ENPRO INDUSTRIES, INC
Form DEFA14A
March 26, 2008

SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
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Check the appropriate box:
o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o Definitive Proxy Statement
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EnPro Industries, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)
Payment of Filing Fee (Check the appropriate box):
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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

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The following slides accompanied a presentation made by officers of EnPro Industries, Inc. (EnPro) on March 26, 2008 at the Bank of America SmidCap Conference held in Boston, Massachusetts and webcast live. Replays of the presentation are not yet available.

EnPro has filed with the Securities and Exchange Commission and commenced mailing to its shareholders a definitive proxy statement for EnPro s 2008 annual meeting of shareholders. The proxy statement contains important information about EnPro and the 2008 annual meeting of shareholders. EnPro s shareholders are urged to read the proxy statement carefully. On March 25, 2008, EnPro began the process of mailing the proxy statement, together with a WHITE proxy card. Shareholders may obtain additional free copies of the proxy statement and other relevant documents filed with the Securities and Exchange Commission by EnPro through the website maintained by the Securities and Exchange Commission at *http://www.sec.gov*. Copies of the proxy statement are also be available for free at EnPro s website, *http://www.enproindustries.com*, by calling EnPro at 704-731-1552, by emailing to *investor@enproindustries.com*, or by writing to EnPro Industries, Inc., 5605 Carnegie Boulevard, Suite 500, Charlotte, North Carolina 28209, Attention: Corporate Secretary. In addition, copies of the proxy statement may be requested by contacting EnPro s proxy solicitor, MacKenzie Partners, Inc., by phone toll-free at 1-800-322-2885. EnPro and its directors, director nominees and executive officers may be deemed to be participants in the solicitation of proxies for EnPro s 2008 annual meeting, and detailed information regarding the names, affiliations and interests of these individuals is available in EnPro s proxy statement for its 2008 annual meeting of shareholders filed with the Securities and Exchange Commission on March 25, 2008.

The presentation includes references to certain financial measures which are not measures under generally accepted accounting principles in the United States. These non-GAAP financial measures are segment EBITDA, pre-asbestos operating cash flows, and adjusted earnings per share. Segment EBITDA is segment profit plus depreciation and amortization attributable to EnPro s operating segments, reduced by the profit of divested businesses and the depreciation and amortization attributable to the divested businesses. Segment profit is total segment revenue reduced by operating expenses and restructuring and other costs identifiable with the segment. Corporate expenses include general corporate administrative costs. Expenses not directly attributable to the segments, corporate expenses, net interest expense, asbestos-related expenses, gains/losses or impairments related to the sale of assets and income taxes are not included in the computation of segment profit. Pre-asbestos operating cash flow and adjusted earnings per share reflect adjustments to net cash provided by operating activities of continuing operations and diluted earnings per share from continuing operations as detailed in the reconciliations included in the presentation. Management of EnPro uses these non-GAAP financial measures in evaluating the performance of EnPro s operations. Management believes that users of EnPro s financial statements may benefit from understanding the impact of selected items, including items that may recur, on its reported net income, operating cash flows and earnings per share. This enables users to better compare EnPro with diversified industrial manufacturing companies that do not incur significant expenses related to asbestos or discontinued operations. Many such items may impact a company s reported results; this list is not intended to present all such items.

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Weighted-average common shares outstanding used in calculation of basic earnings per share	16,475,833	14,253,547
Effect of dilutive securities:		
Stock options and equivalents	71,154	1,118,559
Weighted-average common shares used in calculation of diluted earnings per share	16,547,037	15,372,106
Net income per share:		
Basic	$1.01	$0.84
Diluted	$1.01	$0.78

6. Equity and Share-based Compensation

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, Share-Based Payment ("SFAS No. 123R"), for options granted to employees and directors, using the modified prospective transition method, and therefore have not restated results from prior periods. Compensation cost for all stock-based compensation awards granted is based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Under the fair value recognition provisions of SFAS No. 123R, the Company recognizes stock-based compensation net of an estimated forfeiture rate and only recognize compensation cost for those shares expected to vest on a straight-line prorated basis over the requisite service period of the award. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") No. 107, Share-Based Payment ("SAB No. 107"), regarding the SEC's guidance on SFAS No. 123R and the valuation of share-based payments for public companies. The Company has applied the provisions of SAB No. 107 in the adoption of SFAS No. 123R.

In July 2006, the Company's stockholders approved the 2006 Stock Incentive Plan (the "2006 Plan"). The 2006 Plan, provides for the grant of stock options, restricted stock awards, and performance shares to qualified employees, officers, directors, consultants and other service providers. The 2006 Plan the Company to grant options and/or rights to purchase up to an aggregate of 1,500,000 shares of common stock. As of June 30, 2009, non-qualified options to purchase a total of 113,500 shares have been granted under the 2006 Stock Incentive Plan. All of these options were granted in October 2006. All options have an exercise price of $3.65 per share, the weighted fair market value on the date of grant was $4.25 per share. Of these 113,500, options a total of 60,500 were granted to employees and a total of 53,000 were granted to consultants. These options were valued using the Black-Scholes option-pricing model with the following assumptions: no dividends; risk-free interest rate of 4%; a contractual life of 5 years and volatility of 39%. All 113,500 options vested over various periods. As of June 30, 2009, 101,000 options were exercised on a cashless basis resulting in the issuance of a total of 75,888 shares of the Company's common stock. As of June 30, 2009, 12,500 options remained outstanding.

China Sky One Medical, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements

6. Equity and Share-based Compensation (Continued)

Options or stock awards issued to non-employees and consultants are recorded at their fair value as determined in accordance with SFAS No. 123R and EITF No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services", and recognized over the related vesting or service period. In connection with closing of the Stock Exchange Agreement, the Company agreed to grant warrants to advisors for the services they already performed for the reverse merger in July 2006, entitling them to purchase up to 500,000 shares on or before July 31, 2009, at a price of $2.00 per share (the "Advisor Warrants") and options to purchase up to 50,000 shares on or before December 20, 2008 at a price of $3.00 per share. The fair value of these warrants and options were determined to be $772,275 and deducted as expenses using the Black-Scholes option-pricing model with the following weighted assumptions: no dividends; risk-free interest rate of 4%; a contractual life of 2.5-3.5 years and volatility of 39%. The Company based its estimate of expected volatility on the historical, expected or implied volatility of similar entities whose share or option prices are publicly available.

