

CHINA JO-JO DRUGSTORES, INC.
Form 10-Q
February 17, 2015

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 **December 31, 2014**

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.)

1st Floor, Yuzheng Plaza, No. 76,

Yuhuangshan Road, Hangzhou, Zhejiang Province 310002

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 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 February 9, 2015, the registrant had 15,385,504 shares of common stock, par value \$0.001 per share, outstanding.

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FOR THE QUARTER ENDED DECEMBER 31, 2014**

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CAUTIONARY STATEMENT 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)**

| | December 31, 2014 | March 31, 2014 |
|---|----------------------|---------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash | \$ 1,734,392 | \$4,445,276 |
| Restricted cash | 9,989,227 | 3,114,543 |
| Notes receivable | 108,329 | - |
| Trade accounts receivable, net | 7,111,594 | 6,734,536 |
| Inventories | 9,777,878 | 7,047,397 |
| Other receivables, net | 988,640 | 149,546 |
| Advances to suppliers, net | 3,666,492 | 4,577,194 |
| Other current assets | 1,614,095 | 1,663,102 |
| Total current assets | 34,990,647 | 27,731,594 |
| PROPERTY AND EQUIPMENT, net | 9,378,160 | 9,412,688 |
| OTHER ASSETS | | |
| Farmland assets | 1,376,806 | 1,371,735 |
| Long term deposits, landlord | 2,576,118 | 2,786,437 |
| Other noncurrent assets | 2,767,155 | 3,036,930 |
| Intangible assets, net | 3,140,358 | 1,569,443 |
| Total other assets | 9,860,437 | 8,764,545 |
| Total assets | \$ 54,229,244 | \$45,908,827 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Short-term loan payable | \$ 32,580 | \$ 162,300 |
| Accounts payable, trade | 13,366,998 | 14,554,726 |
| Notes payable | 14,939,135 | 7,820,718 |
| Other payables | 2,862,395 | 1,282,211 |
| Other payables - related parties | 1,972,931 | 2,384,294 |
| Loan from third parties | 215,843 | 294,042 |
| Customer deposits | 3,693,298 | 3,185,885 |

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| | | |
|--|---------------|---------------|
| Taxes payable | 450,340 | 373,501 |
| Accrued liabilities | 678,751 | 1,208,242 |
| Total current liabilities | 38,212,271 | 31,265,919 |
| Purchase option and warrant liability | 329,990 | 278,916 |
| Total liabilities | 38,542,261 | 31,544,835 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock; \$0.001 par value; 10,000,000 shares authorized; nil issued and outstanding as of December 31, 2014 and March 31, 2014 | - | - |
| Common stock; \$0.001 par value; 250,000,000 shares authorized; 15,385,504 and 14,416,022 shares issued and outstanding as of December 31, 2014 and March 31, 2014 | 15,386 | 14,416 |
| Additional paid-in capital | 18,824,368 | 17,355,555 |
| Statutory reserves | 1,309,109 | 1,309,109 |
| Accumulated deficit | (8,517,159) | (8,260,767) |
| Accumulated other comprehensive income | 4,016,336 | 3,905,136 |
| Total stockholders' equity | 15,648,040 | 14,323,449 |
| Noncontrolling interests | 38,943 | 40,543 |
| Total equity | 15,686,983 | 14,363,992 |
| Total liabilities and stockholders' equity | \$ 54,229,244 | \$ 45,908,827 |

