

Jiangbo Pharmaceuticals, Inc.  
Form 10-Q  
February 22, 2011

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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: December 31, 2010

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: 001-34763

JIANGBO PHARMACEUTICALS, INC.

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(Exact name of registrant as specified in its charter)

Florida

65-1130026

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

25 Haihe Road, Laiyang Economic Development, Laiyang City, Yantai, Shandong Province,  
People's Republic of China 265200

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(Address of principal executive offices) (Zip Code)  
(0086) 535-7282997

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(Registrant's telephone number, including area code)

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(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 (§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,

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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 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 Exchange Act).  
Yes  No

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date. The total number of shares outstanding at February 18, 2011 was 13,625,729.

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## INDEX

	Page
<b>PART I - FINANCIAL INFORMATION</b>	
Item 1. Financial Statements	3
Consolidated Balance Sheets as of December 31, 2010 (Unaudited) and June 30, 2010	3
Consolidated Statements of Income and Other Comprehensive Income for the three months and six months ended December 31, 2010 and 2009 (Unaudited)	4
Consolidated Statements of Shareholders' Equity for the six months ended December 31, 2010 (Unaudited) and the year ended June 30, 2010	5
Consolidated Statements of Cash Flows for the six months ended December 31, 2010 and 2009 (Unaudited)	6
Notes to Consolidated Financial Statements (Unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3. Quantitative and Qualitative Disclosures About Market Risk	37
Item 4T. Controls and Procedures	37
<b>PART II - OTHER INFORMATION</b>	
Item 1. Legal Proceedings	38
Item 1A. Risk Factors	38
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 3. Defaults Upon Senior Securities	39
Item 4. (Removed and Reserved)	39
Item 5. Other Information	39
Item 6. Exhibits	39

JIANGBO PHARMACEUTICALS, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
AS OF DECEMBER 31, 2010 AND JUNE 30, 2010

	December 31, 2010 (Unaudited)	June 30, 2010
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 135,892,700	\$ 108,616,735
Restricted cash	15,341,042	11,135,880
Investments	133,754	168,858
Accounts receivable, net of allowance for doubtful accounts of \$959,677 and \$1,343,421 as of December 31, 2010 and June 30, 2010, respectively	26,172,643	33,195,201
Inventories	3,327,328	2,200,614
Other receivables	53,460	13,241
Other receivable - related parties	166,870	324,060
Advances to suppliers	804,260	260,688
Financing costs	116,353	435,634
Total current assets	182,008,410	156,350,911
PLANT AND EQUIPMENT, net	13,596,299	13,284,312
<b>OTHER ASSETS:</b>		
Long Term Prepayments	222,043	110,725
Intangible assets, net	32,775,832	32,594,326
Total other assets	32,997,875	32,705,051
<b>Total assets</b>	<b>\$ 228,602,584</b>	<b>\$ 202,340,274</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 4,411,185	\$ 4,113,219
Short term bank loans	-	2,209,500
Notes payable	15,341,042	11,135,880
Other payables	3,052,231	3,888,034
Other payables - related parties	434,207	255,595
Accrued liabilities	6,329,637	4,899,829
Taxes payable	5,027,636	6,259,271
Refundable security deposits due to distributors	3,944,200	3,829,800
Liabilities assumed from reorganization	307,144	524,614
Derivative liabilities	3,973,365	18,497,227
Convertible debt, net of discount \$4,172,977 and \$13,669,752 as of December 31, 2010 and June 30, 2010, respectively	13,207,023	12,210,248
Total current liabilities	56,027,670	67,823,217
<b>Total liabilities</b>	<b>56,027,670</b>	<b>67,823,217</b>

## COMMITMENTS AND CONTINGENCIES

## SHAREHOLDERS' EQUITY:

Convertible preferred stock Series A (\$0.001 par value; 20,000,000 shares authorized as of December 31, 2010 and June 30, 2010, 0 shares issued and outstanding as of December 31, 2010 and June 30, 2010)	-	-
Common stock (\$0.001 par value, 22,500,000 shares authorized, 12,799,542 and 11,701,802 shares issued and outstanding as of December 31, 2010 and June 30, 2010, respectively)	12,800	11,702
Additional paid-in capital	41,780,797	30,846,915
Capital contribution receivable	(11,000 )	(11,000 )
Retained earnings	114,502,183	92,797,859
Statutory reserves	3,253,878	3,253,878
Accumulated other comprehensive income	13,036,256	7,617,703
Total shareholders' equity	172,574,914	134,517,057
Total liabilities and shareholders' equity	\$ 228,602,584	\$ 202,340,274

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

**JIANGBO PHARMACEUTICALS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS AND SIX MONTHS ENDED DECEMBER 31, 2010 AND 2009**  
**(UNAUDITED)**

	For the Three Months Ended December 31,		For the Six Months Ended December 31,	
	2010	2009	2010	2009
<b>REVENUES:</b>				
Sales	\$ 23,420,855	\$ 18,179,942	\$ 51,090,477	\$ 42,563,996
Total revenues	23,420,855	18,179,942	51,090,477	42,563,996
<b>COST OF SALES</b>				
Cost of sales	6,599,444	4,667,049	14,260,866	10,927,448
Total cost of sales	6,599,444	4,667,049	14,260,866	10,927,448
<b>GROSS PROFIT</b>	<b>16,821,411</b>	<b>13,512,893</b>	<b>36,829,611</b>	<b>31,636,548</b>
<b>RESEARCH AND DEVELOPMENT EXPENSE</b>	<b>231,930</b>	<b>1,106,385</b>	<b>1,193,280</b>	<b>2,205,960</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>3,617,338</b>	<b>5,259,213</b>	<b>8,104,271</b>	<b>9,601,019</b>
<b>INCOME FROM OPERATIONS</b>	<b>12,972,143</b>	<b>7,147,295</b>	<b>27,532,060</b>	<b>19,829,569</b>
<b>OTHER (INCOME) EXPENSE:</b>				
Change in fair value of derivative liabilities	(4,869,139 )	(6,687,085 )	(12,323,490)	(1,865,992 )
Other income - related parties	(82,731 )	(80,668 )	(164,076 )	(161,304 )
Non-operating (income) expense, net	(55,245 )	366,685	(53,903 )	214,271
Interest expense, net	3,345,301	6,162,640	11,109,571	8,919,818
Loss from discontinued operations	-	87,561	-	164,769
Total other (income) expense, net	(1,661,814 )	(150,867 )	(1,431,898 )	7,271,562
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>14,633,957</b>	<b>7,298,162</b>	<b>28,963,958</b>	<b>12,558,007</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>3,504,321</b>	<b>1,970,021</b>	<b>7,259,634</b>	<b>5,078,191</b>
<b>NET INCOME</b>	<b>11,129,636</b>	<b>5,328,141</b>	<b>21,704,324</b>	<b>7,479,816</b>
<b>OTHER COMPREHENSIVE INCOME:</b>				
Unrealized holding gain (loss)	-	32,827	-	56,371
Foreign currency translation adjustment	2,506,916	44,704	5,418,553	196,884
<b>COMPREHENSIVE INCOME</b>	<b>\$ 13,636,552</b>	<b>\$ 5,405,672</b>	<b>\$ 27,122,877</b>	<b>\$ 7,733,071</b>

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BASIC WEIGHTED AVERAGE NUMBER OF SHARES	12,730,365	10,983,405	12,484,360	10,744,648
BASIC EARNINGS PER SHARE	\$ 0.87	\$ 0.49	\$ 1.74	\$ 0.70
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES	14,958,365	15,065,301	14,956,173	14,829,605
DILUTED EARNINGS PER SHARE	\$ 0.50	\$ (1.06 )	\$ 1.27	\$ (0.89 )

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

## JIANGBO PHARMACEUTICALS, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock Par Value \$0.001 Number of shares	Common stock	Additional Paid-in capital	Capital contribution receivable	Retained Earnings Statutory reserves	Unrestricted earnings	Accumulated other comprehensive income	Totals
BALANCE, June 30, 2009	10,435,099	\$10,435	\$48,397,794	\$(11,000)	\$3,253,878	\$67,888,667	\$6,523,602	\$126,063,376
Cumulative effect of reclassification of warrants			(34,971,570)			(4,941,163 )		(39,912,733 )
BALANCE, July 1, 2009 as adjusted	10,435,099	10,435	13,426,224	(11,000)	3,253,878	62,947,504	6,523,602	86,150,643
Common stock issued for services @ \$9.91 per share	1,009	1	9,999					10,000
Common stock issued for interest payment @ \$8.00 per share	83,438	84	984,540					984,624
Conversion of convertible debt to stock @ \$8.00 per share	650,000	650	5,199,350					5,200,000
Reclassification from warrant liabilities to APIC due to conversion of convertible debt			4,049,887					4,049,887
Stock based compensation			135,104					135,104
Net income						7,479,816		7,479,816
Change in fair value on restricted marketable equity							56,371	56,371



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securities								
Foreign currency translation gain							196,884	196,884
BALANCE, December 31, 2009 (unaudited)	11,169,546	\$11,170	\$23,805,104	\$(11,000)	\$3,253,878	\$70,427,320	\$6,776,857	\$104,263,329
Common stock issued for payment for other payable-related party @8.75 per share	2,286	2	19,998					20,000
Common stock issued for services @ \$8.75 per share	1,143	1	9,999					10,000
Common stock issued for services @ \$9.00 per share	17,350	17	156,133					156,150
Common stock issued for bonuses @ \$8.50 per share	25,000	25	212,475					212,500
Common stock issued for bonuses @ \$9.00 per share	15,900	16	143,084					143,100
Common stock issued for interest payment @\$8.00 per share	577	1	6,428					6,429
Conversion of convertible debt to stock @ \$8.00 per share	470,000	470	3,759,530					3,760,000
Reclassification of derivative liabilities to APIC due to conversion of convertible debt			2,734,164					2,734,164
Net income						22,370,539		22,370,539
							110,007	110,007

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Change in fair value on restricted marketable equity securities								
Foreign currency translation gain							730,839	730,839
BALANCE, June 30, 2010	11,701,802	\$11,702	\$30,846,915	\$(11,000)	\$3,253,878	\$92,797,859	\$7,617,703	\$134,517,057
Common stock issued for services @ \$7.49 per share	1,450	1	10,859					10,860
Common stock issued for services @ \$8.4 per share	3,250	3	27,297					27,300
Common stock issued for settlement @ \$6.71 per share	22,500	23	150,953					150,976
Common stock issued for services @ \$5.72 per share	7,950	8	45,466					45,474
Conversion of convertible debt to stock @ \$8.0 per share	1,062,500	1,063	8,498,937					8,500,000
Reclassification of derivative liabilities to APIC due to conversion of convertible debt			2,200,370					2,200,370
Net income						21,704,324		21,704,324
Foreign currency translation gain							5,418,553	5,418,553
BALANCE, December 31, 2010 (unaudited)	12,799,452	\$12,800	\$41,780,797	\$(11,000)	\$3,253,878	\$114,502,183	\$13,036,256	\$172,574,914

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



JIANGBO PHARMACEUTICALS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED December 31, 2010 AND 2009

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$21,704,324	\$7,479,816
Loss from discontinued operations	-	164,769
Income from continued operations	21,704,324	7,644,585
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	416,045	391,435
Amortization of intangible assets	778,857	803,234
Amortization of debt issuance costs	319,281	472,753
Amortization of debt discount	9,496,775	7,547,834
Loss from issuance of shares in lieu of cash interest payment	-	317,124
Bad debt (recovery) expense	(416,776 )	581,287
Realized gain on sale of marketable securities	(2,844 )	406,551
Unrealized gain on investments	18,947	(265,747 )
Change in fair value of derivative liabilities	(12,323,490 )	(1,865,992 )
Stock-based compensation	83,635	135,104
Gain on legal settlement	(91,495 )	-
Changes in operating assets and liabilities		
Accounts receivable	8,296,724	(1,062,126 )
Inventories	(1,043,215 )	(653,303 )
Other receivables	(14,604 )	161,727
Other receivables- related parties	164,076	(161,304 )
Advances to suppliers	(527,128 )	(235,033 )
Accounts payable	179,212	(3,277,854 )
Other payables	(1,201,509 )	187,153
Other payables - related parties	224,031	93,588
Accrued liabilities	1,433,798	(299,688 )
Liabilities assumed from reorganization	-	(79,150 )
Taxes payable	(1,394,627 )	(7,651,766 )
Net cash provided by operating activities	26,100,017	3,190,412
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of marketable securities	19,002	531,333
Purchase of equipment and building improvements	(116,355 )	(76,707 )
Prepayment for equipment	(106,202 )	-
Purchase of land use right	-	(16,975,633 )
Net cash used in investing activities	(203,555 )	(16,521,007 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Change in restricted cash	(3,807,682 )	(7,207,356 )
Payments for bank loans	(2,237,400 )	(2,199,600 )
Proceeds from notes payable	15,084,178	14,539,356
Principal payments on notes payable	(11,276,496 )	(7,332,000 )
Net cash used in financing activities	(2,237,400 )	(2,199,600 )

EFFECTS OF EXCHANGE RATE CHANGE IN CASH	3,616,903	135,321
NET INCREASE (DECREASE) IN CASH and CASH EQUIVALENTS	27,275,965	(15,394,874 )
CASH and CASH EQUIVALENTS, beginning	108,616,735	104,366,117
CASH and CASH EQUIVALENTS, ending	\$135,892,700	\$88,971,243
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	\$85,904	\$390,861
Cash paid for income taxes	\$8,208,527	\$1,289,849
Non-cash investing and financing activities:		
Fixed asset added but not paid	\$216,282	\$0
Common stock issued for interest payment	\$-	\$667,500
Common stock issued for convertible notes conversion	\$8,500,000	\$5,200,000
Common stock issued for legal settlement	\$150,975	\$-
Derivative liability reclassified to equity upon conversion	\$2,200,370	\$4,049,887
Transfer of investments to settle liabilities assumed from reorganization	\$-	1,124,916

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

JIANGBO PHARMACEUTICALS, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2010  
(UNAUDITED)

Note 1 – Organization and business

Jiangbo Pharmaceuticals, Inc. (the “Company” or “Jiangbo”) was originally incorporated in the state of Florida on August 15, 2001, under the name Genesis Technology Group, Inc.

