

Biostar Pharmaceuticals, Inc.
Form 10-Q
August 13, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20-549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2009

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE
ACT
For the transition period from _____ to _____

Commission file number: 333-147363

BIOSTAR PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

Maryland	20-5101287
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
No. 588 Shiji Xi Road, Xianyang, Shaanxi Province, The People's Republic of China	712046
(Address of principal executive offices)	(Zip Code)

011-86- 29-33686638
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed 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 (§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

Smaller reporting company ☒

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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer’s classes of common equity, as of the latest practicable date:

As of August 10, 2009, there are 23,240,899 shares of \$0.001 par value common stock issued and outstanding.

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BIOSTAR PHARMACEUTICALS, INC.
CONSOLIDATED BALANCE SHEETS

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,946,696	\$ 758,316
Accounts receivable	15,298,959	11,700,841
Inventories	560,522	315,745
Prepaid expenses and other receivables	5,735,741	2,926,505
Total Current Assets	23,541,918	15,701,407
Property and equipment, net	5,513,242	5,930,467
Intangible assets, net	7,202,230	7,365,765
Total Assets	\$ 36,257,390	\$ 28,997,639
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,305,913	\$ 2,191,976
Customer and other deposits	2,705,470	2,592,250
Value-added tax payable	918,241	527,103
Income tax payable	1,359,276	413,205
Total Current Liabilities	7,288,900	5,724,534
Commitment		
Stockholders' Equity		
Series A, convertible preferred stock, \$0.001 par value, 5,000,000 shares authorized, None issued and outstanding	-	-
Undesignated preferred stock, \$.001 par value, 5,000,000 shares authorized, None issued and outstanding	-	-
Common stock, \$.001 par value, 100,000,000 shares authorized, 23,240,899 shares issued and outstanding at June 30, 2009 and December 31, 2008	23,241	23,241
Additional paid-in capital	10,430,168	10,430,168
Statutory reserves	5,731,880	1,585,383
Retained earnings	12,534,367	10,996,655
Accumulated other comprehensive income	248,834	237,658

Total Stockholders' Equity	28,968,490	23,273,105
Total Liabilities and Stockholders' Equity	\$ 36,257,390	\$ 28,997,639

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

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BIOSTAR PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Sales, net	\$ 13,245,042	\$ 9,420,774	\$ 20,692,706	\$ 16,231,033
Cost of sales	3,509,754	4,028,527	6,168,561	6,667,206
Gross profit	9,735,288	5,392,247	14,524,145	9,563,827
Selling, general and administrative expenses	4,271,308	3,374,617	6,751,292	5,427,295
Income from operations	5,463,980	2,017,630	7,772,853	4,136,532
Other Income (Expense)				
Interest income	183	1,442	493	1,521
Interest expense	-	(15,529)	-	(29,482)
Impairment loss on building	(248,730)	-	(248,730)	-
Foreign exchange loss	(10)	-	(10)	-
Total other Income (Expense)	(248,557)	(14,087)	(248,247)	(27,961)
Income before income taxes	5,215,423	2,003,543	7,524,606	4,108,571
Provision for income taxes	1,360,246	245,577	1,840,397	529,475
Net income	\$ 3,855,177	\$ 1,757,966	\$ 5,684,209	\$ 3,579,096
Net income per common share				
Basic	\$0.17	\$0.08	\$0.24	\$0.16
Diluted	\$0.16	\$0.08	\$0.24	\$0.15
Weighted average common shares outstanding				
Basic	23,240,899	22,152,311	23,240,899	22,152,311
Diluted	23,659,071	23,240,899	23,659,071	23,240,899

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

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BIOSTAR PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$5,684,209	\$3,579,096
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	332,468	319,598
Provision for doubtful accounts	-	186,085
Impairment loss on building	248,730	-
Changes in operating assets and liabilities:		
Accounts receivable	(3,582,534)	(6,163,071)
Inventories	(244,529)	(141,382)
Deposit	-	(276,775)
Prepaid expenses and other receivables	(2,799,533)	(336,134)
Accounts payable and accrued expenses	103,336	992,489
Customer and other deposits	109,774	17,218
VAT tax payable	390,657	102,520
Income tax payable	946,113	46,484
Net cash provided by (used in) operating activities	1,188,691	(1,673,872)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(439)	(21,778)
Net cash provided by (used in) Investing activities	(439)	(21,778)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash provided by (used in) financing activities	-	-
Effect of exchange rate changes on cash and cash equivalents	128	103,769
Net Increase (Decrease) in cash and cash equivalents	1,188,380	(1,591,881)
Cash and cash equivalents, beginning balance	758,316	2,286,419
Cash and cash equivalents, ending balance	\$1,946,696	\$694,538
SUPPLEMENTAL DISCLOSURES:		
Interest payments	\$-	\$29,344
Income tax payments	\$480,620	\$482,992

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

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BIOSTAR PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

Note 1 - ORGANIZATION

Biostar Pharmaceuticals, Inc. ("Biostar" or "the Company") was incorporated in the State of Maryland on March 27, 2007. On June 15, 2007, Biostar formed Shaanxi Biostar Biotech Ltd ("Shaanxi Biostar" or the "WFOE"). Shaanxi Biostar is a wholly-owned subsidiary of Biostar and a limited liability company organized under the laws of the People's Republic of China (the "PRC").

On November 1, 2007, Shaanxi Biostar entered into a series of agreements including a Management Entrustment Agreement, a Shareholders' Voting Proxy Agreement, an Exclusive Option Agreement and a Share Pledge Agreement (the "Agreements") with Shaanxi Aoxing Pharmacy Co., Ltd ("Aoxing Pharmaceutical") and its shareholders (the "Transaction"). Aoxing Pharmaceutical is a corporation formed under the laws of the PRC. According to these Agreements, Shaanxi Biostar acquired management control of Aoxing Pharmaceutical whereby Shaanxi Biostar is entitled to all of the net profits of Aoxing Pharmaceutical as a management fee, and is obligated to fund Aoxing Pharmaceutical's operations and pay all of the debts. In exchange for entering into the Agreements, on November 1, 2007, the Company issued 19,832,311 shares of its common stock to Aoxing Pharmaceutical owners, representing approximately 90% of the Company's common stock outstanding after the Transaction. Consequently, the owners of Aoxing Pharmaceutical own a majority of the Company's common stock immediately following the Transaction, therefore, the Transaction is being accounted for as a "reverse acquisition", and Aoxing Pharmaceutical is deemed to be the accounting acquirer in the reverse acquisition.

