

DRAGON PHARMACEUTICAL INC
Form 10-Q
November 14, 2008

U.S. Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

OR

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

For the transition period from _____ to _____

Commission file number 0-27937

DRAGON PHARMACEUTICAL INC.

(Exact name of registrant as specified in its charter)

Florida

65-0142474

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

650 West Georgia Street, Suite 310

Edgar Filing: DRAGON PHARMACEUTICAL INC - Form 10-Q

Vancouver, British Columbia

Canada V6B 4N9

(Address of principal executive offices)

(604) 669-8817

(Issuer's telephone number)

Not applicable

(Former address 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 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," "non-accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$0.001 Par Value - 67,066,419 shares as of November 14, 2008.

TABLE OF CONTENTS

PART I	FINANCIAL INFORMATION	
ITEM 1.	FINANCIAL STATEMENTS	4-24
ITEM 2	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	25-34
ITEM 3	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	35
ITEM 4	CONTROLS AND PROCEDURES	35
PART II	OTHER INFORMATION	
ITEM 1.	LEGAL PROCEEDINGS	35
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	35
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	36
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	36
ITEM 5.	OTHER INFORMATION	36
ITEM 6.	EXHIBITS	36-40

PART I

ITEM 1.

FINANCIAL STATEMENTS

3

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS AT SEPTEMBER 30, 2008 AND DECEMBER 31, 2007 (UNAUDITED)
Expressed in Thousands (\$ ' 000) of US Dollars Except Share Data
(Basis of Presentation Note 1)

ASSETS	Notes	September 30, 2008 (\$'000)	December 31, 2007 (\$'000)
CURRENT ASSETS			
Cash	18	1,158	4,736
Restricted cash	10,18	2,918	-
Accounts receivable, net of allowances	2	10,757	9,921
Inventories, net	3	21,576	19,090
Prepaid expenses		7,366	3,539
Due from related parties	16	1,235	940
Deferred income tax assets	15	438	579
Total Current Assets		45,448	38,805
PROPERTY AND EQUIPMENT, NET	4,9	90,855	70,189
OTHER ASSETS			
Intangible assets, net	5	1,466	1,417
Investments cost		15	14
Other assets	6	3,751	3,712
Deferred income tax assets	15	295	340
Total Other Assets		5,527	5,483
TOTAL ASSETS		141,830	114,477
Liabilities and Stockholders Equity			
CURRENT LIABILITIES			
Accounts payable		15,876	9,319
Other payables and accrued liabilities	8	22,749	20,243
Loans payable short-term	9	20,325	25,503
Notes payable	10	5,835	-
Due to related parties	16	151	106
Total Current Liabilities		64,936	55,171
LONG-TERM LIABILITIES			
Loans payable long-term	9	20,503	12,442
Total Long-Term Liabilities		20,503	12,442
TOTAL LIABILITIES		85,439	67,613
COMMITMENTS AND CONTINGENCIES (Note 13)			
STOCKHOLDERS EQUITY			
Authorized: 200,000,000 common shares at par value of \$0.001 each, common shares issued and outstanding			
2008: 67,066,419; 2007: 66,374,507			
		67	66
Additional paid-in capital		49,078	42,681
Deficit		(4,653)	(4,488)
Reserves	14	3,833	3,833
Accumulated other comprehensive income		8,066	4,796
Due from stockholders		-	(24)
Total Stockholders Equity		56,391	46,864
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY		141,830	114,477

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

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007 (UNAUDITED)
Expressed in Thousands of US Dollars (\$'000) Except Share and Per Share Data

	Notes	Three Months Ended September 30, 2008 (\$ '000)	Three Months Ended September 30, 2007 (\$ '000)	Nine Months Ended September 30, 2008 (\$ '000)	Nine Months Ended September 30, 2007 (\$ '000)
SALES	11	\$ 35,482	23,101	\$ 115,498	59,981
COST OF SALES		30,261	18,789	96,382	48,376
GROSS PROFIT		5,221	4,312	19,116	11,605
OPERATING EXPENSES					
Selling expense		982	1,083	3,101	2,024
General and administrative expenses		3,053	1,425	6,714	4,799
Research and development expenses		17	359	961	422
Depreciation and amortization		262	134	697	431
Total Operating Expenses		4,314	3,001	11,473	7,676
INCOME FROM OPERATIONS		907	1,311	7,643	3,929
OTHER INCOME / (EXPENSE)					
Interest expense		(941)	(545)	(2,642)	(1,868)
Other income	12	260	624	1,010	884
Other expense		(102)	(301)	(139)	(394)
Total other expense		(783)	(222)	(1,771)	(1,378)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES		124	1,089	5,872	2,551
INCOME TAX (EXPENSE) / RECOVERY		574	(124)	(667)	(435)
INCOME FROM CONTINUING OPERATIONS		698	965	5,205	2,116
INCOME/(LOSS) FROM DISCONTINUED OPERATIONS	7	358	(2,571)	734	(2,419)
NET INCOME/(LOSS)		1,056	(1,606)	5,939	(303)
OTHER COMPREHENSIVE INCOME					
Foreign currency translation		108	600	3,270	1,557
COMPREHENSIVE INCOME/(LOSS)		\$ 1,164	(1,006)	\$ 9,209	1,254
Earnings per share - basic					
- from continuing operations		\$ 0.01	0.01	\$ 0.08	0.03
- from discontinued operations		\$ 0.01	(0.04)	\$ 0.01	(0.04)
- net income		\$ 0.02	(0.03)	\$ 0.09	(0.01)
Earnings per share - diluted					
- from continuing operations		0.01	0.01	0.08	0.03

Edgar Filing: DRAGON PHARMACEUTICAL INC - Form 10-Q

- from discontinued operations	0.01	(0.04)	0.01	(0.04)
- net income	0.02	(0.03)	0.09	(0.01)
Weighted average number of shares				
outstanding during the period				
- basic	67,033,810	66,374,507	66,801,135	64,056,313
- diluted *	68,989,512	66,374,507	68,684,955	64,056,313

* For the three months ended September 30, 2008 and 2007, diluted weighted average number of shares outstanding include the dilutive effect of stock options of 7,790,000 and nil, respectively, and exclude the antidilutive effect of stock options of 1,970,000 and 9,975,000, respectively. For the nine months ended September 30, 2008, diluted weighted average number of shares outstanding include the dilutive effect of stock options of 7,790,000 and nil, respectively, and exclude the antidilutive effect of stock options of 1,970,000 and 9,975,000 respectively.

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

DRAGON PHARMACEUTICAL INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 (UNAUDITED)****Expressed in Thousands (\$'000) of US Dollars Except Share Data**

	Common Stock		Additional	Deficit	Reserves	Accumulated other compre- hensive income	Due from Stockholders	Total
	Shares	Amount (\$'000)	Paid-In Capital (\$'000)					
Balance, December 31, 2007	66,374,507	\$ 66	\$42,681	\$ (4,488)	\$ 3,833	\$ 4,796	\$ (24)	\$46,864
Stock options exercised (Note 14 (B))	691,912	1	166					167
Other comprehensive income								
- foreign currency translation						3,270		3,270
Stock-based compensation			127					127
Transfer from retained earnings to:								
- additional Paid-in Capital: (Note 13 (C))			6,104	(6,104)				-