

CHINA JO-JO DRUGSTORES, INC.

Form 10-Q

February 10, 2017

**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, 2016**

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,**

**310002**

**Yuhuangshan Road, 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 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, 2017, the registrant had 25,214,678 shares of common stock, par value \$0.001 per share, outstanding.

**TABLE OF CONTENTS**

**TO QUARTERLY REPORT ON FORM 10-Q**

**FOR THE QUARTER ENDED December 31, 2016**

	<b>Page</b>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	1
Unaudited Condensed Consolidated Balance Sheets as of December 31, 2016 and March 31, 2016	1
Unaudited Condensed Consolidated Statements of Operations and Comprehensive Loss for the Three and Nine Months ended December 31, 2016 and 2015	2
Unaudited Condensed Consolidated Statements of Cash Flows for the Three and Nine Months Ended December 31, 2016 and 2015	3
Notes to Condensed Unaudited Consolidated Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3. Quantitative and Qualitative Disclosures About Market Risk	33
Item 4. Controls and Procedures	33
<b>PART II OTHER INFORMATION</b>	
Item 6. Exhibits	33
Signatures	34

#### 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, 2016	March 31, 2016
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 4,643,349	\$ 6,671,873
Financial assets available for sale	-	465,165
Restricted cash	8,980,544	13,747,990
Notes receivable	42,740	15,506
Trade accounts receivable, net	9,441,386	8,054,597
Inventories	10,565,855	10,802,691
Other receivables, net	1,440,641	1,376,468
Advances to suppliers, net	3,839,635	4,230,665
Other current assets	1,483,431	1,518,048
Total current assets	40,437,581	46,883,003
PROPERTY AND EQUIPMENT, net	4,607,201	5,543,076
<b>OTHER ASSETS</b>		
Long-term investment	40,131	108,539
Farmland assets	1,484,987	1,562,205
Long term deposits	2,277,120	2,452,056
Other noncurrent assets	2,727,401	2,595,129
Intangible assets, net	2,706,919	2,928,779
Total other assets	9,236,558	9,646,708
Total assets	\$ 54,281,340	\$ 62,072,787

**LIABILITIES AND STOCKHOLDERS' EQUITY**

## CURRENT LIABILITIES

Short-term loan payable	\$ 28,799	\$31,011
Accounts payable, trade	14,402,089	16,667,396
Notes payable	12,215,720	17,595,634
Other payable	2,064,231	1,917,821
Other payable - related parties	922,192	2,199,775
Customer deposits	2,485,944	2,610,151
Taxes payable	594,315	483,770
Accrued liabilities	577,418	615,056
Total current liabilities	33,290,708	42,120,614
Warrant liability	510,859	636,301
Total liabilities	33,801,567	42,756,915

## STOCKHOLDERS' EQUITY

Preferred stock; \$0.001 par value; 10,000,000 shares authorized; 0 issued and outstanding as of December 31, 2016 and March 31, 2016		
Common stock; \$0.001 par value; 250,000,000 shares authorized; 20,374,678 and 17,735,504 shares issued and outstanding as of December 31, 2016 and March 31, 2016	20,375	17,736
Additional paid-in capital	25,597,019	22,088,267
Statutory reserves	1,309,109	1,309,109
Accumulated deficit	(7,562,837 )	(6,957,053 )
Accumulated other comprehensive income	1,116,107	2,857,813
Total stockholders' equity	20,479,773	19,315,872
Total liabilities and stockholders' equity	\$ 54,281,340	\$62,072,787

The accompanying notes are an integral part of these condensed 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,	
	2016	2015	2016	2015
REVENUES, NET	\$20,610,024	\$24,708,046	\$61,706,774	\$68,596,964
COST OF GOODS SOLD	16,426,153	19,860,713	48,688,092	55,396,941
GROSS PROFIT	4,183,871	4,847,333	13,018,682	13,200,023
SELLING EXPENSES	3,570,182	3,286,637	9,276,225	9,801,761
GENERAL AND ADMINISTRATIVE EXPENSES	1,451,849	1,868,448	4,752,981	3,628,520
TOTAL OPERATING EXPENSES	5,022,031	5,155,085	14,029,206	13,430,281
LOSS FROM OPERATIONS	(838,160 )	(307,752 )	(1,010,524 )	(230,258 )
INTEREST INCOME	54,003	62,337	339,460	253,074
INTEREST EXPENSE	(415 )	(2,945 )	(1,285 )	(156,951 )
OTHER INCOME (LOSS), NET	(99,485 )	(349,514 )	5,139	(315,894 )
CHANGE IN FAIR VALUE OF DERIVATIVE LIABILITIES	67,296	15,444	125,389	173,510
INCOME BEFORE INCOME TAXES	(816,761 )	(582,430 )	(541,821 )	(276,519 )
PROVISION FOR INCOME TAXES	18,045	35,099	63,963	79,224
NET LOSS	(834,806 )	(617,529 )	(605,784 )	(355,743 )
OTHER COMPREHENSIVE LOSS				
Foreign currency translation adjustments	(1,768,854 )	(268,795 )	(1,741,706 )	(1,043,348 )
COMPREHENSIVE LOSS	\$(2,603,660 )	\$(886,324 )	\$(2,347,490 )	\$(1,399,091 )
WEIGHTED AVERAGE NUMBER OF SHARES:				
Basic	19,941,439	17,180,830	19,188,867	16,459,195

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Diluted	19,941,439	17,180,830	19,188,867	16,459,195	
EARNINGS PER SHARES:					
Basic	\$(0.04	) \$(0.04	) \$(0.02	) \$(0.02	)
Diluted	\$(0.04	) \$(0.04	) \$(0.02	) \$(0.02	)

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



## CHINA JO-JO DRUGSTORES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine months ended December 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$(605,784 )	(355,743 )
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	891,542	1,163,994
Stock-based compensation	1,907,582	520,953
Bad debt provision	(505,117 )	(1,369,786)
Change in fair value of warrant derivative liability	(125,441 )	(173,510 )
Change in operating assets:		
Accounts receivable, trade	(1,130,490)	243,666
Notes receivable	(29,484 )	99,199
Inventories	(555,388 )	(413,472 )
Other receivables	64,419	(142,734 )
Advances to suppliers	(683,980 )	(413,238 )
Other current assets	(76,656 )	678,339
Other noncurrent assets	(330,217 )	-
Change in operating liabilities:		
Accounts payable, trade	(1,119,770)	(93,695 )
Other payables and accrued liabilities	296,298	277,298
Customer deposits	64,508	(1,146,504)
Taxes payable	150,910	205,734
Net cash used in operating activities	(1,787,068)	(919,499 )