These contractual arrangements completed on November 1, 2007 provide that Shaanxi Biostar has controlling interest in Aoxing Pharmaceutical as defined by FASB Interpretation No. 46R "Consolidation of Variable Interest Entities" ("FIN 46R"), an Interpretation of Accounting Research Bulletin No. 51, which requires Shaanxi Biostar to consolidate the financial statements of Aoxing Pharmaceutical and ultimately consolidate with its parent company, Biostar (see Note 2 "Principles of Consolidation").

The Company, through its subsidiary and exclusive contractual arrangement with Aoxing Pharmaceutical, is engaged in the business of discovering, developing, manufacturing and marketing of over-the-counter ("OTC") and prescription pharmaceutical products as well as medical supplement products which include capsules, granules and powder type medicines for a variety of diseases and conditions such as hepatitis, gynecopathy and various male diseases in the PRC.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its subsidiary and variable interest entity ("VIE") for which the Company is the primary beneficiary. All inter-company accounts and transactions have been

eliminated in consolidation. The Company has adopted FIN 46R which requires a VIE to be consolidated by a company if that company is subject to a majority of the risk of loss for the VIE or is entitled to receive a majority of the VIE's residual returns.

In determining Aoxing Pharmaceutical is the VIE of Shaanxi Biostar, the Company considered the following indicators, among others:

- Shaanxi Biostar has the full right to control and administrate the financial affairs and daily operation of Aoxing Pharmaceutical and has the right to manage and control all assets of Aoxing Pharmaceutical. The equity holders of Aoxing Pharmaceutical as a group have no right to make any decision about Aoxing Pharmaceutical's activities without the consent of Shaanxi Biostar.
- Shaanxi Biostar was assigned all voting rights of Aoxing Pharmaceutical and has the right to appoint all directors and senior management personnel of Aoxing Pharmaceutical. The equity holders of Aoxing Pharmaceutical possess no substantive voting rights.
- Shaanxi Biostar will provide financial support if Aoxing Pharmaceutical requires additional funds to maintain its operations and to repay its debts.
- Shaanxi Biostar should be paid a management fee equal to Aoxing Pharmaceutical's net profits and should assume all operation risks of Aoxing Pharmaceutical and bear all losses of Aoxing Pharmaceutical. Therefore, Shaanxi Biostar is the primary beneficiary of Aoxing Pharmaceutical.

Aoxing Pharmaceutical is wholly owned by the majority shareholders of the Company. The capital provided to Aoxing Pharmaceutical by the Company was recorded as interest-free loan to Aoxing Pharmaceutical. There was no written note to this loan and the loan is not interest bearing and was eliminated during consolidation. Under various contractual agreements, the shareholders of Aoxing Pharmaceutical are required to transfer their ownership to the Company's subsidiary in China when permitted by PRC laws and regulations or to designees of the Company at any time when the Company considers it is necessary to acquire Aoxing Pharmaceutical. In addition, the shareholders of Aoxing Pharmaceutical have pledged their shares in Aoxing Pharmaceutical as collateral to secure these contractual arrangements.

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BIOSTAR PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

UNAUDITED

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign Currency

The Company's reporting currency is the U.S. dollar. The Company's operation in China uses Chinese Yuan Renminbi (CNY) as its functional currency. The financial statements of the subsidiary are translated into U.S. Dollars (USD) in accordance with Statement of Financial Accounts Standards (SFAS) No. 52, Foreign Currency Translation. According to the Statement, all assets and liabilities were translated at the current exchange rate, stockholders equity are translated at the historical rates and income statement items are translated at the average exchange rate for the period. The resulting translation adjustments are reported under other comprehensive income in accordance with SFAS No. 130, Reporting Comprehensive Income as a Component of Shareholders Equity. Foreign exchange transaction gains and losses are reflected in the income statement. During the six months ended June 30, 2009, the foreign currency translation adjustments to the Company's comprehensive income were \$11,176.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material would be disclosed.

Loss contingencies considered to be remote by management are generally not disclosed unless they involve guarantees, in which case the guarantee would be disclosed.

Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

Accounts Receivable

The Company maintains reserves for potential credit losses on accounts receivable. Management reviews the composition of accounts receivable and analyzes historical bad debts, customer concentrations, customer credit worthiness, current economic trends and changes in customer payment patterns to evaluate the adequacy of these reserves. Terms of the sales vary. Reserves are recorded primarily on a specific identification basis. Allowance for doubtful accounts amounted to \$133,572 and \$134,789 as at June 30, 2009 and December 31, 2008, respectively.

Inventories

Inventories are valued at the lower of cost (determined on a weighted average basis) or market. The Management compares the cost of inventories with the market value and allowance is made for writing down the inventories to market value, if lower. Inventories consist of the following:

	June 30, 2009	December 31, 2008
Raw materials	\$ 206,739	\$ 29,387
Work in process	129,223	8,597
Finished goods	224,560	277,761
	\$ 560,522	\$ 315,745

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BIOSTAR PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

UNAUDITED

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant & Equipment

Property and equipment are stated at cost. Expenditures for maintenance and repairs are charged to earnings as incurred; additions, renewals and betterments are capitalized. When property and equipment are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in operations. As the real property is situated on the land with 50 years of land use rights, thus the 50-year-life is used as the estimated life of real property. Depreciation of property and equipment is provided using the straight-line method for substantially all assets with estimated lives of:

Real property	50 years
Machinery & equipment	15 years
Leasehold improvements	10 years
Computers & office equipment	5 years

Property, plant & equipment consist of the following:

	June 30, 2009	December 31, 2008
Real property	\$ 4,144,642	\$ 4,393,371
Machinery & equipment	541,063	541,063
Leasehold improvements	1,946,831	1,946,831
Furniture & fixtures	63,420	62,982
Vehicle	19,437	19,437
	6,715,393	6,963,684
Less:		
Accumulated depreciation	(1,202,151)	(1,033,217)
	\$ 5,513,242	\$ 5,930,467

Intangible Assets

Intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from ten to fifty years. Management evaluate the recoverability of intangible assets periodically and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. No impairments of intangible assets have been identified during any of the periods presented. The land use rights will expire in 2056 and 2058. The proprietary technologies were contributed by four shareholders of the Company and relate to the production of the Company's five state approved drugs. All of the Company's intangible assets are subject to amortization with estimated lives of:

Land use right 50 years
 Proprietary technologies 10 years

The components of finite-lived intangible assets are as follows:

	June 30, 2009	December 31, 2008
Land use right	\$ 6,478,769	\$ 6,478,769
Proprietary technologies	1,511,544	1,511,544
	7,990,313	7,990,313
Less:		
Accumulated amortization	(788,083)	(624,548)
	\$ 7,202,230	\$ 7,365,765

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BIOSTAR PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

UNAUDITED

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The estimated future amortization expenses related to intangible asset as of June 30, 2009 are as follows:

Years Ending December 31,	
2009, six months	163,600
2010	327,200
2011	327,200
2012	327,200
2013	327,200
Thereafter	5,729,830

Long-Lived Assets

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations for a Disposal of a Segment of a Business. The Company periodically evaluates the carrying value of long-lived assets to be held and used in accordance with SFAS 144. SFAS 144 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amounts. In that event, a loss is recognized based on the amount by which the carrying amount exceeds the fair market value of the long-lived assets. Loss on long-lived assets to be disposed of is determined in a similar manner, except that fair market values are reduced for the cost of disposal. Based on its review, as of June 30, 2009, there was \$248,730 impairment loss on a plant building.

