Recon Technology, Ltd
Form 10-Q
November 14, 2013

U. S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2013

¨ 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 001-34409

RECON TECHNOLOGY, LTD
(Exact name of registrant as specified in its charter)

Cayman Islands	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

1902 Building C, King Long International Mansion
9 Fulin Road
Beijing 100107 China
(Address of principal executive offices and zip code)
+86 (10) 8494-5799
(Registrant's telephone number, including area code)

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 x 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 (§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 x 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.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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

Indicate the number of shares outstanding of each of the issuer's classes of ordinary shares, as of the latest practicable date. The Company is authorized to issue 25,000,000 ordinary shares. As of the date of this report, the Company has issued and outstanding 3,951,811 shares.

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Special Note Regarding Forward-Looking Statements

This document contains certain statements of a forward-looking nature. Such forward-looking statements, including but not limited to projected growth, trends and strategies, future operating and financial results, financial expectations and current business indicators are based upon current information and expectations and are subject to change based on factors beyond the control of the Company. Forward-looking statements typically are identified by the use of terms such as "look," "may," "should," "might," "believe," "plan," "expect," "anticipate," "estimate" and similar words, alth forward-looking statements are expressed differently. The accuracy of such statements may be impacted by a number of business risks and uncertainties that could cause actual results to differ materially from those projected or anticipated, including but not limited to the following:

- the timing of the development of future products;
- projections of revenue, earnings, capital structure and other financial items;
- statements of our plans and objectives;
- statements regarding the capabilities of our business operations;
- statements of expected future economic performance;
- statements regarding competition in our market; and
- assumptions underlying statements regarding us or our business.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to update this forward-looking information. Nonetheless, the Company reserves the right to make such updates from time to time by press release, periodic report or other method of public disclosure without the need for specific reference to this report. No such update shall be deemed to indicate that other statements not addressed by such update remain correct or create an obligation to provide any other updates.

Part I Financial Information

Item 1. Financial Statements.

See the unaudited condensed consolidated financial statements following the signature page of this report, which are incorporated herein by reference.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our company's financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this report. This discussion contains forward-looking statements that involve risks and uncertainties. Actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors.

Overview

We are a company with limited liability incorporated in 2007 under the laws of the Cayman Islands. Headquartered in Beijing, we provide products and services to oil and gas companies and their affiliates through Nanjing Recon Technology Co., Ltd. ("Nanjing Recon") and Beijing BHD Petroleum Technology Co., Ltd. ("BHD" and collectively with Nanjing Recon, the "Domestic Companies" or "VIEs"). As the company contractually controlling the Domestic Companies, we are the center of strategic management, financial control and human resources allocation.

Our business is mainly focused on the upstream sectors of the oil and gas industry. We derive our revenues from the sales and provision of (1) hardware products, (2) software products, and (3) services. Our products and services involve most of the key procedures of the extraction and production of oil and gas, and include automation systems, equipment, tools and on-site technical services.

Our VIEs provide the oil and gas industry with equipment, production technologies, automation and services.

- Nanjing Recon: Nanjing Recon is a high-tech company that specializes in automation services for oilfield companies. It mainly focuses on providing automation solutions to the oil exploration industry, including monitoring wells, automatic metering to the joint station production, process monitor, and a variety of oilfield equipment and control systems.

- BHD: BHD is a high-tech company that specializes in transportation equipment and stimulation productions and services. Possessing proprietary patents and substantial industry experience, BHD has built up stable and strong working relationships with the major oilfields in China.

Products and Services

We provide the following three types of integrated products and services for our customers.

Equipment for Oil and Gas Production and Transportation

High-Efficiency Heating Furnaces. Crude petroleum contains certain impurities that must be removed before it can be sold, including water and natural gas. To remove the impurities and to prevent solidification and blockage in transport pipes, companies employ heating furnaces. BHD researched, developed and implemented a new oilfield furnace that is advanced, highly automated, reliable, easily operable, safe and highly heat-efficient (90% efficiency).

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Burner. We serve as an agent for the Unigas Burner, which is designed and manufactured by UNIGAS, a European burning equipment production company. The burner we provide features a high degree of automation, energy conservation, high turn-down ratio, high security and environmental safety.

Oil and Gas Production Improvement Techniques

Packers of Fracturing. This utility model is used in concert with the security joint, hydraulic anchor, and slide brushing of sand spray in the well. It is used for easy seat sealing and sand uptake prevention. The utility model reduces desilting volume and prevents sand-up, which makes the deblocking processes easier to realize. The back flushing is sand-stick proof.

Production Packer. At varying withdrawal points, the production packer separates different oil layers and protects the oil pipe from sand and permeation, promoting the recovery ratio.

Sand Prevention in Oil and Water Well. This technique processes additives that are resistant to elevated temperatures into “resin sand” which is transported to the bottom of the well via carrying fluid. The “resin sand” goes through the borehole, pilling up and compacting at the borehole and oil vacancy layer. An artificial borehole wall is then formed, functioning as a means of sand prevention. This sand prevention technique has been adapted to more than 100 wells, including heavy oil wells, light oil wells, water wells and gas wells, with a 100% success rate and a 98% effective rate.

Water Locating and Plugging Technique. High water cut affects the normal production of oilfields. Previously, there was no sophisticated method for water locating and tubular column plugging in China. The mechanical water locating and tubular column plugging technique we have developed resolves the problem of high water cut wells. This technique conducts a self-sealing test during multi-stage usage and is reliable to separate different production sets effectively. The water location switch forms a complete set by which the water locating and plugging can be finished in one trip. The tubular column is adaptable to several oil drilling methods and is available for water locating and plugging in second and third class layers.

Fissure Shaper. This is our proprietary product that is used along with a perforating gun to effectively increase perforation depth by between 46% and 80%, shape stratum fissures, improve stratum diversion capability and, as a result, improve our ability to locate oilfields and increase the output of oil wells.

Fracture Acidizing. We inject acid to layers under pressure, which can form or expand fissures. The treatment process of the acid is defined as fracture acidizing. The technique is mainly adapted to oil and gas wells that are blocked up relatively deeply, or the ones in low permeability zones.

Electronic Break-Down Service. This service resolves block-up and freezing problems by generating heat from the electric resistivity of the drive pipe and utilizing a loop tank composed of an oil pipe and a drive pipe. This technique saves energy and is environmentally friendly. It can increase the production of oilfields that are in the middle and later periods.

Automation System and Services

Pumping Unit Controller. This controller functions as a monitor to the pumping unit and also collects data for load, pressure, voltage, and startup and shutdown control.

RTU Monitor. This monitor collects gas well pressure data.

Wireless Dynamometer and Wireless Pressure Gauge. These products replace wired technology with cordless displacement sensor technology. They are easy to install and significantly reduce the work load associated with cable laying.

Electric Multi-way Valve for Oilfield Metering Station Flow Control. This multi-way valve is used before the test separator to replace the existing three valve manifolds. It facilitates the electronic control of the connection of the oil lead pipeline with the separator.

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Natural Gas Flow Computer System. The flow computer system is used in natural gas stations and gas distribution stations to measure flow.

Recon Supervisory Control and Data Acquisition System (“SCADA”). Recon SCADA is a system that applies to the oil well, measurement station, and the union station for supervision and data collection.

EPC Service of Pipeline SCADA System. This service technique is used for pipeline monitoring and data acquisition after crude oil transmission.

EPC Service of Oil and Gas Wells SCADA System. This service technique is used for monitoring and data acquisition of oil wells and natural gas wells.

EPC Service of Oilfield Video Surveillance and Control System. This video surveillance technique is used for controlling the oil and gas wellhead area and the measurement station area.

Technique Service for “Digital oilfield” Transformation. This service includes engineering technique services such as oil and gas SCADA system, video surveillance and control system and communication systems.

Factors Affecting Our Business

Business Outlook

The oilfield engineering and technical service industry is generally divided into five sections: (1) exploration, (2) drilling and completion, (3) testing and logging, (4) production, and (5) oilfield construction. Thus far our businesses have only been involved in production. Our management plans to expand our core business, move into new markets, and develop new businesses. Management anticipates great opportunities both in new markets and our existing markets. We believe that many existing wells and oilfields need to improve or renew their equipment and service to maintain production and techniques and services like ours will be needed as new oil and gas fields are developed. In the next three years, we will focus on:

Measuring Equipment and Service. “Digital oil field” and the management of oil companies are highly regarded. We believe our oilfield SCADA and related technical support services will address the needs of the oil well automation system market, for which we forecast strong needs in the short term. For the coming year, we will also expand our automation business market in China’s biggest oilfield, the Da Qing oilfield. In addition, through early cooperation with CNPC in Turkmenistan, we have developed our experience in this market. Although bidding has not yet commenced, we will continue pursuing overseas business projects in the coming second phase construction, which we expect to occur in 2014.

Gathering and Transferring Equipment. With more new wells developed, our management anticipates that demand for our furnaces and burners will grow more compared to last year, especially in the Xinjiang Oilfield and Zhongyuan oilfield.

Fracturing service. We believe we cooperated well with Zhongyuan Oilfield in fiscal year 2013 and expect to continue growing revenue from fracturing and related stimulation services for fiscal year 2014.

New product line. Design and development of down-hole tools has always been an important technique for oilfield companies. Recently, this market has developed very rapidly. After a year test project for our customers, we have developed experience with this technology and our customers have accepted our products and services. We expect revenue from this business in fiscal year 2014.

Growth Strategy

As a smaller domestic company, it is our basic strategy to focus on developing our onshore oilfield business, that is, the upstream of the industry. Due to the remote location and difficult environments of China's oil and gas fields, foreign competitors rarely enter those areas.

Large domestic oil companies have historically focused on their exploration and development businesses to earn higher margins and keep their competitive advantage. With regard to private oilfield service companies, we estimate that approximately 90% specialize in the manufacture of drilling and production equipment. Thus, the market for technical support and project service is still in its early stage. Our management believes that insists on providing high quality products and service in the oilfield where we have a geographical advantage. This will allow us to avoid conflicts of interest with bigger suppliers of drilling equipment and protect our position within the market segment. Our mission is to increase the automation and safety levels of industrial petroleum production in China and improve the underdeveloped working process and management mode by using advanced technologies. At the same time, we are always looking to improve our business and to increase our earning capability.