In fiscal 2008, the holder of the Advisor Warrants exercised 200,000 of the Advisor Warrants on a cashless basis, resulting in the issuance of 166,245 shares of the Company's common stock. In the six months ended June 30, 2009, the holder of the Advisor Warrants exercised the remaining 300,000 Advisor Warrants on a cashless basis, resulting in the issuance of 261,610 shares of the Company's common stock.

In addition, in the six months ended June 30, 2009, a warrant holder exercised warrants to purchase 8,334 shares of the Company's common stock, at an exercise price of $3.50 per share. These warrants were originally issued in a private placement the Company consummated in October 2006.

7. Securities Purchase Agreement and Related Transaction

On January 31, 2008 China Sky One entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain accredited investors, for the purchase and sale of units consisting of: (i) one (1) share of the Company's common stock; and (ii) 750,000 Class A Warrants exercisable at $12.50 per share, and expiring on July 31, 2011 (the "Class A Warrants"), for a purchase price of $10.00 per Unit (the "Unit Purchase Price"), or gross offering proceeds of $25.0 million (the "2008 Offering"). The Company received net proceeds of approximately $23.5 million in connection with the 2008 offering.

Pursuant to the Purchase Agreement, among other things, if, and whenever, within twelve (12) months of the Closing Date, the Company issues or sells, or is deemed to have issued or sold, any shares of common stock, or securities convertible into or exercisable for shares of common stock, or modifies any of the foregoing which may be outstanding (with the exception of certain excluded securities), to any person or entity at a price per share, or conversion or exercise price per share less than the Unit Purchase Price, then the Company shall issue, for each such occasion, additional shares of its common stock to the Investors in such number so that the average per share purchase price of the shares of common stock purchased by the Investors in the 2008 Offering shall automatically be reduced to such other lower price per share.

In addition, as of the Closing Date, the Company entered into a Make Good Agreement (the "Make Good Agreement") with Liu Yan-Qing, its Chairman, Chief Executive Officer and President, and a principal shareholder of the Company, (the "Principal Shareholder") and the Investors (collectively, the "Make Good Parties"), pursuant to which the Principal Shareholder deposited 3,000,000 shares of his common stock of the Company (the "Escrow Shares") into escrow, to be released to the Investors in an amount pro rata pro to their initial investments in the 2008 Offering, in the event the

Company failed to attain earnings per share, as adjusted, of at least (i) $1.05 per share for the fiscal year ending December 31, 2007 (based on an aggregate of 13,907,696 shares outstanding), and/or (ii) $1.63 per share for the fiscal year ending December 31, 2008 (based on 16,907,696 shares outstanding).

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7. Securities Purchase Agreement and Related Transaction (Continued)

The Company deems the Escrow Shares arrangement as analogous to the issuance of a fixed number of warrants in an equity transaction. Under the Make Good Agreement these Escrow Shares would have been reallocated on a pro rata basis to the Investors only if certain earnings targets were not achieved in years 2007 and 2008. If the earnings targets were met, the Escrow Shares would automatically be released to the Principal Shareholder. As of January 31, 2008, the date the common shares were placed into escrow, the Company achieved the 2007 earnings target and, based upon internal forecasts, was confident the 2008 target would also be met. Based upon certain assumptions, including the low probability that the Escrow Shares would be released to the Investors and not be returned to the Principal Shareholder, the Company considered the fair value of the right held by the Investors through the Escrow Shares provision under the Make Good Agreement to be immaterial. As of December 31, 2008, the Company satisfied the earnings per common share targets for each of fiscal 2007 and 2008 as defined under the Make Good Agreement and, as such, the Escrow Shares had been released in May 2009.

The Class A Warrants represent the right to purchase an aggregate of 750,000 shares of common stock, at an exercise price of $12.50 per share. Additional information relating to these Class A Warrants is provided in Note 8.

8. Outstanding Warrants and Options

	Shares Underlying Warrants	Weighted average Exercise Price Warrants	Shares underlying Options	Weighted average Exercise Price Options
Outstanding as of January 1, 2006	25,000	$ 1.50	-	
Granted	1,650,000	2.58	163,500	$ 3.45
Exercised	-	-	-	-
Expired or cancelled	-	-	-	-
Outstanding as of December 31, 2006	1,675,000	2.57	163,500	$ 3.45
Granted	-	-	-	-
Exercised	-	-	-	-
Expired or cancelled	(161,667)	3.19	-	-
Outstanding as of December 31, 2007	1,513,333	$ 2.48	163,500	$ 3.45
Granted	750,000	12.50	-	-
Exercised	(1,204,999)		(50,000)	-
Expired or cancelled	-	-	-	-
Outstanding as of December 31, 2008	1,058,334	$ 9.50	113,500	$ 3.65
Granted	-	-	-	-
Exercised	(308,334)		(101,000)	
Expired or cancelled	-	-	-	-
Outstanding as of June 30, 2009	750,000	$ 12.50	12,500	$ 3.65

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8. Outstanding Warrants and Options (Continued)

The following table summarizes information about stock warrants outstanding and exercisable as of June 30, 2009.

Exercise Price	Outstanding June 30, 2009	Weighted Average Remaining Life in Years	Number exercisable
$ 12.50	750,000	2.00	750,000
	750,000		750,000

Out of the 750,000 outstanding warrants, all were exercisable as of June 30, 2009. These Class A Warrants represent the right to purchase an aggregate of 750,000 shares of common stock of the Company granted with the Purchase Agreement, at an exercise price of $12.50 per share (the “Exercise Price”), and have the following additional characteristics:

The Class A Warrants issued in our January 2008 Offering described in Note 8 above, represent the right to purchase an aggregate of 750,000 shares of common stock and have the following additional characteristics:

- The Class A Warrants are exercisable beginning on the six-month anniversary of the closing of the January 2008 Offering and will expire July 31, 2011.