Fair Value of Financial Instruments

Statement of financial accounting standard No. 107, Disclosures about fair value of financial instruments, requires that the Company discloses estimated fair values of financial instruments. The carrying amounts reported in the statements of financial position for current assets and current liabilities qualifying as financial instruments are a reasonable estimate of fair value.

Value Added Tax Payable

The Company is subject to a value added tax rate of 17% on product sales by the Peoples Republic of China. Value added tax payable is computed net of value added tax paid on purchases for all sales in the Peoples Republic of China.

Revenue Recognition

The Company's revenue recognition policies are in compliance with Staff accounting bulletin (SAB) 104. Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collectibility is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are

recorded as unearned revenue.

The Company does not allow its customers to return products. The Company's customers can exchange products only if they are damaged in transportation.

Stock-Based Compensation

In October 1995, the FASB issued SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123 prescribes accounting and reporting standards for all stock-based compensation plans, including employee stock options, restricted stock, employee stock purchase plans and stock appreciation rights.

In December 2004, the FASB issued FASB Statement No. 123R ("SFAS 123R"), "Share-Based Payment, an Amendment of FASB Statement No. 123". SFAS 123R requires companies to recognize in the statement of operations the grant date fair value of stock options and other equity-based compensation issued to employees. SFAS 123R is effective beginning in the Company's first quarter of fiscal 2006.

The Company did not issue any stock options to employees during the six months ended June 30, 2009, therefore pro forma disclosures are not required.

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BIOSTAR PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

UNAUDITED

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

Advertising expenses consist primarily of costs of promotion for corporate image and product marketing and costs of direct advertising. The Company expenses all advertising costs as incurred.

Income Taxes

The Company utilizes SFAS No. 109, Accounting for Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), on January 1, 2007. The Interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we 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 should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures.

Net Income Per Share

Basic net income per share is computed on the basis of the weighted average number of common shares outstanding during the period.

Diluted net income per share is computed on the basis of the weighted average number of common shares and common share equivalents outstanding. Dilutive securities having an anti-dilutive effect on diluted net income per share are excluded from the calculation.

Dilution is computed by applying the treasury stock method. Under this method, options and warrants are assumed to be exercised at the beginning of the period (or at the time of issuance, if later), and as if funds obtained thereby were used to purchase common stock at the average market price during the period.

Comprehensive income

Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. For the Company, comprehensive income for the periods presented includes net income, foreign currency translation

adjustments.

Statement of Cash Flows

In accordance with SFAS No. 95, Statement of Cash Flows, cash flows from the Company's operations is based upon the local currencies. As a result, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are cash, accounts receivable and other receivables arising from its normal business activities. The Company places its cash in what it believes to be credit-worthy financial institutions. The Company has a diversified customer base, most of which are in China. The Company controls credit risk related to accounts receivable through credit approvals, credit limits and monitoring procedures. The Company routinely assesses the financial strength of its customers and, based upon factors surrounding the credit risk, establishes an allowance, if required, for uncollectible accounts and, as a consequence, believes that its accounts receivable credit risk exposure beyond such allowance is limited.

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BIOSTAR PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

UNAUDITED

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Segment Reporting

Statement of Financial Accounting Standards No. 131 (SFAS 131), Disclosure about Segments of an Enterprise and Related Information requires use of the management approach model for segment reporting. The management approach model is based on the way a company's management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company.

For the Company, the reportable business segments are based on products.

Recent accounting pronouncements

In June 2008, the FASB ratified the consensus reached on Emerging Issues Task Force ("EITF") Issue No. 07-05, Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock ("EITF No. 07-05"). EITF No. 07-05 clarifies the determination of whether an instrument (or an embedded feature) is indexed to an entity's own stock, which would qualify as a scope exception under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. EITF No. 07-05 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company does not expect the impact of this adoption to be material.

On May 8, 2008, FASB issued Statement of Financial Accounting Standards (SFAS) No. 162, The Hierarchy of Generally Accepted Accounting Principles, which will provide framework for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. With the issuance of SFAS No. 162, the GAAP hierarchy for nongovernmental entities will move from auditing literature to accounting literature. The Company is currently assessing the impact of SFAS No. 162 on its financial position and results of operations.

In March 2008, the FASB issued FASB Statement No. 161, Disclosures about Derivative Instruments and Hedging Activities. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The new standard also improves transparency about the location and amounts of derivative instruments in an entity's financial statements; how derivative instruments and related hedged items are accounted for under Statement 133; and how derivative instruments and related hedged items affect its financial position, financial performance, and cash flows. Management does not expect the impact of this adoption to be material.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. This statement is effective for fiscal years beginning on or after December 15, 2008 and will be applied prospectively. The impact of the adoption of SFAS 141R on the Company's financial position, results of operations will largely be dependent on the size and nature of the business combinations

completed after the adoption of this statement.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51” (“SFAS 160”). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the noncontrolling interest, changes in a parent’s ownership interest, and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the noncontrolling owners. This statement is effective for fiscal years beginning October 1, 2009. The Company does not expect the impact of the adoption of SFAS 160 to be material.

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BIOSTAR PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

UNAUDITED

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In September 2006, FASB issued SFAS 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)". This Statement improves financial reporting by requiring an employer to recognize the over funded or under funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This Statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. An employer without publicly traded equity securities is required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after June 15, 2007. However, an employer without publicly traded equity securities is required to disclose the following information in the notes to financial statements for a fiscal year ending after December 15, 2006, but before June 16, 2007, unless it has applied the recognition provisions of this Statement in preparing those financial statements.

A brief description of the provisions of this Statement

The date that adoption is required

The date the employer plans to adopt the recognition provisions of this Statement, if earlier.

The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The management does not expect the impact of this adoption to be material.

Note 3 – PREPAID EXPENSES AND OTHER RECEIVABLES

Prepaid expenses and other receivables include a deposit for acquiring land and prepaid advertising expenses. The Company made a deposit for acquiring 8.6 acres land located in Xi'an for building a raw material processing plant. The deposit amount was approximately \$3.65 million (RMB 25 million).