Industry and Recent Developments

Despite uncertainty in the energy industry related to such matters as fluctuating prices and future opportunities for oil companies, our management believes there are still many factors to support our long-term development:

The opening of the Chinese oil industry to participation by non-state owned service providers and vendors played an increasingly important role in the high-end oilfield service segment to allow competition based on efficiency and price. As oil and gas fields are depleted, it becomes more challenging to find and convert reserves into usable energy sources. As the industry has permitted competition by private companies and oil companies have formed separate service companies, high-tech service has gradually opened up to private companies.

Overseas assets of Chinese oilfield companies increased gradually, and they will provide more opportunity for domestic service companies to participate in foreign projects.

Management is focused on these factors and will seek to extend our business on the industrial chain, like providing more integrated services and incremental measures and growing our business from a predominantly up-ground business to include some down-hole services as well.

Factors Affecting Our Results of Operations

Our operating results in any period are subject to general conditions typically affecting the Chinese oilfield service industry including:

- the amount of spending by our customers, primarily those in the oil and gas industry;
- growing demand from large corporations for improved management and software designed to achieve such corporate performance;
- the procurement processes of our customers, especially those in the oil and gas industry;
- competition and related pricing pressure from other oilfield service solution providers, especially those targeting the Chinese oil and gas industry;
- the ongoing development of the oilfield service market in China; and
- inflation and other macroeconomic factors.

Unfavorable changes in any of these general conditions could negatively affect the number and size of the projects we undertake, the number of products we sell, the amount of services we provide, the price of our products and services, and otherwise affect our results of operations.

Our operating results in any period are more directly affected by company-specific factors including:

- our revenue growth, in terms of the proportion of our business dedicated to large companies and our ability to successfully develop, introduce and market new solutions and services;

- our ability to increase our revenues from both old and new customers in the oil and gas industry in China;
- our ability to effectively manage our operating costs and expenses; and
- our ability to effectively implement any targeted acquisitions and/or strategic alliances so as to provide efficient access to markets and industries in the oil and gas industry in China.

Critical Accounting Policies and Estimates

Estimates and Assumptions

We prepare our unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), which require us to make judgments, estimates and assumptions. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. We believe that the following policies involve a higher degree of judgment and complexity in their application and require us to make significant accounting estimates. The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this quarterly report. Significant accounting estimates reflected in our Company's unaudited condensed consolidated financial statements include revenue recognition, allowance for doubtful accounts, and useful lives of property and equipment.

Consolidation of VIEs

We recognize an entity as a VIE if it either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. We consolidate a VIE as its primary beneficiary when we have both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. We perform ongoing assessments to determine whether an entity should be considered a VIE and whether an entity previous identified as a VIE continues to be a VIE and whether we continue to be the primary beneficiary.

Assets recognized as a result of consolidating VIEs do not represent additional assets that could be used to satisfy claims against our general assets. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs.

Revenue Recognition

We recognize revenue when the following four criteria are met: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been provided, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been provided to the customers and the customers have signed a completion and acceptance report, risk of loss has transferred to the customers, customers acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in customers' acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

Hardware

Revenue from hardware sales is generally recognized when the product is shipped to the customer and when there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement.

Services

The Company provides services to improve software functions and system requirements on separated fixed-price contracts. Revenue is recognized when services are completed and acceptance is determined by a completion report signed by the customer.

Deferred income represents unearned amounts billed to customers related to sales contracts.

Fair Values of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for trade accounts receivable, other receivables, advances to suppliers, trade accounts payable, accrued liabilities, advances from customers and notes payable approximate fair value because of the immediate or short-term maturity of these financial instruments. Long-term receivables and borrowings approximate fair value because their interest rates charged approximate the market rates for financial instruments with similar terms.

Receivables

Trade receivables are carried at original invoiced amount less a provision for any potential uncollectible amounts. Provisions are applied to trade receivables where events or changes in circumstances indicate that the balance may not be collectible. The identification of doubtful accounts requires the use of judgment and estimates of management. Our management must make estimates of the collectability of our accounts receivable. Management specifically analyzes accounts receivable, historical bad debts, customer creditworthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. We believe based on the current economic condition and our history of collections on accounts and notes receivable, our allowance for doubtful accounts was adequate at September 30, 2013.

Valuation of Long-Lived Assets

We review the carrying values of our long-lived assets for impairment whenever events or changes in circumstances indicate that they may not be recoverable. When such an event occurs, we project undiscounted cash flows to be generated from the use of the asset and its eventual disposition over the remaining life of the asset. If projections indicate that the carrying value of the long-lived asset will not be recovered, we reduce the carrying value of the long-lived asset by the estimated excess of the carrying value over the projected discounted cash flows. In the past, we have not had to make significant adjustments to the carrying values of our long-lived assets, and we do not anticipate a need to do so in the future. However, circumstances could cause us to have to reduce the value of our capitalized assets more rapidly than we have in the past if our revenues were to significantly decline. Estimated cash flows from the use of the long-lived assets are highly uncertain and therefore the estimation of the need to impair these assets is reasonably likely to change in the future. Should the economy or acceptance of our assets change in the future, it is likely that our estimate of the future cash flows from the use of these assets will change by a material amount. There were no impairments at June 30, 2013 and September 30, 2013.

Share-Based Compensation

The Company accounts for share-based compensation in accordance with ASC Topic 718, Share-Based Payment. Under the fair value recognition provisions of this topic, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense with graded vesting on a straight line basis over the requisite service period for the entire award. The Company has elected to recognize compensation expenses using the Binomial Lattice valuation model estimated at the grant date based on the award's fair value.

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Results of Operations

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

Revenues

	For the Three Months Ended September 30, 2012	2013	Increase / (Decrease)	Percentage Change
Hardware -non-related parties	¥ 8,438,964	¥ 9,174,015	¥ 735,051	8.7 %
Hardware - related parties	532,051	116,473	(415,578)	(78.1) %
Service	83,177	-	(83,177)	(100) %
Software	-	1,923,077	1,923,077	100 %
Software related parties	-	299,145	299,145	100 %
Total revenues	¥ 9,054,192	¥ 11,512,710	¥ 2,458,518	27.2 %

Revenues. Our total revenues increased by 27.2%, or approximately ¥2.4 million ($0.4 million), from ¥9.1 million for the three months ended September 30, 2012 to ¥11.5 million ($1.9 million) for the same period of 2013. The changes in our revenues for the three-month period were due to the following factors:

(1) Hardware business. During the three-month ended September 30, 2013, the increase in hardware revenue was mainly caused by higher sales of furnaces.

(2) Service business. Service revenue for three months ended September 30, 2012 consisted mainly of minor maintenance services, which were provided upon request by customers. Our fracturing business is still proceeding, and we also obtained new contracts of this business. Since all projects are still under going, no revenue from fracturing service was recorded this quarter. Besides, we successfully achieved access certification of Sinopec HuaBei Oilfield branch, which means we can provide fracturing service with broad solid customer base.

(3) Hardware related parties. Sales of hardware from related parties decreased because we used to develop business on Ji Dong oilfield through some local agent companies. After we achieved business entrance certification in the name of Recon and could cooperate with oilfield customers directly two years ago, revenue from related-parties decreased. Nevertheless, because local agencies might still purchase automation products from Recon, there will likely be revenue from related parties, and revenue of both hardware and software from related parties is likely to fluctuate from year to year.

(4) Software business. The software sales increased approximately ¥1.9 million ($0.3 million). We record revenue as software sales if (1) the customer signs a separate software contract with us, or (2) the customer accepts VAT invoices for software. The amount of our revenues categorized as software sales may fluctuate because certain software may be sold with hardware at times as a whole product and not separately priced

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Cost and Margin

	For the Three Months Ended September 30, 2012	2013	Increase / (Decrease)	Percentage Change
Total revenues	¥ 9,054,192	¥ 11,512,710	¥ 2,458,518	27.2 %
Cost of revenues	6,608,767	6,221,610	(387,157)	(5.9) %
Gross profit	¥ 2,445,425	¥ 5,291,100	¥ 2,845,675	116.4 %
Margin %	27.0 %	46.0 %	19.0 %	

<u>Cost of revenues</u>. Our cost of revenues includes raw materials and costs related to design, implementation, delivery and maintenance of products and services. All materials and components we need can be purchased or manufactured by subcontracts. Usually the prices of electronic components do not fluctuate dramatically due to market competition and will not significantly affect our cost of revenues. However, specialized equipment and incentive chemical products may be directly influenced by metal and oil price fluctuations. Additionally, the prices of some imported accessories mandated by our customers can also impact our cost.

Our cost of revenues decreased from approximately ¥6.6 million in the three months ended September 30, 2012 to approximately ¥6.2 million ($1 million) for the same period of 2013, a decrease of approximately ¥0.4 million ($0.1 million), or 5.9%. As a percentage of revenues, our cost of revenues decreased from 73.0% in 2012 to 54.0% in 2013. This decrease was mainly caused by lower software business costs.

<u>Gross profit</u>. Our gross profit increased to approximately ¥5.3 million ($0.9 million) for the three months ended September 30, 2013 from approximately ¥2.4 million for the same period in 2012. Our gross profit as a percentage of revenue increased to 46.0% for the three months ended September 30, 2013 from 27.0% for the same period in 2012. This was mainly because software sales had higher gross margin and accounted for an increased percentage of our total revenue during the three months ended September 30, 2013 compared to the same period last year.

In more detail:

	For the Three Months Ended September 30, 2012	2013	Increase / (Decrease)	Percentage Change
Total revenues-hardware and software- non related parties	¥ 8,438,964	¥ 11,097,092	¥ 2,658,128	31.5 %
Cost of revenues -hardware and software- non related parties	5,766,562	6,118,674	352,112	6.1 %
Gross profit	¥ 2,672,402	¥ 4,978,418	¥ 2,306,016	86.3 %
Margin %	31.7 %	44.9 %	13.2 %	

Cost of revenue from hardware -related parties decreased, causing gross profit from non-related parties increased, was mainly because revenue from software business, which usually has a higher margin, accounted larger proportion of our revenue.

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	For the Three Months Ended September 30,								
	2012		2013		Increase / (Decrease)		Percentage Change		
Total revenues-hardware - related parties	¥	532,051	¥	415,618	¥	(116,433)	(21.9)	%
Cost of revenues -hardware - related parties		821,585		102,936		(718,649)	(87.5)	%
Gross profit	¥	(289,534)	¥	312,682	¥	602,216	(208.0)	%
Margin %		(54.4) %		75.2 %		129.7 %		

Cost of revenue from hardware -related parties decreased as revenue decreased. Gross margin increased mainly because software business with higher margin accounted for a larger percentage this period.