Pursuant to a Certificate of Amendment to the Amended and Restated Articles of Incorporation filed with the state of Florida which took effect as of April 16, 2009, the Company's name was changed from "Genesis Pharmaceuticals Enterprises, Inc." to "Jiangbo Pharmaceuticals, Inc." (the "Corporate Name Change"). The Corporate Name Change was approved and authorized by the Board of Directors of the Company as well as the holders of a majority of the outstanding shares of the Company's voting stock by written consent. As a result of the Corporate Name Change, the stock symbol changed to "JGBO" with the opening of trading on May 12, 2009.

Our primary operations consist of the business and operations of our direct and indirect subsidiaries and Variable Interest Entity (“VIE”), which produce and sell western pharmaceutical products and traditional Chinese pharmaceutical products in China and focuses on developing innovative medicines to address various medical needs for patients worldwide.

Note 2 - Summary of significant accounting policies

Basis of presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information and pursuant to the requirements for reporting on Form 10-Q. Accordingly, they do not include all the information and footnotes required by US Generally Accepted Accounting Principles (“GAAP”) for complete financial statements. In the opinion of management, the accompanying consolidated balance sheets, and related interim consolidated statements of income and other comprehensive income, shareholders' equity, and cash flows, include all adjustments, consisting only of normal recurring items. However, these consolidated financial statements are not indicative of a full year of operations. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and footnotes for the year ended June 30, 2010 included in the Company's Annual Report on Form 10-K.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the following entities, and all significant intercompany transactions and balances have been eliminated in consolidation:

Consolidated entity name:	Percentage of ownership
Karmoya International Ltd.	100%
Union Well International Limited	100%
Genesis Jiangbo (Laiyang) Biotech Technology Co., Ltd.	100%
Laiyang Jiangbo Pharmaceuticals Co., Ltd.	Variable Interest Entity

The Financial Accounting Standards Board's ("FASB") accounting standards address whether certain types of entities, referred to as variable interest entities ("VIEs"), should be consolidated in a company's consolidated financial statements. In accordance with the provisions of the accounting standard, the Company has determined that Laiyang Jiangbo is a VIE and that the Company is the primary beneficiary, and accordingly, the financial statements of Laiyang Jiangbo are consolidated into the financial statements of the Company.

#### Foreign currency translation

The reporting currency of the Company is the U.S. dollar. The functional currency of the Company is the local currency, the Chinese Renminbi ("RMB"). In accordance with the FASB's accounting standard governing foreign currency translation, results of operations and cash flows are translated at average exchange rates during the period, assets and liabilities are translated at the unified exchange rates as quoted by the People's Bank of China at the end of the period, and equity is translated at historical exchange rates. As a result, amounts related to assets and liabilities reported on the consolidated statements of cash flows will not necessarily agree with changes in the corresponding balances on the consolidated balance sheets. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations as incurred.

Asset and liability accounts at December 31, 2010, were translated at 6.59 RMB to \$1.00 as compared to 6.79 RMB to \$1.00 at June 30, 2010. Equity accounts were stated at their historical rates. The average translation rates applied to statements of income for the six months ended December 31, 2010 and 2009 were 6.72 RMB and 6.82 RMB to \$1.00, respectively.

#### Use of estimates

The preparation of financial statements in conformity with US GAAP 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. The significant estimates made in the preparation of the Company's consolidated financial statements relate to the assessment of the carrying values of accounts receivable and related allowance for doubtful accounts, allowance for obsolete inventory, sales returns, accrual for estimated advertising costs, fair value of warrants and beneficial conversion features related to the convertible notes, fair value of derivative liability and fair value of options granted to employees. Actual results could be materially different from these estimates upon which the carrying values were based.

#### Revenue recognition

Product sales are generally recognized when title to the product has transferred to customers in accordance with the terms of the sale. In general, the Company records revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the sales price to the customer is fixed or determinable, and collectability is reasonably assured.

The Company is generally not contractually obligated to accept returns. However, on a case by case negotiated basis, the Company permits customers to return their products. Management has evaluated the Company's customers' historical return experiences and determined the returns and related costs have been minimal. Therefore, no allowance for estimated returns is necessary.

#### Financial instruments

The accounting standard governing financial instruments adopted on July 1, 2008, defines financial instruments and requires fair value disclosures about those instruments. It defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosures requirements for fair value measures. Investments, receivables, payables, short term loans and convertible debt all qualify as financial instruments. Management concluded the receivables, payables and short term loans approximate their fair values because of the short period of time between the origination of such instruments and their expected realization and, if applicable, their stated rates of interest are equivalent to rates currently available.

The three levels of valuation hierarchy are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.



The Company analyzes all financial instruments with features of both liabilities and equity under the FASB's accounting standard for such instruments. Under this standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Depending on the instrument and the terms of the transaction, the fair value of notes payable and derivative liabilities were modeled using a series of techniques, including closed-form analytic formula, such as the Black-Scholes option-pricing model.

Effective July 1, 2009, as a new accounting standard took effect, the Company's two convertible notes with principal amounts totaling \$34,840,000 and 2,275,000 warrants previously treated as equity pursuant to the derivative treatment exemption are no longer afforded equity treatment because the strike price of the warrants is denominated in US dollar, a currency other than the Company's functional currency, the Chinese Renminbi. As a result, those financial instruments are not considered indexed to the Company's own stock, and as such, all future changes in the fair value of these convertible notes and warrants will be recognized currently in earnings until such time as the convertible notes and warrants are converted, exercised or expired.

As such, effective July 1, 2009, the Company reclassified the fair value of the conversion features on the convertible notes and warrants from equity to liability, as if these conversion features on the convertible notes and warrants were treated as a derivative liability since their initial issuance dates. Therefore, on July 1, 2009, the Company reclassified approximately \$35 million from additional paid-in capital and approximately \$4.9 million from beginning retained earnings to warrant liabilities, as a cumulative effect adjustment, to recognize the fair value of the conversion features on the convertible notes and warrants.

For the three and six months ended December 31, 2010, \$1.0 million and \$8.5 million convertible notes were converted, respectively. As of December 31, 2010, the Company has \$17,380,000 convertible notes and 1,875,000 warrants outstanding. The fair value of the conversion features on the convertible notes was approximately \$0.5 million and the fair value of the warrants was approximately \$3.5 million. The Company recognized approximately \$4.9 million and \$12.3 million gain from the change in fair value of the conversion features on the convertible notes and warrants for the three and six months ended December 31, 2010.

These common stock purchase warrants do not trade in an active securities market, and as such, the Company estimates the fair value of the conversion features on the convertible notes and warrants using the Black-Scholes option pricing model with the following assumptions:

	December 31, 2010				July 1, 2010			
	Annual dividend yield	Expected term (years)	Risk-free interest rate	Expected volatility	Annual dividend yield	Expected term (years)	Risk-free interest rate	Expected volatility
Conversion feature on the \$5 million convertible notes	-	0.17	0.07%	60.00%	-	0.35	0.22%	57.00%
Conversion feature on the \$30 million convertible notes	-	0.42	0.19%	60.00%	-	0.92	0.32%	57.00%
1,875,000 warrants issued in May 2008	-	2.42	0.61%	80.00%	-	2.92	1.00%	85.00%

Expected volatility is based primarily on historical volatility. Historical volatility was computed using weekly pricing observations for recent periods that correspond to the term of the warrants. The Company's management believes this method produces an estimate that is representative of the expectations of future volatility over the expected term of these warrants. The Company has no reason to believe future volatility over the expected remaining life of these warrants will likely differ materially from historical volatility. The expected life is based on the remaining term of the warrants. The risk-free interest rate is based on U.S. Treasury securities according to the remaining term of the financial instruments.

The following table sets forth by level within the fair value hierarchy the financial assets and liabilities that were accounted for at fair value on a recurring basis.

	Carrying Value at December 31, 2010	Fair Value Measurements at December 31, 2010, Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Investments	\$ 133,754	\$ 133,754	\$ -	\$ -
\$ 3.5M Convertible Debt (November 2007)	28,003	-	-	28,003
\$13.9M Convertible Debt (May 2008)	483,345	-	-	483,345

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1,875,000 warrants issued in May 2008	3,462,017	-	-	3,462,017
<b>Total</b>	<b>\$ 4,107,119</b>	<b>\$ 133,754</b>	<b>\$ -</b>	<b>\$ 3,973,365</b>

Level 3 Valuation Reconciliations:

	December 31, 2010 (Unaudited)	June 30, 2010
Beginning Balance	\$ 18,497,227	\$ 39,912,733
Reclassification to APIC due to conversion of notes	(2,200,372)	(6,784,051)
Change in fair value	(12,323,490)	(14,631,455)
Ending Balance	\$ 3,973,365	\$ 18,497,227

The Company did not identify any other non-recurring assets and liabilities that are required to be presented on the consolidated balance sheets at fair value in accordance with the relevant accounting standards.

An accounting standard became effective for the Company on July 1, 2008 which provided the Company with the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis with the difference between the carrying value before election of the fair value option and the fair value recorded upon election as an adjustment to beginning retained earnings. The Company chose not to elect the fair value option.

#### Stock-based compensation

The Company records stock-based compensation expense pursuant to the governing accounting standard which requires companies to measure the compensation cost for stock-based employee compensation plans at fair value at the grant date and recognize the expense over the employee's requisite service period. The Company estimates the fair value of the awards using the Black-Scholes option pricing model. Under this accounting standard, the Company's expected volatility assumption is based on the historical volatility of Company's stock or the expected volatility of similar entities. The expected life assumption is primarily based on historical exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock-based compensation expense is recognized based on awards expected to vest, and there were no estimated forfeitures as the Company has a short history of issuing options.

The Company uses the Black-Scholes option-pricing model which was developed for use in estimating the fair value of options. Option-pricing models require the input of highly complex and subjective variables including the expected life of options granted and the Company's expected stock price volatility over a period equal to or greater than the expected life of the options. Because changes in the subjective assumptions can materially affect the estimated value of the Company's employee stock options, it is management's opinion that the Black-Scholes option-pricing model may not provide an accurate measure of the fair value of the Company's employee stock options. Although the fair value of employee stock options is determined in accordance with the accounting standards using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

#### Comprehensive income

FASB's accounting standard regarding comprehensive income establishes standards for reporting and display of comprehensive income and its components in financial statements. It requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The accompanying consolidated financial statements include the provisions of this accounting standard.

#### Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in accounts maintained with state-owned banks within the People's Republic of China ("PRC.") The Company considers all highly liquid instruments with original maturities of three months or less, and money market accounts to be cash and cash equivalents.

The Company maintains cash deposits in financial institutions that exceed the amounts insured by the U.S. government. Balances at financial institutions or state-owned banks within the PRC are not covered by insurance. Non-performance by these institutions could expose the Company to losses for amounts in excess of insured balances.

As of December 31, 2010 and June 30, 2010, the Company's bank balances, including restricted cash balances, exceeded government-insured limits by approximately \$148,220,000 and \$119,675,000, respectively. To date, the Company has not experienced any losses in such accounts.

#### Restricted cash

Restricted cash represents amounts set aside by the Company in accordance with the Company's debt agreements with certain financial institutions. These cash amounts are designated for the purpose of paying down the principal amounts owed to the financial institutions, and these amounts are held at the same financial institutions with which the Company has debt agreements. Due to the short-term nature of the Company's debt obligations to these banks, the corresponding restricted cash balances have been classified as current in the consolidated balance sheets.

## Investment and restricted investments

Investments are comprised of marketable equity securities of publicly traded companies and are stated at fair value based on the quoted prices of these securities. These investments are classified as trading securities based on the Company's intent to sell them in the near term. Restricted investments are marketable equity securities of publicly traded companies that were acquired through the reverse merger and contained certain SEC Rule 144 restrictions on the securities. Restricted investments are carried at fair value based on the trade price of these securities. These securities were classified as available-for-sale and reflected as restricted and noncurrent. As of December 31, 2010 and June 30, 2010, restrictions on these investments were lifted as the Company met the holding period requirement and the Company has reclassified those investments as investments- trading securities.

The following is a summary of the components of the gain/loss on investments and restricted investments for the three and six months ended December 31, 2010 and 2009:

	For the Three Months Ended		For the Six Months Ended	
	December 31,		December 31,	
	2010	2009	2010	2009
Realized (gain) loss on trading securities	\$ (2,844)	\$ 425,616	\$ (2,844)	\$ 406,551
Unrealized (gain) loss on trading securities	16,073	(14,743)	18,947	(265,747)
Unrealized gain on restricted investments – available-for-sale securities	-	(32,827)	-	(56,371)

All unrealized gains and losses related to available-for-sale securities have been properly reflected as a component of accumulated other comprehensive income.

## Accounts receivable

During the normal course of business, the Company extends credit to its customers without requiring collateral or other security interests. Management reviews its accounts receivables at each reporting period to provide for an allowance against accounts receivable for an amount that could become uncollectible. This review process may involve the identification of payment problems with specific customers. The Company estimates this allowance based on the aging of the accounts receivable, historical collection experience, and other relevant factors, such as changes in the economy and the imposition of regulatory requirements that can have an impact on the industry. These factors continuously change, and can have an impact on collections and the Company's estimation process. These impacts may be material.

Certain accounts receivable amounts are charged off against allowances after unsuccessful collection efforts. Subsequent cash recoveries are recognized as income in the period when they occur.

The activities in the allowance for doubtful accounts are as follows for the periods ended December 31, 2010 and June 30, 2010:

	December 31, 2010 (Unaudited)	June 30, 2010
Beginning allowance for doubtful accounts	\$ 1,343,421	\$ 694,370
Bad debt additions	-	642,499
Reduction of allowance	(416,776)	-
Foreign currency translation adjustments	33,032	6,552

Ending allowance for doubtful accounts	\$	959,677	\$	1,343,421
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Inventories

Inventories, consisting primarily of raw materials and finished goods related to the Company's products, are stated at the lower of cost or market utilizing the weighted average method. The Company reviews its inventory periodically for possible obsolete goods or to determine if any reserves are necessary. As of December 31, 2010 and June 30, 2010, the Company determined that no reserves were necessary.

#### Advance to suppliers

Advances to suppliers represent partial payments or deposits for future inventory and equipment purchases. These advances to suppliers are non-interest bearing and unsecured. From time to time, vendors require a certain amount of money to be deposited with them as a guarantee that the Company will receive their purchase on a timely basis.

#### Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. Additions and improvements to plant and equipment accounts are recorded at cost. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in the results of operations in the period of disposition. Maintenance, repairs, and minor renewals are charged directly to expense as incurred. Major additions and betterments to plant and equipment accounts are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

	Useful Life
Building and building improvements	5 – 40 Years
Manufacturing equipment	5 – 20 Years
Office equipment and furniture	5 – 10 Years
Vehicle	5 Years

#### Intangible assets

All land in the PRC is owned by the PRC government and cannot be sold to any individual or company. The Company has recorded the amounts paid to the PRC government to acquire long-term interests to utilize land underlying the Company's facilities as land use rights. This type of arrangement is common for the use of land in the PRC. Land use rights are amortized on the straight-line method over the terms of the land use rights, which range from 20 to 50 years.

Patents and licenses include purchased technological know-how, secret formulas, manufacturing processes, technical and procedural manuals, and the certificate of drugs production, and is amortized using the straight-line method over the expected useful economic life of 5 years, which reflects the period over which those formulas, manufacturing processes, technical and procedural manuals are kept secret to the Company as agreed between the Company and the selling parties.

The estimated useful lives of intangible assets are as follows:

	Useful Life
Land use rights	20-50 Years
Patents	5 Years
Licenses	5 Years
Customer list and customer relationships	3 Years
Trade secrets - formulas and know how technology	5 Years

#### Impairment of long-lived assets

Long-lived assets of the Company are reviewed periodically or more often if circumstances dictate, to determine whether their carrying values have become impaired. The Company considers assets to be impaired if the carrying values exceed the future projected cash flows from related operations. The Company also re-evaluates the periods of



depreciation to determine whether subsequent events and circumstances warrant revised estimates of useful lives. As of December 31, 2010, the Company expects these assets to be fully recoverable.

#### Beneficial conversion feature of convertible notes

In accordance with accounting standards governing the beneficial conversion feature of convertible notes, the Company has determined that the convertible notes contained a beneficial conversion feature because on November 6, 2007, the effective conversion price of the \$5,000,000 convertible note was \$5.81 when the market value per share was \$16.00, and on May 30, 2008, the effective conversion price of the \$30,000,000 convertible note was \$5.10 when the market value per share was \$12.00. Total value of beneficial conversion feature of \$2,904,092 for the November 6, 2007 convertible note and \$19,111,323 for the May 30, 2008 convertible note was discounted from the carrying value of the convertible notes. The beneficial conversion feature is amortized using the effective interest method over the terms of the notes. As of December 31, 2010 and June 30, 2010, total of \$2,658,186 and \$8,637,647, respectively, remained unamortized for the beneficial conversion feature.

## Income taxes

The Company accounts for income taxes in accordance with the FASB's accounting standard for income taxes. This standard requires a company to use the asset and liability method of accounting for income taxes, whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. Under this accounting standard, the effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all of, a deferred tax asset will not be realized. As of December 31, 2010 and June 30, 2010, the Company did not have any net deferred tax assets or liabilities.

The FASB's accounting standards clarify the accounting and disclosure for uncertain tax positions and prescribe a recognition threshold and measurement attribute for recognition and measurement of a tax position taken or expected to be taken in a tax return. The accounting standards also provide guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Under this accounting standard, evaluation of a tax position is a two-step process. The first step is to determine whether it is more-likely-than-not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met. Penalties or interest incurred relating to underpayment of income taxes are classified as income tax expense in the period incurred. No significant penalties or interest relating to income taxes have been incurred during the six months ended December 31, 2010 and 2009.

The Company's operations are subject to income and transaction taxes in the United States and in the PRC jurisdictions. Significant estimates and judgments are required in determining the Company's worldwide provision for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations, and as a result the ultimate amount of tax liability may be uncertain. However, the Company does not anticipate any events that would lead to changes to these uncertainties.

## Value added tax

The Company is subject to value added tax ("VAT") for manufacturing products and business tax for services provided. The applicable VAT rate is 17% for products sold in the PRC. The amount of VAT liability is determined by applying the applicable tax rate to the invoiced amount of goods sold (output VAT) less VAT paid on purchases made with the relevant supporting invoices (input VAT). Under the commercial practice of the PRC, the Company pays VAT based on tax invoices issued. The tax invoices may be issued subsequent to the date on which revenue is recognized, and there may be a considerable delay between the date on which the revenue is recognized and the date on which the tax invoice is issued. In the event that the PRC tax authorities dispute the date on which revenue is recognized for tax purposes, the PRC tax office has the right to assess a penalty, which can range from zero to five times the amount of the taxes which are determined to be late or deficient, and will be charged to operations in the period if and when a determination is made by the taxing authorities that a penalty is due.

VAT on sales and VAT on purchases amounted to approximately \$3,960,000 and \$1,090,000 for the three months ended December 31, 2010, respectively, and approximately \$3,090,000 and \$894,000 for the three months ended December 31, 2009, respectively. VAT on sales and VAT on purchases amounted to approximately \$8,598,000 and \$2,253,000, respectively, for the six months ended December 31, 2010, respectively, and approximately 7,236,000 and \$1,738,000, respectively, for the six months ended December 31, 2009. Sales and purchases are recorded net of VAT collected and paid as the Company acts as an agent for the government. VAT taxes are not impacted by the income tax holiday.

#### Shipping and handling

Shipping and handling costs related to costs of goods sold are included in selling, general and administrative expenses. Shipping and handling costs amounted to approximately \$126,000 and \$113,000, respectively, for the three months ended December 31, 2010 and 2009, respectively. Shipping and handling costs amounted to approximately \$284,000 and \$264,000 for the six months ended December 31, 2010 and 2009, respectively.

#### Advertising

Expenses incurred in the advertising of the Company and the Company's products are charged to operations. Advertising expenses amounted to approximately \$981,000 and \$2,190,000 for the three months ended December 31, 2010 and 2009, respectively. Advertising expenses amounted to approximately \$2,152,000 and \$3,257,000 for the six months ended December 31, 2010 and 2009, respectively.

## Research and development

Research and development costs are expensed as incurred. These costs primarily consist of cost of materials used and salaries paid for the development of the Company's products, and fees paid to third parties to assist in such efforts.

## Reclassification

Certain reclassifications have been made to the comparative financial statements to conform to the December 31, 2010 consolidated financial statement presentation. These reclassifications had no effect on net income or cash flows as previously reported.

## Recent accounting pronouncements

In January 2010, FASB issued ASU No. 2010-01, Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this ASU clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this ASU are effective for interim and annual periods ending on or after December 15, 2009, and are to be applied on a retrospective basis. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements. This ASU provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This ASU provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company has determined that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In July 2010, the FASB issued Accounting Standards Update 2010-20 which amends "Receivables" (Topic 310). ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company does not anticipate ASU 2010-20 to

have a material impact on its consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-28 which amend “Intangibles- Goodwill and Other” (Topic 350). The ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting entities, they are required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance in Topic 350, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances changes that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 is effective for fiscal years, and interim periods within those years beginning after December 15, 2010. Early adoption is not permitted. The Company is currently evaluating the impact of this ASU; however, the Company does not expect the adoption of this ASU will have a material impact on its consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-29 which address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations (Topic 805). This ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This ASU also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact of this ASU and expected the adoption of this ASU will have an impact on its future business combinations.

### Note 3 - Earnings per share

The FASB's accounting standard for earnings per share requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common stockholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts to issue common stock were exercised and converted into common stock.

The following is a reconciliation of the basic and diluted earnings per share computations for the three months ended December 31, 2010 and 2009:

#### Basic earnings per share, unaudited

	2010	2009
Net income for basic earnings per share, unaudited	\$ 11,129,636	\$ 5,328,141
Weighted average shares used in basic computation	12,730,365	10,983,405
Earnings per share - Basic	\$ 0.87	\$ 0.49

#### Diluted earnings (loss) per share, unaudited

	2010	2009
Net income for basic earnings per share	\$ 11,129,636	\$ 5,328,141
Add: interest expense	698,339	469,885
Add: financing cost amortization	84,548	284,967
Add: note discount amortization	2,719,639	5,466,965
Subtract: unamortized financing cost at beginning of the period	(200,902)	(1,048,883)
Subtract: unamortized debt discount at beginning of the period	(6,892,616)	(26,412,220)
Net income (loss) for diluted EPS	\$ 7,538,644	\$ (15,911,145)
Weighted average shares used in basic computation	12,730,365	10,983,405
Diluted effect of stock options, warrants and convertible notes	2,228,000	4,081,896
Weighted average shares used in diluted computation	14,958,365	15,065,301

Earnings (loss) per share-Diluted	\$	0.50	(1.06)
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The following is a reconciliation of the basic and diluted earnings per share computations for the six months ended December 31, 2010 and 2009:

15

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## Basic earnings per share, unaudited

	2010	2009
Net income for basic earnings per share, unaudited	\$ 21,704,324	\$ 7,479,816
Weighted average shares used in basic computation	12,484,360	10,744,648
Earnings per share – Basic	\$ 1.74	\$ 0.70

## Diluted earnings (loss) per share

	2010	2009
Net income for diluted earnings per share	\$ 21,704,324	\$ 7,479,816
Add: interest expense	1,561,936	990,715
Add: financing cost amortization	319,280	472,755
Add: note discount amortization	9,496,775	7,547,835
Subtract: unamortized financing cost at beginning of the period	(435,634)	(1,236,669)
Subtract: unamortized debt discount at beginning of the period	\$ (13,669,752)	\$ (28,493,090)
Net income (loss) for diluted EPS	18,976,929	(13,238,638)
Weighted average shares used in basic computation	12,484,360	10,744,648
Diluted effect of stock options, warrants and convertible notes	2,471,813	4,084,957
Weighted average shares used in diluted computation	14,956,173	14,829,605
Income (loss) per share-Diluted	\$ 1.27	\$ (0.89)

For the three and six months ended December 31, 2010, 7,500 vested stock options with an average exercise price of \$17.93 were not included and 1,882,500 warrants with an average exercise price of \$10.00 in the diluted earnings per share calculation because of the anti-dilutive effect. For the three and six months ended December 31, 2009, 7,500 vested stock options with an average exercise price of \$17.93 were not included in the diluted earnings per share calculation because of the anti-dilutive effect.

## Note 4 - Inventories

Inventories consisted of the following:

	December 31, 2010 (Unaudited)	June 30, 2010
Raw materials	\$ 1,166,705	\$ 822,460
Work-in-process	-	326,831
Packing materials	483,996	140,328
Finished goods	1,676,627	910,995
Total	\$ 3,327,328	\$ 2,200,614

## Note 5 - Plant and equipment, net

Plant and equipment consisted of the following:



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	December 31, 2010	June 30, 2010
	(Unaudited)	
Buildings and building improvements	\$ 13,496,373	\$ 12,891,331
Manufacturing equipment	2,990,676	2,783,090
Office equipment and furniture	180,076	222,172
Vehicles	494,701	479,999
Total	17,161,826	16,376,592
Less: accumulated depreciation	(3,565,527)	(3,092,280)
Total	\$ 13,596,299	\$ 13,284,312

For the three months ended December 31, 2010 and 2009, depreciation expense amounted to approximately \$206,000 and \$195,000, respectively. For the six months ended December 31, 2010 and 2009, depreciation expense amounted to approximately \$415,000 and \$391,000, respectively.

#### Note 6 - Intangible assets

Intangible assets consisted of the following:

	December 31, 2010 (Unaudited)	June 30, 2010
Land use rights	\$ 29,206,511	\$ 28,359,388
Patents	5,112,290	4,964,010
Customer lists and customer relationships	1,163,462	1,129,716
Trade secrets, formulas and manufacturing process know-how	1,061,900	1,031,100
Licenses	24,196	23,494
Total	36,568,359	35,507,708
Less: accumulated amortization	(3,792,527)	(2,913,382)
Total	\$ 32,775,832	\$ 32,594,326

The estimated amortization expenses for the next five years and thereafter are:

Twelve month periods ending December 31,

2011	\$2,094,531
2012	2,094,531
2013	2,018,681
2014	796,510
2015 and thereafter	25,771,579
Total	\$32,775,832

Amortization expense for the three months ended December 31, 2010, and 2009 amounted to approximately \$387,000 and \$401,000, respectively. Total amortization expense for the six months ended December 31, 2010 and 2009 amounted to approximately \$777,000 and \$803,000, respectively.

#### Note 7 - Debt

##### Short term bank loan

Short term bank loan represents an amount due to a bank that is due within one year. This loan can be renewed with the bank upon maturity. The Company's short term bank loan consisted of the following:

	December 31, 2010 (Unaudited)	June 30, 2010
Loan from Communication Bank; due December 2010; interest rate of 6.37% per annum; monthly interest payment; guaranteed by related party, Jiangbo Chinese-Western Pharmacy.	\$ -	\$ 2,209,500
Total	\$ -	\$ 2,209,500

Interest expense related to the short term bank loan amounted to approximately \$25,000 and \$37,000 for three months ended December 31, 2010 and 2009, respectively. Interest expense amounted to approximately \$61,000 and \$73,000 for the six months ended December 31, 2010 and 2009, respectively.

#### Notes Payable

Notes payable represent amounts due to a bank which are secured and typically renewed. All notes payable are secured by the Company's restricted cash. The Company's notes payables consist of the following:

17

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	December 31, 2010 (Unaudited)	June 30, 2010
Commercial Bank, various amounts, non-interest bearing, due from January 2011 to June 2011; collateralized by 100% of restricted cash deposited	\$ 15,341,042	\$ 11,135,880
Total	\$ 15,341,042	\$ 11,135,880

Note 8 - Related party transactions

Other receivable - related parties

The Company leases two of its buildings to Jiangbo Chinese-Western Pharmacy, a company owned by the Company's Chairman of the Board and other majority shareholders. For the three months ended December 31, 2010 and 2009, the Company recorded other income of approximately \$82,000 and \$81,000 from leasing the two buildings to this related party. For the six months ended December 31, 2010 and 2009, the Company recorded other income of approximately \$164,000 and \$161,000 from leasing the two buildings to this related party. As of December 31, 2010 and June 30, 2010, amount due from this related party was approximately \$167,000 and \$324,000, respectively.

Other payable - related parties

Other payable-related parties primarily consist of accrued salary payable to the Company's officers and directors, and advances from the Company's Chairman of the Board. These advances are short-term in nature and bear no interest. The amounts are expected to be repaid in the form of cash in the near term.