Note 4 – STOCKHOLDERS' EQUITY

Series A Convertible Preferred Stock

Between May 29, 2007 and June 4, 2007, the Company raised \$725,000 from two investors in a private placement of its Series A Convertible Preferred Stock (\$0.001 par value) at a purchase price of \$10.00 per unit, for a unit consisting of one share of Preferred Stock and one Warrant.

The Series A preferred stock was not entitled to any dividends. The Series A Preferred Stock has no voting rights except that the approval of the holders of at least 51% of the Series A Preferred Stock is required for the authorization, creation, or issuance, or any increase in the authorized or issued amount, of any class or series of stock ranking equal or prior to the Series A Preferred; or the amendment, alteration, or repeal of any of the provisions of the Articles of

Incorporation of the corporation which would alter or change the powers, preferences, or special rights of the shares of the Series A Preferred so as to affect them adversely.

Each share of Series A Preferred Stock is convertible into shares of common stock at the option of the holder at a conversion price of \$.67 per share. The aggregate number of shares of common stock which may be issued upon conversion of the Series A Preferred Stock shall be no more than 2 million shares.

Upon completion of the conversion of the Series A Preferred Stock into common stock, the Company will record a deemed dividend and as an increase in additional paid-in capital, the intrinsic value of the beneficial conversion feature (the "BCF"). The intrinsic value of the BCF will be the difference between the fair value of the common stock received upon conversion and the amount of proceeds to be allocated to the preferred stock. The \$725,000 proceeds received were allocated to the preferred stock and warrants based on their relative fair values. The warrants were valued using the Black-Scholes model and recorded in additional paid-in capital.

On October 20, 2008, the 72,500 shares of Series A Convertible Preferred Stock issued and outstanding on that date were converted into 1,088,588 shares of common shares. In connection with the conversion, the Company recorded a deemed dividend of \$1,462,240 for the beneficial conversion feature embedded in the preferred stock for the year ended December 31, 2008.

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BIOSTAR PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

UNAUDITED

Note 4 – STOCKHOLDERS' EQUITY (CONTINUED)

Undesignated Preferred Stock

The Blank Check Preferred Stock may be issued from time to time in one or more classes or series.

Common stock

At June 30, 2009, the Company has 100,000,000 shares of common stock authorized and 23,240,899 shares issued and outstanding at par value \$0.001 per share.

Warrants

The Company has issued warrants to purchase its common stock in the 2007 private placement of Series A Convertible Preferred Stock. The warrants are equity classified and amounts attributable to the warrants are classified within additional paid-in capital.

The following table summarizes the activity for the warrants for the six months ended June 30, 2009

	Underlying Shares	Weighted Average Exercise Price
Warrants outstanding, December 31, 2008	1,088,588	\$ 1.00
Issued/(exercised)	-	-
Warrants outstanding, June 30, 2009	1,088,588	\$ 1.00
Exercisable as of June 30, 2009	1,088,588	\$ 1.00

Note 5 - EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share of common stock:

	Six Months Ended June 30,	
	2009	2008
Basic net income per share:		
Numerator:		
Net income used in computing basic net income per share	\$5,684,209	\$3,579,096

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Net income applicable to common shareholders	\$5,684,209	\$3,579,096
Denominator:		
Weighted average common shares outstanding	23,240,899	22,152,311
Basic net income per share	\$0.24	\$0.16
Diluted net income per share:		
Numerator:		
Net income used in computing diluted net income per share	\$5,684,209	\$3,579,096
Net income applicable to common shareholders	\$5,684,209	\$3,579,096
Denominator:		
Weighted average common shares outstanding	23,240,899	22,152,311
Weighted average effect of dilutive securities:		
Convertible preferred stocks	-	1,088,588
Stock warrants	418,172	-
Shares used in computing diluted net income per share	23,659,071	23,240,899
Diluted net income per share	\$0.24	\$0.15

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Note 6 - INCOME TAXES

The Company was incorporated in the United States of America and has operations in two tax jurisdictions - the United States of America ("USA") and the PRC. For the operation in the USA, the Company has incurred net accumulated operating losses for income tax purposes. The Company believes that it is more likely than not that these net accumulated operating losses will not be utilized in the future. Therefore, the Company has provided full valuation allowance for the deferred tax assets arising from the losses in the United States as of June 30, 2009. The Company generated substantially all of its net income from its PRC operations for the six months ended June 30, 2009 and has recorded income tax provision for the period.

United States of America

As of June 30, 2009, the Company had federal and state net operating loss carryforwards of approximately \$132,328 available to offset future taxable income in the USA. The net operating loss carryforwards will expire, if unused, in varying amounts through the year ending December 31, 2029. The deferred tax assets for the USA operation at June 30, 2009 consists mainly of net operating loss carryforwards and for which a full valuation allowance has been provided, as the management believes it is more likely than not that these assets will not be realized in the future.

The following table sets forth the significant components of the net deferred tax assets for operation in the USA as of June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008
Deferred tax assets:		
Net operating loss carryforwards	\$ 51,100	\$ 50,200
Total deferred tax assets	51,100	50,200
Less: valuation allowance	(51,100)	(50,200)
Net deferred tax assets	\$ -	\$ -

China

The Company's subsidiary and VIE were incorporated in the PRC which is governed by the Income Tax Law of the PRC and various local income tax laws (the "Income Tax Laws"). Effective January 1, 2008, China adopted a uniform tax rate of 25% for all enterprises (including foreign-invested enterprises).

The Company's VIE is a high-tech enterprise and under PRC Income Tax Laws, it is entitled to a two-year tax exemption followed by two years with a 50% reduction in the tax rate, commencing the first profitable year. The VIE's application for an income tax reduction was accepted on December 4, 2005 by the Tax Department of Xian Yang Government. That is a reduction of income tax payable by 50% from January 1, 2007 to December 31, 2008 and an exemption from income tax from January 1, 2005 to December 31, 2006. The deferred tax assets for the Company's China subsidiary and VIE were immaterial at June 30, 2009.

The income tax expenses for China operation consist of the following:

	Six Months Ended June 30,	
	2009	2008
Income tax provision	\$ 1,840,397	\$ 529,475
Change in deferred tax assets	-	-
Change in valuation allowance	-	-
Income tax expenses	\$ 1,840,397	\$ 529,475

Uncertain Tax Positions

Interest associated with unrecognized tax benefits are classified as income tax and penalties are classified in selling, general and administrative expenses in the statements of operations.

For the six months ended June 30, 2009 and 2008, the Company had no unrecognized tax benefits and related interest and penalties expenses. Currently, the Company is not subject to examination by major tax jurisdictions.