- Commencing on one-year anniversary of the Closing Date, in the event the shares underlying the Class A Warrants (the “Warrant Shares”) may not be freely sold by the holders of the Class A Warrants due to the Company’s failure to satisfy its registration requirements, and an exemption for such sale is not otherwise available to the Warrant-holders under Rule 144, the Class A Warrants will be exercisable on a cashless basis.

- The Exercise Price and number of Warrant Shares will be subject to adjustment for standard dilutive events, including the issuance of Common stock, or securities convertible into or exercisable for shares of Common stock, at a price per share, or conversion or exercise price per share less than the Class A Warrant exercise price of $12.50 per share.

    - At anytime following the date a Registration Statement covering the Warrant Shares is declared effective, we will have the ability to call the Class A Warrants at a price of $0.01 per Class A Warrant, upon thirty (30) days prior written notice to the holders of the Class A Warrants, provided (i) the closing price of the Common stock exceeded $18.75 for each of the ten (10) consecutive trading days immediately preceding the date that the call notice is given by the Company, and (ii) the Company has attained an Adjusted EPS of at least $1.75 per share for the fiscal year ending December 31, 2008, as set forth in our audited financial statements of the Company.

- If, among other things, we fail to cause a Registration Statement covering the Warrant Shares to be declared effective prior to the applicable dates set forth in the Registration Rights Agreement, the expiration date of the Class A Warrants shall be extended one day for each day beyond the Effectiveness Deadlines.

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Notes to Unaudited Condensed Consolidated Financial Statements

8. Outstanding Warrants and Options (Continued)

- If a Warrant-holder exercises its Put Right under the Put Agreement (as previously defined above), such Warrant-holder's right to exercise the Class A Warrants shall be suspended, pending the satisfaction of our obligations to pay the Warrant-holder the applicable Repurchase Price. Upon receipt of the Repurchase Price in full by the Warrant-holder, the Warrant-holder's right to exercise the Class A Warrants shall automatically and permanently terminate and expire, and the Class A Warrants shall be immediately cancelled on the books of the Company.

The following table summarizes information about stock options outstanding and exercisable as of June 30, 2009.

Exercise Price	Outstanding June 30, 2009	Weighted Average Remaining Life in Years	Exercisable Options	Vested Options
$ 3.65	12,500	2.50	-	12,500
	12,500		-	12,500

9. Inventories

The Company values its inventories at the lower of cost and market method. Inventories are accounted for using the first-in, first-out method. Inventories include packing materials, raw materials, supplemental materials, work-in-process, and finished products.

As of June 30, 2009 and December 31, 2008, inventories consist of the following:

	June 30, 2009	December 31, 2008 (Audited)
Raw Material	$ 809,803	$ 330,275
Work-in-Process	138,862	76,462
Finished Products	622,800	55,614
Total Inventories	$ 1,571,465	$ 462,351

As of June 30, 2009 and December 31, 2008, the Company had no inventory reserve.

10. Property and Equipment

As of June 30, 2009 and December 31, 2008, Property and Equipment, net consist of the following:

	June 30, 2009	December 31, 2008 (Audited)
Buildings and improvements	$ 9,550,042	$ 9,961,820
Machinery and equipment	5,447,140	4,946,247

Land use rights	1,919,911	1,945,209
Transportation equipment	887,102	885,880
Furniture and equipment	314,994	299,467
Construction in progress (See Note 14)	14,192,855	4,317,265
Total Property and Equipment	32,312,044	22,355,888
Less: Accumulated Depreciation	(1,758,820)	(1,297,109)
Property and Equipment, Net	$ 30,553,224	$ 21,058,779

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10. Property and Equipment (Continued)

For the six months ended June 30, 2009 and 2008, depreciation expense totaled $461,711 and $213,935 respectively. Depreciation expense of approximately $268,000 and $137,000 is included as part of cost of goods sold for the six months ended June 30, 2009 and 2008, respectively.

11. Intangible Assets

As of June 30, 2009 and December 31, 2008, the Company's net unamortized intangible assets consist of:

	June 30, 2009	December 31, 2008 (Audited)
Patents	$ 14,433,828	$ 15,093,718
Goodwill	759,362	758,047
Total Intangible Assets, net	$ 15,193,190	$ 15,851,765

Amortization expense for the six months ended June 30, 2009 and 2008 was $706,890 and $138,898 respectively.

12. Taxes Payable

Taxes payable consists of the following:

	June 30, 2009	December 31, 2008 (Audited)
Value Added Tax, net	$ 1,505,459	$ 1,179,383
Enterprise Income Tax	2,637,189	2,106,956
City Tax	49,678	32,013
Other Taxes and additions	72,748	44,536
Total Taxes Payable	$ 4,265,075	$ 3,362,888

13. Income Taxes

Under the Provisional Regulations of PRC Concerning Income Tax on Enterprises promulgated by the PRC, income tax is payable by enterprises at a rate of 25% of their taxable income. Preferential tax treatment may, however, be granted pursuant to any law or regulations from time to time promulgated by the State Council.

According to "Enterprise Income Tax and Certain Preferential Policies Notice" published by the Ministry of Finance and the National Tax Affairs Bureau, if the enterprise is authorized by the State Council as a special entity, the enterprise income tax rate is reduced to 15%. In 2009, the income tax rate for TDR, TianLong, and First is 15% based on State Council approval. The income tax rate for Haina is 25%. The income tax rate for Peng Lai is regulated by local government at 2% of total revenue commencing January 1, 2009. In 2008, the income tax rate for TDR and TianLong was 15% and 12%, respectively. The income tax rate for First, Haina, and Peng Lai was 25%.

We record a full valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made.