Other payable - related parties consisted of the following:

	December 31, 2010 (Unaudited)	June 30, 2010
Payable to Cao Wubo, Chairman of the Board	\$ 153,939	\$ 154,866
Payable to Shandong Hilead Biotechnology Co., Ltd., majority owned by Wubo Cao, Chairman of the Board and former Chief Executive Officer (1)	-	48,609
Payable to Michael Marks, Director	10,000	-
Payable to Haibo Xu, Former Chief Operating Officer and Director	-	33,688
Payable to Elsa Sung, Chief Financial Officer	22,732	5,932
Payable to Jian Ge, Director	105,000	-
Payable to Huang Lei, Director	105,000	-
Payable to Xiaowei Feng, Director	15,000	-
Payable to John Wang, Director	22,536	12,500
Total other payable - related parties	\$ 434,207	\$ 255,595

(1) The Company leases two warehouses from Shandong Hilead Biotechnology Co., Ltd., a company majority owned by the Company's Chairman and former Chief Executive Officer. The rent expense related to this lease for the periods ended at December 31, 2010 and 2009 were immaterial.

On December 23, 2010, the Company advanced approximately \$104,000 to Jiangbo Chinese-Western Pharmacy, an entity 90% owned by the Company's Chairman, on an unsecured and interest free basis. The amount was fully repaid by Jiangbo Chinese-Western Pharmacy on December 30, 2010.

Note 9 – Concentration of major customers, suppliers, and products

For the three months ended December 31, 2010, four products accounted for 44%, 23%, 15% and 15% of the Company's total sales; for the three months ended December 31, 2009, the four products accounted for 40%, 29%, 17% and 12% of the Company's total sales. For the six months ended December 31, 2010, four products accounted for 43%, 23%, 16% and 16%; for the six months ended December 31, 2009, the four products accounted for 38%, 24%, 22% and 12% of the Company's total sales.

For the three months ended December 31, 2010 and 2009, five customers accounted for approximately 49% and 42%, respectively, of the Company's sales. For the six months ended December 31, 2010 and 2009, five customers accounted for approximately 47% and 39%, respectively, of the Company's sales. These five customers represented 49% and 43% of the Company's total accounts receivable as of December 31, 2010 and June 30, 2010, respectively.

For the three months ended December 31, 2010 and 2009, five suppliers accounted for approximately 71% and 66%, respectively, of the Company's purchases. These five suppliers represented 65% and 61% of the Company's total accounts payable as of December 31, 2010 and June 30, 2010, respectively. For the six months ended December 31, 2010 and 2009, five suppliers accounted for approximately 71% and 67%, respectively, of the Company's purchases. These five suppliers represented 68% and 61% of the Company's total accounts payable as of December 31, 2010 and June 30, 2010, respectively.

#### Note 10 - Taxes payable

The Company is subject to the United States federal income tax at a tax rate of 34%. No provision for U.S. income taxes has been made as the Company had no U.S. taxable income during the six months ended December 31, 2010 and 2009, and no U.S. income taxes were payable as of December 31, 2010 and June 30, 2010.

The Company's wholly owned subsidiaries Karmoya International Ltd. ("Karmoya") and Union Well International Ltd. ("Union Well") were incorporated in the British Virgin Islands ("BVI") and the Cayman Islands, respectively. Under the current laws of the BVI and Cayman Islands, the two entities are not subject to income taxes.

On March 16, 2007, the National People's Congress of China passed the new Enterprise Income Tax Law ("EIT Law"), and on November 28, 2007, the State Council of China passed the Implementing Rules for the EIT Law ("Implementing Rules") which became effective on January 1, 2008. The EIT Law and Implementing Rules impose a unified EIT rate of 25.0% on all domestic-invested enterprises and Foreign Investment Enterprises ("FIEs"), unless they qualify under certain limited exceptions. Therefore, nearly all FIEs are subject to the new tax rate alongside other domestic businesses rather than benefiting from the EIT Law and its associated preferential tax treatments, beginning January 1, 2008.

In addition to the changes to the current tax structure, under the EIT Law, an enterprise established outside of China with "de facto management bodies" within China is considered a resident enterprise and will normally be subject to an EIT of 25.0% on its global income. The Implementing Rules define the term "de facto management bodies" as "an establishment that exercises, in substance, overall management and control over the production, business, personnel, accounting, etc., of a Chinese enterprise." If the PRC tax authorities subsequently determine that the Company should be classified as a resident enterprise, then the organization's global income will be subject to PRC income tax of 25.0%. Laiyang Jiangbo and Genesis Jiangbo (Laiyang) Biotech Technology Co., Ltd. GJBT were subject to 25% income tax rate since January 1, 2008 and 33% income tax rate prior to January 1, 2008.

The table below summarizes the differences between the U.S. statutory federal rate and the Company's effective tax rate for the three months ended December 31, 2010 and 2009:

	2010 (Unaudited)	2009 (Unaudited)
U.S. Statutory rates	34.0%	34.0%
Foreign income not recognized in the U.S	(34.0)%	(34.0)%
China income taxes	25.0%	25.0%
China income tax exemptions	-	-
Other items (a)	(1.1)%	2.0%

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Total provision for income taxes	23.9%	27.0%
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(a) The (1.1)% and 2.0% represent the expenses incurred by the Company that are not deductible for PRC income tax purpose, and the gain on change in fair value of derivative liabilities and interest expense in relation to the convertible notes which were not subject to the income tax or bring tax benefits for the three months ended December 31, 2010 and 2009, respectively.

The table below summarizes the differences between the U.S. statutory federal rate and the Company's effective tax rate for the six months ended December 31, 2010 and 2009:

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	2010 (Unaudited)	2009 (Unaudited)
U.S. Statutory rates	34.0%	34.0%
Foreign income not recognized in the U.S	(34.0)%	(34.0)%
China income taxes	25.0%	25.0%
China income tax exemptions	-	-
Other items(b)	0.1%	15.4%
Total provision for income taxes	25.1%	40.4%

(b) The 0.1% and 15.4% represent the expenses incurred by the Company that are not deductible for PRC income tax purpose, and the gain on change in fair value of derivative liabilities and interest expense in relation to the convertible notes which were not subject to the income tax or bring tax benefits for the six months ended December 31, 2010 and 2009, respectively.

Taxes payable consisted of the following:

	December 31, 2010 (Unaudited)	June 30, 2010
Value added taxes	\$ 990,422	\$ 1,372,353
Income taxes	3,875,862	4,504,188
Other taxes	161,352	382,730
Total	\$ 5,027,636	\$ 6,259,271

Jiangbo incurred net operating losses of approximately \$481,000 for income tax purposes for six months ended December 31, 2010. The estimated net operating loss carryforwards for US income taxes amounted to approximately \$5,365,000 which may be available to reduce future years' taxable income. These carryforwards will expire, if not utilized, from 2027 through 2030. Management believes that the realization of the benefits from these losses appears uncertain due to the Company's limited operating history and continuing losses for US income tax purposes. Accordingly, the Company has provided a 100% valuation allowance on the deferred tax asset benefit to reduce the asset to zero. The net change in the valuation allowance for the six months ended December, 2010 was approximately \$163,000 and the accumulated valuation allowance as of December 31, 2010 amounted to approximately \$1,824,000. Management reviews this valuation allowance periodically and makes adjustments as necessary.

The Company has cumulative undistributed earnings of foreign subsidiaries of approximately \$140,031,000 as of December 31, 2010, and is included in consolidated retained earnings and will continue to be indefinitely reinvested in international operations. Accordingly, no provision has been made for U.S. deferred taxes related to future repatriation of these earnings, nor is it practicable to estimate the amount of income taxes that would have to be provided if the Company concluded that such earnings will be remitted in the future.

Note 11 - Convertible debt

November 2007 Convertible Debentures

On November 7, 2007, the Company entered into a Securities Purchase Agreement (the "November 2007 Purchase Agreement") with Pope Investments, LLC ("Pope") (the "November 2007 Investor"). Pursuant to the November 2007 Purchase Agreement, the Company issued and sold to the November 2007 Investor, \$5,000,000 principal amount of



6% convertible subordinated debentures due November 30, 2010 (the “November 2007 Debenture”) and a three-year warrant to purchase 250,000 shares of the Company’s common stock, par value \$0.001 per share, exercisable at \$12.80 per share, subject to adjustment as provided therein. The November 2007 Debenture bears interest at the rate of 6% per annum and the initial conversion price of the debentures is \$10 per share. In connection with the offering, the Company placed in escrow 500,000 shares of its common stock. In connection with the May 2008 financing, the November 2007 Debenture conversion price was subsequently adjusted to \$8 per share (Post 40-to-1 reverse split).

The Company evaluated the FASB’s accounting standard regarding convertible debentures and concluded that the convertible debenture has a beneficial conversion feature. The Company estimated the intrinsic value of the beneficial conversion feature of the November 2007 Debenture at \$2,904,093. The fair value of the warrants was estimated at \$2,095,907. The two amounts are recorded together as debt discount and amortized using the effective interest method over the three-year term of the debentures.

The fair value of the warrants granted with this private placement was computed using the Black-Scholes option-pricing model. Variables used in the option-pricing model include (1) risk-free interest rate at the date of grant (4.5%), (2) expected warrant life of 3 years, (3) expected volatility of 197%, and (4) zero expected dividends. The total estimated fair value of the warrants granted and beneficial conversion feature of the November 2007 Debenture should not exceed the \$5,000,000 November 2007 Debenture, and the calculated warrant value was used to determine the allocation between the fair value of the beneficial conversion feature of the November 2007 Debenture and the fair value of the warrants.

In connection with the private placement, the Company paid the placement agents a fee of \$250,000 and incurred other expenses of \$104,408, which were capitalized as deferred debt issuance costs and are being amortized to interest expense over the life of the debentures. For the three months ended December 31, 2010 and 2009, amortization of financing costs related to the November 2007 Purchase Agreement was \$8,030 and \$48,541, respectively. For the six months ended December 31, 2010 and 2009, amortization of debt issuance costs related to the November 2007 Purchase Agreement was \$32,117 and \$78,075, respectively. The amortization of debt issuance costs has been included in interest expense. The remaining balance of unamortized debt issuance costs of the November 2007 Purchase Agreement at December 31, 2010 and June 30, 2010 was \$0 and \$32,118, respectively. The amortization of debt discounts was \$557,834 and \$1,040,593, respectively, for the three months ended December 31, 2010 and 2009. The amortization of debt discounts was \$1,255,430 and \$1,394,422, respectively, for the six months ended December 31, 2010 and 2009, respectively. The amortization of debt discount has been included in interest expense on the accompanying consolidated statements of income. The balance of the debt discount was \$0 and \$1,255,430 at December 31, 2010 and June 30, 2010, respectively.

The November 2007 Debenture bears interest at the rate of 6% per annum, payable in semi-annual installments on May 31 and November 30 of each year, with the first interest payment due on May 31, 2008. The initial conversion price ("November 2007 Conversion Price") of the November 2007 Debentures was \$10 per share. If the Company issues common stock at a price that is less than the effective November 2007 Conversion Price, or common stock equivalents with an exercise or conversion price less than the then effective November 2007 Conversion Price, the November 2007 Conversion Price of the November 2007 Debenture and the exercise price of the warrants will be reduced to such price. The November 2007 Debenture may not be prepaid without the prior written consent of the Holder, as defined. In connection with the Offering, the Company placed in escrow 500,000 shares of common stock issued by the Company in the name of the escrow agent. In the event the Company's consolidated Net Income Per Share (as defined in the November 2007 Purchase Agreement), for the year ended June 30, 2008, is less than \$1.52, the escrow agent shall deliver the 500,000 shares to the November 2007 Investor. The Company concluded that its fiscal 2008 Net Income Per Share met the required amount and no shares were delivered to the November 2007 Investor. As of December 31, 2010, the 500,000 shares are still in escrow. On January 19, 2011, the Company and Pope reached a settlement agreement; Pope has agreed to extend the maturity date of November 2007 Debenture to February 28, 2011.

The financing was completed through a private placement to accredited investors and is exempt from registration pursuant to Section 492 of the Securities Act of 1933, as amended ("Securities Act").

As of December 31, 2010, a total of \$1,500,000 November 2007 Debentures has been converted into common shares of the Company.

#### May 2008 Convertible Debentures

On May 30, 2008, the Company entered into a Securities Purchase Agreement (the "May 2008 Securities Purchase Agreement") with certain investors (the "May 2008 Investors"), pursuant to which, on May 30, 2008, the Company sold to the May 2008 Investors 6% convertible debentures (the "May 2008 Notes") and warrants to purchase 1,875,000

shares of the Company's common stock ("May 2008 Warrants"), for an aggregate amount of \$30,000,000 (the "May 2008 Purchase Price"), in transactions exempt from registration under the Securities Act (the "May 2008 Financing"). Pursuant to the terms of the May 2008 Securities Purchase Agreement, the Company was to use the net proceeds from the financing for working capital purposes. Also pursuant to the terms of the May 2008 Securities Purchase Agreement, the Company must, among other things, increase the number of its authorized shares of common stock to 22,500,000 by August 31, 2008, and is prohibited from issuing any "Future Priced Securities" as such term is described by NASD IM-4350-1 for one year following the closing of the May 2008 Financing. The Company has satisfied the increase in the number of its authorized shares of common stock in August 2008 (post 40-to-1 reverse split).

The May 2008 Notes are due May 30, 2011, and are convertible into shares of the Company's common stock at a conversion price equal to \$8 per share, subject to adjustment pursuant to customary anti-dilution provisions and automatic downward adjustments in the event of certain sales or issuances by the Company of common stock at a price per share less than \$8. Interest on the outstanding principal balance of the May 2008 Notes is payable at a rate of 6% per annum, in semi-annual installments payable on November 30 and May 30 of each year, with the first interest payment due on November 30, 2008. At any time after the issuance of the May 2008 Note, any May 2008 Investor may convert its May 2008 Note, in whole or in part, into shares of the Company's common stock, provided that such May 2008 Investor shall not affect any conversion if immediately after such conversion, such May 2008 Investor and its affiliates would, in the aggregate, beneficially own more than 9.99% of the Company's outstanding common stock. The May 2008 Notes are convertible at the option of the Company if the following four conditions are met: (i) effectiveness of a registration statement with respect to the shares of the Company's common stock underlying the May 2008 Notes and the Warrants; (ii) the Volume Weighted Average Price ("VWAP" of the common stock has been equal to or greater than 250% of the conversion price, as adjusted, for 20 consecutive trading days on its principal trading market; (iii) the average dollar trading volume of the common stock exceeds \$500,000 on its principal trading market for the same 20 days; and (iv) the Company achieves 2008 Guaranteed EBT (as hereinafter defined) and 2009 Guaranteed EBT (as hereinafter defined). A holder of a May 2008 Note may require the Company to redeem all or a portion of such May 2008 Note for cash at a redemption price as set forth in the May 2008 Notes, in the event of a change in control of the Company, an event of default or if any governmental agency in the PRC challenges or takes action that would adversely affect the transactions contemplated by the Securities Purchase Agreement. The May 2008 Warrants are exercisable for a five-year period that is beginning on May 30, 2008, at an initial exercise price of \$10 per share.

