

CHINA JO-JO DRUGSTORES, INC.

Form 10-Q

November 14, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from _____ to _____

Commission File Number: 001-34711

CHINA JO-JO DRUGSTORES, INC.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of incorporation or organization)

98-0557852
(I.R.S. Employer Identification No.)

Room 507-513, 5th Floor A Building, Meidu Plaza
Gongshu District, Hangzhou, Zhejiang Province
People's Republic of China

(Address of principal executive offices)

(Zip Code)

+86 (571) 88077078
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every, Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of November 9, 2012, the registrant had 13,571,553 shares of common stock, par value \$0.00001 per share, outstanding.

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FOR THE QUARTER ENDED SEPTEMBER 30, 2012

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CAUTION REGARDING FORWARD-LOOKING INFORMATION

All statements contained in this Quarterly Report on Form 10-Q (“Form 10-Q”) for the registrant, other than statements of historical facts, that address future activities, events or developments are forward-looking statements, including, but not limited to, statements containing the words “believe,” “anticipate,” “expect” and words of similar import. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. However, whether actual results will conform to the expectations and predictions of management is subject to a number of risks and uncertainties that may cause actual results to differ materially.

Such risks include, among others, the following: national and local general economic and market conditions; our ability to sustain, manage or forecast our growth; raw material costs and availability; new product development and introduction; existing government regulations and changes in, or the failure to comply with, government regulations; adverse publicity; competition; the loss of significant customers or suppliers; fluctuations and difficulty in forecasting operating results; changes in business strategy or development plans; business disruptions; the ability to attract and retain qualified personnel; the ability to protect technology; and other factors referenced in this and previous filings.

Consequently, all of the forward-looking statements made in this Form 10-Q are qualified by these cautionary statements and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHINA JO-JO DRUGSTORES, INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 2012	March 31, 2012
A S S E T S		
CURRENT ASSETS		
Cash	\$ 3,507,961	\$3,833,216
Restricted cash	2,731,516	2,818,449
Notes receivable	928,330	-
Trade accounts receivable, net	26,980,178	16,516,671
Inventories	8,770,383	6,875,574
Other receivables	1,209,972	603,294
Advances to suppliers, net	16,287,584	14,347,557
Other current assets	3,635,708	2,853,301
Total current assets	64,051,632	47,848,062
PROPERTY AND EQUIPMENT, net	14,936,637	15,647,120
OTHER ASSETS		
Long term deposits	2,454,194	2,872,219
Other noncurrent assets	5,532,164	5,776,667
Intangible assets, net	1,270,471	2,816,945
Total other assets	9,256,829	11,465,831
Total assets	\$88,245,098	\$74,961,013
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable, trade	\$23,835,552	\$13,906,383
Notes payable	6,541,763	4,208,928
Other payables	1,497,812	782,586
Other payables - related parties	1,162,807	1,458,441
Customer deposit	2,990,743	1,332,141
Taxes payable	227,415	469,606
Accrued liabilities	418,374	417,184
Total current liabilities	36,674,466	22,575,269
Purchase option derivative liability	8,672	34,419
Total liabilities	36,683,138	22,609,688

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' EQUITY

Preferred stock; \$0.001 par value; 10,000,000 shares authorized; nil issued and outstanding as of

September 30, 2012 and March 30, 2012

- -

Common stock; \$0.001 par value; 250,000,000 shares authorized; 13,666,370 and 13,589,621

shares issued and outstanding as of September 30, 2012 and March 31, 2012

13,666 13,589

Additional paid-in capital

16,950,199 16,853,039

Statutory reserves

1,309,109 1,309,109

Retained earnings

30,435,538 31,429,100

Accumulated other comprehensive income

2,855,108 2,747,561

Total stockholders' equity

51,563,620 52,352,398

Noncontrolling interests

(1,660) (1,073)

Total equity

51,561,960 52,351,325

Total liabilities and stockholders' equity

\$88,245,098 \$74,961,013

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

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)
(UNAUDITED)

