Biostar Pharmaceuticals, Inc.
Form 10-Q
November 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the quarterly period ended: September 30, 2013

Or

¨ Transition Report Pursuant To Section 13 Or 15(d) Of The Securities Exchange Act Of 1934

For the transition period from _____ to _____

Commission File Number: 001-34708

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

Maryland	20-8747899
(State or other jurisdiction of incorporation of origination)	(I.R.S. Employer Identification Number)
No. 588 Shiji Xi Avenue Xianyang, Shaanxi Province People's Republic of China	712046
(Address of principal executive offices)	(Zip code)

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

(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 x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

As of November 11, 2013, the Company had 12,346,113 shares issued and outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

BIOSTAR PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	$10,551,231	$1,759,078
Accounts receivable, net of allowance for doubtful accounts of $3,743,550 (2012/12/31: $3,645,817)	13,076,519	21,851,412
Inventories - note 2)	1,214,285	847,135
Deposits and other receivables - note 3)	7,622,649	7,740,673
Income tax recoverable	157,459	265,007
Loan receivables - note 4)	10,850,990	9,510,826
Total Current Assets	43,473,133	41,974,131
Non-current Assets		
Deposits - note 3)	-	8,718,258
Deferred tax assets - note 7)	3,224,212	3,665,951
Property and equipment, net - note 2)	7,822,733	6,980,521
Intangible assets, net - note 2)	17,857,951	9,136,439
Total Assets	$72,378,029	$70,475,300
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts and other payables	$5,236,751	$5,732,329
Short-term bank loans - note 5)	4,882,893	4,755,413
Due to a related party	-	1,585,138
Value-added tax payable	518,466	629,672
Total Current Liabilities	10,638,110	12,702,552
Commitment and contingencies- note 9)		
Stockholders' Equity		
Common stock, $0.001 par value, 100,000,000 shares authorized, 12,346,113 and 9,993,549 shares issued and outstanding as at September 30, 2013 and December 31, 2012 - note 6)	12,346	9,993
Additional paid-in capital	25,240,249	23,266,776
Statutory reserve - note 8)	6,737,368	6,737,368
Retained earnings	23,446,543	23,229,743

Accumulated other comprehensive income	6,303,413	4,528,868
Total Stockholders' Equity	61,739,919	57,772,748
Total Liabilities and Stockholders' Equity	$72,378,029	$70,475,300

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

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BIOSTAR PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Sales, net	$15,009,432	$9,969,375	$41,752,195	$34,028,164
Cost of sales	8,068,096	4,729,894	21,242,519	13,379,287
Gross profit	6,941,336	5,239,481	20,509,676	20,648,877
Operating expenses:				
Advertising expenses	931,938	4,077,019	5,368,890	11,295,419
Selling expenses	2,584,700	1,932,208	7,403,334	7,203,252
Compensation paid to customers	-	-	-	7,904,513
Administrative penalty	-	1,596,174	-	1,596,174
General and administrative expenses	1,867,707	2,640,240	4,404,273	5,124,789
Research and development expenses	811,009	789,702	2,412,623	2,370,605
Impairment of intangible assets	-	-	239,203	-
Total operating expenses	6,195,354	11,035,343	19,828,323	35,494,752
Income (Loss) from operations	745,982	(5,795,862)	681,353	(14,845,875)
Other income (expense)				
Interest income	348,281	55,642	1,134,916	247,342
Interest expense	(98,111)	(1,059)	(293,320)	(33,193)
Other	370	152	(1,093)	598
	250,540	54,735	840,503	214,747
Income (Loss) before income taxes	996,522	(5,741,127)	1,521,856	(14,631,128)
Provision for income tax (recovery)	608,705	198,508	1,305,056	(1,376,356)
Net Income (Loss)	387,817	(5,939,635)	$216,800	$(13,254,772)
Foreign currency translation adjustment	1,336,712	(117,289)	1,774,545	180,992
Comprehensive Income (Loss)	$1,724,529	$(6,056,924)	$1,991,345	$(13,073,780)
Net income (loss) per share				
Basic and diluted	$0.03	$(0.63)	$0.02	$(1.41)
Weighted average number of common shares outstanding				
Basic and diluted	12,024,685	9,490,506	11,197,451	9,430,532

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

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BIOSTAR PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock - note 6)					Accumulated Other	
	Shares	Amount	Additional Capital	Statutory Reserve	Retained Earnings	Comprehensive Income	Total Stockholders' Equity
Balance, December 31, 2011 (Audited)	9,400,216	9,400	22,445,660	6,490,600	43,473,834	3,982,206	76,401,700
Stock-based compensation	593,333	593	821,116	-	-	-	821,709
Transfer to statutory reserve	-	-	-	246,768	(246,768)	-	-
Net loss for the year	-	-	-	-	(19,997,323)	-	(19,997,323)
Foreign currency translation adjustment	-	-	-	-	-	546,662	546,662
Balance, December 31, 2012 (Audited)	9,993,549	9,993	23,266,776	6,737,368	23,229,743	4,528,868	57,772,748
Stock-based compensation	750,000	750	612,897	-	-	-	613,647
Shares issued to acquire intangible assets	1,602,564	1,603	1,360,576	-	-	-	1,362,179
Net income for the nine months	-	-	-	-	216,800	-	216,800
Foreign currency translation adjustment	-	-	-	-	-	1,774,545	1,774,545
Balance, September 30, 2013 (Unaudited)	12,346,113	$ 12,346	$ 25,240,249	$ 6,737,368	$ 23,446,543	$ 6,303,413	$ 61,739,919

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

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

	Nine months ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$216,800	$(13,254,772)
Adjustments to reconcile net income to net cash provided by operating activities:		
Accrued interest	(1,072,394)	-
Deferred tax assets	533,637	(1,705,866)
Depreciation and amortization	2,026,796	1,368,205
Recognition of deferred research and development expenses	2,412,623	2,370,605
Stock-based compensation	613,647	793,633
Credits to accounts receivable as compensation to customers	-	7,904,513
Allowance for doubtful debts	-	962,399
Impairment of intangible assets	239,203	-
Changes in operating assets and liabilities:		
Accounts receivable	9,250,156	(2,547,289)
Inventories	(340,375)	392,153
Deposits and other receivables	482,525	-
Prepaid tax	-	(451,121)
Accounts payable and accrued expenses	(641,335)	1,120,998
Value-added tax payable	(126,573)	(446,986)
Income tax payable/recoverable	113,299	(1,555,225)
Exchange difference	-	11,583
Net cash provided by (used in) operating activities	13,708,009	(5,037,170)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(978,377)	(32,784)
Disposition of property and equipment	-	21,704
Deposit paid for research and development	(2,734,306)	-
Payment for acquisition of Shaanxi Weinan	-	(822,173)
Compensation received for disposed land use rights	160,842	1,760,341
Net cash (used in) provided by investing activities	(3,551,841)	927,088
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of short term loan	-	(791,176)
Repayment to a related party	(1,608,415)	-
Net cash (used in) financing activities	(1,608,415)	(791,176)
Effective of exchange rate changes on cash and cash equivalents	244,400	49,034
Net increase in cash and cash equivalents	8,792,153	(4,852,224)
Cash and cash equivalents, beginning balance	1,759,078	16,971,789
Cash and cash equivalents, ending balance	$10,551,231	$12,119,565

SUPPLEMENTAL DISCLOSURES:		
Interest received	$1,134,916	$-
Interest payments	$(189,359)	$-
Income tax payments	$(658,120)	$(2,348,336)

In April 2013, the Company acquired 13 drug approval numbers with aggregate consideration of approximately $10.2 million (note 1), consisting of approximately $8.8 million cash previously paid, which was previously classified as a deposit on December 31, 2012 (note 3), and 1,602,564 shares of the Company's common stock valued at approximately $1.4 million (note 6a).

