

CHINA PHARMA HOLDINGS, INC.  
Form 10-Q/A  
March 15, 2011

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

FORM 10-Q/A  
(Amendment No. 1)

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 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 000-29523

CHINA PHARMA HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

73-1564807  
(IRS Employer  
Identification No.)

Second Floor, No. 17, Jinpan Road  
Haikou, Hainan Province, China 570216  
(Address of principal executive offices) (Zip Code)

+86 898-6681-1730 (China)  
(Issuer's telephone number, including area code)

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, 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. (Check One):

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

(Do not check if a smaller reporting company)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 43,393,644 shares of Common Stock, \$.001 par value, were outstanding as of August 5, 2010.

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## EXPLANATORY NOTE

This Amendment No. 1 to the Quarterly Report on Form 10-Q (the “Amended Form 10-Q”) of China Pharma Holdings, Inc. (the “Company”) amends the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010, filed with the Securities and Exchange Commission (the “SEC”) on August 9, 2010 (the “June 2010 Form 10-Q”).

On March 11, 2011, the Company’s management determined that the Company’s financial statements:

- for the three month period ended March 31, 2010 and 2009, included in its Quarterly Report on Form 10-Q filed with the SEC on May 10, 2010 (the “March 2010 Form 10-Q”);
- for the three- and six-month periods ended June 30, 2010 and 2009, included in the June 2010 Form 10-Q; and
- for the three- and nine-month periods ended September 30, 2010 and 2009, included in its Quarterly Report on Form 10-Q filed with the SEC on November 10, 2010 (the “September 2010 Form 10-Q”);

should no longer be relied upon due to errors in such financial statements with respect to the accounting for certain derivative instruments as discussed below.

On May 27, 2008 and on May 30, 2008, the Company issued warrants to purchase 1,250,000 shares of common stock at \$2.80 per share and warrants to purchase 300,000 shares of common stock at \$2.98 per share, respectively, exercisable for a period of three years (the “Warrants”). As described in greater detail in Note 8 to the unaudited consolidated financial statements of the Company contained in this Amended Form 10-Q (“Note 8”), the Warrants contained weighted average anti-dilution provisions that lower the exercise prices of the Warrants and increase the number of shares issuable upon exercise of the Warrants if the Company issues shares of common stock or common stock equivalents at a price per share less than the exercise price of the Warrants.

The Company was not required to account for the warrants as a derivative liability until January 1, 2009. On January 1, 2009, the Company applied the guidance of ASC Topic 815-40, Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity’s Own Stock, and it was determined that the potential adjustment to the number of shares of common stock that could be purchased upon exercise of the Warrants caused the Warrants to be a derivative liability. The application of the new guidance on January 1, 2009 resulted in the fair value of the Warrants being reclassified as a derivative liability and adjusted to their fair value at each reporting date, with the changes in the fair value recognized as a noncash expense or income.

The Company previously recognized the Warrants as permanent stockholders’ equity and recognized no adjustments to their fair value through the statements of income. However, as a result of the change in accounting principle relating to the valuation and classification of warrants as a derivative warrant liability, the Company should have accounted for the Warrants as a derivative liability beginning on January 1, 2009, should have recognized the change in accounting principle on January 1, 2009 and should have recognized subsequent changes in the fair value of the Warrants as derivative gains or losses in the statements of income.

After discussions with the Audit Committee of its Board of Directors and the Company’s independent registered public accounting firm, management has determined to:

- file an amendment to the March 2010 Form 10-Q, which will contain restated financial information for the three-month periods ended March 31, 2010 and 2009 reflecting the corrections made in response to these accounting errors;

- file this Amended Form 10-Q, which will contain restated financial information for the three- and six-month periods ended June 30, 2010 and 2009 reflecting the corrections made in response to these accounting errors; and
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- file an amendment to the September 2010 Form 10-Q, which will contain restated financial information for the three- and nine-month periods ended September 30, 2010 and 2009 reflecting the corrections made in response to these accounting errors.

As a result of the correction of the errors in its previously issued financial statements, the Company has restated its condensed consolidated balance sheets as of June 30, 2010, December 31, 2009 and June 30, 2009, its condensed consolidated statements of operations and comprehensive income for the three and six months ended June 30, 2010 and 2009, and its cash flows for the six months ended June 30, 2010 and 2009. The restatements were as follows:

	As Previously Reported	Restatement	As Restated
<b>Balance Sheet Amounts</b>			
<b>June 30, 2010</b>			
Derivative warrant liability	\$-	\$1,157,640	\$1,157,640
Total liabilities	12,675,966	1,157,640	13,833,606
Additional paid-in capital	23,981,130	(852,957 )	23,128,173
Retained earnings	72,843,772	(304,683 )	72,539,089
Total stockholders' equity	103,188,800	(1,157,640)	102,031,160
<b>December 31, 2009</b>			
Derivative warrant liability	\$-	\$2,523,148	\$2,523,148
Total liabilities	10,544,965	2,523,148	13,068,113
Additional paid-in capital	21,178,114	(852,957 )	20,325,157
Retained earnings	63,272,868	(1,670,191)	61,602,677
Total stockholders' equity	90,396,097	(2,523,148)	87,872,949
<b>June 30, 2009</b>			
Current assets	\$64,372,150	\$-	\$64,372,150
Total assets	85,928,588	-	85,928,588
Current liabilities	7,967,030	-	7,967,030
Research and development commitments	36,524	-	36,524
Derivative warrant liability	-	553,952	553,952
Total liabilities	12,675,966	553,952	13,229,918
Common stock	42,279	-	42,279
Additional paid-in capital	21,066,338	(852,957 )	20,213,381
Retained earnings	51,003,610	299,005	51,302,615
Foreign currency translation adjustment	5,812,807	-	5,812,807
Total stockholders' equity	77,925,034	(553,952 )	77,371,082
Total liabilities and stockholders' equity	85,928,588	-	85,928,588