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Note 7 - STATUTORY RESERVES

The Company's subsidiary and VIE in China are required to make appropriations to certain non-distributable reserve funds. In accordance with the laws and regulations applicable to China's Foreign Investment Enterprises and the China Company Laws, an enterprise's income, after the payment of the PRC income taxes, shall be allocated to the statutory surplus reserves. The proportion of allocation for reserve was 10 percent of the profit after tax to the surplus reserve fund, not to exceed 50 percent of registered capital.

Statutory Reserve funds are restricted for set off against losses, expansion of production and operation or increase in register capital of the respective company. Statutory public welfare fund is restricted to the capital expenditures for the collective welfare of employees. These reserves are not transferable to the Company in the form of cash dividends, loans or advances. These reserves are therefore not available for distribution except in liquidation. As of June 30, 2009 and December 31, 2008, the Company's VIE had allocated \$5,731,880 and \$1,585,383 to these non-distributable reserve funds, respectively.

Note 8 - OTHER COMPREHENSIVE INCOME

Balance of related after-tax components comprising accumulated other comprehensive income (loss) included in stockholders' equity at June 30, 2009 and December 31, 2008 were as follows:

	June 30, 2009	December 31, 2008
Accumulated other comprehensive income (loss), beginning of period	\$ 237,658	\$ (53,517)
Change in cumulative translation adjustment	11,176	291,175
Accumulated other comprehensive income, end of period	\$ 248,834	\$ 237,658

Note 9 - COMMITMENT

Lease Agreements

The Company utilizes office space provided by one of its directors at no cost.

Note 11 - SEGMENT INFORMATION

The following is a summary of revenues by reportable business:

	Six Months Ended June 30,	
	2009	2008
Xin Aoxing		
Oleanolic Acid		
Capsule	\$ 12,780,204	\$ 8,744,532
Taohuasan	1,954,367	2,257,019
Pediatrics		

Medicine		
Gan Wang		
Compound		
Paracetamol		
Capsule	1,790,273	1,776,468
Tianqi		
Dysmenorrhea		
Capsule	2,484,057	1,838,341
Danshen		
Granule	1,656,841	1,614,673
Healthcare		
supplement		
products	26,964	-
	\$ 20,692,706	\$ 16,231,033

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Note 12- CURRENT VULNERABILITY DUE TO CERTAIN RISK FACTORS

The Company's major operations are carried out in the PRC, therefore the Company is subject to the risks not typically associated with entities operating in the United States of America. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC, by the general state of the PRC's economy. All of the following risks may impair the Company's business operations. If any of the following risks actually occurs, the Company's business, financial condition or results of operations could be materially adversely affected. In such case, investor may lose all or part of the investment. Additional risks include:

- § The Company may not be able to adequately protect and maintain its intellectual property.
- § The Company may not be able to obtain regulatory approvals for its products.
- § The Company may have difficulty competing with larger and better financed companies in the same sector. New legislative or regulatory requirements may adversely affect the Company's business and operations. The Company is dependant on certain key existing and future personnel.
- § The Company's growth is dependent on its ability to successfully develop, market, or acquire new drugs. The Company may be subject to product liability claims in the future.
- § Changes in the laws and regulations in the PRC may adversely affect the Company's ability to conduct its business.
 - § The Company may experience barriers to conducting business due to governmental policy.
 - § Capital outflow policies in the PRC may hamper the Company's ability to remit income to the United States.
- § Fluctuation of the Renminbi could materially affect the Company's financial condition and results of operations.
 - § The Company may face obstacles from the communist system in the PRC.
- § The Company may have difficulty establishing adequate management, legal and financial controls in the PRC.
 - § Trade barriers and taxes may have an adverse affect on the Company's business and operations.
- § There may not be sufficient liquidity in the market for the Company's securities in order for investors to sell their securities.

Note 13- SUBSEQUENT EVENT

Subsequent to June 30, 2009, the Company consummated a sale of a plant building for about \$2.7 million (RMB 18.5 million) which was included in the "customer and other deposits" at June 30, 2009. Impairment loss on the building of \$248,730 was recorded in the quarter ended June 30, 2009.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our financial statements and the notes thereto which appear elsewhere in this report. The results shown herein are not necessarily indicative of the results to be expected in any future periods. This discussion contains forward-looking statements based on current expectations, which involve uncertainties. In some cases, you can identify forward-looking statements by terminology such as "anticipate," "estimate," "plan," "project," "predict," "potential," "continue," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," or the negative of these terms or other comparable terminology. All forward-looking statements included in this document are based on information available to the management on the date hereof. Actual results and the timing of events could differ materially from the forward-looking statements as a result of a number of factors. Readers should also carefully review factors set forth in other reports or documents that we file from time to time with the Securities and Exchange Commission.

OVERVIEW

Biostar Pharmaceuticals, Inc. ("We", the "Company" or "Biostar") was incorporated on March 27, 2007, under the laws of the State of Maryland. Our business operation in China is conducted primarily through wholly-owned subsidiary, Shaanxi Biostar Biotech Ltd., and our variable interest entity ("VIE"), Shaanxi Aoxing Pharmaceutical Co., Ltd ("Aoxing Pharmaceutical").

Aoxing Pharmaceutical currently has five state approved drugs on the market as listed below, with additional ten drugs in development, and derives all of its revenues in China.

Xin AoXing Oleanolic Acid Capsule: an over-the-counter ("OTC") drug that treats chronic hepatitis B disease.
Compound Paracetamol & Amantadine Hydrochloride Capsule: an OTC drug that treats common cold.
Danshen Granule: a prescription drug treating coronary heart disease, myocarditis and angina pectoris.
Pediatrics Medicine: a prescription drug used for treating children's cough and respiratory tract infection.
Tianqi Dysmenorrhea: an OTC traditional Chinese medicine for treating dysmenorrhea.

The best-selling product of Aoxing Pharmaceutical, Xin Aoxing Oleanolic Acid Capsule, is China's only SFDA approved OTC capsule treating Hepatitis B currently being sold on the market and a national recognized brand name. Xin Aoxing Oleanolic Acid Capsule meets the requirements of China's "Chronic Hepatitis Prevention Guide" and is listed as a designated quality product for Hepatitis B in China.

Aoxing Pharmaceutical currently has three patents pending approval. Its marketing network covers 21 provinces and it sells products in more than 30 provinces throughout China.

RECENT DEVELOPMENT

We have acquired an 8.6 acre plot of land located in Xi'an and commenced the construction of a pharmaceutical raw material processing plant on the land acquired which is expected to be operational by the end of 2009. We anticipate that we will use approximately 25% of the harvested and processed herbal raw materials for our internal production and will sell the remaining inventory to regional wholesalers.

We have received approval from the local government to produce three new nutritional supplements, Yizi Capsules, Tangning Capsules, and Shengjing Capsules, and expect initial revenues to be generated in the third quarter of 2009.