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

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BIOSTAR PHARMACEUTICALS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - ORGANIZATION

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

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

Following to the change in registered owners of Aoxing Pharmaceutical on July 9, 2010, a set of new Agreements had been entered into with all the then existing registered owners of Aoxing Pharmaceutical on the same day.

The Agreements dated July 9, 2010 were merely replacement of the Agreements dated November 1, 2007 and therefore, there was no significant change in the contractual terms between the Agreements dated July 9, 2010 and November 1, 2007. The then existing registered owners of Aoxing Pharmaceutical, Shaanxi Biostar and Biostar had mutually agreed that no consideration would be paid / payable upon the execution of the Agreements on July 9, 2010. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Agreements.

Following to the change in registered owners of Aoxing Pharmaceutical on May 15, 2013, a set of new Agreements had been entered into with all the existing registered owners of Aoxing Pharmaceutical on the May 24, 2013.

The Agreements dated May 24, 2013 are merely replacement of the Agreements dated July 9, 2010 and therefore, there is no significant change in the contractual terms between the Agreements dated May 24, 2013, July 9, 2010 and November 1, 2007. The existing registered owners of Aoxing Pharmaceutical, Shaanxi Biostar and Biostar had mutually agreed that no consideration would be paid / payable upon the execution of the Agreements on May 23, 2013. The interest of Biostar in Aoxing Pharmaceutical was not and would not be affected by the replacement for the Agreements.

The Agreements provide that Shaanxi Biostar has controlling interest in Aoxing Pharmaceutical as defined by Accounting Standards Codification (“ASC”) 810, Consolidation, an Interpretation of Accounting Research Bulletin (“ARB”) No. 51, included in the Codification as ASC 810, Consolidation, which requires Shaanxi Biostar to consolidate the financial statements of Aoxing Pharmaceutical and ultimately consolidate with its parent company, Biostar (see Note 2 “Principles of Consolidation”).

In October 2011, Aoxing Pharmaceutical entered into and completed a Share Transfer Agreement (the "Weinan Share Transfer Agreement") to acquire Shaanxi Weinan Huaren Pharmaceuticals, Ltd. ("Shaanxi Weinan") from the holders of 100% of equity interests in Shaanxi Weinan. Therefore, Shaanxi Weinan became a wholly owned subsidiary of Aoxing Pharmaceutical. Shaanxi Weinan is engaged in manufacturing of drugs and health products.

In April 2013, Aoxing Pharmaceutical executed a supplemental agreement to the Weinan Share Transfer Agreement (the "Weinan Supplemental Agreement") with all the former equity holders of Shaanxi Weinan to acquire 13 drug approval numbers which were excluded from the Weinan Share Transfer Agreement due to incomplete reregistration. The Company acquired ownership of the 13 drug approval numbers for which reregistration has been completed in April 2013. The aggregate purchase price was approximately $10.2 million, consisting of approximately $8.8 million in cash and 1,602,564 shares of the Company's common stock, valued at approximately $1.4 million.

The Company, through its subsidiary and the Agreements with Aoxing Pharmaceutical, is engaged in the business of developing, manufacturing and marketing over-the-counter ("OTC") and prescription pharmaceutical products in the PRC.

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Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its subsidiary and variable interest entity ("VIE") for which the Company is the primary beneficiary. All inter-company accounts and transactions have been eliminated in consolidation. The Company has adopted ASC 810, Consolidation which requires a VIE to be consolidated by a company if that company has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (1) the obligation to absorb losses of the VIE or (2) the right to receive benefits from the VIE".

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

- Shaanxi Biostar has the full right to control and administer the financial affairs and daily operation of Aoxing Pharmaceutical and has the right to manage and control all assets of Aoxing Pharmaceutical. The registered owners of Aoxing Pharmaceutical as a group have no right to make any decision about Aoxing Pharmaceutical's activities without the consent of Shaanxi Biostar.

- Shaanxi Biostar is assigned all voting rights of Aoxing Pharmaceutical and has the right to appoint all directors and senior management personnel of Aoxing Pharmaceutical. The registered owners of Aoxing Pharmaceutical possess no substantive voting rights.

- Shaanxi Biostar is committed to provide financial support if Aoxing Pharmaceutical requires additional funds to maintain its operations and to repay its debts.

- Shaanxi Biostar is entitled to a management fee equal to Aoxing Pharmaceutical's net profits and is obligated to assume all operation risks and bear all losses of Aoxing Pharmaceutical. Therefore, Shaanxi Biostar is the primary beneficiary of Aoxing Pharmaceutical.

Additional capital provided to Aoxing Pharmaceutical by the Company was recorded as an interest-free loan to Aoxing Pharmaceutical. There was no written note to this loan, the loan was not interest bearing, and was eliminated during consolidation. Under the terms of the Agreements, the registered owners of Aoxing Pharmaceutical are required to transfer their ownership of Aoxing Pharmaceutical to the Company's subsidiary in the PRC when permitted by the PRC laws and regulations or to designees of the Company at any time when the Company considers it is necessary to acquire Aoxing Pharmaceutical. In addition, the registered owners of Aoxing Pharmaceutical have pledged their shares in Aoxing Pharmaceutical as collateral to secure these Agreements.

Unaudited Interim Financial Information

These unaudited interim consolidated financial statements have been prepared in accordance with GAAP for interim financial reporting and the rules and regulations of the Securities and Exchange Commission that permit reduced disclosure for interim periods. Therefore, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted. In the opinion of management, all

adjustments of a normal recurring nature necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been made. The results of operations for the interim periods presented are not necessarily indicative of the results to be expected for the year ending December 31, 2013.

The consolidated balance sheets and certain comparative information as of December 31, 2012 are derived from the audited consolidated financial statements and related notes for the year ended December 31, 2012 ("2012 Annual Financial Statements"), included in the Company's 2012 Annual Report on Form 10-K. These unaudited interim consolidated financial statements should be read in conjunction with the 2012 Annual Financial Statements.

Use of Estimates

The preparation of these condensed consolidated 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. Actual results could differ from those estimates. Estimates are used for, but not limited to, the accounting for certain items such as allowance for doubtful accounts, depreciation and amortization, impairment, inventory allowance, taxes and contingencies.

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Inventories

Inventories are valued at the lower of weighted average cost or market. Management compares the cost of inventories with the market value, and allowance is made for writing down the inventories to market value, if lower. Inventories consisted of the following:

	September 30, 2013	December 31, 2012
Raw materials	$ 741,164	$ 405,900
Work in process	50,271	125,007
Finished goods	244,761	193,145
Goods in transit	178,089	123,083
	$ 1,214,285	$ 847,135

Property and Equipment

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

Buildings	30 years
Building improvements	30 years
Machinery & equipment	5-10 years
Furniture & fixtures and vehicles	5-10 years

Property and equipment consisted of the following:

	September 30, 2013	December 31, 2012
Buildings	$ 3,634,540	$ 3,539,652
Building improvements	3,008,262	1,969,840
Machinery & equipment	1,203,161	1,167,414
Furniture & fixtures	68,530	66,741
Vehicle	133,692	130,202
Construction in progress	2,139,829	2,083,964
	10,188,014	8,957,813
Less: Accumulated depreciation	(2,365,281)	(1,977,292)
	$ 7,822,733	$ 6,980,521

As of September 30, 2013 and December 31, 2012, all buildings of Aoxing Pharmaceutical and Shaanxi Weinan have been pledged to a financial institution in the PRC to secure short term bank loans (note 5).