Operating Expenses

	For the Three Months Ended September 30,							
		2012		2013		Increase / (Decrease)	Percentage Change	
Selling and distribution expenses		1,268,798		1,353,922		85,124	6.7	%
% of revenue		14.0 %		11.8 %		(2.3) %	N/A	
General and administrative expenses		1,983,111		2,741,923		758,812	38.3	%
% of revenue		21.9 %		23.8 %		1.9 %	N/A	
Research and development expenses		1,533,329		692,600		(840,729)	(54.8)	%
% of revenue		16.9 %		6.0 %		(10.9) %	N/A	
Operating expenses	¥	4,785,238	¥	4,788,445	¥	3,207	0.1	%

Selling and distribution expenses. Selling and distribution expenses consist primarily of salaries and related expenditures of our sales and marketing organization, sales commissions, costs of our marketing programs including advertising and trade shows, and an allocation of our facilities and depreciation expenses. Selling expenses increased by 6.7%, from approximately ¥1.3 million for the three months ended September 30, 2012 to approximately ¥1.4 million ($0.2 million) for the same period of 2013. This increase was primarily from increased service charges. Selling expenses were 14.0% of total revenues in the three months ended September 30, 2012 and 11.8% of total revenues in the same period of 2013.

General and administrative expenses. General and administrative expenses consist primarily of costs in human resources, facilities costs, depreciation expenses, professional advisor fees, audit fees, option expenses and other expenses incurred in connection with general operations. General and administrative expenses increased by 38.3%, or ¥0.8 million ($0.1 million), from approximately ¥2 million in the three months ended September 30, 2012 to approximately ¥2.7 million ($0.5 million) in the same period of 2013. General and administrative expenses were 21.9% of total revenues in 2012 and 23.8% of total revenues in 2013. The increase in general and administrative expenses was mainly due to increase in allowance for doubtful accounts, legal fees and traveling expenses.

Research and development ("R&D") expenses. Research and development expenses consist primarily of salaries and related expenditures of our research and development projects. Research and development expenses decreased by 54.8%, from approximately ¥1.5 million for the three months ended September 30, 2012 to approximately ¥0.7 million ($0.1 million) for the same period of 2013. This decrease was primarily due to the less input of materials and equipment of R&D on our furnaces and fracturing services.

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Net Income

	For the Three Months Ended September 30,						
	2012		2013		Increase / (Decrease)	Percentage Change	
Income (loss) from operations	¥	(2,339,813)	¥	502,655	¥ 2,842,468	(121.5)	%
Interest and other income (expense)		33,153		(88,974)	(122,127)	(368.4)	%
Income (loss) before income tax		(2,306,660)		413,681	2,720,341	(117.9)	%
Provision for income tax		31,624		207,327	175,703	555.6	%
Net Income(loss)		(2,338,284)		206,354	2,544,638	(108.8)	%
Less: Net income attributable to non-controlling interest		5,882		159,910	154,028	2,618.6	%
Net Income(loss) attributable to ordinary shareholders	¥	(2,344,166)	¥	46,444	¥ 2,390,610	(102.0)	%

Income (loss) from operations. Income from operations was approximately ¥0.5 million ($0.1 million) for the three months ended September 30, 2013, compared to loss of ¥2.3 million for the same period of 2012. This increase in income from operations can be attributed primarily to the increased revenue, gross margins and decreases in percentage of revenue for selling and distribution expenses as well as research and development expenses.

Interest and other income (expense). Interest and other expense was ¥88,974 ($14,499) for the three months ended September 30, 2013, compared to interest and other income of ¥33,153 for the same period of 2012. The ¥122,127 ($19,902) increase in interest and other expense was primarily due to increase in loss from investment offset by increase in subsidy income and interest income, and decrease in interest expense and foreign currency exchange.

Provision for income tax. We provide for income tax based upon the liability method of accounting pursuant to US GAAP. Under this approach, deferred income taxes are recorded to reflect the tax consequences on future years of differences between the tax basis of assets and liabilities and their financial reporting amounts. A valuation allowance is recorded against deferred tax assets if it is not likely that the asset will be realized. We have not been subject to any income taxes in the United States or the Cayman Islands. Enterprises doing business in the PRC are generally subject to federal (state) enterprise income tax at a rate of 25%; however, Nanjing Recon and BHD were granted the certification of High Technology Enterprise and are taxed at a rate of 15% for taxable income generated.

Provision for income tax for the three months ended September 30, 2012 was ¥31,624 and provision for income tax was ¥207,327 ($33,786) for the three months ended September 30, 213. This increase of provision for income tax was mainly due to the income from operations for the three months ended September 30, 2013.

Net income (loss). As a result of the factors described above, net income was ¥206,354 ($33,628) for the three months ended September 30, 2013, an increase of above ¥2.5 million ($0.4 million) from net loss of ¥2.3 million for the same period of 2012.

Net income (loss) attributable to ordinary shareholders. As a result of the factors described above, net income attributable to ordinary shareholders was ¥46,444 ($7,569) for the three months ended September 30, 2013, an increase of approximately ¥2.4 million ($0.4 million) from net loss attributable to ordinary shareholders of ¥2.3

million for same period of 2012.

Adjusted EBITDA

Adjusted EBITDA. We define adjusted EBITDA as net income (loss) adjusted for income tax expense, interest expense, loss from investment, non-cash stock compensation expense, depreciation and amortization. We think it is useful to an equity investor in evaluating our operating performance because: (1) it is widely used by investors in our industry to measure a company's operating performance without regard to items such as interest expense, depreciation and amortization, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which the assets were acquired; and (2) it helps investors more meaningfully evaluate and compare the results of our operations from period to period by removing the impact of our capital structure and asset base from our operating results.

	For the Three Months Ended September 30,									
	2012 RMB		2013 RMB		Increase / (Decrease)		Percentage Change		2013 USD	
Reconciliation of Adjusted EBITDA to Net Income(loss)										
Net income (loss)	¥	(2,338,284)	¥	206,354	¥	2,544,638	(108.8)	%	$	33,628
Provision for income taxes		31,624		207,327		175,703	555.6	%		33,786
Interest expense and foreign currency adjustment		63,296		126,959		63,663	100.6	%		20,690
Loss from investment		-		374,614		374,614	100	%		61,048
Stock compensation expense		454,805		414,954		(39,851)	(8.8)	%		67,622
Depreciation and amortization		72,379		150,368		77,989	107.8	%		24,504
Adjusted EBITDA	¥	(1,716,180)	¥	1,480,576	¥	3,196,756	(186.3)	%	$	241,278

Adjusted EBITDA improved by approximately ¥3.2 million ($0.5 million) to approximately ¥1.5 million ($0.2 million) for the three months ended September 30, 2013 compared to approximately ¥1.7 million loss for the same period in 2012. This was due to improved operation. Compared to net income attributable to ordinary shareholders, we believe EBITDA more accurately reflects our operations.

Liquidity and Capital Resources

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand, demand deposits and highly liquid short-term debt investments with stated maturities of no more than six months. As of September 30, 2013, we had cash and cash equivalents in the amount of approximately ¥6.7 million ($1.1 million).

Indebtedness. As of September 30, 2013, except for approximately ¥0.5 million ($0.1 million) of short-term borrowings from third parties, approximately ¥0.3 million ($0.04 million) of short-term borrowings from related parties, ¥0.9 million ($0.1 million) in lease commitments and ¥17.56 million ($2.9 million) in commercial loans from local banks, we did not have any finance leases or purchase commitments, guarantees or other material contingent liabilities.

Item 2. Management's Discussion and Analysis ofFinancial Condition and Results of Operations.

Holding Company Structure. We are a holding company with no operations of our own. All of our operations are conducted through our Domestic Companies. As a result, our ability to pay dividends and to finance any debt that we may incur is dependent upon the receipt of dividends and other distributions from the Domestic Companies. In addition, Chinese legal restrictions permit payment of dividends to us by our Domestic Companies only out of their accumulated net profit, if any, determined in accordance with Chinese accounting standards and regulations. Under Chinese law, our Domestic Companies are required to set aside a portion (at least 10%) of their after-tax net income (after discharging all cumulated loss), if any, each year for compulsory statutory reserve until the amount of the reserve reaches 50% of our Domestic Companies' registered capital. These funds may be distributed to shareholders at the time of each Domestic Company's wind up.

Off-Balance Sheet Arrangements. We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. In addition, we have not entered into any derivative contracts that are indexed to our own shares and classified as shareholders' equity, or that are not reflected in our financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Capital Resources. To date we have financed our operations primarily through cash flows from operations, bank loans and short-term borrowings. As of September 30, 2013, we had total assets of approximately ¥133.1 million ($21.7 million), which includes cash amounting to approximately ¥6.7 million ($1.1 million), net accounts receivable from third parties amounting to approximately ¥35.9 million ($5.8 million), and net accounts receivable from related parties amounting to approximately ¥18.6 million ($3 million). Working capital amounted to approximately ¥79.4 million ($12.9 million), and shareholders' equity amounted to approximately ¥82 million ($13.3 million).

Cash from Operating Activities. Net cash used in operating activities was approximately ¥8.0 million ($1.3 million) for the three months ended September 30, 2013. This was a decrease of approximately ¥8.2 million ($1.3 million) compared to net cash provided by operating activities of approximately ¥0.2 million for the three months ended September 30, 2012. In more detail:

Net cash used in operating activities totaled approximately ¥8.0 million ($1.3 million) for the three months ended September 30, 2013, was primarily attributable to net income adjusted to reconcile to net cash provided by operating activities of ¥1.1 million ($0.2 million). Net cash used in changes in operating assets and liabilities resulted in a net cash use of ¥9.2 million ($1.5 million), which mainly due to:

1) ¥2.1 million ($0.3 million) change in other receivable, which was mainly due to increase of loans to third parties and business advance to staff related to oilfield and on-site installation and inspection of projects;
2) ¥2.1 million ($0.3 million) change in purchase advance, a ¥4.7 million ($0.8 million) change in inventory and a ¥2.9 million ($0.5 million) change in trade accounts payable, were mainly because we purchased goods for our coming projects;
3) ¥2.6 million ($0.4 million) changes in other payables was mainly due to settlement of professional fees and payments to related parties;
4) Offset by a ¥2.8 million ($0.5 million) change in trade accounts receivable as we strengthen cash collection of receivables; and
5) Offset by a ¥2.6 million ($0.4 million) change in notes receivable as we collected the full amount of them.