The Company estimated the intrinsic value of the beneficial conversion feature of the May 2008 Note at \$19,111,323. The fair value of the warrants was estimated at \$10,888,677. The two amounts are recorded together as debt discount and amortized using the effective interest method over the three-year term of the debentures.

The fair value of the warrants granted with this private placement was computed using the Black-Scholes option-pricing model. Variables used in the option-pricing model include (1) risk-free interest rate at the date of grant (4.2%), (2) expected warrant life of 5 years, (3) expected volatility of 95%, and (4) zero expected dividends. The total estimated fair value of the warrants granted and beneficial conversion feature of the May 2008 Note should not exceed the \$30,000,000 debenture, and the calculated warrant value was used to determine the allocation between the fair value of the beneficial conversion feature of the May 2008 debenture and the fair value of the warrants.

In connection with the private placement, the Company paid the placement agents a fee of \$1,500,000 and incurred other expenses of \$186,500, which were capitalized as deferred debt issuance costs and are being amortized to interest expense over the life of the debenture. During the three months ended December 31, 2010 and 2009, amortization of debt issuance costs related to the May 2008 Purchase Agreement was \$76,519 and \$236,426, respectively. During the six months ended December 31, 2010 and 2009, amortization of debt issuance costs related to the May 2008 Purchase Agreement was \$287,163 and \$384,177, respectively. The remaining balance of unamortized debt issuance costs of the May 2008 Purchase Agreement at December 31, 2010 and June 30, 2010 was \$116,354 and \$403,516, respectively. The amortization of debt discounts was \$2,161,805 and \$4,426,373 for the three months ended December 31, 2010 and 2009 and was \$8,241,345 and \$6,153,413 for the six months ended December 31, 2010 and 2009, respectively, which has been included in interest expense on the accompanying consolidated statements of income. The balance of the unamortized debt discount was \$4,172,977 and \$12,414,322 at December 31, 2010 and June 30, 2010, respectively.

In connection with the May 2008 Financing, the Company entered into a holdback escrow agreement (the "Holdback Escrow Agreement") dated May 30, 2008, with the May 2008 Investors and Loeb & Loeb LLP, as Escrow Agent, pursuant to which \$4,000,000 of the May 2008 Purchase Price was deposited into an escrow account with the Escrow Agent at the closing of the Financing. Pursuant to the terms of the Holdback Escrow Agreement, (i) \$2,000,000 of the escrowed funds will be released to the Company upon the Company's satisfaction no later than 120 days following the closing of the Financing of an obligation that the board of directors be comprised of at least five members (at least two of whom are to be fluent English speakers who possess necessary experience to serve as a director of a public company), a majority of whom will be independent directors acceptable to Pope and (ii) \$2,000,000 of the escrowed funds will be released to the Company upon the Company's satisfaction no later than six months following the closing of the Financing of an obligation to hire a qualified full-time chief financial officer (as defined in the May 2008 Securities Purchase Agreement). In the event that either or both of these obligations are not so satisfied, the applicable portion of the escrowed funds will be released pro rata to the Investors. The Company has satisfied both requirement and the holdback money was released to the Company in July 2008.

In connection with the May 2008 Financing, Mr. Cao, the Company's Chairman of the Board, placed 3,750,000 shares of common stock of the Company owned by him into an escrow account pursuant to a make good escrow agreement dated May 30, 2008 (the "Make Good Escrow Agreement"). In the event that either (i) the Company's adjusted 2008 earnings before taxes is less than \$26,700,000 ("2008 Guaranteed EBT") or (ii) the Company's 2008 adjusted fully diluted earnings before taxes per share is less than \$1.60 ("2008 Guaranteed Diluted EBT"), 1,500,000 of such shares (the "2008 Make Good Shares") are to be released pro rata to the May 2008 Investors. In the event that either (i) the Company's adjusted 2009 earnings before taxes is less than \$38,400,000 ("2009 Guaranteed EBT") or (ii) the Company's adjusted fully diluted earnings before taxes per share is less than \$2.32 (or \$2.24 if the 500,000 shares of common stock held in escrow in connection with the November 2007 private placement have been released from escrow) ("2009 Guaranteed Diluted EBT"), 2,250,000 of such shares (the "2009 Make Good Shares") are to be released pro rata to the May 2008 Investors. Should the Company successfully satisfy these respective financial milestones, the 2008 Make

Good Shares and 2009 Make Good Shares will be returned to Mr. Cao. In addition, Mr. Cao is required to deliver shares of common stock owned by him to the Investors on a pro rata basis equal to the number of shares (the "Settlement Shares") required to satisfy all costs and expenses associated with the settlement of all legal and other matters pertaining to the Company prior to or in connection with the completion of the Company's October 2007 share exchange in accordance with formulas set forth in the May 2008 Securities Purchase Agreement (post 40-to-1 reverse split). The Company has concluded that both thresholds for the years ended June 30, 2009 and June 30, 2008 have been met. The make good shares have yet to be returned to Mr. Cao.

The security purchase agreement set forth permitted indebtedness which the Company's lease obligations and purchase money indebtedness is limited up to \$1,500,000 per year in connection with new acquisition of capital assets and lease obligations. Permitted investment set forth with the security purchase agreement limits capital expenditure of the Company not to exceed \$5,000,000 in any rolling 12 months.

Pursuant to a Registration Rights Agreement, the Company agreed to file a registration statement covering the resale of the shares of common stock underlying the May 2008 Notes and Warrants, (ii) the 2008 Make Good Shares, (iii) the 2009 Make Good Shares, and (iv) the Settlement Shares. The Company must file an initial registration statement covering the shares of common stock underlying the Notes and Warrants no later than 45 days from the closing of the Financing and to have such registration statement declared effective no later than 180 days from the closing of the Financing. If the Company does not timely file such registration statement or cause it to be declared effective by the required dates, then the Company will be required to pay liquidated damages to the Investors equal to 1.0% of the aggregate May 2008 Purchase Price paid by such Investors for each month that the Company does not file the registration statement or cause it to be declared effective. Notwithstanding the foregoing, in no event shall liquidated damages exceed 10% of the aggregate amount of the May 2008 Purchase Price. The Company satisfied its obligations under the Registration Rights Agreement by filing the required registration statement and causing it to be declared effective within the time periods set forth in the Registration Rights Agreement.

During the three and six months ended December 31, 2010, the Company issued 62,500 and 1,000,000 shares of its common stock upon conversion of \$500,000 and \$8,000,000 May 2008 Notes, respectively. As of December 31, 2010, a total of \$16,120,000 May 2008 Notes has been converted into common shares.

The above two convertible debenture liabilities are as follows:

	December 31, 2010	June 30, 2010
November 2007 convertible debenture note payable	\$ 3,500,000	\$ 4,000,000
May 2008 convertible debenture note payable	13,880,000	21,880,000
Total convertible debenture note payable	17,380,000	25,880,000
Less: Unamortized discount on November 2007 convertible debenture note payable	-	(1,255,430)
Less: Unamortized discount on May 2008 convertible debenture note payable	(4,172,977)	(12,414,322)
Convertible debentures, net	\$ 13,207,023	\$ 12,210,248

#### Interest and penalty

As a result of the delay in its ability to transfer cash out of the PRC (partially due to the stricter foreign exchange restrictions and regulations imposed in the PRC starting in December 2008), the Company became delinquent on the payment of interest under the November 2007 Debentures and May 2008 Notes in December 2009. In February 2010, the Company and the majority November 2007 Debentures and May 2008 Notes holders entered to a waiver agreement regarding the delinquent interest payment; the waiver agreement required the Company to make the delinquent interest payments by February 25, 2010 and to have its common stock listed on the NASDAQ stock market on or prior to April 15, 2010. The Company was not able to meet the waiver letter requirements and has continued dialogue with the November 2007 Debentures and May 2008 Notes holders. As of September 30, 2010 and through the date of this filing, no formal event of default notice has been presented by the November 2007 Debentures and May 2008 Notes holders. Accrued interest and related interest penalty as of December 31, 2010 amounted to \$6,233,905.

On January 19, 2011, the Company and the Company and the majority November 2007 Debentures and May 2008 Notes holders (the "Holder") entered into a Letter Agreement (the "Letter Agreement") whereby the Company agreed to issue a total of 886,277 shares of its common stock to the Holder and other May 2008 Notes holder by January 20, 2011 for all accrued interest and related interest penalty and the Holder agreed to waive the events of Default provisions set forth in the November 2007 Debentures and May 2008 Notes. Of the 886,277 shares, 366,038 shares are related to accrued interest and 520,229 shares are related to penalties. The Holder also agreed to extend the due date of the November 2007 Debentures to February 28, 2011.

Note 12 - Shareholders' equity

Common stock

In July 2010, the Company issued 3,250 shares of common stock to a consultant for services. The Company valued these shares at the fair market value on the service contract date of \$8.40 per share, or \$27,300 in total, based on the trading price of common stock. For the six months ended December 31, 2010, the Company recorded stock-based compensation expense of \$27,300 related to this issuance accordingly.

In July 2010, the Company issued 562,500 shares of its common stock in connection with the conversion of \$4,500,000 of May 2008 Notes. In connection with the conversion, the Company recorded \$2,636,210 in interest expense to fully amortize the unamortized discount and deferred financing costs related to the converted dentures.

In August 2010, the Company issued 125,000 shares of its common stock in connection with the conversion of \$1,000,000 of May 2008 Notes. In connection with the conversion, the Company recorded \$541,033 in interest expense to fully amortize the unamortized discount and deferred financing costs related to the converted dentures.

In September 2010, the Company issued 250,000 shares of its common stock in connection with the conversion of \$2,000,000 of May 2008 Notes. In connection with the conversion, the Company recorded \$999,286 in interest expense to fully amortize the unamortized discount and deferred financing costs related to the converted dentures.

In September 2010, the Company issued 1,450 shares of common stock to the Company's Chairman as director fee. The Company valued these shares at the fair market value on the date of grant of \$7.49 per share, or \$10,860 in total, based on the trading price of common stock. For the six months ended December 31, 2010, the Company recorded stock based compensation expense of \$10,860 related to this issuance accordingly.

In October 2010, the Company issued 62,500 shares of its common stock in connection with the conversion of \$500,000 of May 2008 Notes. In connection with the conversion, the Company recorded \$226,132 in interest expense to fully amortize the unamortized discount and deferred financing costs related to the converted dentures.

In November 2010, the Company issued 62,500 shares of its common stock in connection with the conversion of \$500,000 of November 2007 Debentures. The Company did not record interest expense as the debenture discount and deferred financing costs related to the converted dentures have been fully amortized prior to the conversion.

In November 2010, the Company in connection with the settlement (see Note 19) with China West II, the Company issued 22,500 shares of its common stock and the shares were valued at fair market value on the date of settlement at \$6.71 per share or \$150,976 in total, based on the trading price of the common stock. For the six months ended December, 2010, the Company recorded settlement income of approximately \$91,000 related to this settlement.

In December 2010, the Company issued a total of 7,950 shares of common stock to four of the Company's director, officers and employees. as director fee. The Company valued these shares at the fair market value on the date of grant of \$5.72 per share, or \$45,471 in total, based on the trading price of common stock. For the six months ended December 31, 2010, the Company recorded stock based compensation expense of \$45,474 related to this issuance accordingly.

#### Registered capital contribution receivable

At inception, Karmoya issued 1,000 shares of common stock to its founder. The shares were valued at par value. On September 20, 2007, the Company issued 9,000 shares of common stock to nine individuals at par value. The balance of \$10,000 is shown as capital contribution receivable on the accompanying consolidated financial statements. As part of its agreements with the shareholders, the Company was to receive the \$10,000 in October 2007. As of December 31, 2010, the Company has not received the \$10,000.

Union Well was established on May 9, 2007, with a registered capital of \$1,000. In connection with Karmoya's acquisition of Union Well, the registered capital of \$1,000 is reflected as capital contribution receivable on the accompanying consolidated financial statements. The \$1,000 was due in October 2007, however, as of December 31, 2010, the Company has not received the \$1,000.



Note 13 - Warrants

In connection with the \$5,000,000 November 2007 Convertible Debenture, 6% convertible subordinated debentures note, the Company issued a three-year warrant to purchase 250,000 shares of common stock, at an exercise price of \$12.80 per share. The calculated fair value of the warrants granted with this private placement was computed using the Black-Scholes option-pricing model. Variables used in the option-pricing model include (1) risk-free interest rate at the date of grant (4.5%), (2) expected warrant life of 3 years, (3) expected volatility of 197%, and (4) zero expected dividends. In connection with the May 2008 financing, the exercise price of outstanding warrants issued in November 2007 was reduced to \$8 per share and the total number of warrants to purchase common stock was increased to 400,000. The 400,000 warrants were expired in November 2010.

In connection with the \$30,000,000 May 2008 Convertible Debenture, 6% convertible subordinated debentures note, the Company issued a five-year warrant to purchase 1,875,000 shares of common stock, at an exercise price of \$10 per share. The calculated fair value of the warrants granted with this private placement was computed using the Black-Scholes option-pricing model. Variables used in the option-pricing model include (1) risk-free interest rate at the date of grant (4.5%), (2) expected warrant life of 5 years, (3) expected volatility of 95%, and (4) zero expected dividends.

On February 15, 2009, the Company granted 40,000 stock warrants to a consultant at an exercise price of \$6.00 per share exercisable for a period of three years. The warrants fully vest on July 15, 2009. The fair value of this warrant grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions: (1) risk-free interest rate at the date of grant (1.83%), (2) expected warrant life of three years, (3) expected volatility of 106%, and (4) zero expected dividends. In connection with these warrants, the Company recorded stock-based compensation expense of \$126,616 for the six months ended December 31, 2009.