Intangible Assets

Intangible assets are amortized using the straight-line method over their estimated period of benefit, ranging from ten to fifty years. The Company's land use rights will expire between 2053 and 2056. The Company's proprietary technologies, including drug approvals and permits, were mainly contributed by four ex-owners of Aoxing Pharmaceutical and acquired from Shaanxi Weinan acquisition in last year. All of the Company's intangible assets are subject to amortization with estimated useful lives of:

Land use rights	50 years
Proprietary technologies	10 years

Management evaluates the recoverability of intangible assets periodically and takes into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. The Company has recorded impairment charges of $nil and $239,203 for the three and nine months ended September 30, 2013.

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

	September 30, 2013	December 31, 2012
Land use rights	$ 3,521,950	$ 3,430,002
Proprietary technologies	19,213,666	8,913,131
	22,735,616	12,343,133
Less: Accumulated amortization	(4,877,665)	(3,206,694)
	$ 17,857,951	$ 9,136,439

In April 2013, the Company acquired 13 drug approval numbers from former equity holders of Shaanxi Weinan with total consideration of approximately $10.2 million (note 1).

The estimated future amortization expenses related to intangible assets as of September 30, 2013 are as follows:

Years Ending December 31,	
2013 (3 months)	$ 556,991
2014	2,227,961
2015	2,227,961
2016	2,227,961
2017	1,197,541
Thereafter	9,419,536

As of September 30, 2013 and December 31, 2012, all land use rights of Aoxing Pharmaceutical and Shaanxi Weinan are pledged to a financial institution in the PRC to secure short term bank loans (note 5).

Recent accounting pronouncements

In February 2013, the FASB issued ASU No. 2013-02, which amends the authoritative accounting guidance under ASC Topic 220 “Comprehensive Income.” The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under generally accepted accounting principles in the United States of America (“GAAP”) to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this update are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. Adoption of this update is not expected to have a material effect on the Company’s consolidated results of operations or financial condition.

On March 4, 2013, the FASB issued ASU 2013-05, Foreign Currency Matters (Topic 830) Parent’s Accounting for the Cumulative Translation Adjustment upon De-recognition of Certain Subsidiaries or Groups of Assets within a Foreign

Entity or of an Investment in a Foreign Entity ("ASU 2013-05"). ASU 2013-05 updates accounting guidance related to the application of consolidation guidance and foreign currency matters. This guidance resolves the diversity in practice about what guidance applies to the release of the cumulative translation adjustment into net income. This guidance is effective for interim and annual periods beginning after December 15, 2013. Adoption of this update is not expected to have a material effect on the Company's consolidated results of operations or financial condition.

In July of 2013 the Financial Accounting Standards Board, or FASB issued Accounting Standards Update, or ASU, No. 2013-11, Income Taxes (Topic 740), Presentation of an Unrecognized Tax Benefit when a Net Operating Loss Carry-forward, a Similar Tax Loss, or a Tax Credit Carry-forward exists. This guidance provide that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carry-forward, except to the extent that carry-forwards are not available to settle any additional income taxes that would result from disallowance of a tax position. The unrecognized tax benefit should be presented as a liability. This guidance is applicable for fiscal years and interim periods beginning after December 15, 2013. The Company is evaluating the potential impact of adopting this standard on its consolidated financial statements.

As of September 30, 2013, there are no recently issued accounting standards not yet adopted that would have a material effect on the Company's financial statements.

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Note 3 – DEPOSITS AND OTHER RECEIVABLES

Deposits and other receivables consisted of the following:

	September 30, 2013	December 31, 2012
Current portion		
Deposits paid for research and development of new medicine	$ 3,580,787	$ 3,170,275
Deposits paid for advertising	-	475,542
Other receivables*	4,041,862	4,094,856
Prepaid expenses and other receivables	$ 7,622,649	$ 7,740,673
Non-current portion		
Deposits paid to former equity holders of Shaanxi Weinan to acquire drug approval numbers - note 1)	$ -	$ 8,718,258

* Other receivables are mainly receivable from the two land use rights disposed in year 2011.

In December 2010, the Company entered into an agreement with a research institution to jointly develop a new drug for treatment of cardiovascular disease. The development is to be carried out by the research institute. Pursuant to the agreement, the Company's total commitment is $11.5 million, in exchange for 60% share of the intellectual property upon successful development of the drug. In the event that the research institute fails to successfully develop the drug, the Company's contribution is fully refundable. As at September 30, 2013 and December 31, 2012, the Company's total accumulated contribution was approximately $11.5 and $8.8 million.

Note 4 – LOAN RECEIVABLES

On November 20, 2012, the Company advanced RMB 60 million ($9.5 million) to a third party as an unsecured commercial loan, interest bearing at 13% per annum. The principal and interest are to be repaid on December 31, 2013. As at September 30, 2013 and December 31, 2012, carrying amount of the loan receivables approximate its fair value due to short maturity.

Note 5 – SHORT-TERM BANK LOANS

Short-term bank loans consists of the followings:

Inception date	Details	Balance as at September 30, 2013	December 31, 2012
October 24, 2012	RMB 10,000,000, one year term loan, annual interest rate at 7.80%	$ 1,627,631	$ 1,585,137
November 8, 2012	RMB 10,000,000, one year term loan, annual interest rate at 7.80%	1,627,631	1,585,138
December 5, 2012	RMB 10,000,000, one year term loan, annual interest rate at 7.80%	1,627,631	1,585,138

Total	$ 4,882,893	$ 4,755,413

These loans are secured by (i) personal guarantee executed by a major shareholder of the Company and (ii) pledge of all buildings and land use rights of Aoxing Pharmaceutical and Shaanxi Weinan.

As of September 30, 2013 and December 31, 2012, the carrying amount of the short-term bank loans approximates the fair values due to short maturity.

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Note 6 – STOCKHOLDERS' EQUITY

Reverse stock split

On April 3, 2012, the Company filed Articles of Amendment to the Company's Articles of Incorporation with the Secretary of State of the State of Maryland to effect a one-for-three reverse stock split of the issued and outstanding common stock of the Company (the "Reverse Split"). Par value remained unchanged at $0.001 after the reverse split. The Reverse Split became effective on April 3, 2012. The Reverse Split was duly approved by the Board of Directors of the Company without shareholder approval, in accordance with the authority conferred by Section 2-309(e)(2) of the Maryland General Corporation Law.

In accordance with SEC Staff Accounting Bulletin Topic 4C "Equity Accounts: Changes in Capital Structure", the changes in the capital structure arising from the Reverse Split must be given retroactive effect in the balance sheet, and an appropriately cross-referenced note should disclose the retroactive treatment, explain the change made and state the date the change became effective. Unless otherwise stated, the number and price of common stocks, including warrants and options and other related disclosures made throughout these consolidated financial statements retroactively reflected the effect of such Reverse Split.

(a) Common stock

As of September 30, 2013 and December 31, 2012, the Company has 100,000,000 shares of common stock authorized, 12,346,113 and 9,993,549 shares issued and outstanding at par value of $0.001 per share.