Cash from Investing Activities. Net cash used in investing activities was ¥6,720 ($1,095) for the three months ended September 30, 2013, a decrease of ¥374,686 ($61,060) from ¥381,406 for the same period of 2012. The decrease was due to decrease in purchase of property and equipment.

Cash from Financing Activities. Net cash provided by financing activities amounted to approximately ¥2.3 million ($0.4 million) for the three months ended September 30, 2013, compared to cash flows used in financing activities of approximately ¥1.1 million for the three months ended September 30, 2012. During the three-month period ended September 30, 2013, we repaid approximately ¥5.2 million ($0.9 million) short term borrowings to related parties and received ¥7.56 million ($1.2 million) loan proceeds from a commercial bank, which was guaranteed by one of our officers and major shareholders of the Company.

Working Capital. Total working capital as of September 30, 2013 amounted to approximately ¥79.4 million ($12.9 million), compared to approximately ¥82 million as of June 30, 2013. Total current assets as of September 30, 2013 amounted to approximately ¥123.1 million ($20.1million), a decrease of approximately ¥5.6 million ($0.9 million) compared to approximately ¥128.7 million at June 30, 2013. The decrease in total current assets at September 30, 2013 compared to June 30, 2013 was mainly due to decrease of trade accounts receivable and offset by increase in inventory.

Current liabilities amounted to approximately ¥43.7 million ($7.1 million) at September 30, 2013, in comparison to approximately ¥46.7 million at June 30, 2013. This reduction of liabilities was attributable mainly to payment of trade accounts payable and repayment of short-term borrowings of related parties, and offset by increase in short-term bank loans.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As of September 30, 2013, the company carried out an evaluation, under the supervision of and with the participation of management, including our Company's chief executive officer and chief financial officer, of the effectiveness of the design and operation of our Company's disclosure controls and procedures. Based on the foregoing, the chief executive officer and chief financial officer concluded that our Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were ineffective in timely alerting them to information required to be included in the Company's periodic Securities and Exchange Commission filings.

Changes in Internal Control over Financial Reporting

The Company, with the assistance of an independent internal controls consultant, has developed a specific plan to address our control deficiencies. As of September 30, 2013, the Company has completed the necessary documentation of our internal controls and implemented the following remedial initiatives:

- Improved the design and documentation related to multiple levels of review over financial statements included in our SEC filings;
- Expanded the design and assessment test work over the monitoring function of entity level controls;
- Enhanced documentation retention policies over test work related to continuous management assessments of internal control effectiveness;
- Expanded documentation practices and policies related to various key controls to provide support and audit trails for both internal management assessment as well as external auditor testing; and
- Enhanced internal control policy implementation by hiring experienced reporting consultant and strengthening training financial staffs of US GAAP.

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) during the three months ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as disclosed above.

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Part II Other Information

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

Not applicable.

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

(a) None

(b) None

(c) None

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are filed herewith:

Exhibit Number	Document
3.1	Amended and Restated Articles of Association of the Registrant [1]
3.2	Amended and Restated Memorandum of Association of the Registrant [1]
4.1	Specimen Share Certificate [1]
10.1	Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Beijing BHD Petroleum Technology Co., Ltd. [1]
10.2	Translation of Power of Attorney for rights of Chen Guangqiang in Beijing BHD Petroleum Technology Co., Ltd. [1]
10.3	

Translation of Power of Attorney for rights of Yin Shenping in Beijing BHD Petroleum Technology Co., Ltd. [1]

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10.4	Translation of Power of Attorney for rights of Li Hongqi in Beijing BHD Petroleum Technology Co., Ltd. (1)
10.5	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Beijing BHD Petroleum Technology Co., Ltd. (1)
10.6	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Beijing BHD Petroleum Technology Co., Ltd. (1)
10.7	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Beijing BHD Petroleum Technology Co., Ltd. (1)
10.8	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Beijing BHD Petroleum Technology Co., Ltd. (1)
10.9	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Beijing BHD Petroleum Technology Co., Ltd. (1)
10.10	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Beijing BHD Petroleum Technology Co., Ltd. (1)
10.11	Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Jining ENI Energy Technology Co., Ltd. (1)
10.12	Translation of Power of Attorney for rights of Chen Guangqiang in Jining ENI Energy Technology Co., Ltd. (1)
10.13	Translation of Power of Attorney for rights of Yin Shenping in Jining ENI Energy Technology Co., Ltd. (1)
10.14	Translation of Power of Attorney for rights of Li Hongqi in Jining ENI Energy Technology Co., Ltd. (1)
10.15	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Jining ENI Energy Technology Co., Ltd. (1)
10.16	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Jining ENI Energy Technology Co., Ltd. (1)
10.17	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Jining ENI Energy Technology Co., Ltd. (1)
10.18	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Jining ENI Energy Technology Co., Ltd. (1)
10.19	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Jining ENI Energy Technology Co., Ltd. (1)
10.20	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Jining ENI Energy Technology Co., Ltd. (1)

10.21	Translation of Exclusive Technical Consulting Service Agreement between Recon Technology (Jining) Co., Ltd. and Nanjing Recon Technology Co., Ltd. (1)
10.22	Translation of Power of Attorney for rights of Chen Guangqiang in Nanjing Recon Technology Co., Ltd. (1)

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10.23	Translation of Power of Attorney for rights of Yin Shenping in Nanjing Recon Technology Co., Ltd. (1)
10.24	Translation of Power of Attorney for rights of Li Hongqi in Nanjing Recon Technology Co., Ltd. (1)
10.25	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd. (1)
10.26	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd. (1)
10.27	Translation of Exclusive Equity Interest Purchase Agreement between Recon Technology (Jining) Co. Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. (1)
10.28	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Chen Guangqiang and Nanjing Recon Technology Co., Ltd. (1)
10.29	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Yin Shenping and Nanjing Recon Technology Co., Ltd. (1)
10.30	Translation of Equity Interest Pledge Agreement between Recon Technology (Jining) Co., Ltd., Li Hongqi and Nanjing Recon Technology Co., Ltd. (1)
10.33	Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Yin Shenping (1)
10.34	Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Chen Guangqiang (1)
10.35	Employment Agreement between Recon Technology (Jining) Co., Ltd. and Mr. Li Hongqi (1)
10.36	Operating Agreement among Recon Technology (Jining) Co. Ltd., Nanjing Recon Technology Co., Ltd. and Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi (1)
10.37	Operating Agreement among Recon Technology (Jining) Co. Ltd., Jining ENI Energy Technology Co., Ltd., and Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi (1)
10.38	Operating Agreement among Recon Technology (Jining) Co. Ltd., Beijing BHD and Mr. Yin Shenping, Mr. Chen Guangqiang and Mr. Li Hongqi (1)
21.1	Subsidiaries of the Registrant (2)
31.1	Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (3)
31.2	Certifications pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (3)
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (3)
32.1	Certifications pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (3)

99.1	Stock Option Plan [1]
99.2	Code of Business Conduct and Ethics [1]
99.3	Press release dated November 14, 2013 regarding earnings for quarter ended September 30, 2013 [3]

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101.INS		XBRL Instance Document [4]
101.SCH		XBRL Taxonomy Extension Schema Document [4]
101.CAL		XBRL Taxonomy Extension Calculation Linkbase Document [4]
101.LAB		XBRL Taxonomy Extension Label Linkbase Document [4]
101.PRE		XBRL Taxonomy Extension Presentation Linkbase Document [4]
101.DEF		XBRL Taxonomy Extension Definition Linkbase Document [4]

(1) Incorporated by reference to the Company's Registration Statement on Form S-1, Registration No. 333-152964.

(2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q/A, filed on January 31, 2012.

(3) Filed herewith.

(4) Furnished herewith. In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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SIGNATURES

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

RECON TECHNOLOGY, LTD

November 13, 2013	By:	/s/ Liu Jia
		Liu Jia
		Chief Financial Officer
		(Principal Financial and Accounting Officer)

SIGNATURES

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

RECON TECHNOLOGY, LTD

November 13, 2013	By:	/s/ Yin Shen ping Yin Shen ping Chief Executive Officer

RECON TECHNOLOGY, LTD

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RECON TECHNOLOGY, LTD
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	As of June 30, 2013 RMB		As of September 30, 2013 RMB		As of September 30, 2013 U.S. Dollars	
ASSETS						
Current assets						
Cash and cash equivalents	¥	12,350,392	¥	6,681,903	$	1,088,896
Notes receivable		2,578,855		-		-
Trade accounts receivable, net		38,648,780		35,887,868		5,848,359
Trade accounts receivable- related parties, net		18,744,364		18,575,786		3,027,147
Inventories, net		13,271,070		17,944,490		2,924,270
Other receivables, net		19,131,503		17,095,176		2,785,864
Other receivables- related parties		742,528		1,171,227		190,865
Purchase advances, net		18,412,507		20,511,358		3,342,572
Purchase advances- related parties		394,034		394,034		64,213
Tax recoverable		575,650		774,874		126,275
Prepaid expenses		2,853,956		3,078,229		501,633
Deferred tax asset		1,006,721		994,853		162,123
Total current assets		128,710,360		123,109,798		20,062,217
Property and equipment, net		1,709,846		1,566,198		255,231
Long-term investment		1,549,450		1,174,836		191,454
Long-term other receivable		3,502,680		7,254,709		1,182,242
Total Assets	¥	135,472,336	¥	133,105,541	$	21,691,144
LIABILITIES AND EQUITY						
Current liabilities						
Short-term bank loans	¥	10,000,000	¥	17,560,000	$	2,861,613
Trade accounts payable		7,384,165		8,474,376		1,381,001
Trade accounts payable- related parties		3,994,718		-		-
Other payables		1,964,691		951,117		154,996
Other payable- related parties		4,239,675		2,670,768		435,234
Deferred revenue		3,381,382		3,459,866		563,827
Advances from customers		470,700		435,315		70,940
Accrued payroll and employees' welfare		1,992,783		2,129,041		346,953
Accrued expenses		488,730		498,273		81,200
Taxes payable		6,754,428		6,765,824		1,102,572
Short-term borrowings- related parties		5,503,279		266,902		43,495
Short-term borrowings- other		570,375		530,375		86,431
Total current liabilities		46,744,926		43,741,857		7,128,262
Commitments and Contingency						
Equity						
Common stock, ($ 0.0185 U.S. dollar par value, 25,000,000 shares authorized; 3,951,811 shares issued and outstanding as of June 30, 2013 and September 30, 2013)		529,979		529,979		86,364