The merger and acquisition strategic plan of Aoxing Pharmaceutical contemplates the acquisition of four or five pharmaceutical manufacturers and one medical supplement company over the next five-year period. Currently, Aoxing Pharmaceutical is still searching for and reviewing acquisition opportunities. In the event that we obtain future financing, we may use the funds for future acquisitions. The amount of future financing we are able to obtain will affect Aoxing Pharmaceutical's acquisition decisions.

Aoxing Pharmaceutical's goal is to have its various pharmaceutical and medical supplement products, such as medicines for hepatitis, gynecopathy and various male diseases, and other conditions, distributed to 31 provinces in China and to approximately 300 cities, and ultimately become the pharmaceutical industry leader in northwestern China.

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LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2009, we had cash and cash equivalents of approximately \$1.9 million. We believe our existing cash and cash equivalents will be sufficient to maintain our operations at present level for at least the next twelve months. We plan to review acquisition opportunities as a strategy for further growth. We expect to be the primary financing vehicle for Aoxing Pharmaceutical and will forward them the equity financing proceeds we receive. The additional funds would be provided to Aoxing Pharmaceutical through Shaanxi Biostar; the funds would be accounted for as loan to Aoxing Pharmaceutical and would be eliminated during consolidation. The loan would not be interest bearing and would not be evidenced by a written note.

Net cash provided by operating activities for the six months ended June 30, 2009 was \$1.2 million. This was primarily due to the net income of \$5.7 million, adjusted by non-cash related expenses including depreciation and amortization of \$0.3 million and impairment loss on building of \$0.2 million, offset by a net decrease in working capital items of \$5.1 million. The net decrease in working capital items was mainly due to an increase in accounts receivable resulting from an increase in sales and relatively slower customer payments during the current economic slowdown. The increase in prepayments for acquiring the 8.6 acre plot of land and advertising expenses and increase in inventories also contributed to the net decrease in working capital items. The net decrease in working capital items was partially offset by the increases in VAT tax payable and income tax payable.

Net cash used in operating activities for the six months ended June 30, 2008 was \$1.7 million. This was primarily due to the net income of \$3.6 million, adjusted by non-cash related expenses including depreciation and amortization of \$0.3 million, and allowance for doubtful accounts of \$0.2 million, offset by a net decrease in working capital items of \$5.8 million. The net decrease in working capital items was mainly due to an increase in accounts receivable, which resulted from the significant increase in revenues during the six months ended June 30, 2008 and the longer credit term provided to customers as part of the sales promotion (for customers with two years or more business relationship, the payment term may be extended to six months as opposed to the general payment term of three months), the increase in prepayments to suppliers, and the increase in inventories to prepare for the ongoing sales promotion. The net decrease in working capital items was partially offset by the increase in accounts payable and accrued expenses, VAT tax payable and income tax payable.

Net cash used in investing activities for the six months ended June 30, 2009 was \$439, primarily due to a very small capital expenditure on furniture.

Net cash used in investing activities for the six months ended June 30, 2008, was \$0.02 million, primarily due to capital expenditures on equipment and vehicles.

RESULTS OF OPERATIONS

NET SALES.

	Three Months Ended June 30,				% of			
	2009			2008			change	
Xin Aoxing Oleanolic Acid Capsule	\$8,943,524	67	%	\$4,857,152	52	%	84	%
Taohuasan Pediatrics Medicine	1,031,998	8	%	1,426,071	15	%	-28	%
Gan Wang Compound Paracetamol Capsule	1,013,718	8	%	1,051,678	11	%	-4	%
Tianqi Dysmenorrhea Capsule	1,383,717	10	%	1,104,974	12	%	25	%
Danshen Granule	872,085	7	%	980,899	10	%	-11	%
Healthcare supplement products	-	-		-	-		n/a	
Total net sales	\$13,245,042	100	%	\$9,420,774	100	%	41	%

	Six Months Ended June 30,				% of			
	2009			2008			change	
Xin Aoxing Oleanolic Acid Capsule	\$12,780,204	62	%	\$8,744,532	54	%	46	%
Taohuasan Pediatrics Medicine	1,954,367	9	%	2,257,019	14	%	-13	%
Gan Wang Compound Paracetamol Capsule	1,790,273	9	%	1,776,468	11	%	1	%
Tianqi Dysmenorrhea Capsule	2,484,057	12	%	1,838,341	11	%	35	%
Danshen Granule	1,656,841	8	%	1,614,673	10	%	3	%
Healthcare supplement products	26,964	-		-	-		n/a	
Total net sales	\$20,692,706	100	%	\$16,231,033	100	%	27	%

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During the quarter and six months ended June 30, 2009, total net sales increased by approximately \$3.8 million or 41% and \$4.5 million or 27%, respectively, compared to the same periods of 2008. This was primarily due to the sales increases in two of Aoxing Pharmaceutical's five state approved drugs, Xin Aoxing Oleanolic Acid Capsule and Tianqi Dysmenorrhea Capsule. The sales of Xin Aoxing Oleanolic Acid Capsule increased because we expanded its sales into two more provinces through local wholesalers. The sales of Tianqi Dysmenorrhea Capsule increased mainly due to the continued implementation of the "new rural cooperative medical supply network plan" which markets directly to consumers in China's rural area through retail pharmacies at higher retail price. Domestic Chinese customers still accounted for 100% of total sales.

COST OF SALES.

	Three Months Ended June 30, 2009			2008			% of change	
Xin Aoxing Oleanolic Acid Capsule	\$1,450,307	41	%	\$1,551,013	38	%	-6	%
Taohuasan Pediatrics Medicine	359,413	10	%	387,809	10	%	-7	%
Gan Wang Compound Paracetamol Capsule	548,803	16	%	596,728	15	%	-8	%
Tianqi Dysmenorrhea Capsule	493,251	14	%	429,445	11	%	15	%
Danshen Granule	657,980	19	%	1,063,532	26	%	-38	%
Healthcare supplement products	-	-		-	-		n/a	
Total cost of sales	\$3,509,754	100	%	\$4,028,527	100	%	-13	%

	Six Months Ended June 30, 2009			2008			% of change	
Xin Aoxing Oleanolic Acid Capsule	\$2,292,855	38	%	\$2,620,242	39	%	-12	%
Taohuasan Pediatrics Medicine	682,653	11	%	667,870	10	%	2	%
Gan Wang Compound Paracetamol Capsule	973,629	16	%	992,774	15	%	-2	%
Tianqi Dysmenorrhea Capsule	888,105	14	%	662,402	10	%	34	%
Danshen Granule	1,304,668	21	%	1,723,918	26	%	-24	%
Healthcare supplement products	26,651	-		-	-		n/a	
Total cost of sales	\$6,168,561	100	%	\$6,667,206	100	%	-7	%

Compared to the same periods of 2008, cost of sales decreased about \$0.5 million or 13% and \$0.5 million or 7%, respectively, in the quarter and six months ended June 30, 2009. This was primarily due to the decrease in the raw material prices of Xin Aoxing Oleanolic Acid Capsule and Danshen Granule as the main area that produces those raw materials, Sichuan province, has been recovering from the 2008 earthquake and has resumed production of raw herb materials. The aftermath of the earthquake in Sichuan province in 2008 had initially affected the supply of raw materials from this region and increased their prices. The decrease in the net sales of Taohuasan Pediatrics Medicine also contributed to the decrease in the cost of sales. The increase in the cost of Tianqi Dysmenorrhea Capsule was mainly due to the increase in this product's net sales.