	For the three months ended September 30,		For the six months ended September 30,	
	2012	2011	2012	2011
REVENUES, NET	\$ 26,665,114	\$ 22,224,947	\$ 59,512,445	\$ 43,652,806
COST OF GOODS SOLD	23,242,917	15,967,051	50,945,471	30,525,587
GROSS PROFIT	3,422,197	6,257,896	8,566,974	13,127,219
SELLING EXPENSES	2,102,621	2,711,494	3,960,845	4,089,794
GENERAL AND ADMINISTRATIVE EXPENSES	1,310,313	1,320,521	4,156,892	2,395,304
TOTAL OPERATING EXPENSES	3,412,934	4,032,015	8,117,737	6,485,098
INCOME FROM OPERATIONS	9,263	2,225,881	449,237	6,642,121
OTHER INCOME (EXPENSE), NET	(90,332)	187,166	8,367	206,586
IMPAIRMENT OF GOODWILL	(1,473,606)	-	(1,473,606)	-
CHANGE IN FAIR VALUE OF PURCHASE OPTION DERIVATIVE LIABILITY	25,905	34,356	25,747	96,988
(LOSS) INCOME BEFORE INCOME TAXES	(1,528,770)	2,447,403	(990,255)	6,945,695
PROVISION FOR INCOME TAXES	10	817,990	3,892	2,073,553
NET (LOSS) INCOME	(1,528,780)	1,629,413	(994,147)	4,872,142
ADD: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST	331	4,300	585	4,300
NET (LOSS) INCOME ATTRIBUTABLE TO CHINA JO-JO DRUGSTORES, INC.	(1,528,449)	1,633,713	(993,562)	4,876,442
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustments	52,538	508,923	107,547	1,083,488
COMPREHENSIVE INCOME (LOSS)	\$ (1,475,911)	\$ 2,142,636	\$ (886,015)	\$ 5,959,930
WEIGHTED AVERAGE NUMBER OF SHARES:				
Basic	13,588,569	13,547,157	13,575,550	13,541,136
Diluted	13,588,569	13,547,157	13,575,550	13,541,136

(LOSS) EARNINGS PER SHARE:

Basic	\$ (0.11)	\$ 0.12	\$ (0.07)	\$ 0.36
Diluted	\$ (0.11)	\$ 0.12	\$ (0.07)	\$ 0.36

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

CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six months ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (994,147)	\$ 4,872,142
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,295,175	1,118,932
Stock compensation	97,236	52,133
Bad debt expense	834,772	182,398
Impairment of Goodwill	1,473,606	-
Change in fair value of purchase option derivative liability	(25,747)	(96,988)
Change in operating assets:		
Accounts receivable, trade	(11,009,813)	(2,435,921)
Notes receivable	(928,801)	-
Inventories	(1,887,064)	1,282,841
Other receivables	(761,810)	(523,817)
Advances to suppliers	(2,040,116)	2,173,332
Other current assets	(779,191)	5,610,337
Long term deposit	421,871	(18,485)
Other noncurrent assets	251,938	106,115
Change in operating liabilities:		
Accounts payable, trade	9,916,586	4,279,623
Other payables and accrued liabilities	715,342	(1,046,197)
Customer deposits	1,657,754	676,373
Taxes payable	(242,908)	(495,891)
Net cash provided by (used in) operating activities	(2,005,317)	15,736,927
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	(234,151)	(2,155,443)
Advance payments on equipment purchase	-	(774,500)
Additions to leasehold improvements	(253,163)	(1,373,605)
Payments on construction-in-progress	-	(6,729,437)
Net payments for business acquisitions	-	(3,282,727)
Net cash used in investing activities	(487,314)	(14,315,712)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in restricted cash	90,544	193,300
Payments on notes payable	-	(3,703,942)
Proceeds from shareholders	-	58,862
Increase in notes payable	2,328,686	-
Decrease in other payables- related parties	(295,954)	-
Net cash (used in) provided by financing activities	2,123,276	(3,451,780)
EFFECT OF EXCHANGE RATE ON CASH	44,100	130,934

DECREASE IN CASH	(325,255)	(1,899,631)
CASH, beginning of Period	3,833,216	6,489,905
CASH, end of Period	\$ 3,507,961	\$ 4,590,274
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	\$ -	\$ 2,428,768
Non-cash investing activities		
Transfer from construction-in-progress to leasehold improvement	\$ 2,703,428	\$ -
Non-cash financing activities		
Notes payable transferred to vendors	\$ -	\$ 3,431,091

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

CHINA JO-JO DRUGSTORES, INC., AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – DESCRIPTION OF BUSINESS AND ORGANIZATION

China Jo-Jo Drugstores, Inc. (“Jo-Jo Drugstores” or the “Company”), was incorporated in Nevada on December 19, 2006, originally under the name “Kerrisdale Mining Corporation.” On September 24, 2009, the Company changed its name to “China Jo-Jo Drugstores, Inc.” in connection with a share exchange transaction as described below.

On September 17, 2009, the Company completed a share exchange transaction with Renovation Investment (Hong Kong) Co., Ltd. (“Renovation”), whereby 7,900,000 shares of common stock were issued to the stockholders of Renovation in exchange for 100% of the capital stock of Renovation. The completion of the share exchange transaction resulted in a change of control. The share exchange transaction was accounted for as a reverse acquisition and recapitalization and, as a result, the consolidated financial statements of the Company (the legal acquirer) is, in substance, those of Renovation (the accounting acquirer), with the assets and liabilities, and revenues and expenses, of the Company being included effective from the date of the share exchange transaction. Renovation has no substantive operations of its own except for its holdings of Zhejiang Jiuxin Investment Management Co., Ltd. (“Jiuxin Management”), Zhejiang Shouantang Medical Technology Co., Ltd. (“Shouantang Technology”) and Hangzhou Jiutong Medical Technology Co., Ltd (“Jiutong Medical”), its wholly-owned subsidiaries.