Additional paid-in capital		69,516,447		69,951,973		11,399,513
Appropriated retained earnings		3,023,231		3,310,881		539,548
Unappropriated retained earnings		8,749,963		8,508,756		1,386,604
Accumulated other comprehensive loss		(293,201)		(297,985)		(48,560)
Total controlling shareholders' equity		81,526,419		82,003,604		13,363,469
Non-controlling interest		7,200,991		7,360,080		1,199,413
Total equity		88,727,410		89,363,684		14,562,882
Total Liabilities and Equity	¥	135,472,336	¥	133,105,541	$	21,691,144

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

RECON TECHNOLOGY, LTD
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	For the three months ended September 30,					
	2012		2013		2013	
	RMB		RMB		USD	
Revenues						
Hardware and software	¥	8,438,964	¥	11,097,092	$	1,808,404
Service		83,177		-		-
Hardware and software - related parties		532,051		415,618		67,730
Total revenues		9,054,192		11,512,710		1,876,134
Cost of revenues						
Hardware and software	¥	5,766,562	¥	6,118,674	$	997,111
Service		20,620		-		-
Hardware and software - related parties		821,585		102,936		16,775
Total cost of revenues		6,608,767		6,221,610		1,013,886
Gross profit		2,445,425		5,291,100		862,248
Selling and distribution expenses		1,268,798		1,353,922		220,638
General and administrative expenses		1,983,111		2,741,923		446,829
Research and development expenses		1,533,329		692,600		112,867
Operating expenses		4,785,238		4,788,445		780,334
Income (loss) from operations		(2,339,813)		502,655		81,914
Other income (expenses)						
Subsidy income		-		333,712		54,382
Interest income		1,310		103,201		16,818
Interest expense		(329,756)		(221,259)		(36,057)
Loss from equity method investment		-		(374,614)		(61,048)
Gain from foreign currency exchange		266,460		94,300		15,367
Other income (expense)		95,139		(24,314)		(3,962)
Income (loss) before income tax		(2,306,660)		413,681		67,414
Provision for income tax		31,624		207,327		33,786
Net Income (loss)		(2,338,284)		206,354		33,628
Less: Net income attributable to non-controlling interest		5,882		159,910		26,059
Net Income (loss) attributable to Recon Technology, Ltd	¥	(2,344,166)	¥	46,444	$	7,569
Comprehensive income (loss)						
Net income (loss)		(2,338,284)		206,354		33,628
Foreign currency translation adjustment		(15,962)		(5,604)		(913)
Comprehensive income (loss)		(2,354,246)		200,750		32,715
Less: Comprehensive income attributable to non-controlling interest		7,656		159,349		25,968

Comprehensive income (loss) attributable to Recon Technology, Ltd	¥	(2,361,902)	¥	41,401	$	6,747
Earnings (loss) per common share - basic	¥	(0.59)	¥	0.01	$	0.00
Earnings per common share - diluted	¥	(0.59)	¥	0.01	$	0.00
Weighted - average shares -basic		3,951,811		3,951,811		3,951,811
Weighted - average shares -diluted		3,951,811		3,951,811		3,951,811

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

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RECON TECHNOLOGY, LTD
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the three months ended September 30,					
	2012		2013		2013	
	RMB		RMB		U.S. Dollars	
Cash flows from operating activities:						
Net income (loss)	¥	(2,338,284)	¥	206,354	$	33,628
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Depreciation		72,379		150,368		24,504
Provision/(recovery of) for doubtful accounts		(413,622)		84,728		13,807
Stock based compensation		454,805		414,954		67,622
Loss from investment		-		374,614		61,048
Deferred tax (benifit)/provision		31,624		11,868		1,934
Changes in operating assets and liabilities:						
Trade accounts receivable		5,011,902		2,568,115		418,505
Trade accounts receivable-related parties		538,500		263,726		42,977
Inventories		183,484		(4,673,420)		(761,590)
Notes receivable		-		2,578,855		420,255
Other receivable, net		(1,139,779)		(1,703,837)		(277,662)
Other receivables related parties, net		(427,764)		(428,699)		(69,862)
Purchase advance, net		(606,488)		(2,097,795)		(341,861)
Purchase advance-related party, net		100,000		-		-
Tax recoverable		1,218,082		(199,225)		(32,466)
Prepaid expense		(388,071)		(224,273)		(36,548)
Trade accounts payable		(2,812,072)		1,090,211		177,663
Trade accounts payable-related parties		1,686,797		(3,994,718)		(650,987)
Other payables		(682,186)		(1,013,574)		(165,174)
Other payables-related parties		(176,073)		(1,568,907)		(255,672)
Deferred income		100,555		78,484		12,790
Advances from customers		950,869		(35,385)		(5,766)
Accrued payroll and employees' welfare		67,796		136,258		22,205
Accrued expenses		63,324		9,543		1,555
Taxes payable		(1,260,010)		11,396		1,857
Net cash provided by (used in) operating activities		235,768		(7,960,359)		(1,297,238)
Cash flows from investing activities:						
Purchase of property and equipment		(381,406)		(6,720)		(1,095)
Net cash used in investing activities		(381,406)		(6,720)		(1,095)
Cash flows from financing activities:						
Proceeds from short-term bank loans		-		7,560,000		1,231,993
Proceeds from borrowings-related parties		7,675		-		-
Repayment of short-term borrowings		(949,183)		(40,000)		(6,518)
Repayment of short-term borrowings-related parties		(202,434)		(5,236,377)		(853,330)
Net cash provided by (used in) financing activities		(1,143,942)		2,283,623		372,145
		10,624		14,967		2,439

Effect of exchange rate fluctuation on cash and cash equivalents						
Net decrease in cash and cash equivalents		(1,278,956)		(5,668,489)		(923,749)
Cash and cash equivalents at beginning of period		3,533,283		12,350,392		2,012,645
Cash and cash equivalents at end of period	¥	2,254,327	¥	6,681,903	$	1,088,896
Supplemental cash flow information						
Cash paid during the period for interest	¥	407,215	¥	212,187	$	34,578
Cash paid during the period for taxes	¥	-	¥	-	$	-

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

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RECON TECHNOLOGY, LTD
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND NATURE OF OPERATIONS

Organization Recon Technology, Ltd (the "Company") was incorporated under the laws of the Cayman Islands on August 21, 2007 as a company with limited liability. The Company provides oilfield specialized equipment, automation systems, tools, chemicals and field services to petroleum companies in the People's Republic of China (the "PRC"). Its wholly owned subsidiary, Recon Technology Co., Limited ("Recon-HK") was incorporated on September 6, 2007 in Hong Kong. Other than the equity interest in Recon-HK, the Company does not own any assets or conduct any operations. On November 15, 2007, Recon-HK established one wholly owned subsidiary, Jining Recon Technology Ltd. ("Recon-JN") under the laws of the PRC. Other than the equity interest in Recon-JN, Recon-HK does not own any assets or conduct any operations.

The Company conducts its business through the following PRC legal entities that were consolidated as variable interest entities ("VIEs") and operate in the Chinese oilfield equipment & service industry:

1. Beijing BHD Petroleum Technology Co., Ltd. ("BHD"), and

2. Nanjing Recon Technology Co., Ltd. ("Nanjing Recon").

Nature of Operations The Company engaged in (1) providing equipment, tools and other hardware related to oilfield production and management, including simple installations in connection with some projects; (2) service to improve production and efficiency of exploited oil wells, and (3) developing and selling its own specialized industrial automation control and information solutions. The products and services provided by the Company include:

High-Efficiency Heating Furnaces - High-Efficiency Heating Furnaces are designed to remove the impurities and to prevent solidification blockage in transport pipes carrying crude petroleum. Crude petroleum contains certain impurities including water and natural gas, which must be removed before the petroleum can be sold.

Multi-Purpose Fissure Shaper - Multipurpose fissure shapers improve the extractors' ability to test for and extract petroleum which requires perforation into the earth before any petroleum extractor can test for the presence of oil.

Horizontal Multistage Fracturing related Service - The Company mainly uses Baker Hughes FracPoint system and provides related service to oilfield companies. The Baker Hughes FracPoint system provided a completion method using packers to isolate sections of the wellbore (stages) and frac sleeves to direct the frac treatment to the desired stage. The use of this type of completion eliminated the need for cementing the liner, coiled tubing operations, and wireline operations, while significantly reducing overall pumping time.

Supervisory Control and Data Acquisition System ("SCADA") - SCADA is an industrial computerized process control system for monitoring, managing and controlling petroleum extraction. SCADA integrates underground and aboveground activities of the petroleum extraction industry. This system can help to manage the oil extraction process in real-time to reduce the costs associated with extraction.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying unaudited condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The accompanying unaudited condensed consolidated financial statements include the accounts of the Company, its subsidiaries, and VIEs for which the Company is the primary beneficiary. All inter-company transactions and balances between the Company, its subsidiaries and VIEs are eliminated upon consolidation. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring entries, which are necessary for a fair presentation of the results for the interim periods presented. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company’s Form 10-K for the fiscal year ended June 30, 2013. The results of operations for the interim periods presented may not be indicative of the operating results to be expected for the Company’s fiscal year ending June 30, 2014.

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RECON TECHNOLOGY, LTD
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Variable Interest Entities - A VIE is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support or (ii) has equity investors who lack the characteristics of a controlling financial interest. A VIE is consolidated by its primary beneficiary. The primary beneficiary has both the power to direct the activities that most significantly impact the entity's economic performance and the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to the VIE. We perform ongoing assessments to determine whether an entity should be considered a VIE and whether an entity previous identified as a VIE continues to be a VIE and whether we continue to be the primary beneficiary.

Assets recognized as a result of consolidating VIEs do not represent additional assets that could be used to satisfy claims against the Company's general assets. Conversely, liabilities recognized as a result of consolidating these VIEs do not represent additional claims on the Company's general assets; rather, they represent claims against the specific assets of the consolidated VIEs.