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

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

| | For the three months ended December 31, | | For the nine months ended December 31, | |
|--|--|----------------|---|----------------|
| | 2014 | 2013 | 2014 | 2013 |
| REVENUES, NET | \$21,320,039 | \$17,833,072 | \$56,223,336 | \$50,025,012 |
| COST OF GOODS SOLD | 18,138,006 | 17,653,988 | 47,765,427 | 43,296,356 |
| GROSS PROFIT | 3,182,033 | 179,084 | 8,457,909 | 6,728,656 |
| SELLING EXPENSES | 2,184,184 | 5,338,404 | 5,886,541 | 9,998,377 |
| GENERAL AND ADMINISTRATIVE EXPENSES | 622,113 | 3,700,466 | 2,449,489 | 6,833,265 |
| TOTAL OPERATING EXPENSES | 2,806,297 | 9,038,870 | 8,336,030 | 16,831,642 |
| INCOME (LOSS) FROM OPERATIONS | 375,736 | (8,859,786) | 121,879 | (10,102,986) |
| OTHER INCOME (LOSS), NET | (106,773) | 130,426 | (275,301) | 127,034 |
| CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITIES | (127,431) | (41,944) | (51,074) | (50,328) |
| INCOME (LOSS) BEFORE INCOME TAXES | 141,532 | (8,771,304) | (204,496) | (10,026,280) |
| PROVISION FOR INCOME TAXES | 14,007 | (35,887) | 52,828 | 43,222 |
| NET INCOME (LOSS) | 127,525 | (8,735,417) | (257,324) | (10,069,502) |
| LESS: NET INCOME (LOSS) ATTRIBUTABLE TO NONCONTROLLING INTEREST | (987) | 187 | 932 | 694 |
| NET INCOME (LOSS) ATTRIBUTABLE TO CHINA JO-JO DRUGSTORES, INC. | 126,538 | (8,735,230) | (256,392) | (10,068,808) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Foreign currency translation adjustments | 52,740 | 259,814 | 111,200 | 1,019,605 |
| COMPREHENSIVE INCOME (LOSS) | \$179,278 | \$(8,475,416) | \$(145,192) | \$(9,049,203) |
| WEIGHTED AVERAGE NUMBER OF SHARES: | | | | |
| Basic | 15,199,092 | 13,959,003 | 14,867,218 | 13,730,742 |
| Diluted | 15,596,554 | 13,959,003 | 14,867,218 | 13,730,742 |
| LOSS PER SHARES: | | | | |
| Basic | \$0.01 | \$(0.64) | \$(0.02) | \$(0.73) |
| Diluted | \$0.01 | \$(0.64) | \$(0.02) | \$(0.73) |

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

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

| | Nine months ended December 31, | |
|--|-----------------------------------|----------------|
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(257,324) | \$(10,069,502) |
| Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 1,240,323 | 1,646,066 |
| Stock compensation | 527,357 | 477,284 |
| Bad debt recovery | (3,126,039) | (692,883) |
| Inventory reserve | 277,603 | - |
| Change in fair value of purchase option and warrant liability | 51,074 | 86,379 |
| Change in operating assets: | | |
| Accounts receivable, trade | 1,566,629 | 2,278,341 |
| Notes receivable | (108,096) | - |
| Inventories | (2,976,220) | (9,330,835) |
| Other receivables | (619,695) | (259,339) |
| Advances to suppliers | 1,916,591 | 10,706,963 |
| Other current assets | 55,012 | (1,009,632) |
| Long term deposit | 220,146 | - |
| Other noncurrent assets | 280,399 | 133,648 |
| Change in operating liabilities: | | |
| Accounts payable, trade | (1,236,808) | 5,099,673 |
| Other payables and accrued liabilities | 390,535 | 1,074,755 |
| Customer deposits | 494,570 | (909,992) |
| Taxes payable | 75,296 | 82,942 |
| Net cash used in operating activities | (1,228,647) | (686,132) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of equipment | (898,522) | (457,609) |
| Increase in long-term deposits for land use right | - | (1,355,290) |
| Acquisition of business, net | (936,288) | - |
| Additions to leasehold improvements | (189,143) | (25,112) |
| Payments on construction-in-progress | (96,636) | - |
| Net cash used in investing activities | (2,120,589) | (1,838,011) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from short-term bank loan | 32,510 | 162,280 |
| Repayment of short-term bank loan | (162,550) | - |
| Repayment of third parties loan | (79,116) | - |
| Change in restricted cash | (6,848,423) | (999,814) |
| Repayments of notes payable | (14,132,390) | 659,246 |
| Issuance of notes payable | 21,206,663 | - |