In April 2013, the Company issued 1,602,564 shares of common stock in connection with the execution of the Weinan Supplemental Agreement, to acquire 13 drug approvals from the former equity holders of Shaanxi Weinan. (Note 1). These shares were valued at $1,362,179 or $0.85 per share, representing the fair value of the shares at the date of the execution of the Weinan Supplemental Agreement.

In August 2013, the Company issued 750,000 shares of common stock under the 2012 incentive stock plan. These shares were valued at $607,500 or $0.81 per share, representing the fair value of these shares at the date of issuance which was recorded as stock based compensation expense, which was included in general and administrative expense during the three and nine months ended September 30, 2013.

(b) Warrants

As at September 30, 2013 and December 31, 2012, the Company has 177,451 and 195,784 warrants outstanding, with weighted average exercise price of $8.95 and $8.67, respectively.

The following table summarizes the Company's outstanding warrants as of September 30, 2013 and December 31, 2012.

		Outstanding as at,	
Expiry date	Exercise Price	September 30, 2013	December 31, 2012
May 31, 2013	$ 6.00	-	18,333
June 30, 2014	8.22	10,784	10,784
November 1, 2014*	9.00	166,667	166,667
		177,451	195,784

* The Company has the right at any time, on at least forty-five (45) day written notice, to redeem the outstanding warrants at a price of three cent ($0.03) per share provided the market price of the Company's common stock equals to or exceeds $13.5 on each trading day for twenty (20) consecutive trading days ending on the trading day prior to the date that the Company intends to redeem the warrants.

(c) Stock Options

In April 2012, the Company issued 24,000 stock options under the 2011 Stock Plan to one of its officers at the exercise price of $1.68 per share. The options vest in one year and expire in five years.

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The following tables summarize activities for the Company's stock options for the nine months ended September 30, 2013 and the year ended December 31, 2012.

	Number of options	Weighted Average Exercise Price ($)	Weighted Average Remaining Life (years)
Balance, December 31, 2011	362,222	8.22	2.94
Granted, April 20, 2012	24,000	1.68	4.27
Balance, December 31, 2012	386,222	7.81	2.08
Balance, September 30, 2013	386,222	7.81	1.33
Vested as at December 31, 2012	357,777	7.40	1.59
Vested as at September 30, 2013	386,222	7.81	1.33
Unvested as at December 31, 2012	28,445	2.64	3.80
Unvested as at September 30, 2013	-	-	-

The Company recognized $nil and $28,076 for the three months ended September 30, 2013 and 2012; and $6,167 and $71,358 for the nine months ended September 30, 2013 and 2012 as stock-based compensation expense, which was included in general and administrative expense. Stock-based compensations relating to stock option has been fully recognized as at September 30, 2013.

Note 7 - INCOME TAXES

The Company was incorporated in the United States of America ("USA") and has operations in one tax jurisdiction, i.e. the PRC. The Company generated substantially all of its net income from its operations in the PRC for the three and nine months ended September 30, 2013 and 2012, and has recorded income tax provision for the periods.

Deferred Tax Assets

The deferred tax assets for the USA operation as at September 30, 2013 and December 31, 2012 consists mainly of net operating loss carry-forwards and for which a full valuation has been provided, as management believes that it is more likely than not that these assets will not be realized in the future.

Components of deferred tax assets in the PRC were as follows:

	September 30, 2013	December 31, 2012
PRC Tax benefit on net operating loss carry forward	$ 1,035,140	$ 1,146,673
Tax effect of temporary differences due to		
Taxation book value of long-term assets	$ 1,429,825	$ 1,411,563
Provision of bad debts	898,685	875,223

Provision of commission expense		785,017		764,522
Other temporary differences		(412,450)		198,285
Valuation allowance		(512,005)		(730,315)
Deferred tax asset - PRC	$	3,224,212	$	3,665,951

Uncertain Tax Positions

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

For the three and nine months ended September 30, 2013 and 2012, the Company had no unrecognized tax benefits and related interest and penalties expenses. Currently, the Company is not subject to examination by major tax jurisdictions.

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Note 8 - STATUTORY RESERVES

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

Use of the statutory reserve fund is restricted to set offs against losses, expansion of production and operation or increase in the registered capital of a company. Use of the statutory public welfare fund is restricted to the capital expenditures for the collective welfare of employees. These reserves are not transferable to the Company in the form of cash dividends, loans or advances. These reserves are therefore not available for distribution except in liquidation. As of September 30, 2013 and December 31, 2012, the Company's VIE had allocated $6,737,368 to these non-distributable reserve funds.

Note 9 - COMMITMENTS

Research and Development on clinical trials

The Company has previously entered into three agreements with certain research institutes to conduct clinical trials for two new and one existing drug. The Company's total commitment for these agreements is approximately $2.1 million. As at September 30, 2013 and December 31, 2012, the Company's total accumulated progress payment towards these clinical trials were approximately $1.3 million. Upon completion of these clinical trials, the company will be obligated to pay approximately an additional $0.8 million.

Note 10 – RISKS CONCENTRATION

The following tables illustrates the Company's risks concentration:

	Percentage of total sales during the				Percentage of total accounts receivable as at	
	Three months ended September 30,		Nine months ended September 30,		September 30,	December 31,
Customer	2013	2012	2013	2012	2013	2012
A	15 %	18 %	15 %	14 %	17 %	17 %
B	15 %	13 %	16 %	4 %	28 %	10 %
Total risks concentration	30 %	31 %	31 %	18 %	45 %	27 %

Purchase and accounts payable risks concentration

	Percentage of total purchase during		Percentage of total accounts payable as at	
	Three months ended	Nine months ended	September 30,	December 31,
Vendor	September 30,	September 30,	2013	2012

	2013		2012		2013		2012					
C	21	%	6	%	29	%	40	%	46	%	22	%
D	15	%	6	%	20	%	31	%	25	%	0	%
E	11	%	7	%	15	%	15	%	9	%	0	%
F	0	%	4	%	5	%	2	%	0	%	76	%
Total risks concentration	47	%	23	%	69	%	88	%	80	%	98	%

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Note 11 - SEGMENT INFORMATION

For the three and nine months ended September 30, 2013 and 2012, all revenues of the Company represented the net sales of pharmaceutical products. No financial information by business segment is presented. Furthermore, as all revenues are derived from the PRC, no geographic information by geographical segment is presented. All tangible and intangible assets are located in the PRC.

Note 12 – SUBSEQUENT EVENTS

Subsequent to September 30, 2013, the Company repaid the short-term bank loan of RMB 10 million ($1.6 million) due on October 24, 2013 (note 5). The short-term bank loan of RMB 10 million ($1.6 million) due on November 8, 2013 (note 5) remains outstanding as of the date of these consolidated financial statements are filed with the Securities Exchange Commissions.

No other significant events occurred subsequent to the September 30, 2013, to the date these consolidated financial statements are filed with the Securities Exchange Commissions that would have a material impact on the Company’s consolidated financial statements.

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

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

You should read the following discussion and analysis in conjunction with our unaudited financial statements contained in this report as well as the audited financial statements, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Risk Factors" contained in our Annual Report on Form 10-K, as amended to date, for the fiscal year ended December 31, 2012. We undertake no obligation and do not intend to update, revise or otherwise publicly release any revisions to our forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of any unanticipated events.