Currency Translation - The Company's functional currency is the Chinese Yuan ("RMB") and the accompanying consolidated financial statements have been expressed in Chinese Yuan. The statements as of and for the three months period ended September 30, 2013 have been translated into United States dollars ("U.S. dollars") solely for the convenience of the readers. The translation has been made at the rate of ¥6.1364 = US$1.00, the approximate exchange rate prevailing on September 30, 2013. These translated U.S. dollar amounts should not be construed as representing Chinese Yuan amounts or that the Chinese Yuan amounts have been or could be converted into U.S. dollars.

Estimates and assumptions- The preparation of the consolidated financial statements in conformity with U.S. GAAP requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Estimates are adjusted to reflect actual experience when necessary. Significant estimates include revenue recognition, allowance for doubtful accounts, the useful lives of property and equipment and the fair value of stock based payments. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

Fair Values of Financial Instruments - The carrying amounts reported in the consolidated balance sheets for trade accounts receivable, other receivables, purchase advances, trade accounts payable, accrued liabilities, advances from customers, short-term bank loan and short-term borrowings approximate fair value because of the immediate or short-term maturity of these financial instruments. Long-term borrowings approximate fair value because the interest rate charged approximates the market rate. Long-term other receivables approximate fair value because interest rate approximates the market rate. Long-term investment is carried at less than fair value, with fair value determined using level 1 inputs. (See Note 8.)

Cash and Cash Equivalents - Cash and cash equivalents are comprised of cash on hand, demand deposits and highly liquid short-term debt investments with stated original maturities of no more than three months. Since a majority of the bank accounts are located in the PRC, those bank balances are uninsured.

Trade Accounts and Other Receivables - Accounts receivable are carried at original invoiced amount less a provision for any potential uncollectible amounts. Accounts are considered past due when the related receivables are more than a year old. Provision is made against trade accounts and other receivables to the extent they are considered to be doubtful. Accounts are written off after extensive efforts at collection. Other receivables arise from transactions with non-trade customers.

Purchase Advances - Purchase advances are the amounts prepaid to suppliers for purchases of inventory and are recognized as inventory when the final amount is paid to the suppliers and the inventory is delivered.

Inventories - Inventories are stated at the lower of cost or market value, on a weighted average basis for BHD. Inventories are stated at the lower of cost or market value, on a first-in-first-out basis for Nanjing Recon and ENI. The methods of determining inventory costs are used consistently from year to year. Allowance for inventory obsolescence is provided when the market value of certain inventory items are lower than the cost.

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RECON TECHNOLOGY, LTD
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Tax Recoverable Tax recoverable represented amounts paid for value added tax ("VAT") on purchases in the PRC amounting to ¥575,650 at June 30, 2013 and ¥774,874 ($126,275) at September 30, 2013. The amount can be used to offset VAT payable on sales made by the Company.

Property and Equipment - Property and equipment are stated at cost. Depreciation on motor vehicles and office equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from two to ten years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the assets.

Long-term investment Long-term investment in equity over which the Company has the ability to exercise significant influence but not control, and that, in general, are 20-50 percent owned, are stated at cost plus equity in undistributed net income (loss) of the investee. These investments are evaluated for impairment, in which an impairment loss would be recorded whenever a decline in the value of an equity investment below its carrying amount is determined to be "other than temporary." In judging "other than temporary," the Company would consider the length of time and extent to which the fair value of the investment has been less than the carrying amount of the investment, the near-term and longer-term operating and financial prospects of the investee, and the Company's longer-term intent of retaining the investment in the investee.

Long-Lived Assets - The Company applies the ASC Topic 360 "Property, plant and equipment." ASC Topic 360 requires that long-lived assets, such as property and equipment be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined based on the estimated discounted future cash flows expected to be generated by the asset. There were no impairments at June 30, 2013 and September 30, 2013.

Revenue Recognition - The Company recognizes revenue when the following four criteria are met: (1) persuasive evidence of an arrangement, (2) delivery has occurred or services have been provided, (3) the sales price is fixed or determinable, and (4) collectability is reasonably assured. Delivery does not occur until products have been shipped or services have been provided to the customers and the customers have signed a completion and acceptance report, risk of loss has transferred to the customers, customers acceptance provisions have lapsed, or the Company has objective evidence that the criteria specified in customers' acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved.

Hardware:
Revenue from hardware sales is generally recognized when the product is shipped to the customer and when there are no unfulfilled company obligations that affect the customer's final acceptance of the arrangement.

Software:
The Company sells self-developed software. For software sales, the Company recognizes revenues in accordance with ASC Topic 985 - 605 "Software Revenue Recognition". Revenue from software is recognized according to project contracts. Contract costs are accumulated during the periods of installation and testing or commissioning. Usually this is short term. Revenue is not recognized until completion of the contracts and receipt of acceptance statements.

Service:

The Company provides services to improve software function and system operation on separated fixed-price contracts. Revenue is recognized on the completed contract method when acceptance is determined by a completion report signed by the customer.

Deferred revenue represents unearned amounts billed to customers related to sales contracts.

RECON TECHNOLOGY, LTD
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Subsidy Income - Grants are given by the government to support local software companies' operation and research and development. Grants related to research and development projects are recognized as subsidy income in the unaudited condensed consolidated statements of operations when received. Grants in the form of value-added-tax refund for software products are recognized when received.

***Share-Based Compensation* -** The Company accounts for share-based compensation in accordance with ASC Topic 718, *Share-Based Payment*. Under the fair value recognition provisions of this topic, share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense with graded vesting on a straight line basis over the requisite service period for the entire award. The Company has elected to recognize compensation expenses using the Binomial Lattice valuation model estimated at the grant date based on the award's fair value.

Income Taxes - Income taxes are provided based upon the liability method of accounting pursuant to ASC Topic 740, *Accounting for Income Taxes*. Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes. Deferred taxes are provided on differences between the tax bases of assets and liabilities and their reported amounts in the financial statements, and tax carry forwards. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company has not been subject to any income taxes in the United States or the Cayman Islands.

Under ASC Topic 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position would be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. Income tax returns for the years prior to 2009 are no longer subject to examination by tax authorities.

Earnings (loss) per Share ("EPS") - Basic EPS is computed by dividing net income (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding. Diluted EPS are computed by dividing net income (loss) attributable to ordinary shareholders by the weighted-average number of ordinary shares and dilutive potential ordinary share equivalents outstanding.

Basic net income per share is computed by dividing net income available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted income per share is computed by dividing net income by the weighted average number of shares of ordinary shares, ordinary shares equivalents and potentially dilutive securities outstanding during each period. Potentially dilutive ordinary shares consist of ordinary shares issuable upon the conversion of ordinary stock options and warrants (using the treasury stock method). However, the effect from options and warrants would have been anti-dilutive due to the fact that the weighted average exercise price per share of options and warrants is higher than the weighted average market price per ordinary share during the three months ended September 30, 2012 and 2013.

NOTE 3. TRADE ACCOUNTS RECEIVABLE, NET

Accounts receivable consisted of the following:

	June 30, 2013	September 30, 2013	September 30, 2013

Third Party	RMB	RMB	U.S. Dollars
Trade accounts receivable	¥ 42,993,298	¥ 40,425,182	$ 6,587,768
Allowance for doubtful accounts	(4,344,518)	(4,537,314)	(739,409)
Total - third- party, net	¥ 38,648,780	¥ 35,887,868	$ 5,848,359

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RECON TECHNOLOGY, LTD
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Related Party	June 30, 2013 RMB		September 30, 2013 RMB		September 30, 2013 U.S. Dollars	
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥	19,722,574	¥	19,458,847	$	3,171,053
Allowance for doubtful accounts		(978,210)		(883,061)		(143,906)
Total - related-parties, net	¥	18,744,364	¥	18,575,786	$	3,027,147

One of the Founders, Mr. Yin Shenping, is the legal representative of Beijing Yabei Nuoda Science and Technology Co. Ltd ("Yabei Nuoda"). The founder does not have any equity interest in this company currently. The receivable from Yabei Nuoda was generated primarily from the sale of automation system and services based on written contracts.

NOTE 4. OTHER RECEIVABLES, NET

Other receivables consisted of the following:

Third Party Current Portion	June 30, 2013 RMB		September 30, 2013 RMB		September 30, 2013 U.S. Dollars	
Due from ENI (A)	¥	6,799,669	¥	2,450,006	$	399,258
Loans to third parties (B)		8,440,639		10,486,824		1,708,954
Business advance to staff (C)		2,977,176		3,863,135		629,544
Deposits for projects		185,669		276,648		45,083
Others		1,210,230		488,578		79,620
Allowance for doubtful accounts		(481,880)		(470,015)		(76,595)
Total	¥	19,131,503	¥	17,095,176	$	2,785,864

Third Party Non-Current Portion	June 30, 2013 RMB		September 30, 2013 RMB		September 30, 2013 U.S. Dollars	
Due from ENI (A)	¥	3,502,680	¥	7,254,709	$	1,182,242
Total	¥	3,502,680	¥	7,254,709	$	1,182,242

(A) Due from ENI represents a working capital loan to the Company's former VIE. In January 2012, ENI agreed to repay the loan on a payment schedule, and interest is accruing during the period at an annual rate of 4%. In accordance with the payment schedule, the principal plus accrued interest is required to be repaid over approximately three years on a quarterly basis beginning March 2012. The first four payments are RMB 1.2 million each. In March, June, September and December of 2012, the Company received an aggregate of RMB 4.8 million. Starting March 2013, installments for each quarter would be ¥1,777,653. The Company has received the payments on time in March and June, 2013. On September 30, 2013, ENI proposed to extend the payment period and signed a new contract with the Company. According to the new arrangement, the remaining part of this loan will be repaid over four years with quarterly installments of ¥699,147. The payments after 1 year are RMB 7,254,709 ($1,182,242).

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RECON TECHNOLOGY, LTD
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(B) Loans to third parties are mainly used for short-term funding to support cooperative companies. These loans are due on demand bearing no interest.

(C) Business advance to staff represents advances for business travel and sundry expenses related to oilfield or on-site installation and inspection of products through customer approval and acceptance.

Other receivables - related parties represent loans to related parties for working capital advances to related entities. Such advances are due-on-demand and non-interest bearing.