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13. Income Taxes (Continued)

Pursuant to Sections 382 and 383 of the Internal Revenue Code of 1986 ("IRC"), annual use of the Company's net operating losses and tax credit carryforwards may be limited because of cumulative changes in ownership of more than 50% that have occurred.

Provision for the PRC enterprise income tax is calculated at the prevailing rate based on the estimated assessable profits less available tax relief for losses brought forward. The Company does not accrue taxes on unremitted earnings from foreign operations as it is the Company's intention to invest these earnings in the foreign operations indefinitely.

In 2006, the FASB issued FIN 48, which clarifies the application of SFAS 109 by defining a criterion that an individual income tax position must meet for any part of the benefit of that position to be recognized in an enterprise's financial statements and provides guidance on measurement, derecognition, classification, accounting for interest and penalties, accounting in interim periods, disclosure and transition. In accordance with the transition provisions, the Company adopted FIN 48 effective January 1, 2007.

The Company recognizes that virtually all tax positions in the PRC are not free of some degree of uncertainty due to tax law and policy changes by the state. However, the Company cannot reasonably quantify political risk factors and thus must depend on guidance issued by current state officials.

Based on all known facts and circumstances and current tax law, the Company believes that the total amount of unrecognized tax benefits as of June 30, 2009, is not material to its results of operations, financial condition or cash flows. The Company also believes that the total amount of unrecognized tax benefits as of June 30, 2009, if recognized, would not have a material effect on its effective tax rate. The Company further believes that there are no tax positions for which it is reasonably possible, based on current Chinese tax law and policy, that the unrecognized tax benefits will significantly increase or decrease over the next 12 months producing, individually or in the aggregate, a material effect on the Company's results of operations, financial position or cash flows

14. Land Use Rights Purchase Agreement and Construction in Progress

During the second quarter in 2007 TDR entered into an agreement with the Development and Construction Administration Committee of Harbin Song Bei New Development district to purchase certain land use rights for 50 years in conjunction with the Company's development of a new headquarter and a new biotech engineering lab at a construction cost of approimately $10.5 million. The cost of the land use rights amounted to approximately $2.5 million. Terms of the agreement called for a deposit of 30% within 15 days after signing the agreement, 40% payment 7 days prior to the start of construction and the balance of 30% 7 days after getting the formal land use right.

The project consists of two phases:

(1) Construction of a main workshop, R&D center and our principle corporate office using land area of 30,000 square meters. Construction started in May 2007 and is estimated to be completed by the end of 2009.

(2) Construction of Second workshop and show room using land area of 20,000 square meters. Construction is expected to start in September 2008 and is estimated to be completed by December 2009.

As of June 30, 2009, the Company remitted deposits totaling $8,525,025 under the terms of the above agreement. Within this deposit, there are approximately $5.8 million for construction. Upon the completion of the project, this construction deposits shall be released and returned to the Company.

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15. Commitments and Contingencies

The formulation, manufacturing, processing, packaging, labeling, advertising, distribution and sale of external use Chinese medicine such as those sold by the Company are subject to regulations by one or more federal agencies. The principal federal agencies include the SFDA, the Food and Drug Administration (the "FDA"), Heilongjiang Provincial Food and Drug Administration of the People's Republic of China (PFDA), National Biology Products Inspection Institute (NBPI) and the National Food and Drug Administration (NFDA) of the People's Republic of China and, to a lesser extent, the Consumer Product Safety Commission. These activities are also regulated by various governmental agencies for the countries, states and localities in which the Company's products are sold.

Although management believes that the Company is in material compliance with the statutes, laws, rules and regulations of every jurisdiction in which it operates, no assurance can be given that the Company's compliance with the applicable statutes, laws, rules and regulations will not be challenged by governing authorities or private parties, or that such challenges will not lead to material adverse effects on the Company's financial position, results of operations, or cash flows.

The Company, like any other distributor or manufacturer of products is exposed to the inherent risk of product liability claims in the events of possible injuries caused by the use of its products. The Company does not have liability insurance with respect to product liability claims; the insurance environment of China is neither sufficient nor mature. Inadequate insurance or lack of contractual indemnification from parties supplying raw materials or marketing its products, and product liabilities related to defective products could have a material adverse effects on the Company.

The Company is not involved in any legal matters arising in the normal course of business. While incapable of estimation, in the opinion of the management, the individual regulatory and legal matters in which the Company might be involved in the future are not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

The Company's sole rental commitment is office space for the year 2009 is approximately $25,000. The Company is expecting the corporate headquarters currently under construction to be completed by 2009. As a result, there is no rental commitment made by the Company for the year 2010 and thereafter.

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

FORWARD LOOKING STATEMENTS

The following discussion should be read in conjunction with the information contained in the consolidated financial statements of the Company and the notes thereto appearing elsewhere herein and in the risk factors and "Forward Looking Statements" summary set forth in the forepart of our Annual Report for the year ended December 31, 2008 ("Annual Report"). This quarterly report on Form 10-Q contains forward-looking statements and is afforded the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. Readers should carefully review the risk factors disclosed in our Annual Report and other documents filed by us with the Securities and Exchange Commission ("SEC").

DISCUSSION

We primarily generate revenues, through our China based indirect subsidiaries described below, in the development, manufacture, marketing and sale of over-the-counter, branded nutritional supplements and over-the-counter plant and herb based pharmaceutical and medicinal products. Our principal products are external use Traditional Chinese Herbal Remedies/Medicines commonly referred to in the industry as "TCM." We have evolved into an integrated manufacturer, marketer and distributor of external use Chinese medicine products sold primarily in China and through Chinese domestic pharmaceutical chains and have been expanding our worldwide sales effort as well. We sell both our own manufactured products, as well as medicinal and pharmaceutical products manufactured by others in China.