Overview

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

On March 28, 2010, we, through Shaanxi Biostar, entered into an agreement to acquire the assets of Xi'an Meipude Bio-Technology Co., Ltd., a Xi'an-based medical equipment manufacturer ("Meipude"), for RMB7.85 million ($1.2 million), including certain assets registered to a family member of an original Meipude shareholder. We took control over the assets of Meipude on March 29, 2010. To facilitate the transfer of some of the assets, however, we were required to acquire all of the outstanding equity interests of Meipude, which we subsequently applied for deregistration on January 18, 2011.

In October 2011, Aoxing Pharmaceutical entered into a Share Transfer Agreement (the "Weinan Share Transfer Agreement") to acquire Shaanxi Weinan Huaren Pharmaceuticals, Ltd. ("Shaanxi Weinan") from the holders of 100% of equity interests in Shaanxi Weinan. The aggregate purchase price is RMB 61 million (approximately $9.55 million), in cash and payable in several tranches.

Shaanxi Weinan owns drug approvals and permits for a portfolio of 99 drugs and one health product, all of which, were added to the Company's current drug portfolio following the completion of this acquisition. The Company completed this acquisition on October 25, 2011, and the name of the acquired company changed to Shaanxi Weinan Aoxing Pharmaceuticals, LLC. We are in the process of integrating the administration, operation and sales functions of Shaanxi Weinan with those of Aoxing Pharmaceutical.

We currently manufacture and sell six over-the-counter ("OTC") medicines, ten prescription-based pharmaceuticals, six health products, and one medical device which are sold and distributed in over 25 provinces and provincial-level cities throughout China. We also have exclusive supply contract with a hospital to supply three pharmaceutical products. Our best-selling product, Xin Ao Xing Oleanolic Acid Capsule ("Xin Ao Xing Capsule"), is a state-approved OTC drug

for treatment of Hepatitis B.

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Recent Developments

Nasdaq Compliance Update

On November 11, 2013, The Nasdaq Stock Market notified the Company that the Company regained compliance Rule 5550(a)(2), which requires a minimum bid price of $1.00 for continued listing on the NASDAQ Stock Market and that the matter was now closed.

Weinan Share Transfer

In April 2013, Aoxing Pharmaceutical executed a supplemental agreement to the Weinan Share Transfer Agreement (the "Weinan Supplemental Agreement") with all the former equity holders of Shaanxi Weinan to acquire 13 drug approval numbers which were excluded from the Weinan Share Transfer Agreement due to incomplete re-registration. The Company acquired ownership of the 13 drug approval numbers for which reregistration has been completed in April 2013. The aggregate purchase price was approximately $10.2 million, consisting of approximately $8.8 million in cash and 1,602,564 shares of the Company's common stock, valued at approximately $1.4 million.

Gel Capsule Related Developments

In April 2012, PRC State Food and Drug Administration (SFDA) launched an investigation of several capsule manufacturers based in Zhejiang, Hebei and Jiangxi provinces into their use of industrial gelatin, which contained impermissibly high chromium content. On May 25, 2012, following a nationwide inspection, SFDA authorities reported that 669 batches of gel capsules from 254 drug manufacturers in 28 provinces were found to have high chromium levels. The results of this inspection were publicly distributed in China, including publication on SFDA's website http://www.sda.gov.cn/WS01/CL0001. As a result, SFDA effectively suspended sales of gel capsules nationwide until the investigation was completed.

In May 2012, following an onsite inspection by the Xianyang State Food and Drug Administration (SFDA), samples from a batch of our Xin Aoxing capsules were found to contain chromium content higher than edible gelatin. Specifically, samples from a batch of 150 cases of the Xin Aoxing capsules (each of the 150 cases contains 8,000 capsules), representing Biostar sales of approximately RMB1,188,000 or approximately $188,000 were also found to contain high levels of chromium, which capsules, in the Company's estimation, were sold in the market in mid-2011. The Company did not check the batch in question for the chromium levels at that time since PRC pharmaceutical companies were not required to test their gel capsule inventories and purchases for chromium levels in 2011.

As required by SFDA in April 2012, the Company purchased gel capsule inspection equipment to measure the chromium levels in gel capsules it used. The Company also undertook a thorough inspection of all samples of drugs sold and its current product inventory to ensure that all of the gel capsules it had purchased and currently uses comply with the SFDA chromium content requirements. In addition, the Company conducted checks of every batch of raw materials it uses in every production category and, except as discussed above, found no violations of the chromium content requirements. Further, the Company recalled all such affected capsules as promptly and thoroughly as possible, and imposed heightened quality control and assurance measures going forward.

On July 30, 2012, the SFDA approved the Company's resumption of sales of its gel capsules following a thorough inspection of raw materials used in every production category, all samples of drugs sold and the current product inventory. However, the suspension of sales of gel capsule products severely affected all China-based pharmaceutical companies that use gelatin capsules to manufacture their drugs. Negative publicity associated with the foregoing events continues to affect consumer confidence in the PRC of capsule products.

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Results of Operations

Net Sales

Three months ended September 30, 2013

For the three months ended September 30, 2013, total net sales increased by approximately $5.0 million or 50.1% compared to the same period in 2012. The increase is mainly attributed to the increase in sales volume, offset by decrease in sales price and introduction of several new products. As discussed above, our sales were significantly affected in the three months ended September 30, 2012 due to the suspension of our capsule products. The following table illustrates our sales results for the three months ended September 30, 2013 and 2012.

	Three Months Ended September 30,		Increase (Decrease) due to changes in		
	2013	2012	Product offering	Sales volume	Sales price
Aoxing Pharmaceutical Products					
Xin Aoxing Oleanolic Acid Capsule	$6,364,025	$3,026,780	$-	$4,145,564	$(808,319)
Other Aoxing Pharmaceutical products	3,927,412	3,229,972	-	665,176	32,264
New product	531,156	-	531,156	-	-
Temporarily discontinued (4 products)	-	450,974	(450,974)	-	-
Sub-total	10,822,593	6,707,726	80,182	4,810,740	(776,055)
Shaanxi Weinan Products					
Shaanxi Weinan products	1,981,235	1,961,795	-	(30,364)	49,804
New products (5 products)	447,507	-	447,507	-	-
Sub-total	2,428,742	1,961,795	447,507	(30,364)	49,804
Hospital products	1,758,097	1,295,255	-	439,884	22,958
Medical device	-	4,599	(4,599)	-	-
Total sales	$15,009,432	$9,969,375	$523,090	$5,220,260	$(703,293)

Sales of our products under the Aoxing Pharmaceutical brand increased by approximately $4.1 million, or 61.3%, for the three months ended September 30, 2013, compared to the same period in 2012. The increase is mainly attributable to the increased in sales volume of our flagship product, Xin Aoxing Oleanolic Acid Capsule, as well as other Aoxing Pharmaceutical products. We also lowered our sale price in order to increase sales. The increase was also attributable to the introduction of one product and a temporary discontinuation of four products since the first quarter in 2013. The products were temporarily discounted due to expiration of their drug approval numbers; and their re-registration was in progress at September 30, 2013.

Sales of Shaanxi Weinan’s product increased by approximately $0.5 million or 23.8% for the three months ended September, 2013 compared to the same period in 2012. The increase is mainly attributable to the introduction of new products.

We have also begun sales of three new products that were sold exclusively at a local hospital since the third quarter in 2012. These products accounted for approximately $1.8 and $1.3 million of total net sales for the three months ended September 30, 2013 and 2012.