GROSS PROFIT.

	Three Months Ended June 30, 2009			2008			% of change	
		gross profit margin			gross profit margin			
Xin Aoxing Oleanolic Acid Capsule	\$7,493,217	84	%	\$3,306,139	68	%	127	%
Taohuasan Pediatrics Medicine	672,585	65	%	1,038,262	73	%	-35	%

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Gan Wang Compound Paracetamol Capsule	464,915	46	%	454,950	43	%	2	%
Tianqi Dysmenorrhea Capsule	890,466	64	%	675,529	61	%	32	%
Danshen Granule	214,105	25	%	(82,633)	-8	%	-359	%
Healthcare supplement products	-	n/a		-	-		n/a	
Total	\$9,735,288	74	%	\$5,392,247	57	%	81	%

Six Months Ended June 30,
2009

2008

		gross profit margin			gross profit margin		% of change	
Xin Aoxing Oleanolic Acid Capsule	\$10,487,349	82	%	\$6,124,290	70	%	71	%
Taohuasan Pediatrics Medicine	1,271,714	65	%	1,589,149	70	%	-20	%
Gan Wang Compound Paracetamol Capsule	816,644	46	%	783,694	44	%	4	%
Tianqi Dysmenorrhea Capsule	1,595,952	64	%	1,175,939	64	%	36	%
Danshen Granule	352,173	21	%	(109,245)	-7	%	-422	%
Healthcare supplement products	313	1	%	-	-		n/a	
Total	\$14,524,145	70	%	\$9,563,827	59	%	52	%

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Gross profit increased \$4.3 million or 81% and \$5.0 million or 52%, respectively, in the quarter and six months ended June 30, 2009 compared to the same periods of 2008. The increase in gross profits was due primarily to the increase in net sales of Xin Aoxing Oleanolic Acid Capsule by selling to two more provinces and Tianqi Dysmenorrhea Capsule achieved through targeting China's rural retail market via the "new rural cooperative medical supply network plan".

The overall gross profit margin increased 17 percentage points and 11 percentage points in the quarter and six months ended June 30, 2009 compared to the same periods of 2008. These increases were primarily due to the increase in the gross profit margin of Xin Aoxing Oleanolic Acid Capsule and Danshen Granule as a result of the afore-mentioned decreases in their raw material prices.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.

	Three Months Ended June 30,				2008			
	2009							
			% of total net sales				% of total net sales	
Selling, general and administrative expenses	\$4,271,308	32	%	\$3,374,617	36	%	27	%

	Six Months Ended June 30,				2008			
	2009							
			% of total net sales				% of total net sales	
Selling, general and administrative expenses	\$6,751,292	33	%	\$5,427,295	33	%	24	%

The year-over-year increases in dollar amount and as a percentage of total net sales for the quarter and six months ended June 30, 2009 were mainly due to the increase in promotional and advertising expenditures of \$0.5 million and \$0.6 million, respectively, the increases in sales commissions and sales personnel expenses of \$0.3 million and \$0.6 million, respectively, and the increase in travel expenses of \$0.01 million and \$0.07 million, respectively, all resulting from the ongoing market expansion, and also due to increase in sales related tax levy of \$0.7 million and \$0.8 million, respectively, as a result of increased revenue. The increases in selling, general and administrative expenses were partially offset by the decreases in provision for doubtful accounts of \$0.1 million and \$0.2 million, respectively, and savings on shipping expenses of \$0.02 million and \$0.05 million, respectively, in the quarter and six months ended June 30, 2009.

INTEREST EXPENSE.

We did not incurred interest expenses for the quarter and six months ended June 30, 2009, compared to \$0.02 million and \$0.03 million for the same periods of 2008, respectively. The year-over-year decreases were mainly because the short-term bank loan was paid off at September 30, 2008.

IMPAIRMENT LOSS ON BUILDING.

In the quarter and six months ended June 30, 2009, we recorded impairment loss on building of \$0.3 million for a sale of plant building consummated in July 2009.

PROVISION FOR INCOME TAXES.

Three Months Ended

Six Months Ended

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	June 30,		June 30,	
	2009	2008	2009	2008
Provision for income taxes	\$1,360,246	\$245,577	\$1,840,397	\$529,475
Effective tax rate	26	% 12	% 24	% 13

Our effective tax rates increased in the quarter and six months ended June 30, 2009 compared to the same periods of 2008 primarily as a result of the expiration of the 50% income tax reduction. Based on our current operating structure and the preferential tax treatments available to us in China, our China operation, Aoxing Pharmaceutical qualified as a high-tech enterprise entitled to a 50% income tax reduction from January 1, 2007 to December 31, 2008. As the tax incentive expired on December 31, 2008, the statutory income tax rate for Aoxing Pharmaceutical increased to 25%.

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CRITICAL ACCOUNTING POLICIES

We believe the following critical accounting policies, among others, affect management's more significant judgments and estimates used in the preparation of the financial statements:

Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The allowance for doubtful accounts is based on specific identification of customer accounts and management's best estimate of the likelihood of potential loss, taking into account such factors as the financial condition and payment history of major customers. Management evaluates the collectability of the receivables at least quarterly. If the financial condition of the customers were to deteriorate further, resulting in an impairment of their ability to make payments, additional allowances may be required. The differences could be material and could significantly impact cash flows from operating activities.

The following table sets out the aging of our accounts receivable for each balance sheet periods presented.

Accounts Receivable Aging	Total	1-30 days	31-60 days	61-90 days	91-120 days	121-365 days	> 365 days
As of June 30, 2009	\$15,432,530	\$6,217,570	\$4,668,828	\$2,947,058	\$1,224,046	\$375,028	-
As of December 31, 2008	\$11,835,630	\$3,627,709	\$4,102,305	\$2,807,852	\$887,760	\$408,638	\$1,366

The following table presents the days sales outstanding calculated based on sales and accounts receivables in RMB term for the quarter and six months ended June 30, 2009 and 2008.

