAL ENTERPRISES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2013 (Unaudited)	September 30, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,004,334	\$ 3,437,838
Available-for-sale marketable securities	700,612	344,252
Accounts and notes receivable	3,592,104	11,227,455
Accounts, loans, other receivable and prepaid expenses - related parties	7,729,090	3,093,231
Inventories, net	6,920,469	5,655,568
Prepaid expenses and other current assets, net	8,025,690	5,889,331
Assets held for sale	4,321,605	2,746,778
Restricted cash, current	20,823	21,954
Total current assets	32,314,727	32,416,407
Property, plant and equipment, net	39,724,285	40,394,593
Intangible assets	93,824	122,212
Property use rights, net	3,705,291	3,714,231
Other long-term assets	1,010,773	1,172,901
Total assets	\$ 76,848,900	\$ 77,820,344
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Loans payable-short term	\$ 1,627,169	\$ 1,494,952
Accounts payable and accrued expenses	7,936,574	5,243,279
Accounts and other payables-related parties	14,449,201	12,600,716
Advances from customers	1,234,480	1,414,608
Deferred revenue	-	300,708
Other liabilities	2,914,330	4,286,070
Taxes payable	-	665,438
Liabilities related to assets held for sale	6,423,577	6,777,451
Total current liabilities	34,585,331	32,783,222
Total liabilities	34,585,331	32,783,222
<b>EQUITY:</b>		
Series A Convertible Preferred Stock: \$.0001 par value, stated value \$1,000 per share; 10,000,000 authorized, 1,006 shares outstanding at June 30, 2013 and September 30, 2012, respectively	1,006,250	1,006,250
	5,679	5,149

Common Stock: \$.0001 par value; 1,000,000,000 authorized; 56,794,465 and 51,490,798 issued and outstanding at June 30, 2013 and September 30, 2012, respectively

Additional paid-in capital	90,350,427	89,792,413
Accumulated other comprehensive income (loss)	618,777	(576,240 )
Accumulated deficit	(54,795,616 )	(49,878,821 )
Total CD International stockholders' equity	37,185,517	40,348,751
Non-controlling interests	5,078,053	4,688,371
Total equity	42,263,569	45,037,122
Total liabilities and equity	\$ 76,848,900	\$ 77,820,344

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

CD INTERNATIONAL ENTERPRISES, INC AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME  
(LOSS)  
(Unaudited)

	For the Three Months ended June 30,		For the Nine Months ended June 30,	
	2013	2012	2013	2012
<b>Revenues:</b>				
Revenues	\$ 18,581,898	\$ 26,489,338	\$ 52,335,266	\$ 80,547,925
Revenue-related parties	-	136,377	-	707,376
Total revenues	18,581,898	26,625,715	52,335,266	81,255,301
Cost of revenues	17,812,263	25,980,164	50,864,676	69,372,942
Gross profit	769,635	645,551	1,470,590	11,882,359
<b>Operating expenses:</b>				
Selling, general, and administrative	(2,526,581 )	(2,950,356 )	(7,344,189 )	(7,931,099 )
Total operating expenses	(2,526,581 )	(2,950,356 )	(7,344,189 )	(7,931,099 )
Operating (loss) income	(1,756,946 )	(2,304,805 )	(5,873,599 )	3,951,260
<b>Other income (expenses):</b>				
Other income (expense)	(233,067 )	390,430	(147,759 )	878,103
Interest income (expense)	(177,935 )	(418,118 )	(623,425 )	(244,208 )
Realized gain (loss) on available-for-sale marketable securities	156,006	(13,817 )	272,040	69,586
Realized gain on distinguished notes	290,688	-	358,920	-
Total other income (expenses)	35,692	(41,505 )	(140,224 )	703,481
(Loss) income before income taxes	(1,721,254 )	(2,346,310 )	(6,013,823 )	4,654,740
Income tax benefit (expense)	(137,213 )	712,853	(44,909 )	(918,945 )
(Loss) income from continuing operations	(1,858,467 )	(1,633,457 )	(6,058,732 )	3,735,795
<b>Discontinued operations:</b>				
Loss from discontinued operations, net of tax	(62,895 )	(120,681 )	(231,179 )	(786,285 )
Gain from disposal, net of tax	1,027,619	-	1,433,506	-
Total gain (loss) from discontinued operations	964,724	(120,681 )	1,202,327	(786,285 )
Net (loss) income	(893,743 )	(1,754,138 )	(4,856,405 )	2,949,510
Net loss attributable to non-controlling interests	240,858	392,205	352,575	828,851
Net (loss) income attributable to CD International	(652,885 )	(1,361,933 )	(4,503,830 )	3,778,361
Deduct dividends on Series A Preferred Stock	(20,130 )	(20,130 )	(60,390 )	(60,390 )
Net (loss) income attributable to common stockholders	\$ (673,015 )	\$ (1,382,063 )	\$ (4,564,220 )	\$ 3,717,971
<b>COMPREHENSIVE (LOSS) INCOME:</b>				