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Nine months ended September 30, 2013

For the nine months ended September 30, 2013, total net sales increased by approximately $7.7 million or 22.7% compared to the same period in 2012. The increase is mainly attributed to the increase in sales volume, offset by decrease in sales price and introduction of several new products. As discussed above, our sales were significantly affected in the nine months ended September 30, 2012 due to the suspension of our capsule products. The following table illustrates our sales results for the nine months ended September 30, 2013 and 2012.

	Nine Months Ended September 30,		Increase (Decrease) due to changes in		
	2013	2012	Product offering	Sales volume	Sales price
Aoxing Pharmaceutical Products					
Xin Aoxing Oleanolic Acid Capsule	$17,917,185	$16,310,838	$-	$4,753,946	$(3,147,599)
Other Aoxing Pharmaceutical products	10,202,781	9,640,485	-	1,247,294	(684,998)
New product	1,144,900	-	1,144,900	-	-
Temporarily discontinued (4 products)	-	1,457,834	(1,457,834)	-	-
Sub-total	29,264,866	27,409,157	(312,934)	6,001,240	(3,832,597)
Shaanxi Weinan Products					
Shaanxi Weinan products	5,484,980	5,305,493	-	197,461	(17,974)
New products (5 products)	1,343,944	-	1,343,944	-	-
Sub-total	6,828,924	5,305,493	1,343,944	197,461	(17,974)
Hospital products	5,658,405	1,295,255	-	4,340,192	22,958
Medical device	-	18,259	(18,259)	-	-
Total sales	$41,752,195	$34,028,164	$1,012,751	$10,538,893	$(3,827,613)

Sales of our products under the Aoxing Pharmaceutical brand increased by approximately $1.9 million, or 6.8%, for the nine months ended September 30, 2013, compared to the same period in 2012. The increase is mainly attributable to the increased in sales volume of our flagship product, Xin Aoxing Oleanolic Acid Capsule, as well as other Aoxing Pharmaceutical products. We also lowered our sale price in order to increase sales. The increase is also attributable to the introduced one product and temporarily discontinuation of four products since the first quarter in 2013. The products were temporarily discounted due to expiration of their drug approval numbers; and their re-registration was in progress at September 30, 2013.

Sales of Shaanxi Weinan's product increased by approximately $1.5 million or 28.7% for the nine months ended September, 2013 compared to the same period in 2012. The increase is attributable to an increase in sales volume and introduction of new products.

We have also begun sales of three new products that were sold exclusively at a local hospital since the third quarter in 2012. These products accounted for approximately $5.7 and $ 1.3 million of total net sales for the nine months ended September 30, 2013 and 2012.

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Cost of sales

Three months ended September 30, 2013

Compared to same period in 2012, cost of sales increased by about $3.3 million or 70.6% for the three months ended September 30, 2013. This increase is mainly due to the increase in net sales and the introduction of the new hospital products. The following table summarizes our cost of goods sold for the three months ended September, 2013 and 2012:

	Three Months Ended September 30,		Increase (Decrease) due to changes in		
	2013	2012	Product offering	Sales volume	Product cost
Aoxing Pharmaceutical Products					
Xin Aoxing Oleanolic Acid Capsule	$2,633,018	$549,204	$-	$1,493,492	$590,322
Other Aoxing Pharmaceutical products	2,765,458	2,189,933	-	530,405	45,120
New product	382,269	-	382,269	-	-
Temporarily discontinued (4 products)	-	201,127	(201,127)	-	-
Sub-total	5,780,745	2,940,264	181,142	2,023,897	635,442
Shaanxi Weinan Products					
Shaanxi Weinan products	846,953	844,472	-	(10,347)	12,828
New products (5 products)	186,151	-	186,151	-	-
Sub-total	1,033,104	844,472	186,151	(10,347)	12,828
Hospital products	1,254,247	942,051	-	301,522	10,674
Medical device	-	3,107	(3,107)	-	-
Total cost of sales	$8,068,096	$4,729,894	$364,186	$2,315,072	$658,944

For the three months ended September 30, 2013, average cost of Xin Aoxing Capsule increased as we included additional products as promotional items. The increase in average product cost of other Aoxing Pharmaceutical and Shaanxi Weinan products were consistent with a 2% appreciation of RMB against US Dollars.

Cost margin of our hospital products was 71.3% and 72.7 %for the three months ended September 30, 2013 and 2012. We believe that we may lower the average cost of these products as we increase our sales and utilize economies of scale.

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Nine months ended September 30, 2013

Compared to same period in 2012, cost of sales increased by about $7.9 million or 58.8% for the nine months ended September 30, 2013. This increase is mainly due to the increase in net sales and the introduction of the new hospital products. The following table summarizes our cost of goods sold for the nine months ended September, 2013 and 2012:

	Nine Months Ended September 30,		Increase (Decrease) due to changes in		
	2013	2012	Product offering	Sales volume	Product cost
Aoxing Pharmaceutical Products					
Xin Aoxing Oleanolic Acid Capsule	$6,370,631	$3,236,039	$-	$1,690,312	$1,444,280
Other Aoxing Pharmaceutical products	7,088,358	6,131,258	-	942,196	14,904
New product	824,604	-	824,604	-	-
Temporarily discontinued (4 products)	-	675,708	(675,708)	-	-
Sub-total	14,283,593	10,043,005	148,896	2,632,508	1,459,184
Shaanxi Weinan Products					
Shaanxi Weinan products	2,357,249	2,381,593		84,739	(109,083)
New products (5 products)	566,367	-	566,367	-	-
Sub-total	2,923,616	2,381,593	566,367	84,739	(109,083)
Hospital products	4,035,310	942,051	-	3,082,585	10,674
Medical device	-	12,638	(12,638)	-	-
Total cost of sales	$21,242,519	$13,379,287	$702,625	$5,799,832	$1,360,775

For the nine months ended September 30, 2013, average cost of Xin Aoxing Capsule increased as we included additional products as promotional items. The increase in average product cost of other Aoxing Pharmaceutical and Shaanxi Weinan products were consistent with a 2% appreciation of RMB against US dollars.

Cost margin of our hospital products was 71.3% and 72.7% for the nine months ended September 30, 2013 and 2012. We believe that we may lower the average cost of these products as we increase our sales and utilize economies of scale.

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Gross Profit

Three months ended September 30, 2013

Gross profit increased by approximately $1.7million or 32.5% for the three months ended September 30, 2013, as compared to the same period in 2012. The increase in gross profit was due primarily to the increase in sales volume.

	Three Months Ended September 30,			
	2013		2012	
	Gross Profit	Product Gross Margin %	Gross Profit	Product Gross Margin%
Aoxing Pharmaceutical Products				
Xin Aoxing Oleanolic Acid Capsule	$ 3,731,007	58.6%	$ 2,477,576	81.9%
Other Aoxing Pharmaceutical products	1,161,954	29.6%	1,040,039	32.2%
New Product	148,887	28.0%	-	-
Temporarily discontinued (4 products)	-	-	249,847	55.4%
Sub-total	5,041,848	46.6%	3,767,462	56.2%
Shaanxi Weinan Products				
Shaanxi Weinan products	1,134,282	57.3%	1,117,323	57.0%
New products (5 products)	261,356	58.4%	-	-
Sub-total	1,395,638	57.5%	1,117,323	57.0%
Hospital products	503,850	28.7%	353,204	27.3%
Medical device	-	-	1,492	32.4%
Total gross profit	$ 6,941,336	46.2%	$ 5,239,481	52.6%

The overall gross profit margin decreased to 46.2% for the three months ended March 31, 2013 from 52.6% for 2012. The decrease is also due to significant change in the sales mix of our products.