A summary of the warrants as of December 31, 2010, and changes during the period are presented below:

	Number of Warrants
Outstanding as of June 30, 2009	2,315,000
Granted	-
Forfeited	-
Exercised	-
Outstanding as of June 30, 2010	2,315,000
Granted	-
Forfeited	400,000
Exercised	-
Outstanding as of December 31, 2010 (unaudited)	1,915,000

The following is a summary of the status of warrants outstanding at December 31, 2010:

Exercise Price	Outstanding Warrants		Exercisable Warrants		
	Number	Average Remaining Contractual Life (Years)	Average Exercise Price	Number	Average Remaining Contractual Life (Years)
\$ 6.00	40,000	1.13	\$ 6.00	40,000	1.13
\$ 10.00	1,875,000	2.42	\$ 10.00	1,875,000	2.42
<b>Total</b>	<b>1,915,000</b>			<b>1,915,000</b>	

The Company has 1,915,000 warrants outstanding and exercisable at an average exercise price of \$9.92 per share as of December 31, 2010.

#### Note 14 - Stock options

On July 1, 2007, 133,400 options were granted and the fair value of these options was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Expected Life	Expected Volatility	Dividend Yield	Risk Free Interest Rate	Grant Date Fair Value
Former officers	3.50 years	195%	0%	4.50%	\$ 5.20

Those options were expired in December 2010.

On June 10, 2008, 7,500 options were granted and the fair value of these options was estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Grant Date

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	Expected Life	Expected Volatility	Dividend Yield	Risk Free Interest Rate	Average Fair Value
Current officer	5 years	95%	0%	2.51%	\$ 8.00

As of December 31, 2010, 7,500 options held by the Company's current executives, directors, and employees were fully vested.

The following is a summary of the option activity:

	Number of Options
Outstanding as of June 30, 2009	140,900
Granted	-
Forfeited	-
Exercised	-
Outstanding as of June 30, 2010	140,900
Granted	-
Forfeited	133,400
Exercised	-
Outstanding as of December 31, 2010 (unaudited)	7,500

Following is a summary of the status of options outstanding at December 31, 2010:

Outstanding Options			Exercisable Options		
Average		Weighted	Average		Weighted
Exercise Price	Number	Average	Exercise Price	Number	Average
		Remaining			Remaining
		Contractual			Contractual
		Life			Life
		(years)			(years)
\$12.00	2,000	2.45	\$12.00	2,000	2.45
\$16.00	1,750	2.45	\$16.00	1,750	2.45
\$20.00	1,875	2.45	\$20.00	1,875	2.45
\$24.00	1,875	2.45	\$24.00	1,875	2.45
Total	7,500		Total	7,500	

At December 31, 2010 and June 30, 2010, there was no compensation expense recorded related to options granted as related compensation expenses has been fully charged in prior periods.

#### Note 15 - Employee pension plan

The employee pension plan in the Company generally includes two parts: the first part to be paid by the Company is 30.6% of \$128 for each qualified employee each month. The other part, paid by the employees, is 11% of \$128 each month. For the three months ended December 31, 2010 and 2009, the Company made pension contributions in the amount of approximately \$41,000 and \$17,000, respectively. For the six months ended December 31, 2010 and 2009, the Company made pension contributions in the amount of approximately \$82,000 and \$30,000, respectively.

#### Note 16 - Statutory reserves

The Company is required to make appropriations to reserve funds, comprising the statutory surplus reserve and discretionary surplus reserve, based on after-tax net income determined in accordance with generally accepted accounting principles of the People's Republic of China ("PRC GAAP"). Appropriations to the statutory surplus reserve is required to be at least 10% of the after tax net income determined in accordance with PRC GAAP until the reserve is equal to 50% of the entities' registered capital. Appropriations to the discretionary surplus reserve are made at the discretion of the Board of Directors.

The statutory surplus reserve fund is non-distributable other than during liquidation and can be used to fund previous years' losses, if any, and may be utilized for business expansion or converted into share capital by issuing new shares to existing shareholders in proportion to their shareholding or by increasing the par value of shares currently held by them, provided that the remaining reserve balance after such issue is not less than 25% of the registered capital. The discretionary surplus fund may be used to acquire fixed assets or to increase the working capital to expend on production and operation of the business.

Pursuant to the Company's articles of incorporation, the Company is required to appropriate 10% of the net profit as statutory surplus reserve up to 50% of the Company's registered capital. During the year ended June 30, 2008, the Company's statutory surplus reserve reached 50% of its registered capital, as such, no additional reserve was recorded during the six months ended December 31, 2010 and 2009.

## Note 17 - Accumulated other comprehensive income

The components of accumulated other comprehensive income is as follows:

Balance, June 30, 2009	\$ 6,523,602
Foreign currency translation gain	927,723
Unrealized gain on marketable securities	166,378
Balance, June 30, 2010	\$ 7,617,703
Foreign currency translation gain	5,418,553
Balance, December 31, 2010 (unaudited)	\$ 13,036,256

## Note 18 - Commitments and Contingencies

## Commitment

## R&amp;D Agreement

In September 2007, the Company entered into a three year Cooperative Research and Development Agreement (“CRADA”) with a provincial university. Under the CRADA, the university is responsible for designing, researching and developing designated pharmaceutical projects for the Company. Additionally, the university will also provide technical services and training to the Company. As part of the CRADA, the Company pays approximately \$3.5 million (RMB 24,000,000) plus out-of-pocket expenses to the university annually and provide internship opportunities for students of the university. The Company has the primary ownership of the designated research and development project results. As of December 31, 2010, the remaining unpaid amount was approximately \$152,000 (RMB1,000,000).

In November 2007, the Company entered into a five year CRADA with a research institute. Under this CRADA, the institute is responsible for designing, researching and developing designated pharmaceutical projects for the Company. Additionally, the university will also provide technical services and training to the Company. As part of the CRADA, the Company pays approximately \$910,000 (RMB 6,000,000) to the institute annually. The Company has the primary ownership of the designated research and development project results.

For the three months ended December 31, 2010 and 2009, approximately \$232,000 and \$1,100,000, respectively was incurred as research and development expense. For the six months ended December 31, 2010 and 2009, approximately \$1,193,000 and \$2,200,000, respectively was incurred as research and development expense. As of December 31, 2010, the Company’s future estimated payments to the remaining one CRADA amounted to approximately \$1.7 million.

## Contingencies

## Delinquent in the Payment of Interest and required to repay November 2007 Debenture and May 2008 Notes

As discussed in Note 11, the Company became delinquent in the payment of interest on its November 2007 Debenture and May 2008 Notes in December 2009. To date, the Company has remained unable to make these payments. Additionally, the Company will be required to repay the then outstanding aggregate principal amount of the November 2007 Debentures, together with all accrued interest and penalties, on November 30, 2010 and repay the May 2008 Notes then outstanding aggregate principal amount, together with all accrued interest and penalties, on May 30, 2011. The Company continues to be engaged in discussions with the holders of the November 2007 Debenture and the May 2008 Notes with respect to this payment delinquency. To date, the Company has not received a formal

acceleration notice under the terms of the November 2007 Debentures and May 2008 Notes, nor have any actions been taken against the Company to secure the obligations.

In the event that the Company is unable to repay the November 2007 Debentures and/or the May 2008 Notes, upon such an acceleration, or in the event that the Company is unable to repay the November 2007 Debentures and the May 2008 Notes, when due, it is likely that the debenture holders will institute legal proceedings against the Company to collect the amounts due under the November 2007 Debentures and/or the May 2008 Notes. The occurrence of any of these events would be materially adverse to the Company's ability to continue its business as it is presently conducted.

On January 19, 2011, the Company and the majority holder of the November 2007 Debentures and May 2008 Notes (the "Holder") entered into a Letter Agreements whereby the Company agreed to issue a total of 886,277 shares of its common stock to the Holder and other May 2008 Notes holders by January 20, 2011 for all accrued interest and related interest penalty and the Holder agreed to waive the events of default provisions set forth in the November 2007 Debentures and May 2008 Notes. The Holder also agreed to extend the due date of the November 2007 Debentures to February 28, 2011.

## Operations based in the PRC

The Company's operations are carried out in the PRC. Accordingly, the Company's business, financial condition, and results of operations may be influenced by the political, economic, and legal environments in the PRC, and by the general state of the PRC's economy.

The Company's operations in the PRC are subject to specific considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic, and legal environments, and foreign currency exchange. The Company's results may be adversely affected by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among others.

## Legal proceedings

### China West II, LLC and Genesis Technology Group, Inc., n/k/a Jiangbo Pharmaceuticals, Inc. (Arbitration)

In April 2010, China West II, LLC ("CW II") filed a Demand For Arbitration with the American Arbitration Association on the case of CW II and Genesis Technology Group, Inc. n/k/a Jiangbo Pharmaceuticals, Inc. In that matter, CW II seeks repayment and interest on a \$142,500 promissory note dated August 3, 2007 made by Genesis Equity Partners II LLC ("GEP"), a subsidiary of the Company prior to the October 2007 reverse merger, and guaranteed by the Company. In November 2010, the Company signed a settlement agreement with CW II. The Company agreed to issue 22,500 shares of its common stock to CW II and CW II agreed to pay the Company \$25,000 in cash. The Company and CW II generally and fully released each other from all claims and liabilities. In connection with the settlement, the Company recorded approximately \$91,000 settlement gain.

## Note 19- Subsequent events

We are required to repay the November 2007 Debenture on or prior to February 28, 2011 and the May 2008 Notes on or prior to May 30, 2011.

On February 28, 2011, we will be required to repay the then outstanding aggregate principal amount of the November 2007 Debenture, together with all accrued interest. On May 30, 2011, we will be required to repay the then outstanding aggregate principal amount of the May 2008 Notes, together with all accrued interest. While we believe that we will be able to timely and successfully repay or refinance the November 2007 Debenture and the May 2008 Notes, there can be no assurance that we will be able to do so. In the event that we are unable to repay the November 2007 Debenture, when due, the required holders of the May 2008 Notes may deliver an acceleration notice to the Company with respect to the May 2008 Notes. In the event that we are unable to timely repay the November 2007 Debenture and/or the May 2008 Notes, we may be forced to seek protection under the United States Bankruptcy Code.

On January 19, 2011, the Company and the majority holder of the November 2007 Debentures and May 2008 Notes (the "Holder") entered into a Letter Agreement whereby the Company agreed to issue a total of 886,277 shares of its common stock to the Holder and other May 2008 Notes holders by January 20, 2011 for all accrued interest and related interest penalty and the Holder agreed to waive the events of default provisions set forth in the November 2007 Debentures and May 2008 Notes. The Holder also agreed to extend the due date of the November 2007 Debentures to February 28, 2011.



## CAUTIONARY NOTICE REGARDING FORWARD-LOOKING INFORMATION

All statements contained in this Quarterly Report on Form 10-Q (“Form 10-Q”) for Jiangbo Pharmaceuticals, Inc., 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: international, 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. As used in this Form 10-Q, unless the context requires otherwise, “we,” “us,” “Jiangbo” or the “Company” means Jiangbo Pharmaceuticals, Inc. and its subsidiaries.

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

The following discussion and analysis of the results of operations and financial condition of Jiangbo Pharmaceuticals, Inc. for the three months and six months ended December 31, 2010 and 2009 should be read in conjunction with Jiangbo’s financial statements and the notes to those financial statements that are included elsewhere in this Quarterly Report on Form 10-Q. Our discussion includes forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the Risk Factors, and Cautionary Notice Regarding Forward-Looking Statements in this Form 10-Q. We use words such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend,” “may,” “will,” “should,” “could,” and similar expressions to identify forward-looking statements.

## OVERVIEW

We were incorporated on August 15, 2001, in the State of Florida under the name Genesis Technology Group, Inc.

Pursuant to a Certificate of Amendment to our Amended and Restated Articles of Incorporation filed with the State of Florida which took effect as of April 16, 2009, our name was changed from "Genesis Pharmaceuticals Enterprises, Inc." to "Jiangbo Pharmaceuticals, Inc." (the "Corporate Name Change"). The Corporate Name Change was approved and authorized by our Board of Directors as well as our holders of a majority of the outstanding shares of voting stock by written consent.

As a result of the Corporate Name Change, our stock symbol changed to "JGBO" with the opening of trading on May 12, 2009, on the OTC Bulletin Board.

## RESULTS OF OPERATIONS

Comparison of six months and three months ended December 31, 2010 and 2009

The following table sets forth the results of our operations for the periods indicated as a percentage of total net sales (\$ in thousands):

	Three Months Ended December 31,				Six Months Ended December 31,			
	2010	% of Revenue	2009	% of Revenue	2010	% of Revenue	2009	% of Revenue
SALES	\$ 23,421	100.00%	\$ 18,180	100.00%	\$ 51,090	100.00%	\$ 42,564	100.00%
COST OF SALES	6,600	28.18%	4,667	25.67%	14,261	27.91%	10,927	25.67%
GROSS PROFIT	16,821	71.82%	13,513	74.33%	36,829	72.09%	31,637	74.33%
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,617	15.44%	5,259	28.93%	8,104	15.86%	9,601	22.56%
RESEARCH AND DEVELOPMENT	232	0.99%	1,106	6.08%	1,193	2.34%	2,206	5.18%
INCOME FROM OPERATIONS	12,972	55.39%	7,147	39.31%	27,532	53.89%	19,830	46.59%
OTHER (INCOME) EXPENSES, NET	(1,662)	(7.10)%	(151)	(0.83)%	(1,432)	(2.80)%	7,272	17.08%
INCOME BEFORE PROVISION FOR INCOME TAXES	14,634	62.48%	7,298	40.14%	28,964	56.69%	12, 558	29.50%

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PROVISION FOR INCOME TAXES	3,504	14.96%	1,970	10.84%	7,260	14.21%	5,078	11.93%
NET INCOME	11,130	47.52%	5,328	29.31%	21,704	42.48%	7,480	17.57%
OTHER COMPREHENSIVE INCOME	2,507	10.70%	78	0.43%	5,419	10.61%	253	0.59%
COMPREHENSIVE INCOME	13,637	58.23%	5,406	29.74%	27,123	53.09%	7,733	18.17%

30

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REVENUES. Revenues by product categories were as follows (\$ in thousands):

Product	Six Months Ended		Increase	Increase
	December 31, 2010	2009		
Western pharmaceutical medicines	\$ 35,160	\$ 27,743	\$ 7,417	26.73%
Chinese traditional medicines	15,930	14,821	1,109	7.48%
<b>TOTAL</b>	<b>\$ 51,090</b>	<b>\$ 42,564</b>	<b>\$ 8,526</b>	<b>20.03%</b>

Product	Three Months Ended		Increase	Increase
	December 31, 2010	2009		
Western pharmaceutical medicines	\$ 16,189	\$ 12,928	\$ 3,261	25.22%
Chinese traditional medicines	7,232	5,252	1,980	37.70%
<b>TOTAL</b>	<b>\$ 23,421</b>	<b>\$ 18,180</b>	<b>\$ 5,241</b>	<b>28.83%</b>

REVENUE . During the six months ended December 31, 2010, we had revenues of \$51.1 million as compared to revenues of \$42.6 million for the six months ended December 31, 2009, an increase of \$8.5 million or approximately 20.03%. For the three months ended December 31, 2010, we had revenues of \$23.4 million as compared to revenues of \$18.2 million for the three months ended December 31, 2009, an increase of \$5.2 million or 28.83%. The overall increase in total revenue in the first six months of fiscal year 2011 was primarily due to the increase of sales of our three top selling products. Clarithromycin Sustained-released Tablets, Itopride Hydrochloride granules and Radix Isatidis Disperable Tablets, and partially offset by the decrease in the revenue generated from Baobaole chewable tablets. The three top selling products accounted for approximately 82.5% of our total revenue for the six months ended December 31, 2010. The newly launched Felodipine Sustained-released tablets also contributed to the sales increase.