We have achieved continued growth of our line of products. For the three months ended June 30, 2009, total revenue was $32,181,590 , a 36% increase over the same period in 2008, and net income was $9,456,993 , or $0.57 per share compared to net income of $8,110,667, or $0.50 per share on a diluted basis in the same period in 2008. For the six months ended June 30, 2009, total revenue was $57,015,282, a 58% increase over the same period in 2008, and net income was $16,699,831, or $1.01 per common share compared to net income of $11,975,578, or $0.78 per common share on a diluted basis in the same period in 2008.

All of our business is conducted through our wholly-owned subsidiary, ACPG which, in turn, wholly owns Harbin Tian Di Ren Medical Science and Technology Company (referred to herein as "TDR"), a company organized in the PRC, and TDR's subsidiaries.

TDR, formerly known as "Harbin City Tian Di Ren Medical Co.," was originally formed in 1994 with its principal executive office in Harbin City of Heilongjiang Province, in the People's Republic of China ("PRC"). TDR was reorganized and incorporated as a limited liability company on December 29, 2000, under the "Corporation Laws and Regulations" of the PRC. At the time of the TDR Acquisition by ACPG in December of 2005, TDR had two wholly-owned subsidiaries, Harbin First Bio-Engineering Company Limited and Kangxi Medical Care Product Factory, until July, 2006, when the two were merged, with Harbin First Bio-Engineering Company Limited ("First" or "Harbin Bio Engineering") as the surviving subsidiary of TDR.

Year 2008 Business Acquisitions

On April 3, 2008, TDR completed its acquisition of Heilongjiang TianL ong Pharmaceutical, Inc., a c orporation with a variety of medicines approved by China' s State Food and Drug Administration ("SFDA") and new medicine applications, organized under the laws of the PRC ("TianLong"), which is in the business of manufacturing external-use pharmaceuticals. TDR previously acquired the Beijing sales office of TianL ong in mid-2006. TDR acquired 100% of the issued and outstanding capital stock of TianL ong from its sole stockholder, in consideration for an aggregate purchase price of approximately $8,300,000, consisting of (i) $8,000,000 in cash, and (ii) 23,850 shares of our common stock.

On April 18, 2008, TDR consummated its acquisition of Heilongjiang Haina Pharmaceutical Inc., a corporation which had been recently organized under the laws of the PRC (“Haina”), licensed as a wholesaler of TCM, bio-medicines, bio-p roducts, medicinal devices, antibiotics and chemical medicines. Haina did not have an established sales network and was acquired for its primary asset, a Good Supply Practice (GSP) license (License No. A-HLJ03-010), issued by the Heilongjiang province offi ce of the SFDA. The SFDA recently started issuing such licenses to resellers of medicines that maintain certain quality controls. The GSP license was issued as of December 21, 2006 and will expire on January 29, 2012, and will enable us to expand our sales of medicinal products without having to go through a lengthy license application process. TDR acquired 100% of the issued and outstanding capital stock of Haina from its three stockholders in consideration for payment of approximately $437,000. TDR had been overseeing the operations of Haina since January of 2008, as part of our due diligence prior to closing of this acquisition.

On September 5, 2008, TDR acquired Peng Lai Jin Chuang Pharmaceutical Company, a corporation organized under the laws of the PRC ("Peng Lai"), from Peng Lai Jin Chuang Group Corporation. Peng Lai, which received Good Manufacturing Practice certification from the SFDA, was organized to develop, manufacture and distribute pharmaceutical, medicinal and diagnostic products in the PRC . In connection with the acquisition of Peng Lai, TDR acquired all of Peng Lai' s assets, including, without limitation, franchise, production and operating rights to a portfolio of twenty (20) medicines approved by the SFDA, for an aggregate purchase price of approximately $7.1 million, consisting of (i) approximately $2.5 million in cash, and (ii) 381,606 shares of our common stock.

Testing Kits and Other Products in Production

Our AMI Diagnostic Kit, Human Urinary Albumin Elisa Kit and Early Pregnancy Diagnostic Kit each passed the final stages of a national inspection in 2006 or 2007. These diagnostic kits are being sold through drug stores, hospitals, examination stations and independent sales agents throughout the PRC.

Our AMI Diagnostic Kit, which entered markets in 2007, is used for early diagnosis of Myocardial Infarction (MI), also known as heart disease. All the test kits require users to place a blood or urine sample on the marker and a positive (+) or negative (-) reaction signal will result, showing if a user should consult his or her doctor for further testing. According to the China Medical Newspaper, several million people die from MI every year. MI often occurs to people who are, but not limited to, smokers, over-weight and diabetic. There are approximately 8 million new MI patients in China every year. Recent medical studies have shown that heart failure or heart attacks are increasing among younger people in China. This is believed to be the result of a more modern life style, the fast pace of city life and increased pressure from work or school. The use of AMI Diagnostic Kits will help in early detection of MI that can help in reducing these incidences.

We are continuing our marketing efforts with respect to these testing kits which have contributed to increase sales of these products in 2009 versus 2008. Sales generated under these products during the six month periods ended June 30, 2009 and 2008 amounted to approximately $6,789,000 and $3,983,000, respectively.

Summary of Our Resear ch and Development Activities

We currently conduct all of our research and development ("R&D") activities, either internally or through collaborative arrangements with universities and research institutions in the PRC. We have our own research, developme nt and laboratory facilities located at TDR's principal executive offices.

At present, our ongoing research is divided into five general areas:

- the development of an enzyme linked immune technique to prepare extraneous diagnostic kits;
- the development of an enzyme linked gold colloid technique to prepare an extraneous rapid diagnostic test strip;
- the development of a g ene recombination technique to prepare a gene drug;
- the development of a biology protein chip for various tumor diagnostic applications; and
- the development of a cord blood stem cell bank, as more fully described in our Annual R eport and other reports filed by us with the SEC.

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We currently have the following eight biological products under development: an HIV detection kit; a uterus cancer diagnostic kit; a breast cancer diagnostic kit; a liver cancer diagnostic kit; a rectum cancer diagnostic kit; a gastric cancer diagnostic kit; a gene recombination drug; and a multi-tumor marker protein chip detection kit. I n addition, w e are also working to establish additional sales networks and cell banks covering domestic and internation al markets.