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| | | |
|---|--------------|--------------|
| Change in other payables-related parties | 529,115 | 909,954 |
| Net cash provided by financing activities | 545,809 | 731,666 |
| | | |
| EFFECT OF EXCHANGE RATE ON CASH | 92,543 | 375,042 |
| | | |
| DECREASE IN CASH | (2,710,884) | (1,417,435) |
| | | |
| CASH, beginning of period | 4,445,276 | 4,524,094 |
| | | |
| CASH, end of period | \$1,734,392 | \$3,106,659 |
| | | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$4,621 | \$- |
| Cash paid for income taxes | \$59,755 | \$9,529 |
| Issuance of common stock in settlement of debts | \$941,613 | \$- |

The accompanying notes are an integral part of these unaudited 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, which are operated by Hangzhou Jiuzhou Grand Pharmacy Chain Co., Ltd. (“Jiuzhou Pharmacy”), a company that the Company controls through contractual arrangements. One drugstore previously operated by Hangzhou Quannuo Grand Pharmacy Co., Ltd. (“Hangzhou Quannuo”) which closed as of March 31, 2013; however, as of December 31, 2014, Hangzhou Quannuo has not been dissolved although it had no operation. Hangzhou Quannuo is the wholly-owned subsidiary of Zhejiang Quannuo Internet Technology Co., Ltd. (“Quannuo Technology”), which is wholly-owned by Shouantang Technology.

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. In addition, Jiuzhou Service established Hangzhou Shouantang Health Management Co. Ltd (“Shouantang Health”) in December 2013 and holds 51% equity interests in Shouantang Health.

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 herb 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").

On October 9, 2014, the Company, through Jiuzhou Pharmacy, acquired Sanhao Grand Pharmacy Chain Co., Ltd. ("Sanhao Pharmacy"), a local drugstore chain located in Hangzhou, for \$1.56 million (RMB9.6 million).

On October 11, 2014, the Company, through Shouantang Technology, formed Shouantang Bio-technology Co., Ltd. ("Shouantang Bio") by contributing \$0.16 million (RMB1 million) as its register capital. Shouantang Technology is formed to sell nutritional supplements under its own brand name, Shouantang.

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

| Entity Name | Background | Ownership |
|-----------------------|--|-----------|
| Renovation | Incorporated in Hong Kong SAR on September 2, 2008 Established in the PRC on October 14, 2008 | 100% |
| Jiuxin Management | Deemed a wholly foreign owned enterprise (“WFOE”) under PRC law Registered capital of \$4.5 million fully paid Established in the PRC on July 16, 2010 by Renovation Registered capital of \$20 million | 100% |
| Shouantang Technology | 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 Established in the PRC on August 10, 2010 by Jiuxin Management | 100% |
| Qianhong Agriculture | Registered capital of RMB 10 million fully paid Carries out herb farming business | 100% |
| Quannuo Technology | Established in the PRC on July 7, 2009 | 100% |

Registered capital of RMB 10 million fully paid

Acquired by Shouantang Technology in November 2010

Operates the Company's online pharmacy website and provide software and technical support

Established in the PRC on July 8, 2010 by Quannuo Technology

| | | |
|------------------|--|------|
| Hangzhou Quannuo | Registered capital of RMB 800,000 fully paid | 100% |
|------------------|--|------|

Currently has no operation and has closed and dissolved

| Entity Name | Background | Ownership |
|-------------------------|---|--|
| Jiuzhou Pharmacy (1) | Established in the PRC on September 9, 2003 | VIE by contractual arrangements (2) |
| Jiuzhou Clinic (1) | Operates the “Jiuzhou Grand Pharmacy” stores in Hangzhou Established in the PRC as a general partnership on October 10, 2003 | VIE by contractual arrangements (2) |
| Jiuzhou Service (1) | Operates a medical clinic adjacent to one of Jiuzhou Pharmacy’s stores Established in the PRC on November 2, 2005 | VIE by contractual arrangements (2) |
| | Operates a medical clinic adjacent to one of Jiuzhou Pharmacy’s stores | |