Below is a summary of other receivables - related parties which consisted of the following:

Related Party Name of Related Party	June 30, 2013 RMB		September 30, 2013 RMB		September 30, 2013 U.S. Dollars	
Beijing Yabei Nuoda Science and Technology Co. Ltd. (A)	¥	500,000	¥	500,000	$	81,481
Other-travel advances (B)		242,528		671,227		109,384
Total	¥	742,528	¥	1,171,227	$	190,865

(A) Non-interest bearing loan due on demand.
(B) Other travel advances were paid to the Company's management. These advances are short term and will be offset against travel and business expenses.

NOTE 5. PURCHASE ADVANCES

The Company purchased products and services from a third-party and a related party during the normal course of business. Purchase advances consisted of the following:

Third Party	June 30, 2013 RMB		September 30, 2013 RMB		September 30, 2013 U.S. Dollars	
Prepayment for inventory purchase	¥	19,237,449	¥	21,335,245	$	3,476,834
Allowance for doubtful accounts		(824,942)		(823,887)		(134,262)
Total	¥	18,412,507	¥	20,511,358	$	3,342,572

Below is a summary of purchase advances to related party.

Related Party	June 30, 2013 RMB	September 30, 2013 RMB	September 30, 2013 U.S. Dollars

Xiamen Huangsheng Hitek Computer Network Co. Ltd.	¥	394,034	¥	394,034	$	64,213
Total	¥	394,034	¥	394,034	$	64,213

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RECON TECHNOLOGY, LTD
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

One of the Founders and a family member collectively own 57% of Xiamen Huasheng Haitian Computer Network Co. Ltd.

NOTE 6. INVENTORIES

Inventories consisted of the following:

	June 30, 2013 RMB		September 30, 2013 RMB		September 30, 2013 U.S. Dollars	
Small component parts	¥	45,314	¥	46,744	$	7,617
Work in process		1,356,755		2,884,140		470,005
Finished goods		11,869,001		15,013,606		2,446,648
Total inventories	¥	13,271,070	¥	17,944,490	$	2,924,270

NOTE 7. PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following:

	June 30, 2013 RMB		September 30, 2013 RMB		September 30, 2013 U.S. Dollars	
Motor vehicles	¥	2,683,250	¥	2,683,250	$	437,268
Office equipment and fixtures		593,654		600,374		97,838
Total property and equipment		3,276,904		3,283,624		535,106
Less: Accumulated depreciation		(1,567,058)		(1,717,426)		(279,875)
Property and equipment, net	¥	1,709,846	¥	1,566,198	$	255,231

Depreciation expenses were ¥72,379 and ¥150,368 ($24,504) for the three months ended September 30, 2012 and 2013, respectively.

NOTE 8. Long-term investment

On June 28, 2013, the Company purchased 2,800,000 restricted shares of Avalon Oil and Gas, Inc. ("Avalon") for $0.089 per share, or approximately ¥1.5 million ($250,000). Since the restriction for the shares is for two years, the Company was able to acquire the shares at 50% of the market value. As a result, Recon owns 32.22% of Avalon's outstanding shares. The investment was accounted for using the equity method and no gain or loss from equity investment was recorded for the year ended June 30, 2013 due to immateriality. As of September 30, 2013, Recon owns 27.43% of Avalon's outstanding shares due to Avalon issuing more shares. Avalon is an independent US domestic oil and natural gas producer listed on the OTCBB under the ticker symbol AOGN. Avalon is building a portfolio of oil and gas producing properties to generate asset growth. For the three months ended September 30, 2013, Avalon had revenue of approximately $40,000 and net loss of $0.2 million. The Company recorded a loss of ¥374,614 ($61,048) for its share of Avalon's loss for the three months ended September 30, 2013.

RECON TECHNOLOGY, LTD
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. OTHER PAYABLES

Other payables consisted of the following:

Third Party	June 30, 2013 RMB		September 30, 2013 RMB		September 30, 2013 U.S. Dollars	
Consulting services	¥	1,199,716	¥	499,049	$	81,326
Due to ENI (A)		148,000		-		-
Expenses paid by third-parties		580,648		440,085		71,717
Others		36,327		11,983		1,953
Total	¥	1,964,691	¥	951,117	$	154,996

(A) A former VIE of the Company, which ceased to be a VIE on December 16, 2010.

Related Party	June 30, 2013 RMB		September 30, 2013 RMB		September 30, 2013 U.S. Dollars	
Due to related parties (1)	¥	2,860,824		1,860,824	$	303,245
Expenses paid by the major shareholders		467,499		432,321		70,452
Due to family member of one owner on behalf on Recon		716,000		200,000		32,592
Due to management staff on behalf of Recon		195,352		177,623		28,945
Total	¥	4,239,675	¥	2,670,768	$	435,234

(1) Includes an advance from Yabei Nuoda for RMB 61,477 and an advance from Xiamen Henda Haitek for RMB 1,799,347 to supplement the Company's working capital. The advances are payable on demand and non-interest bearing.

NOTE 10. TAXES PAYABLE

Taxes payable consisted of the following:

	June 30, 2013 RMB		September 30, 2013 RMB		September 30, 2013 U.S. Dollars	
VAT payable	¥	2,802,890	¥	2,635,313	$	429,456

Business tax payable		75,865		75,865		12,363
Enterprise income tax payable		3,850,288		4,045,748		659,303
Other taxes payable		25,385		8,898		1,450
Total taxes payable	¥	6,754,428	¥	6,765,824	$	1,102,572

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RECON TECHNOLOGY, LTD
NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. SHORT-TERM BANK LOANS

Short-term bank loans consisted of the following:

	June 30, 2013		September 30, 2013		September 30, 2013	
		RMB		RMB		U.S. Dollars
Communication Bank, 6.6% annual interest, due on October 25, 2013 (A)	¥	3,090,000	¥	3,090,000	¥	503,554
Communication Bank, 6.6% annual interest, due on November 15, 2013		1,910,000		1,910,000		311,257
Beijing Bank,5.75% annual interest, due on February 25, 2014		1,200,000		1,200,000		195,554
Beijing Bank, 5.75 % annual interest, due on February 27, 2014		600,000		600,000		97,777
Beijing Bank, 5.75 % annual interest, due on April 9, 2014		1,200,000		1,200,000		195,554
Beijing Bank, 5.75 % annual interest, due on April 16, 2014		900,000		900,000		146,666
Beijing Bank,5.75 % annual interest, due on March 11, 2014		1,100,000		1,100,000		179,258
Industrial and commercial bank, float interest rate, due on December 31, 2013		-		500,000		81,481
Industrial and commercial bank, float interest rate, due on July 28, 2014				3,060,000		498,664
Industrial and commercial bank, float interest rate, due on August 8, 2014				1,000,000		162,962
Industrial and commercial bank, float interest rate, due on February 25, 2014				3,000,000		488,886
Total short-term bank loans	¥	10,000,000	¥	17,560,000	$	2,861,613

(A) The Company paid off the loan of ¥3,090,000 from Communication Bank on October 25, 2013.

Interest expense for short-term bank loans was ¥474,125 and ¥219,672 ($35,798) for the three months ended September 30, 2012 and 2013, respectively.

NOTE 12. SHORT-TERM BORROWINGS

Short-term borrowings are generally extended upon maturity and consisted of the following:

Short-term borrowings due to non-related parties:	June 30, 2013 RMB		September 30, 2013 RMB		September 30, 2013 U.S. Dollars	
Short-term borrowing, 6% annual interest, due on November 29, 2013	¥	70,375	¥	70,375	$	11,468
Short-term borrowings with no interest, due on April 21, 2014		500,000		460,000		74,963
Total short-term borrowings due to non-related parties	¥	570,375	¥	530,375	$	86,431

Interest expense for short-term borrowings due to non-related parties was ¥19,768 and ¥1,056 ($172) for the three months ended September 30, 2012 and 2013, respectively.

Short-term borrowings due to related parties:	June 30, 2013 RMB		September 30, 2013 RMB		September 30, 2013 U.S. Dollars	
Due-on-demand borrowings from Founders, no interest	¥	6,377	¥	-	$	-
Short-term borrowing from a Founder's family member, 6% annual interest, due on December 21, 2013 (A)		3,653,906		33,906		5,525
Short-term borrowing from a Founder's family member, 6% annual interest, matures on November 29, 2013 (A)		1,610,000		-		-
Short-term borrowings from Xiamen Huasheng Haitian Computer Network Co. Ltd., no interest, due on November 14, 2013		200,000		200,000		32,592
Short-term borrowings from management, 6% annual interest, due on December 7, 2013		32,996		32,996		5,378
Total short-term borrowings due to related parties	¥	5,503,279	¥	266,902	$	43,495

(A) The Company has repaid ¥5,230,000 by July 29, 2013.

Interest expense for short-term borrowings due to related parties was ¥55,117 and ¥532 ($87) for the three months ended September 30, 2012 and 2013, respectively.

NOTE 13. SHAREHOLDERS' EQUITY

Appropriated Retained Earnings - According to the Memorandum and Articles of Association, the Company is required to transfer a certain portion of its net profit, as determined under PRC accounting regulations, from current net income to the statutory reserve fund. In accordance with the PRC Company Law, companies are required to transfer 10% of their profit after tax, as determined in accordance with PRC accounting standards and regulations, to the statutory reserves until such reserves reach 50% of the registered capital or paid-in capital of the companies. As of June 30, 2013 and September 30, 2013, the balance of total statutory reserves was ¥3,023,231 and ¥3,310,881 ($539,548), respectively.

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NOTE 14. STOCK-BASED COMPENSATION

Stock-Based Awards Plan

2009 Options Plan - The Company granted options to purchase 293,000 ordinary shares under the Stock Incentive 2009 Plan to its employees and non-employee directors on July 29, 2009. The options have an excise price of $6.00, equal to the IPO price of the Company's ordinary shares, and will vest over a period of five years, with the first 20% vesting on July 29, 2010. The options expire ten years after the date of grant, on July 29, 2019. The fair value was estimated on July 29, 2009 using the Binomial Lattice valuation model, with the following weighted-average assumptions:

Stock price at grant date	$6.00	
Exercise price (per share)	$6.00	
Risk free rate of interest***	4.6118	%
Dividend yield	0.0	%
Life of option (years)**	10	
Volatility*	78	%
Forfeiture rate****	15	%

* Volatility is projected using the performance of PHLX Oil Service Sector index.
** The life of options represents the period the option is expected to be outstanding.
*** The risk-free interest rate is based on the Chinese international bond denominated in U.S. dollar, with a maturity that approximates the life of the option.
**** Forfeiture rate is the estimated percentage of options forfeited by employees by leaving or being terminated before vesting.