Due to cont inued changes in the industry , Management cannot guarantee any of the above research and development activities will be successful or generate future revenues. We incurred research and development costs of $6,094,694 and $2,042,412 during each of the six month periods ended June 30, 2009 and 2008, respectively.

Significant Accounting Estimates and Policies

The discussion and analysis of our financial condition and results of operations is based upon our financial statements which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities. On an on-going basis, we evaluate our methodologies and assumptions used to derive these estimates. Estimates include the reserve allowance for doubtful accounts and inventories, the salability and recoverability of our products, our impairment test for tangible and intangible assets, income taxes and contingencies and the remaining useful lives of our tangible and certain intangible assets. We base our estimates on historical experience and on other assumptions that we believes to be reasonable under the circumstances, the results of which form our basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. Our significant estimates include:

Property and equipment are evaluated for impairment whenever indicators of impairment exist. Accounting standards require that if an impairment indicator is present, we must assess whether the carrying amount of the asset is unrecoverable by estimating the sum of the future cash flows expected to result from the asset, undiscounted and without interest charges. If the recoverable amount is less than the carrying amount, an impairment charge must be recognized based on the fair value of the asset.

As part of the process of preparing our financial statements, we are required to estimate our income taxes. This process involves estimating our current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, and, to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent that we establish a valuation allowance or increase this allowance in a period, we must include a tax provision or reduce our tax benefit in the statements of operations. We use our judgment to determine our provision or benefit for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. We believe, based on a number of factors including historical operating losses, which we will not realize the future benefits of a significant portion of our net deferred tax assets and we have accordingly provided a full valuation allowance against our deferred tax assets. However, various factors may cause those assumptions to change in the near term.

We cannot predict what future laws and regulations might be passed that could have a material effect on our results of operations. We assess the impact of significant changes in laws and regulations on a regular basis and update the assumptions and estimates used to prepare our financial statements when we deem it necessary.

We have determined the significant principles by considering accounting policies that involve the most complex or subjective decisions or assessments. Our most significant accounting policies are those related to intangible assets and research and development.

Intangible assets – Our intangible assets primarily consists of patents. Patent costs are amortized over an estimated life of approximately ten years.

Intangible assets are accounted for in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). Intangible assets with finite useful lives are amortized while intangible assets with indefinite useful lives are not amortized. As prescribed by SFAS 142, goodwill and intangible assets are tested periodically for impairment. We adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long- Lived Assets , effective January 1, 2002. Accordingly, we review our long-lived assets, including property and equipment and finite-lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, we evaluate the probability that future undiscounted net cash flows will be less than the carrying amount of the assets. Impairment costs, if any, are measured by comparing the carrying amount of the related assets to their fair value.

Research and development—Research and development expenses include the costs associated with our internal research and development as well as research and development conducted by third parties. These costs primarily consist of salaries, clinical trials, outside consultants, and materials. All research and development costs are expensed as incurred.

Third-party expenses reimbursed under non-refundable research and development contracts are recorded as a reduction to research and development costs in the statement of operations.

We recognize in-process research and development in accordance with FASB Interpretation No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method and the AICPA Technical Practice Aid, Assets Acquired in a Business Combination to be used in Research and Development Activities: A Focus on Software, Electronic Devices , and Pharmaceutical Industries. Assets to be used in research and development activities, specifically, compounds that have yet to receive new drug approval and would have no alternative use, should approval not be given, are immediately charged to expense when acquired. Certain assets and high technologies acquired that has a foreseeable future cash flows are capitalized as intangible assets. Such intangible assets are amortized starting from the year revenue is generated and amortized over a period of 10 years. If a capitalized intangible asset is deemed to have no future benefit, the unamortized carrying value will be expensed.

For the three months ended June 30, 2009 and 2008, we incurred $3,681,914 and $1,372,579, respectively, in research and development expenditures. For the six months ended June 30, 2009 and 2008, we incurred $6,094,694 and $2,042,412, respectively, in research and development expenditures.

RESULTS OF OPERATIONS

For the three months ended June 30, 2009 as compared to June 30, 2008

Our principal business operations are conducted through our wholly owned subsidiary, TDR, and TDR's wholly-owned subsidiaries.

	For Three Months Ended June 30			
	2009	% of Sales	2008	% of Sales
Revenues	$ 32,181,590	100.0	$ 23,748,592	100.0
Cost of goods sold	7,752,371	24.1	5,522,314	23.3
Gross Profit	$ 24,429,219	75.9	$ 18,226,278	76.7

Total revenues increased approximately $8.4 million or 36% during the three months ended June 30, 2009 as compared to 2008. Our revenue increase is primarily attributable to strong performances from our sales distribution channels due to our hiring of additional direct territory managers and sales agents to help market our products and their associated benefits to those individuals making or influencing purchasing decisions, as well as the results of our

several successful business acquisitions in 2008 as previous discussed.

Revenues by Product Line

A break-down of our revenues by product line for each of the three months ended June 30, 2009 and 2008 is as follows:

	For the Three Months Ended June 30					
	2009			2008		
Product (Number of Products)	Subsidiary	Sales (USD)	% of Sales	Product (Number of Products)	Sales (USD)	% of Sales
Patch (5)	TDR	$ 9,937,203	30.9	Patch (4)	$ 8,781,903	37.0
Ointment (18)	TDR&TL	7,658,146	23.8	Ointment (11)	6,486,619	27.3
Spray (15)	TDR&TL	4,808,652	14.9	Spray (19)	2,840,196	12.0
Bio-Engineering (3)	FIRST	3,687,991	11.5	Bio-Engineering (3)	2,145,355	9.0
Others (48)	TDR&TL&PL	6,089,598	18.9	Others (31)	3,494,518	14.7
Total (89 products)		$ 32,181,590	100	Total (68 products)	$ 23,748,592	100

In 2009 TDR discontinued its contract revenues as part of its strategic goals. Contract revenues of $1,861,225 for the three months ended June 30, 2008 have been reallocated to each of the applicable product to present a m ore appropriate measure of our revenues by product line.