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Nine months ended September 30, 2013

Gross profit decreased by approximately $0.1 million or 0.7% for the nine months ended September 30, 2013, as compared to the same period in 2012. The decrease in gross profit was due primarily to the decrease in our sale price offset by increase in sales volume.

	Nine Months Ended September 30,			
	2013		2012	
	Gross Profit	Product Gross Margin %	Gross Profit	Product Gross Margin%
Aoxing Pharmaceutical Products				
Xin Aoxing Oleanolic Acid Capsule	$ 11,546,554	64.4%	$ 13,074,799	80.2%
Other Aoxing Pharmaceutical products	3,114,423	30.5%	3,509,227	36.4%
New Product	320,296	28.0%	-	-
Temporarily discontinued (4 products)	-	-	782,126	53.6%
Sub-total	14,981,273	51.2%	17,366,152	63.4%
Shaanxi Weinan Products				
Shaanxi Weinan products	3,127,731	57.0%	2,923,900	55.1%
New products (5 products)	777,577	57.9%	-	-
Sub-total	3,905,308	57.2%	2,923,900	55.1%
Hospital products	1,623,095	28.7%	353,204	27.3%
Medical device	-	-	5,621	30.8%
Total gross profit	$ 20,509,676	49.1%	$ 20,648,877	60.7%

The overall gross profit margin decreased to 49.1% for the nine months ended September, 2013 from 60.7% for the same period in 2012. The decrease is also due to significant change in the sales mix of our products.

Operating Expenses

Three months ended September 30, 2013

	Three months ended September 30,				
	2013		2012		
	Operating expenses	% of net sales	Operating expenses	% of net sales	% change
Advertising expenses	$ 931,938	6.20%	$ 4,077,019	40.9%	(77.1%)
Selling expenses	2,584,700	17.2%	1,932,208	19.4%	33.8%
Administrative penalty	-	-	1,596,174	16.0%	(100.0%)
General and administrative expenses	1,867,707	12.4%	2,640,240	26.5%	(29.3%)
Research and development expenses	811,009	5.4%	789,702	7.9%	2.7%

Total operating expenses	$ 6,195,354	41.3%	$ 11,035,343	110.7%	(43.9%)

Total operating expense decreased by approximately $4.8 million or 43.9% for the three months ended September 30, 2013, as compared to the same period in 2012. The decrease is attributable to decrease in advertising and general and administrative expenses, offset by selling expenses. During the three months ended September 30, 2012, as a result of the developments relating to the capsule production discussed above, we paid compensation of $7.9 million to our customers for their cost of holding our products in their warehouse and portions of their lost profits during the sales suspension as well as administrative penalty of $1.6 million.

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Advertising expenses accounted for 6.2% and 40.9% of our total net sales for the three months ended September 30, 2013 and 2012, representing a decrease of approximately $3.1 million or 77.1%. As market of our products became more established, and our brands became more well-known to households, we reduced the amount spent on TV advertising.

Selling expenses consist mostly of sales salaries, commission and other selling expenses. Overall increase was approximately $0.7 million or 33.8%. The increase is consistent with the increase in our sales during the three months ended September 30, 2013 as compared to the same period in 2012.

General and administrative expenses consist of fixed cost such as salaries and wages, amortization and depreciation, stock based compensation and other general and administrative expenses. For the three months ended September 30, 2013 and 2012, general and administrative expenses were approximately $1.9 and 2.6 million.

We make periodical assessments as to the progress of our research and development projects, and charge to expense as appropriate, as these projects reach different stages or project milestones. We incurred a total of approximately $0.8 million in research and development expenses for the three months ended September 30, 2013 and 2012, respectively. Our current research developments are in connection with three ongoing clinical trials for two new products and one existing products, and a joint development of a new drug with a research institution.

Nine months ended September 30, 2013

	Nine months ended September 30,							
	2013			2012				
	Operating expenses	% of net sales		Operating expenses	% of net sales		% change	
Advertising expenses	$5,368,890	12.9	%	$11,295,419	33.2	%	(52.5	%)
Selling expenses	7,403,334	17.7	%	7,203,252	21.2	%	2.8	%
Compensation paid to customers	-	-		7,904,513	23.2	%	(100.0	%)
Administrative penalty	-	-		1,596,174	4.7	%	(100.0	%)
General and administrative expenses	4,404,273	10.5	%	5,124,789	15.1	%	(14.1	%)
Research and development expenses	2,412,623	5.8	%	2,370,605	7.0	%	1.8	%
Impairment of intangible assets	239,203	0.6	%	-	-		100.0%	%
Total operating expenses	$19,828,323	47.5	%	$35,494,752	104.3	%	(44.1	%)

Total operating expense decreased by approximately $15.7 million or 44.1% for the nine months ended September 30, 2013, as compared to the same period in 2012. The decrease is mainly attributable to decrease in advertising expenses. During the nine months ended September 30, 2012, as a result of the developments relating to the capsule production discussed above, we paid compensation of $7.9 million to our customers for their cost of holding our products in their warehouse and portions of their lost profits during the sales suspension, as well as an administrative penalty of $1.6 million.

Advertising expenses accounted for 12.9% and 33.2% of our total net sales for the nine months ended September 30, 2013 and 2012 representing a decrease of approximately $5.9 million or 52.5%. As market of our products became more established, and our brands became more well-known to households, we reduced the amount spent on TV advertising.

Selling expenses consist mostly of sales salaries, commission and other selling expenses. Overall decrease was approximately $0.2 million or 2.8%.

General and administrative expenses consist of fixed cost such as salaries and wages, amortization and depreciation, stock based compensation and other general and administrative expenses. For the nine months ended September 30, 2013 and 2012, general and administrative expenses were approximately $4.4 and $5.1 million.

We make periodical assessments as to the progress of our research and development projects, and charge to expense as appropriate, as these projects reach different stages or project milestones. We incurred a total of approximately $2.4 million in research and development expenses for the nine months ended September 30, 2013 and 2012, respectively. Our current research developments are in connection with three ongoing clinical trials for two new products and one existing products, and a joint development of a new drug with a research institution.

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Provision for Income Taxes

For the three months ended September 30, 2013 and 2012, our income tax expense were approximately $0.6 and $0.2 million. For the nine months ended September 30, 2013 our income tax expense were approximately $1.3 million and for the same period in 2012, we had income tax recovery of approximately 1.4 million. The uniform corporate income tax rate is 25% in China. The calculation of effective tax rate include the operating results of all our subsidiaries, including the U.S. corporate company.

Liquidity and Capital Resources

As of September 30, 2013, we had cash and cash equivalents of approximately $10.5 million and working capital of approximately $32.8 million. We expect to generate sufficient cash and cash equivalents from the realization of our accounts receivables of $13.1 million, as well as receipt of other receivables of approximately $4.0 million relating to the two land use rights disposed in 2011 by the end of November 2013, and maturity of the loan receivables of approximately $10 million on December 31, 2013. We believe our existing cash and cash equivalents and net working capital at September 30, 2013 will be sufficient to maintain our operations at present level for at least the next twelve months.

Subsequent to September 30, 2013, we have repaid approximately $1.6 million of the $4.8 million short-term bank loans. We have made arrangement with the issuing bank to repay the remaining amount of approximately $3.2 million in December 2013. This amount will be paid from our cash and cash equivalents on hand.