The overall increase in total revenue in the second quarter of fiscal year 2011 was primarily due to a loss of production time caused by the Good Manufacture Practice (“GMP”) re-certification procedure in fiscal year 2010 which we did not experience in fiscal year 2011. The GMP re-certification procedure generally is performed by the Chinese State Food and Drug Administration, or SFDA, every five years and it required the production process to be stopped for the production lines under inspection. The re-certification procedure lasted for approximately six weeks at our main facility in the second quarter of fiscal year 2010. As a result, compared with the second quarter of fiscal year 2010, the sales of Clarithromycin Sustained-released Tablets, Baobaole Chewable Tables, and Radix Isatidis Disperable Tablets increased in the second quarter of fiscal year 2011. The newly launched Felodipine Sustained-released tablets also contributed to the sales increase for the three months ended December 31, 2010.

Although several of our major products including Clarithromycin Sustained-released Tablets, Itopride Hydrochloride granules and Baobaole chewable tablets have entered into their maturity, we believe we will be able to continue to maintain our sales at its current level. We have recently commercially launched our newly approved product Felodipine Sustained Release Tablets in September 2010 and we expect the product to be quickly accepted by the market. Additionally, our Hongrui facility renovation work was completed in October 2010 and we have recently received the GMP certificate for this facility. We expect to relaunch several of the traditional Chinese medicines acquired in the February 2009 Hongrui acquisition in the second half of fiscal 2011.

COST OF SALES by product categories were as follows (\$ in thousands):

Product	Six Months Ended		Increase	Increase
	December 31, 2010	2009		
Western pharmaceutical medicines	\$ 9,967	\$ 7,278	\$ 2,689	36.95%

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Chinese traditional medicines	4,294	3,649	645	17.68%
<b>TOTAL</b>	<b>\$ 14,261</b>	<b>\$ 10,927</b>	<b>\$ 3,334</b>	<b>30.51%</b>
	Three Months Ended			
	December 31,			
Product	2010	2009	Increase/ (Decrease)	Increase/ (Decrease)
Western pharmaceutical medicines	\$ 4,646	\$ 3,542	\$ 1,104	31.17%
Chinese traditional medicines	1,953	1,125	828	73.60%
<b>TOTAL</b>	<b>\$ 6,599</b>	<b>\$ 4,667</b>	<b>\$ 1,932</b>	<b>41.40%</b>

Cost of sales for the six months ended December 31, 2010 increased \$3.3 million or 30.51%, from \$10.9 million for the six months ended December 31, 2009 to \$14.2 million for the six months ended December 31, 2010. For the three months ended December 31, 2010, cost of sales increased \$1.9 million or 41.40%, from \$4.7 million for the three months ended December 31, 2009 to \$6.6 million for the three months ended December 31, 2010, the increase in cost of sales was primarily due to increase in our product quantities sold. The overall cost of sales as a percentage of net revenue for the six months ended December 31, 2010, was approximately 27.92% as compared to 25.67% for the six months ended December 31, 2009 and 28.18% as compared to 25.67% for the three months ended December 31, 2010 as compared to the three months ended December 31, 2009. The increase was primarily attributable to the increase in raw material prices, particularly related our Clarithromycin Sustained-released Tablets and Radix Isatidis Disperable Tablets.

GROSS PROFIT by product categories as a percentage of sales were as follows:

Product	Six Months Ended December 31,		Increase/ (Decrease)
	2010	2009	
Western pharmaceutical medicines	71.65%	73.77%	(2.12)%
Chinese traditional medicines	73.05%	75.38%	(2.33)%

Product	Three Months Ended December 31,		Increase/ (Decrease)
	2010	2009	
Western pharmaceutical medicines	71.30%	72.60%	(1.30)%
Chinese traditional medicines	72.98%	78.58%	(5.6)%

Gross profit was \$36.8 million for the six months ended December 31, 2010, as compared to \$31.6 million for the six months ended December 31, 2009, and \$16.8 million for the three months ended December 31, 2010, as compared to \$13.5 million for the three months ended December 31, 2009, representing gross margins of approximately 72.10% and 74.33% for the six months ended December 31, 2010 and 2009, and 71.82% and 74.33% for the three months ended December 31, 2010 and 2009, respectively. The decrease in the gross profit for the period ended December 31, 2010 was primarily due to increase in raw material prices, particularly related to Clarithromycin Sustained-released Tablets and Radix Isatidis Disperable Tablets, and more products with lower gross margin were sold in the western pharmaceutical medicines category.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses totaled \$7.9 million for the six months ended December 31, 2010, as compared to \$9.6 million for the six months ended December 31, 2009, a decrease of \$1.7 million or approximately 17.83%. Selling, general and administrative expenses totaled \$3.4 million for the three months ended December 31, 2010, as compared to \$5.3 million for the three months ended December 31, 2009, a decrease of \$1.9 million or approximately 35.31% as summarized below (\$ in thousands):

	Three Months Ended December		Six Months Ended December	
	31, 2010	31, 2009	31, 2010	31, 2009
Advertisement, marketing and promotion	\$ 986	\$ 2,203	\$ 2,157	\$ 3,269
Travel and entertainment - sales related	106	140	203	267
Depreciation and amortization	467	472	940	945
Shipping and handling	128	113	285	264
Salaries, wages, commissions and related benefits	1,917	1,488	3,974	3,471
Travel and entertainment - non sales related	58	24	182	107
Other	(45)	819	363	1,278
Total	\$ 3,617	\$ 5,259	\$ 8,104	\$ 9,601

The changes in these expenses during the second quarter and first six months of fiscal year 2011, as compared to the corresponding period in 2010 included the following:

- A decrease of \$1.2 million or approximately 55.24% in advertising, marketing and promotion spending for the second quarter of fiscal 2011 and a decrease of \$1.1 million or 34.02% for the first six months of fiscal 2011 as

compared to the corresponding period in fiscal 2010. The decrease in advertising, marketing and promotion spending was primarily due to fewer marketing and promotion expenses were spent for our Chinese traditional medicines in fiscal year 2011.

- Travel and entertainment - sales related expenses and depreciation and amortization expenses remained materially consistent for the second quarter and the first six months of fiscal 2011.
- Salaries, wages, commissions and related benefits increased by \$ 0.4 million or 28.83 % during the second quarter of fiscal 2011 and increased by \$0.5 million or 14.49% during the first six months of fiscal 2011 as compared to the corresponding period of fiscal 2010. The increase was primarily due to increased commissions paid to our sales representatives, and the accrued compensation to directors.

- Travel and entertainment - non sales related expenses increased by \$34,000 or 141.67% for the second quarter of fiscal 2011 and \$75,000 or 70.09% for the first six months of fiscal 2011 due to more traveling activities incurred for administrative purposes.
- For the six months ended December 31, 2011 and 2010 and for the three months ended December 2011 and 2010, shipping and handling expenses increased slightly due to more sales were generated.
- Other selling, general and administrative expenses, which include professional fees, utilities, office supplies and expenses decreased by \$0.9 million or 105.49% for the second quarter of fiscal 2011 and decreased by \$ 0.9 million or 71.60% for the first six months of fiscal 2011 as compared to the corresponding period in fiscal 2010 primarily due to a \$0.4 million bad debt expense recovery in fiscal 2011 as compared to a \$0.5 million bad debt expense in fiscal 2010.

**RESEARCH AND DEVELOPMENT COSTS.** Research and development costs, which consist of fees paid to third parties for research and development related activities conducted for the Company and cost of materials used and salaries paid for the development of the Company's products, totaled \$ 1.2 million for the six months ended December 31, 2010, a decrease of \$1.0 million or 45.92% compared with the six months ended December 31, 2009. Research and development costs totaled \$0.2 million for the three months ended December 31, 2010, were a decrease of \$0.9 million or 79.02% compared with the three months ended December 31, 2009. Research and development expenses mainly related two R&D cooperative agreements which obligated us to make monthly payments to the designated university/institute research and development projects, plus expenses incurred. The decrease in the research and development costs was primarily due to the fact that the R&D cooperative agreement with Shandong University completed in September 2010 and we do not have new R&D projects subsequent to the completion.

**OTHER (INCOME) EXPENSES.** Our other expenses consisted of financial expenses, change in fair value of derivative liabilities and other non-operating expenses (income). We had other income of \$1.4 million for the six months ended December 31, 2010 as compared to other expenses of \$7.3 million for the six months ended December 31, 2009, a decrease of \$8.7 million in expenses , or approximately 119.69%. For the three months ended December 31, 2010, we had other income of \$1.7 million as compared to \$0.2 million of other income for the three months ended December 31, 2009, an increase of \$1.5 million in other income or 1000.66%. The increase in other income for the six months ended December 31, 2010 was primarily due to the \$12.3 million gain in change in fair value of derivative liabilities related to our financings in November 2007 and May 2008 and offset by the increase in the debt discount amortization expense and financing interest and penalty expenses related to the same financings in November 2007 and May 2008.

**NET INCOME.** Our net income for the six months ended December 31, 2010 was \$21.7 million as compared to \$7.5 million for the six months ended December 31, 2009, an increase of \$14.2 million or 190.16%. The net income for the three months ended December 31, 2010 was \$11.1 million as compared to \$5.3 million for the three months ended December 31, 2009, an increase of \$5.8 million or 108.9%. The increase was primarily attributable to significant decrease in operating expenses and increase in other income.

#### LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities for the six months ended December 31, 2010 was \$26.1 million as compared to net cash provided by operating activities of \$3.2 million for the six months ended December 31, 2009. The cash provided by operating activities for the six months ended December 31, 2010 was mainly attributed to the following: 1) net income of \$21.7 million, 2) a decrease in accounts receivable of \$8.3 million, 3) an add-back of amortization on debt discount and deferred debt costs of \$9.8 million, and 4) accrued liabilities of \$1.4 million, partially offset by an increase in inventories of \$1.0 million, a decrease in other payable of \$1.2 million, a decrease in tax payable of \$1.4



million and the gain from change in fair value of derivative liabilities of \$12.3 million.

Net cash used in investing activities for the six months ended December 31, 2010 was \$0.2 million and mainly attributable to purchases and prepayments of equipments. Net cash used by investing activities for the six months ended December 31, 2009 was \$16.5 million and was mainly attributable to purchase of a land use right for future factory expansion of \$17 million.

Net cash used in financing activities for the six months ended December 31, 2010 was \$2.2 million. Net cash used in financing activities was \$2.2 million for the six months ended December 31, 2009. The net cash used in financing activities was primarily attributable to repayment of bank loans.

We reported a net increase in cash for the six months ended December 31, 2010 of \$27.3 million as compared to a net decrease in cash for the six months ended December 31, 2009 of \$15.4 million.

We have historically financed our operations and capital expenditures principally through private placements of debt and equity offerings, bank loans, and cash provided by operations. At December 31, 2010, almost all of our liquid assets were held in RMB denominations deposited in banks within the PRC. The PRC has strict rules for converting RMB to other currencies and for movement of funds from the PRC to other countries. Consequently, in the future, we may face difficulties in moving funds deposited within the PRC to fund working capital requirements in the U.S. The Company's management is currently evaluating the situation. Our working capital position increased by \$37.5 million to \$126.0 million at December 31, 2010, from \$88.5 million at June 30, 2010. This increase in working capital is primarily attributable to an increase in cash of \$27.3 million, decrease in derivative liabilities of \$14.5 million, and partially offset by decrease in net accounts receivable of \$7.0 million.

We anticipate that our working capital requirements may increase as a result of our anticipated business expansion plan necessitated by continued increase in sales, potential increases in the price of our raw materials, competition and our relationships with suppliers or customers. We believe that our existing cash, cash equivalents and cash flows from operations will be sufficient to meet our present anticipated future cash needs for at least the next 12 months. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue.

#### Contractual Obligations and Off-Balance Sheet Arrangements

##### Contractual Obligations

We have certain fixed contractual obligations and commitments that include future estimated payments. Changes in our business needs, cancellation provisions, changing interest rates, and other factors may result in actual payments differing from the estimates. We cannot provide certainty regarding the timing and amount of payments.

##### Off-balance Sheet Arrangements

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

##### Risk Factors

**Interest Rates.** Our exposure to market risk for changes in interest rates primarily relates to our short-term investments and short-term obligations; thus, fluctuations in interest rates would not have a material impact on the fair value of these securities. At December 31, 2010, we had approximately \$151.2 million in cash and cash equivalent and restricted cash. A hypothetical 2% increase or decrease in interest rates would not have a material impact on our earnings or loss, or the fair market value or cash flows of these instruments.

**Foreign Exchange Rates.** All of our sales are denominated in the Chinese Renminbi ("RMB"). As a result, changes in the relative values of U.S. Dollars and RMB affect our reported levels of revenues and profitability as the results are translated into U.S. Dollars for financial reporting purposes. Fluctuations in exchange rates between the U.S. Dollar and RMB affect our gross and net profit margins and could result in foreign exchange and operating losses.