The Company is a retail and wholesale distributor of pharmaceutical and other healthcare products in the People’s Republic of China (“China” or the “PRC”). The Company’s retail business is comprised primarily of pharmacies, a majority of which are operated by Hangzhou Jiuzhou Grand Pharmacy Chain Co., Ltd. (“Jiuzhou Pharmacy”), a company that the Company controls through contractual arrangements. Shanghai Lydia Grand Pharmacy Co., Ltd. (“Shanghai Lydia”), a wholly-owned subsidiary of Jiuzhou Pharmacy, operates two store locations in Shanghai. On July 29, 2011, Shanghai Lydia obtained control of Shanghai Bieyanghong Zhongxing Grand Pharmacy Co. Ltd. (“Bieyanghong Zhongxing”), which also operates one pharmacy in Shanghai, and Bieyanghong Zhongxing subsequently changed its name to Shanghai Lydia Zhongxing Grand Pharmacy Co., Ltd. (“Shanghai Zhongxing”). One drugstore is operated by Hangzhou Quannuo Grand Pharmacy Co., Ltd. (“Hangzhou Quannuo”), a wholly-owned subsidiary of Zhejiang Quannuo Internet Technology Co., Ltd. (“Quannuo Technology”), which is wholly-owned by Shouantang Technology. Four drugstores are operated by Zhejiang Jiuying Grand Pharmacy Co., Ltd. (“Jiuying Pharmacy”). 39% and 10% of the equity interests of Jiuying Pharmacy are held by Shouantang Technology and Jiuxin Management, respectively, with the remaining 51% held by the three owners of Jiuzhou Pharmacy, Jiuzhou Clinic and Jiuzhou Service (the “Owners”).

The Company’s retail business also includes two medical clinics through Hangzhou Jiuzhou Clinic of Integrated Traditional and Western Medicine (“Jiuzhou Clinic”) and Hangzhou Jiuzhou Medical and Public Health Service Co., Ltd. (“Jiuzhou Service”), both of which are also controlled by the Company through contractual arrangements.

The Company’s wholesale business is primarily conducted through Zhejiang Jiuxin Medicine Co., Ltd. (“Jiuxin Medicine”), which is licensed to distribute prescription and non-prescription pharmaceutical products throughout China. Jiuzhou Pharmacy acquired Jiuxin Medicine on August 25, 2011.

The Company’s farming business is conducted by Hangzhou Qianhong Agriculture Development Co., Ltd. (“Qianhong Agriculture”), a wholly-owned subsidiary of Jiuxin Management, which operates a cultivation project of herbal plants used for traditional Chinese medicine (“TCM”), and Jiutong Medical, which processes the herbal plants, mainly cultivated by Qianhong Agriculture.

Tonglu Lydia Agriculture Development Co., Ltd. (“Tonglu Lydia”), a wholly-owned subsidiary of Shouantang Technology, was closed on August 1, 2012. Prior to its closure, Tonglu Lydia did not have any operations.

The accompanying consolidated financial statements reflect the activities of the Company and each of the following entities:

Entity Name	Background	Ownership
Renovation HK	Incorporated in Hong Kong SAR on September 2, 2008	100%
Jiuxin Management	Established in the PRC on October 14, 2008 Deemed a wholly foreign owned enterprise (“WFOE”) under PRC law Registered capital of \$4,500,000 fully paid	100%
Shouantang Technology	Established in the PRC on July 16, 2010 by Renovation with registered capital of \$20 million Registered capital requirement reduced by the SAIC to \$11 million in July, 2012 and is fully paid Deemed a WFOE under PRC law Invests and finances the working capital of Quannuo Technology	100%

Qianhong Agriculture	Established in the PRC on August 10, 2010 by Jiuxin Management Registered capital of RMB 10,000,000 fully paid Carries out cultivation of TCM herbal plants	100%
Quannuo Technology	Established in the PRC on July 7, 2009 Registered capital of RMB 10,000,000 fully paid Acquired by Shouantang Technology in November 2010 Operates the Company's online pharmacy website and provide software and technical support	100%
Hangzhou Quannuo	Established in the PRC on July 8, 2010 by Quannuo Technology Registered capital of RMB 800,000 fully paid Operates one "Quannuo Grand Pharmacy"	100%
Jiuzhou Pharmacy (1)	Established in the PRC on September 9, 2003 Registered capital of RMB 5 million fully paid Operates the "Hangzhou Jiuzhou Grand Pharmacy" stores in and around Hangzhou and Jiangshan	VIE by contractual arrangements (2)
Jiuzhou Clinic (1)	Established in the PRC as a general partnership on October 10, 2003 Operates a medical clinic adjacent to one of Jiuzhou Pharmacy's stores	VIE by contractual arrangements (2)
Jiuzhou Service (1)	Established in the PRC on November 2, 2005 Registered capital of RMB 500,000 fully paid Operates a medical clinic adjacent to one of Jiuzhou Pharmacy's stores	VIE by contractual arrangements (2)
Shanghai Lydia		