As at September 30, 2013, cash and cash equivalents were mainly denominated in RMB and were placed with banks in the PRC. These cash and cash equivalents may not be freely convertible into foreign currencies and the remittance of these funds out of the PRC may be subjected to exchange control restrictions imposed by the PRC government.

On an on-going basis, we take steps to identify and plan our needs for liquidity and capital resources, to fund our operations and day to day business operations. Our future capital expenditures will include, among others, expanding product lines, research and development capabilities, and making acquisitions as deemed appropriate.

Based on our current plans for the next 12 months, we anticipate that the sales of the Company’s pharmaceutical products will be the primary organic source of funds for future operating activities in the remaining months of 2013. However, to fund continued expansion of our operation and extend our reach to broader markets, and to acquire additional entities, as we may deem appropriate, we may rely on bank borrowing, if available, as well as capital raises. There is no assurance that we will find such funding on acceptable terms, if at all. Currently, substantially all of our buildings, building improvements and land use rights are pledged against short-term bank loans with various due dates from October to December 2013, which may restrict our abilities to obtain further bank financing until these short-term loans are repaid.

Net cash provided by operating activities for the nine months ended September 30, 2013 was approximately $13.7 million. This was primarily due to our net income of approximately $0.2 million, adjusted by a non-cash decrease in deferred tax assets of approximately $0.5 million, and non-cash related expenses including depreciation and amortization of approximately $2.0 million, research and development expenses of approximately $2.4 million and stock based compensation of approximately $0.6 million, offset by non-cash accrued interest income of $1.1 million and a net increase in working capital items of approximately $8.7 million. The net increase in working capital items was mainly due to decrease in accounts receivable.

Net cash used in investing activities for the nine months ended September 30, 2013 was approximately 3.6 million, consisting mainly of additions to property and equipment of approximately 1.0 million and deposit for research and

development of new drugs of approximately 2.7 million.

Net cash used in financing activities for the nine months ended September 30, 2013 was approximately $1.6 million, consisting repayment of an advance from a related party.

Critical Accounting Policies

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

Allowance for Doubtful Accounts

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

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The following are steps the Company takes in collecting accounts receivable:

Step 1: After the payment term has been exceeded, the Company stops taking orders from the delinquent customer and allows the responsible sales person three to nine months to collect the accounts receivable. Most of the accounts receivable will be collected in this step because the sales person's compensation is tied to sales receipts. The Company's normal sales term is 90 days credit period.

Step 2: If the sales person's collection efforts are not successful, the Company hires a collection agent and allows the agent another three to nine months to collect the accounts receivable.

Step 3: If the collection agent's efforts are not successful, the Company will commence legal action to collect the accounts receivable.

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

1. If after taking legal action, it appears that an accounts receivable is not likely to become collectible, such accounts receivable will be written off if it is more than two years old.

2. If during the collection period, the customer provides bankruptcy or other insolvency documentation, the corresponding accounts receivable will be written off.

3. If we are no longer able to locate a particular customer in order for us to take any collection or legal actions, the accounts receivable for such customer will be written off if it is more than two years old.

Inventory

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

Property and Equipment

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

Stock-Based Compensation

Our stock-based compensation expense is estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model and is recognized as expense over the requisite service period. The BSM model requires various highly judgmental assumptions including expected volatility and option life. Changes in these assumptions could materially impact the financial position and results of operations.

Valuation of Intangibles

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

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Research and Development

The remuneration of the Company's research and development staff, materials used in internal research and development activities, and payments made to third parties in connection with collaborative research and development arrangements, are all expensed as incurred. Where the Company makes a payment to a third party to acquire the right to use a product formula which has received regulatory approval, that payment is accounted for as the acquisition of a license or patent and is capitalized as an intangible asset and amortized over the shorter of the remaining license period or patent life (See above "Intangible Assets").

Income Taxes

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

Foreign Currency

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

Contractual Obligations

The following table sets forth our contractual obligations as of September 30, 2013:

	Payments due by period ($ million)				
	Total	Within 1 year	1-3 years	3-5 years	>5 years
Short-term bank loan	$4.8	$4.8	$-	-	-
	0.8	0.8	-	-	-

Research and development contracts					
Total contractual obligations	$5.6	$5.6	$-	-	-

Inflation

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

Off-Balance Sheet Arrangements

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are a “smaller reporting company” as defined by Regulations S-K and as such, are not required to provide this information.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q (the “Evaluation Date”), under the supervision and with the participation of our management, including the Chief Executive Officer and Interim Chief Financial Officer (the “Certifying Officers”), have evaluated the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Certifying Officers have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective such that the material information required to be filed with our SEC reports is recorded, processed, summarized, and reported within the required time periods specified in the SEC rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

At present, the Company is not engaged in or the subject of any material pending legal proceedings.

Item 1A. Risk Factors.

We are a “smaller reporting company” as defined by Regulations S-K and as such, are not required to provide this information.

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

During the nine months ended September 30, 2013, neither the Company, nor any of its affiliated purchasers repurchased any of the Company’s securities. The Company did not sell any unregistered securities during the same fiscal period.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine safety Disclosures.

Not Applicable.

Item 5. Other Information.

None.

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Item 6. Exhibits.

3.1 Articles of Incorporation filed with the corporate secretary of State of the State of Maryland on March 27, 2007 (1)
3.2 Articles of Amendment filed with the corporate secretary of State of the State of Maryland on August 1, 2007 (1)
3.3 Articles of Amendment filed with the corporate secretary of State of the State of Maryland on September 14, 2007 (1)
3.4 Certificate of Designation for the Series B Convertible Preferred Stock as filed with the corporate secretary of State of Maryland on November 2, 2009 (2)
3.5 Articles of Amendment to the Articles of Incorporation of Biostar Pharmaceuticals, Inc. (3)
3.6 Bylaws (1)
4.1 2009 Incentive Stock Plan ** (4)
4.2 2011 Stock Option Compensation Plan (5)**
4.3 2012 Stock Option Compensation Plan (6) **
31.1 Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2 Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1 Certification of the Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *
32.2 Certification of the Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 *

101. INS XBRL Instance Document
101. SCH XBRL Taxonomy Extension Schema
101. CAL XBRL Taxonomy Calculation Linkbase
101. LAB XBRL Taxonomy Extension Label Linkbase
101. PRE XBRL Taxonomy Extension Presentation Linkbase
101. DEF XBRL Taxonomy Extension Definition Document

* Filed herewith.
** Management agreement or compensatory plan or agreement.

(1) Previously filed as an exhibit to the Company's Registration Statement on Form SB-2 (File No. 333-147363) filed with the SEC on November 13, 2007.
(2) Previously filed as an exhibit to the Company's Current Report on Form 8-K filed with the SEC on November 3, 2009.
(3) Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on April 4, 2012.
(4) Incorporated by reference from the Company's Schedule 14A filed with the SEC on October 1, 2010.
(5) Incorporated by reference from the Company's Registration Statement on Form S-8 filed with the SEC on August 17, 2012.
(6) Incorporated by reference from the Company's Proxy Statement on Schedule 14A filed with the SEC on September 21, 2012.

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SIGNATURES

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

BIOSTAR PHARMACEUTICALS, INC.
(Registrant)

Date: November 14, 2013	By:	/s/ Ronghua Wang Ronghua Wang, Chief Executive Officer and President (Principal Executive Officer)
Date: November 14, 2013	By:	/s/ Qinghua Liu Qinghua Liu, Interim Chief Financial Officer (Principal Financial and Accounting Officer)