Furthermore, we translate monetary assets and liabilities denominated in other currencies into RMB, the functional currency of our operating business. Our results of operations and cash flows are translated at average exchange rates during the period, and assets and liabilities are translated at the unified exchange rate as quoted by the People's Bank of China at the end of the period. Translation adjustments resulting from this process are included in accumulated other comprehensive income in our statements of shareholders' equity. We recorded net foreign currency gains (loss) of approximately \$5.4 million and \$197,000 for the six months ended December 31, 2010 and 2009, respectively. We have not used any forward contracts, currency options or borrowings to hedge our exposure to foreign currency exchange risk. We cannot predict the impact of future exchange rate fluctuations on our results of operations and may incur net foreign currency losses in the future.

Our financial statements are expressed in U.S. dollars but the functional currency of our operating subsidiary is the RMB. The value of your investment in our stock will be affected by the foreign exchange rates between the U.S. dollar and the RMB. To the extent we hold assets denominated in U.S. dollars, any appreciation of the RMB against the U.S. dollar could result in a change to our statements of operations and a reduction in the value of our U.S. dollar denominated assets. On the other hand, a decline in the value of RMB against the U.S. dollar could reduce the U.S. dollar equivalent amounts of our financial results, the value of your investment in our company and the dividends we may pay in the future, if any, all of which may have a material adverse effect on the price of our stock.

**Credit Risk.** We have not experienced significant credit risk, as most of our customers are long-term customers with excellent payment records. We review our accounts receivable on a regular basis to determine if the allowance for doubtful accounts is adequate at each quarter-end. We typically extend 60 to 90 day trade credit to our largest customers and we have not seen any of our major customers' accounts receivable go uncollected beyond the extended period of time or experienced any material write-off of accounts receivable in the past.

Inflation Risk. In recent years, China has not experienced significant inflation, and thus inflation has not had a material impact on our results of operations. According to the National Bureau of Statistics of China (NBS) (www.stats.gov.cn), the change in Consumer Price Index (CPI) in China was 4.7%, 5.9% and -0.7% in 2007, 2008 and 2009, respectively. Inflationary factors, such as increases in the cost of our products and overhead costs, could impair our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations to date, a high rate of inflation may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of sales revenue if the selling prices of our products do not increase with these increased costs.

#### Related Party Transactions

##### Other receivable - related parties

The Company leases two of its buildings to Jiangbo Chinese-Western Pharmacy, a company owned by the Company's Chief Executive Officer and other majority shareholders. For the three months ended December 31, 2010 and 2009, the Company recorded other income of approximately \$82,000 and \$81,000 from leasing the two buildings to this related party. For the six months ended December 31, 2010 and 2009, the Company recorded other income of approximately \$164,000 and \$161,000 from leasing the two buildings to this related party. As of December 31, 2010 and June 30, 2010, amount due from this related party was approximately \$167,000 and \$324,000, respectively.

##### Other payable - related parties

Other payable-related parties primarily consist of accrued salary payable to the Company's officers and directors, and advances from the Company's Chairman of the Board. These advances are short-term in nature and bear no interest. The amounts are expected to be repaid in the form of cash in the near term.

Other payable - related parties consisted of the following:

	December 31, 2010 (Unaudited)	June 30, 2010
Payable to Cao Wubo, Chairman of the Board	\$ 153,939	\$ 154,866
Payable to Shandong Hilead Biotechnology Co., Ltd., majority owned by Cao Wubo, Chairman of the Board and former Chief Executive Officer (1)	-	48,609
Payable to Michael Marks, Director	10,000	-
Payable to Haibo Xu, Former Chief Operating Officer and Director	-	33,688
Payable to Elsa Sung, Chief Financial Officer	22,732	5,932
Payable to Jian Ge, Director	105,000	-
Payable to Lei Huang, Director	105,000	-
Payable to Xiaowei Feng, Director	15,000	-
Payable to John Wang, Director	22,536	12,500

Total other payable - related parties	\$	434,207	\$	255,595
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(1) The Company leases two warehouses from Shandong Hilead Biotechnology Co., Ltd., a company majority owned by the Company's Chairman and former Chief Executive Officer. The rent expense related to this lease for the periods ended at December 31, 2010 and 2009 were immaterial.

On December 23, 2010, the Company advanced approximately \$104,000 to Jiangbo Chinese-Western Pharmacy, an entity that is 90% owned by Cao Wubo, the Company's Chairman, on an unsecured and interest free basis. The amount was fully repaid by Jiangbo Chinese-Western Pharmacy on December 30, 2010.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We believe that the application of the following accounting policies, which are important to our financial position and results of operations, require significant judgments and estimates on the part of management. Our critical accounting policies and estimates present an analysis of the uncertainties involved in applying a principle, while the accounting policies note to the financial statements (Note 2) describe the method used to apply the accounting principle. There have been no significant changes in the Company's critical accounting policies since June 30, 2010.

### Recent Accounting Pronouncements

In January 2010, FASB issued ASU No. 2010-01, Accounting for Distributions to Shareholders with Components of Stock and Cash. The amendments in this ASU clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this ASU are effective for interim and annual periods ending on or after December 15, 2009, and are to be applied on a retrospective basis. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements. This ASU provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This ASU provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company has determined that the adoption of this ASU will not have a material impact on its consolidated financial statements.

In July 2010, the FASB issued Accounting Standards Update 2010-20 which amends "Receivables" (Topic 310). ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative

disclosures for those reporting periods ending after initial adoption. The Company does not anticipate ASU 2010-20 to have a material impact on its consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-28 which amend “Intangibles- Goodwill and Other” (Topic 350). The ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting entities, they are required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. An entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance in Topic 350, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances changes that would more likely than not reduce the fair value of a reporting unit below its carrying amount. ASU 2010-28 is effective for fiscal years, and interim periods within those years beginning after December 15, 2010. Early adoption is not permitted. The Company is currently evaluating the impact of this ASU; however, the Company does not expect the adoption of this ASU will have a material impact on its consolidated financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-29 which address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations (Topic 805). This ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This ASU also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. ASU 2010-29 is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company is currently evaluating the impact of this ASU and expected the adoption of this ASU will have an impact on its future business combinations.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

### Item 4T. Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures.

Disclosure controls and procedures are the Company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Due to the inherent limitations of control systems, not all misstatements may be detected. These inherent limitations include the realities that judgments in decision-making can be faulty and the breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. Controls and procedures can only provide reasonable, not absolute, assurance that the above objectives have been met.

As of the end of the Company's second quarter ended December 31, 2010 covered by this report, the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) of the Exchange Act. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2010, due to the significant deficiencies that we identified in internal control over financial reporting in our annual report on Form 10-K for the fiscal year ended June 30, 2010 (the "Form 10-K").

#### Remediation Measures of Significant Deficiencies

We have implemented, or plan to implement, the measures described below under the supervision and guidance of our management to remediate the control deficiencies identified in the Form 10-K and to strengthen our internal controls over financial reporting. Key elements of the remediation effort include, but are not limited to, the following initiatives, which have been implemented, or are in the process of implementation, as of the date of filing of this interim report:

- 1.



We have started training our internal accounting staff on US GAAP and financial reporting requirements. Additionally, we are also taking steps to hire additional senior US GAAP financial reporting personnel to ensure we have adequate resources to meet the requirements of segregation of duties.

2. We have involved both internal accounting and operations personnel and a reputable outside independent consultants with US GAAP technical accounting expertise in the evaluation process and providing remediation plans for our internal controls a complex, non-routine transaction to obtain additional guidance as to the application of generally accepted accounting principles to such a proposed transaction. As of June 30, 2010, the internal control consultants have completed initial evaluation and provided remediation plans to our senior management. We are currently in the process of modifying and implementing new policies and procedures within the financial reporting process.
3. We have continued to evaluate the internal audit function in relation to the Company's financial resources and requirements. We have established an internal audit department and the department have started evaluating the Company's current internal control over financial reporting process. To the extent possible, we will provide necessary trainings to our internal audit staff and implement procedures to assure that the initiation of transactions, the custody of assets and the recording of transactions will be performed by separate individuals.

We believe that the foregoing steps will remediate the significant deficiencies identified above, and we will continue to monitor the effectiveness of these steps and make any changes that our management deems appropriate to insure that the foregoing do not become material weaknesses. We plan to fully implement the above remediation plan by June 30, 2011.

A material weakness (within the meaning of PCAOB Auditing Standard No. 5) is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting.

Our management is not aware of any material weaknesses in our internal control over financial reporting, and nothing has come to the attention of management that causes them to believe that any material inaccuracies or errors exist in our financial statements as of December 31, 2010. The reportable conditions and other areas of our internal control over financial reporting identified by us as needing improvement have not resulted in a material restatement of our financial statements. Nor are we aware of any instance where such reportable conditions or other identified areas of weakness have resulted in a material misstatement or omission in any report we have filed with or submitted to the Commission

(b) Changes in internal controls over financial reporting. During the six months covered by this quarterly report, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Such limitations include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures, such as simple errors or mistakes or intentional circumvention of the established process.

## PART II

### Item 1. Legal Proceedings

The Company is involved in various legal matters arising in the ordinary course of business. The following summarizes the Company's pending legal proceedings as of December 31, 2010:

#### China West II, LLC and Genesis Technology Group, Inc., n/k/a Jiangbo Pharmaceuticals, Inc. (Arbitration)

In April 2010, China West II, LLC ("CW II") filed a Demand For Arbitration with the American Arbitration Association on the case of CW II and Genesis Technology Group, Inc. n/k/a Jiangbo Pharmaceuticals, Inc. In that matter, CW II seeks repayment and interest on a \$142,500 promissory note dated August 3, 2007 made by Genesis Equity Partners II LLC ("GEP"), a subsidiary of the Company prior to the October 2007 reverse merger, and guaranteed by the Company. In November 2010, the Company signed a settlement agreement with CW II, which settlement agreement was amended and restated on January 27, 2011. The Company agreed to release from escrow 22,500 shares of its common stock to CW II and to cancel the remaining 27,500 shares of its common stock that had been held in escrow and CW II agreed to pay the Company \$25,000 in cash. The Company and CW II agreed to generally and fully release each other from all claims and liabilities. In connection with the settlement, the Company recorded approximately \$91,000 of settlement gain.

### Item 1A. Risk Factors

Except as set forth below, there are no material changes from the risk factors previously disclosed in the Annual Report on Form 10-K for the year ended June 30, 2010, filed with the SEC on September 28, 2010.

We are required to repay the November 2007 Debenture on or prior to February 28, 2011 and the May 2008 Notes on or prior to May 30, 2011.

On February 28, 2011, we will be required to repay the then outstanding aggregate principal amount of the November 2007 Debenture, together with all accrued interest. On May 30, 2011, we will be required to repay the then outstanding aggregate principal amount of the May 2008 Notes, together with all accrued interest. While we believe that we will be able to timely and successfully repay or refinance the November 2007 Debenture and the May 2008 Notes, there can be no assurance that we will be able to do so. In the event that we are unable to repay the November 2007 Debenture, when due, the required holders of the May 2008 Notes may deliver an acceleration notice to the Company with respect to the May 2008 Notes. In the event that we are unable to timely repay the November 2007 Debenture and/or the May 2008 Notes, we may be forced to seek protection under the United States Bankruptcy Code.

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

In October 2010, the Company issued 62,500 shares of its common stock in connection with the conversion of \$500,000 of May 2008 Notes. In connection with the conversion, the Company recorded \$226,132 in interest expense to fully amortize the unamortized discount and deferred financing costs related to the converted dentures.

In November 2010, the Company issued 62,500 shares of its common stock in connection with the conversion of \$500,000 of November 2007 Debentures. The Company did not record interest expense as the debenture discount and deferred financing costs related to the converted dentures have been fully amortized prior to the conversion.

In November 2010, in connection with the settlement (see Note 18) with China West II, the Company issued 22,500 shares of its common stock and the shares were valued at fair market value on the date of settlement at \$6.71 per share or \$150,975 in total, based on the trading price of the common stock. For the six months ended December, 2010, the Company recorded settlement income of approximately \$91,000 related to this settlement.

In December 2010, the Company issued a total of 7,950 shares of common stock to four of its director, officers and employees. as director fees. The Company valued these shares at the fair market value on the date of grant at \$5.72 per share, or \$45,474 in total, based on the trading price of common stock. For the six months ended December 31, 2010, the Company recorded stock based compensation expense of \$45,474 related to this issuance accordingly.

Item 3. Defaults Upon Senior Securities

As a result of the delay in its ability to transfer cash out of PRC (partially due to the stricter foreign exchange restrictions and regulations imposed in the PRC starting in December 2008), the Company became delinquent on the payment of interest under the 6% Convertible Subordinated Debenture of the Company dated November 6, 2007 (the "November 2007 Debentures") and the 6% Convertible Notes of the Company dated May 30, 2008 (collectively, the "May 2008 Notes") in December 2009. Additionally, the Company will be required to repay the then outstanding aggregate principal amount of the November 2007 Debentures, together with all accrued interest and penalties, on November 30, 2010 and repay the aggregate principal amount of the May 2008 Notes then outstanding, together with all accrued interest and penalties, on May 30, 2011. Accrued interest and related interest penalties as of December 31, 2010 with respect to the November 2007 Debentures and the May 2008 Notes amounted to approximately \$6.3 million in total.

On January 19, 2011, the Company and the sole holder of the November 2007 Debentures and majority holder of the May 2008 Notes (the "Holder") entered into a Letter Agreement whereby the Company agreed to issue a total of 886,277 shares of its common stock to the Holder and the other holders of the May 2008 Notes holders by January 20, 2011 for all accrued interest and related interest penalty and the Holder agreed to waive the events of default provisions set forth in the November 2007 Debentures and May 2008 Notes. The Holder also agreed to extend the due date of the November 2007 Debentures to February 28, 2011.

Item 4. (Removed and Reserved.)

Item 5. Other Information.

None.

Item 6. Exhibits

No.

Description

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- 3.1 Amended and Restated Bylaws of Jiangbo Pharmaceuticals, Inc. (1)
- 10.1 Letter Agreement dated January 19, 2011 by and between Jiangbo Pharmaceuticals, Inc. and Pope Investments LLC (2)
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(1)Incorporated by reference to the Company's Current Report on Form 8-K filed on January 14, 2011.

(2)Incorporated by reference to the Company's Current Report on Form 8-K filed on January 24, 2011.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JIANGBO PHARMACEUTICALS, INC.

Date: February 22, 2011

By: /s/ Jin Linxian  
Jin Linxian  
Chief Executive Officer  
(Principal Executive Officer)

Date: February 22, 2011

By: /s/ Elsa Sung  
Elsa Sung  
Chief Financial Officer  
(Principal Accounting and Financial Officer)

EXHIBIT INDEX

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