The Company recognizes compensation cost for awards with graded vesting on a straight-line basis over the requisite service period for the entire award. The grant date fair value of the options was ¥30.17 ($4.42) per share.

2012 Options Plan The Company granted options to purchase 415,000 ordinary shares to its employees and non-employee director on March 26, 2012. The options have an excise price of $2.96, which was equal to the share price of the Company's ordinary shares at March 26, 2012, and will vest over a period of five years, with the first 20% vesting on March 26, 2013. The options expire ten years after the date of grant, on March 26, 2022. The fair value was estimated on March 26, 2012 using the black-scholes option-pricing model with the following assumptions:

Stock price at grant date	$2.96	
Exercise price (per share)	$2.96	
Discount Rate - Bond Equivalent Yield***	1.56	%
Dividend yield	0.0	%
Life of option (years) **	7.5	
Volatility*	46	%
Forfeiture rate****	0	%

* Volatility is projected using the performance of PHLX Oil Service Sector index over past five years.
** The life of options represents the period the option is expected to be outstanding.
*** The risk-free interest rate is based on the U.S. government bond, with a maturity that approximates the life of the option.

**** Forfeiture rate is the estimated percentage of options forfeited by employees by leaving or being terminated before vesting.

The Company recognizes compensation cost for awards with graded vesting on a straight-line basis over the requisite service period for the entire award. The grant date fair value of the options was ¥10.06 ($1.59) per share.
In July 2013, three employees with 44,000 options resigned from the Company and their granted options were forfeited back to the Company's incentive option pool.

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The following is a summary of the stock options activity:

Stock Options	Shares	Weighted Average Exercise Price Per Share	
Outstanding as of July 1, 2013	608,000	$	3.93
Granted	-		-
Forfeited	(44,000)		-
Exercised	-		-
Outstanding as of September 30, 2013	564,000	$	3.93

The following is a summary of the status of options outstanding and exercisable at September 30, 2013:

Outstanding Options				Exercisable Options			
Average Exercise Price		Number	Average Remaining Contractual life (Years)	Average Exercise Price		Number	Average Remaining Contractual life (Years)
$	6.00	193,000	5.83	$	6.00	115,800	5.83
$	2.96	371,000	8.49	$	2.96	-	8.49

The total share-based compensation expenses recorded for stock options granted were ¥454,805 and ¥414,954 ($67,622) for the three months ended September 30, 2012 and 2013, respectively. The total unrecognized share-based compensation expense as of September 30, 2013 was approximately ¥3.3 million ($0.5 million), which is expected to be recognized over a weighted average period of approximately 2.85 years.

Placement Agent Warrants

The Company had 170,000 of granted placement agent warrants as of September 30, 2013 and no warrants were exercised during this period.

NOTE 15. INCOME TAX

The Company is not subject to any income taxes in the United States or the Cayman Islands and had minimal operations in jurisdictions other than the PRC. BHD and Nanjing Recon are subject to PRC's income taxes as PRC domestic companies. For the calendar years 2012 and 2013, Nanjing Recon is subject to an income tax rate of 15%.

As approved by the domestic tax authority in the PRC, BHD was recognized as a government-certified high technology company on November 25, 2009 and is subject to an income tax rate of 15% through November 2015.

Deferred tax asset is comprised of the following:

June 30, 2013

			September 30, 2013		September 30, 2013	
	RMB		RMB		U.S. Dollars	
Allowance for doubtful receivables	¥	1,006,721	¥	994,853	$	162,123
Total deferred income tax assets	¥	1,006,721	¥	994,853	$	162,123

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The Company's tax provision is comprised of the following:

	For the three months ended September 30,		
	2012 RMB	2013 RMB	2013 U.S. Dollars
Current income tax provision	¥ -	¥ 200,914	$ 32,741
Deferred income taxes provision	31,624	11,868	1,934
Provision for income tax	¥ 31,624	¥ 212,782	$ 34,675

NOTE 16. NON-CONTROLLING INTEREST

Non-controlling interest consisted of the following:

	As of June 30, 2013			
	BHD RMB	Nanjing Recon RMB	Total RMB	Total U.S. Dollars
Paid-in capital	¥ 1,651,000	¥ 200,000	¥ 1,851,000	$ 299,118
Unappropriated retained earnings	2,717,231	2,665,337	5,382,568	869,812
Accumulated other comprehensive loss	(18,793)	(13,784)	(32,577)	(5,265)
Total non-controlling interest	¥ 4,349,438	¥ 2,851,553	¥ 7,200,991	$ 1,163,665

	As of September 30, 2013			
	BHD RMB	Nanjing Recon RMB	Total RMB	Total U.S. Dollars
Paid-in capital	¥ 1,651,000	¥ 200,000	¥ 1,851,000	$ 301,643
Unappropriated retained earnings	2,784,200	2,758,277	5,542,477	903,213
Accumulated other comprehensive loss	(19,205)	(14,193)	(33,397)	(5,443)
Total non-controlling interest	¥ 4,415,995	¥ 2,944,084	¥ 7,360,080	$ 1,199,413

NOTE 17. CONCENTRATIONS

For the three months ended September 30, 2013, the two largest customers, China National Petroleum Corporation ("CNPC") and China Petroleum & Chemical Corporation Limited ("SINOPEC"), represented 37.53% and 34.16% of the Company's revenue, respectively. For the three months ended September 30, 2012, China National Petroleum

Corporation ("CNPC") and China Petroleum & Chemical Corporation Limited ("SINOPEC") represented 9.08% and13.23% of the Company's revenue, respectively.

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For the three months ended September 30, 2012, one supplier, Hebei Huanghua Xiangtong Technical Co. Ltd, accounted for 30.54% of the company's total purchases. For the three months ended September 30, 2013, four major suppliers accounted for 11.8%, 20.1%, 15.1% and 24.9% of the company's total purchase.

NOTE 18. COMMITMENTS AND CONTINGENCY

(a) Office Leases

The Company leased three offices in Beijing (two for BHD; one for Recon-JN), one office in Jining for Recon-JN and one office in Nanjing for Nanjing Recon. Future payments under such leases are as follows as of September 30, 2013:

	Twelve months ending September 30, Office lease payment			
	RMB		U.S. Dollars	
2014	¥	695,400	$	113,324
2015		175,000		28,518
Total	¥	870,400	$	141,842

(b) Contingency

The Labor Contract Law of the PRC requires employers to assure the liability of severance payments if employees are terminated and have been working for the employers for at least two years prior to January 1, 2008. The employers will be liable for one month of severance pay for each year of the service provided by the employees. As of September 30, 2013, the Company estimated its severance payments of approximately ¥1.2 million ($0.2 million) which has not been reflected in its unaudited condensed consolidated financial statements because the Company has determined that the likelihood to make these payments is remote.

NOTE 19. RELATED PARTY TRANSACTIONS AND BALANCES

Sales to related parties sales to related parties consisted of the following:

	For the three months ended September 30,					
	2012 RMB		2013 RMB		2013 U.S. Dollars	
Beijing Yabei Nuoda Science and Technology Co. Ltd.	¥	532,051	¥	116,473	$	18,981
Xiamen Henda Haitian computer network Inc		-		299,145		48,749
Revenues from related parties	¥	532,051	¥	415,618	$	67,730

Purchases from related parties purchases from related parties consisted of the following:

	For the three months ended September 30,		
	2012 RMB	2013 RMB	2013 U.S. Dollars

Huanghua Xiang Tong Manufacture	¥	2,919,320	¥	-	$	-
Purchase from related parties	¥	2,919,320	¥	-	$	-

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Leases from related parties **-** The Company has various agreements for the lease of office space owned by the Founders and their family members. The terms of the agreement state that the Company will continue to lease the property for two years at a monthly rent of ¥84,333 with the annual rental expense at approximately ¥1 million ($0.2 million).

Short-term borrowings from related parties - The Company borrowed ¥5,503,279 and ¥266,902 ($43,495) from the Founders, their family members and senior officers as of June 30, 2013 and September 30, 2013, respectively. For the specific terms and interest rates of the borrowings, please see Note 12.

Trade accounts payable to related parties **-** The Company owed ¥3,994,718 to one related party as of June 30, 2013. As of September 30, 2013, BHD was not a related party to this supplier.

Expenses paid by the owners on behalf of Recon The major owner of Nanjing Recon, Mr. Yin and the major owner of BHD, Mr. Chen, paid certain operating expenses for the Company. As of June 30, 2013 and September 30, 2013, ¥467,499 and ¥432,321 ($70,452) were due to them, respectively.

NOTE 20. Variable Interest Entities

The Company reports its VIEs' portion of consolidated net income and stockholders' equity as non-controlling interests in the condensed consolidated financial statements.

Summary information regarding consolidated VIEs is as follows:

	June 30, 2013 RMB		September 30, 2013 RMB		September 30, 2013 U.S. Dollars	
ASSETS						
Current Assets						
Cash and cash equivalents	¥	10,341,778	¥	5,599,307	$	912,474
Trade accounts receivable, net		57,393,144		54,463,653		8,875,506
Notes receivable		2,578,855		-		-
Purchase advances		17,862,507		20,355,393		3,317,155
Other assets		29,974,454		37,850,180		6,168,141
Total current assets	¥	118,150,738	¥	118,268,533	$	19,273,276
Non-current assets		1,705,940		1,562,683		254,658
Total Assets	¥	119,856,678	¥	119,831,216	$	19,527,934
LIABILITIES						
Trade accounts payable	¥	11,378,883	¥	8,474,376	$	1,381,001
Taxes payable		6,754,428		6,765,520		1,102,523
Other liabilities		24,770,161		25,375,056		4,135,170
Total current liabilities		42,903,472		40,614,952		6,618,695
Total Liabilities	¥	42,903,472	¥	40,614,952	$	6,618,695

The financial performance of VIEs reported in the condensed consolidated statement of operations and comprehensive income (loss) for the three months ended September 30, 2013 includes revenues of ¥11,512,710 ($1,876,134), operating expenses of ¥3,388,009 ($552,117), other expenses of ¥129 ($21) and a net income of ¥1,886,755($307,469).