Overall, our product gross margins were at approximately 75.9% and 76.7% during each of the three months ended June 30, 2009 and 2008, respectively. Our lower product gross margins in 2009 versus 2008 were principally attributable to the competiveness of our sales prices in the PRC market.

Operating Expenses

The following table summarizes the changes in our operating expenses from $8,098,642 to $12,347,556 for each of the three months ended June 30, 2008 and 2009, respectively:

	For the Three Months Ended June 30			
	2009	% of Sales	2008	% of Sales
Operating Expenses				
Depreciation and amortization	$ 449,294	1.4	$ 139,004	0.6
Research and development	3,681,914	11.4	1,372,579	5.8
Selling, general and administrative	8,216,348	25.5	6,587,059	27.7
Total operating expenses	$ 12,347,556	38.3	$ 8,098,642	34.1

Depreciation and amortization for the three months ended June 30, 2009 amounted to approximately $449,000 as compared to $ 139,000 during the same period in 2008. The higher costs in 2009 are primarily attributable to the additional depreciation and amortization costs associated with the tangible and intangible assets acquired under our 2008 strategic business acquisitions.

Research and development expenses were approximately $3.7 million for the three months ended June 30, 2009 as compared to $1.4 million for the same period in 2008. The increased costs in 2009 is primarily associated with the ongoing clinical trials for proposed products and studies under the patents, licenses and other technologies acquired from our 2008 strategic business acquisitions.

Selling, general and administrative expenses were $8.2 million for the three months ended June 30, 2009 versus $6.6 mil lion for the same period in 2008. The higher selling, general and administrative expenses were primarily attributable to increased marketing and selling costs to support our revenue growth from $23.7 million in 2008 to $32.2 million in 2009.

For the six months ended June 30, 2009 as compared to June 30, 2008

Our principal business operations are conducted through our wholly owned subsidiary, TDR, and TDR's wholly-owned subsidiaries.

	For the Six Months Ended June 30			
	2009	% of Sales	2008	% of Sales
Revenues	$ 57,015,282	100.0	$ 36,162,022	100.0
Cost of goods sold	13,793,289	24.2	8,382,742	23.2
Gross Profit	$ 43,221,993	75.8	$ 27,779,280	76.8

Total revenues increased by 58% during the six months ended June 30, 2009 as compared to 2008. The $20.9 million increase in revenue is attributable to strong performances from our sales distribution channels and the results of our several successful acquisitions.

As part of our strategic goals, contract sales of non-manufactured products were discontinued from early 2009.

Revenues by Product Line

A break-down of our revenues by product line for each of the six months ended June 30, 2009 and 2008 is as follows:

For the Six Months Ended June 30						
		2009			2008	
Product (Number of Products)	Subsidiary	Sales (USD)	% of Sales	Product (Number of Products)	Sales (USD)	% of Sales
Patch (5)	TDR	$ 19,059,164	33.4	Patch (4)	$ 12,573,362	34.7
Ointment (18)	TDR&TL	12,740,124	22.3	Ointment (11)	8,796,305	24.3
Spray (15)	TDR&TL	7,710,726	13.5	Spray (19)	4,878,058	13.5
Bio-Engineering (3)	FIRST	6,788,766	11.9	Bio-Engineering (3)	3,982,860	11.0
Others (48)	TDR&TL&PL	10,716,502	18.9	Others (31)	5,931,437	16.5
Total (89 products)		$ 57,015,282	100	Total (68 products)	$ 36,162,022	100

As shown in the table above, revenues for all products increased as compared to the six months ended June 30, 2008. Con tract sales of $4,836,072 for the six months ended June 30, 2008 have been reallocated to each of the applicable sale products to present a more appropriate measure of our sales by product line.

In the six months ended June 30, 2009, we remained focused on expanding our market coverage. Our sales representatives increased from approximately 1,300 to 1,500, along with the increase of approximately 1,000 pharmacies newly opened in 2009. Our total pharmacy coverage number in 2009 reached approximately 5,500 over 24 provinces in China versus 4,500 over 22 provinces in China in 2008.

Overall, our product gross margins were at 75.8% and 76.8% during the six months ended June 30, 2009 and 2008, respectively. Our lower product gross margins in 2009 were principally attributable to the competiveness of our sales prices in the PRC market.

Operating Expenses

The following table summarizes the changes in our operating expenses from $12,801,618 to $22,089,177 for each of the six months ended June 30, 2008 and 2009, respectively:

	For the Six Months Ended June 30			
	2009	% of Sales	2008	% of Sales
Operating Expenses				
Depreciation and amortization	$ 900,666	1.6	$ 215,352	0.6
Research and development	6,094,694	10.7	2,042,412	5.6
Selling, general and administrative	15,093,816	26.4	10,543,854	29.2
Total operating expenses	$ 22,089,176	38.7	$ 12,801,618	35.4

Depreciation and amortization for the six months ended June 30, 2009 amounted to approximately $900,000 as compared to $215,000 during the same period in 2008. The higher costs in 2009 are primarily attributable to the additional depreciation and amortization costs associated with the tangible and intangible assets acquired under our 2008 strategic business acquisitions.

Research and development expenses were approximately $6.1 million for the six months ended June 30, 2009 compared to $2.0 million for 2008. The increased costs in 2009 is primarily associated with the ongoing clinical trials and studies under the patents, licenses and other technologies acquired from our 2008 strategic business acquisitions.

Selling, general and administrative expenses for the six months ended June 30, 2009 amounted to $15.1 million in 2009 versus $10.5 million over the same period in 2008. The higher selling, general and administrative expenses were primarily attributable to the increased costs of marketing and sales to support our product revenues growth from $36.2 million in 2008 to $57.0 million in 2009.

FULL YEAR 2009 OUTLOOK

We are affirming our 2009 annual guidance which was disclosed in our Annual Report.