	As Previously Reported	Restatement	As Restated
Statements of Operations and Comprehensive Income Amounts			
For the Three Months Ended June 30, 2010			
Derivative gain	\$-	\$ 807,005	\$ 807,005
Net other income (expense)	(46,230 )	807,005	760,775
Income before income taxes	5,909,668	807,005	6,716,673
Net income	5,276,249	807,005	6,083,254
Comprehensive income	5,679,502	807,005	6,486,507
Basic and diluted earnings per share	\$0.12	\$0.02	\$0.14
For the Three Months Ended June 30, 2009			
Derivative loss	\$-	\$(24,278 )	\$(24,278 )
Net other expense	(29,751 )	(24,278 )	(54,029 )
Income before income taxes	4,772,375	(24,278 )	4,748,097
Net income	4,286,144	(24,278 )	4,261,866
Comprehensive income	4,291,842	(24,278 )	4,267,564
Basic earnings per share	\$0.10	\$-	\$0.10
	As Previously Reported	Restatement	As Restated
Statements of Operations and Comprehensive Income Amounts			
For the Six Months Ended June 30, 2010			
Derivative gain	\$-	\$ 1,365,509	\$ 1,365,509
Net other income (expense)	(89,963 )	1,365,509	1,275,546
Income before income taxes	10,693,601	1,365,509	12,059,110
Net income	9,570,903	1,365,509	10,936,412
Comprehensive income	9,988,601	1,365,509	11,354,110
Basic and diluted earnings per share	\$0.22	\$0.03	\$0.25
For the Six Months Ended June 30, 2009			
Derivative loss	\$-	\$(290,075 )	\$(290,075 )
Net other expense	(57,398 )	(290,075 )	(347,473 )
Income before income taxes	8,807,744	(290,075 )	8,517,669
Net income	7,963,791	(290,075 )	7,673,716
Comprehensive income	8,056,980	(290,075 )	7,766,905
Basic and diluted earnings per share	\$0.19	\$(0.01 )	\$0.18
	As Previously Reported	Restatement	As Restated
Statements of Cash Flows Amounts			
For the six months ended June 30, 2010			
Net income	\$9,570,903	\$ 1,365,509	\$ 10,936,412
Derivative gain	-	(1,365,509)	(1,365,509)
For the six months ended June 30, 2009			
Net income	\$7,963,791	\$(290,075 )	\$7,673,716
Derivative loss	-	290,075	290,075



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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying unaudited condensed consolidated balance sheets, statements of operations and comprehensive income, and statements of cash flows and the related notes thereto, have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. The financial statements reflect all adjustments, consisting only of normal, recurring adjustments, which are, in the opinion of management, necessary for a fair presentation for the interim periods.

The accompanying financial statements should be read in conjunction with the notes to the aforementioned financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2009.

The results of operations for the three-month period ended June 30, 2010 are not necessarily indicative of the results to be expected for the entire fiscal year or any other period.

CHINA PHARMA HOLDINGS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	June 30, 2010	December 31, 2009
	(As Restated - Note 1)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$4,528,115	\$3,634,753
Trade accounts receivable, less allowance for doubtful accounts of \$2,833,981 and \$2,718,358, respectively	54,868,863	51,238,339
Other receivables, less allowance for doubtful accounts of \$8,304 and \$3,556, respectively	104,763	78,525
Advances to suppliers	2,717,044	1,798,446
Inventory	19,306,706	14,233,073
Deferred tax assets	467,274	319,820
Total Current Assets	81,992,765	71,302,956
Advances for purchases of property and equipment and intangible assets	4,072,982	3,599,949
Property and equipment, net of accumulated depreciation of \$2,418,184 and \$2,020,462, respectively	6,409,424	6,705,873
Intangible assets, net of accumulated amortization of \$1,820,516 and \$1,359,048, respectively	23,389,595	19,332,284
<b>TOTAL ASSETS</b>	<b>\$115,864,766</b>	<b>\$100,941,062</b>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities:		
Trade accounts payable	\$6,343,401	\$3,957,923
Accrued expenses	52,783	47,435
Accrued taxes payable	1,301,152	1,528,691
Other payables	59,434	58,191
Advances from customers	1,024,755	1,037,693
Other payables - related parties	75,741	75,741
Short-term notes payable	3,818,700	3,802,726
Total Current Liabilities	12,675,966	10,508,400
Long-term research and development commitments	-	36,565
Derivative warrant liability	1,157,640	2,523,148
Total Liabilities	13,833,606	13,068,113
Stockholders' Equity:		
Preferred stock, \$0.001 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-