	Six Months Ended June 30,	
	2009	2008
Days sales outstanding	134	117

The number of days that sales were outstanding increased to 134 days for the six months ended June 30, 2009 from 117 days for the same period last year was due to slower payments of customers during the current economic slowdown.

The followings are the steps Aoxing Pharmaceutical takes in collecting accounts receivable.

Step 1: After the payment term has been exceeded, Aoxing Pharmaceutical stops taking orders from the delinquent customer and allows the sales person three to six months to collect the accounts receivable. Most of the accounts receivable will be collected in this step because the sales person's compensation is tied to sales receipts.

Step 2: If the sales person's collection efforts are not successful in step 1, Aoxing Pharmaceutical hires a collection agent and allows the agent another three to six months to collect the accounts receivable.

Step 3: If the collection agent's efforts are failed, then Aoxing Pharmaceutical will commence legal action to collect the accounts receivable.

Our policies for writing off the accounts receivable are as follows.

1. If after taking the legal action, it appears that the accounts receivable is not likely to become collectible, the accounts receivable will be written off if more than two years old.
2. If during the collection period, the customer provides bankruptcy or other insolvency documentation, the accounts receivable will be written off.
3. If we are no longer able to locate a particular customer in order for us to take any collection or legal actions, the accounts receivable will be written off if more than two years old.

Inventory

We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand, future pricing and market conditions. If actual future demands, future pricing or market conditions are less favorable than those projected by management, additional inventory write-downs may be required and the differences could be material. Such differences might significantly impact cash flows from operating activities.

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Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Judgment is required to determine the estimated useful lives of assets, especially for computer equipment, including determining how long existing equipment can function and when new technologies will be introduced at cost-effective price points to replace existing equipment. Changes in these estimates and assumptions could materially impact the financial position and results of operations.

Accounting for Stock-Based Compensation

In December 2004, the FASB issued FASB Statement No. 123R, "Share-Based Payment, an Amendment of FASB Statement No. 123" ("FAS No. 123R"). FAS No. 123R requires companies to recognize in the statement of operations the grant date fair value of stock options and other equity-based compensation issued to employees. FAS No. 123R is effective beginning in the first quarter of fiscal 2006.

We did not issue any stock options to employees during the six months ended June 30, 2009, therefore pro forma disclosures are not required.

Valuation of Intangibles

From time to time, we acquire intangible assets that are beneficial to our product development processes. Management periodically evaluates the carrying value of intangibles, including the related amortization periods. In evaluating acquired intangible assets, management determines whether there has been impairment by comparing the anticipated undiscounted cash flows from the operation and eventual disposition of the product line with its carrying value. If the undiscounted cash flows are less than the carrying value, the amount of the impairment, if any, will be determined by comparing the carrying value of each intangible asset with its fair value. Fair value is generally based on either a discounted cash flows analysis or market analysis. Future operating income is based on various assumptions, including regulatory approvals, patents being granted, and the type and nature of competing products. If regulatory approvals or patents are not obtained or are substantially delayed, or other competing technologies are developed and obtain general market acceptance or market conditions otherwise change, our intangibles may have a substantially reduced value, which could be material.

Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year. In addition, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and for operating losses and tax credit carry-forwards. Management must make assumptions, judgments and estimates to determine the current provision for income taxes and the deferred tax assets and liabilities and any valuation allowance to be recorded against a deferred tax asset. Management's judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, management's interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax law or management's interpretation of tax laws and the resolution of current and future tax audits could significantly impact the amounts provided for income taxes in the financial statements. Management's assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income, such as income from operations. Actual operating results and the underlying amount and category of income in future years could render management's current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions,

judgments and estimates mentioned above could cause our actual income tax obligations to differ from the estimates, thus materially impact the financial position and results of operations.

Foreign Currency

Our functional currency is the U.S. dollar and our subsidiary and our VIE in China use their respective local currencies as their functional currencies, i.e. the Chinese Yuan Renminbi (CNY). An entity's functional currency is the currency of the primary economic environment in which the entity operates. Management must use judgment in determining an entity's functional currency, assessing economic factors including cash flow, sales price, sales market, expense, financing and inter-company transactions and arrangements. Impact from exchange rate changes related to transactions denominated in currencies other than the functional currency is recorded as a gain and loss in the statements of operations, while impact from exchange rate changes related to translating a foreign entity's financial statements from the functional currency to its reporting currency, the U.S. dollar, is disclosed and accumulated in a separate component under the equity section of the balance sheets. Different judgments or assumptions resulting in a change of functional currency may materially impact our financial position and results of operations.

CONTRACTUAL OBLIGATIONS

We have no contractual obligations as of June 30, 2009.

INFLATION

Management believes that inflation has not had a material effect on our results of operations.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements, as defined in Regulation S-K Section 303(a)(4).

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Evaluation of our Disclosure Controls

As of the end of the period covered by this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer have evaluated the effectiveness of our “disclosure controls and procedures” (“Disclosure Controls”). Disclosure Controls, as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure Controls are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our management, including the CEO and CFO, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon their controls evaluation, our CEO and CFO have concluded that our Disclosure Controls are effective at a reasonable assurance level.

Changes in internal control over financial reporting

There have been no changes in our internal controls over financial reporting during our first fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

There is no material legal proceeding pending against us.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information

On July 25, 2009, the Company consummated a sale of a plant building and related facilities for about \$2.7 million (RMB 18.5 million). The sale was consummated pursuant to an agreement dated December 19, 2004 between Aoxing Pharmaceutical and Xianyang City Industrial and Commercial Administrative Bureau. The payment price was to be paid in installments, with the final installment due December 31, 2006, however the final installment of RMB 1 million was delayed until June 28, 2009 and completion of paperwork with the PRC government reflecting the sale was not completed until July 25, 2009.

Item 6. Exhibits

Copies of the following documents are included as exhibits to this report pursuant to Item 601 of Regulation S-K.

Exhibit No.	SEC Ref. No.	Title of Document
1	10.1	Real Estate Transfer Agreement, dated December 19, 2004, by and between Aoxing Pharmaceutical and Xianyang City Industrial and Commercial Administrative Bureau.
2	31.1	<u>Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
3.	31.2	<u>Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
4	32.1	<u>Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*</u>
5	32.2	<u>Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*</u>

* The Exhibits attached to this Form 10-Q shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to liability under that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as expressly set forth by specific reference in such filing.

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SIGNATURES

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

BIOSTAR PHARMACEUTICALS,
INC.

Date: August 13, 2009

/s/ Ronghua Wang
Ronghua Wang
Chief Executive Officer and
President (Principal Executive Officer)

Date: August 13, 2009

/s/ Elaine Lanfeng Zhao
Elaine Lanfeng Zhao
Chief Financial Officer
(Principal Financial and Accounting
Officer)

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