We estimate our tota l revenue in 2009 versus 2008 will increase by 40%, or approximately $37 million, with growth in all categories of our product sales. Our gross profit margin in 2009 is expected to be approximately 75% due to possible increase in prices of raw materials. Operating expenses are expected to increase due to a higher percentage of R&D investment, as well as the additional costs to support our expanding distribution channels and sales growth. We estimate our overall 2009 net profit margin to be approximately 30%.

Our new corporate headquarter is currently under construction and we plan to occupy the space by the end of fiscal 2009. As a result , we will no longer rent office space. Another benefit of the corporate headquarters is that all organizational departments will be consolidated into one main central place. This should create a more productive and efficient working environment for management operations, as well as all other business activities. Our new facilities will feature a dining area , gymnasium, basketball court, dormitor ies, and guest rooms to provide accommodation s and services to our staff and to all our guests visiting us. The cost outlays for our new corporate headquarter are planned to be entirely funded without borrowed funds.

LIQUIDITY AND CAPITAL RESOURCES

Certain of our liquidity and capital ratios are outlined below for the six month periods ended June 30, 2009 and 2008:

	2009	2008
Working capital ratio	8.7	6.3
Quick ratio	7.6	6.1
Average accounts receivable collection (days)	47.6	49.2
Average inventory turnover (days)	14.6	18.5
Outstanding debt	$ -	$ -
Stockholders' equity per common share	$ 6.71	$ 4.79

The following table summarizes our cash and cash equivalents position, our working capital, and our cash flow activity as of June 30, 2009 and 2008 and for each of the six months then ended:

As of June 30:		
Working capital	$ 66,039,269	$ 44,861,048
Inventories	$ 1,571,465	$ 1,424,155
Six Months Ended June 30:		
Cash provided by (used in):		
Operating activities	$ 17,821,557	$ 17,820,563
Investing activities	$ (9,961,517)	$ (9,111,946)
Financing activities	$ 29,169	$ 24,327,963

As of Ju ne 30, 2009, cash and cash equivalents were approximately $48.23 million.

As of June 30, 2009, we have spent approximately $9.9 million in construction costs related to our corporate headquarters which is planned to be completed by the end of fiscal 2009. We plan to fund our corporate headquarters construction project using internal funds. The estimated cost under this project is approximately $13 million.

Our working capital ratio is 8.7 versus 6.3 and quick ratio is 7.6 versus 6.1 at June 30, 2009 and 2008, respectively. Management endeavors to ensure that funds are available to take advantage of new strategic business alliances and that funds are sufficient to meet future liquidity and capital needs.

At June 30, 2009, there are no restrictiv e bank deposits pledged as security.

Cash flows provided by operating activities was approximately $17.8 million for the six months ended June 30, 2009 and for the same period in 2008.

Our working capital at June 30, 2009 was appr oximately $66.0 million, compared to $44.9 million at June 30, 2008. Our increased working capital position in 2009 was principally funded by the cash flows generated from our operating activities of approximately $17.8 million in the six months ended June 30, 2009. Management considers current working capital and borrowing capabilities adequate to cover our current operating and capital requirements for the full year 2009.

In the first quarter of fiscal 2008 we received aggregate net proceeds of approxim ately $23.5 million from the consummation of a private placement of our securities. The net pr oceeds from the private placement were used to fund three business acquisitions we completed in fiscal 2008 and other working capital needs. There was no similar financing in the six month period ended June 30, 2009.

Currency Exchange Fluctuations

All of our revenues and majority of the expenses during the six months ended June 30, 2009 were denominated primarily in Renminbi ("RMB"), the currency of China, and were converted into U.S. dollars at the exchange rate of 6.84323 RMB to 1 U.S. Dollar. For the three months ended June 30, 2009, the exchange rate is 6.83992 RMB to 1 U.S. Dollar. In the third quarter of 2005, the RMB began to rise against the US dollar. There could be no assurance that RMB-to-U.S. dollar exchange rates will remain stable. A devaluation of RMB relative to the U.S. dollar would adversely affect our business, financial condition and results of operations. We do not engage in currency hedging.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that are currently material or reasonably likely to be material to our financial position or results of operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 (the "Exchange Act") and are not required to provide the information under this item.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and interim chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act as of June 30, 2009. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our chief executive officer and interim chief financial officer concluded that our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and interim chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our second quarter of fiscal 2009, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are not a party to any material pending legal proceedings.

Item 1A. Risk Factors.

We are a smaller reporting company as defined by Rule 12b-2 of the Securities Exchange Act of 1934 and are not required to provide the information under this item.

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

In the three-month period ended June 30, 2009, and subsequent period through the date hereof, we did not engage in any unregistered sales of equity securities other than as set forth below:

Cashless Exercise of Warrants

As of April 29, 2009, warrants to purchase an aggregate of 150,000 shares of our common stock, which we issued to a consultant in consideration for services rendered in connection with the share exchange transaction we consummated in May 2006, were exercised on a cashless basis. In connection with the cashless exercise, the warrant holder was deemed to have paid an amount equal to the difference between the exercise price ($2.00 per share) and the average closing price of a share of our common stock during the ten (10) trading days ending on the date of exercise ($14.75 per share). As a result of such cashless exercise, we issued an aggregate of 129,661 shares of our common stock to the warrant holder.

We believe that this transaction is exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2), or Regulation D promulgated thereunder, as transactions by an issuer not involving a public offering.

Cashless Exercise of Stock Options

As of June 30, 2009, stock options to purchase an aggregate of 101,000 shares of our common stock, which we issued to pursuant to our 2006 Stock Incentive Plan on October 25, 2006, were exercised on a cashless basis by 36 optionees. In connection with the cashless exercises, the optionees were deemed to have paid an amount equal to the difference between the exercise price ($3.65 per share) and the fair market value of a share of our common stock on the date of exercise ($14.68 per share). As a result of such cashless exercises, we issued an aggregate of 75,888 shares of our common stock to the optionees.

We believe that these transactions are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 4(2), or Regulation D promulgated thereunder, as transactions by an issuer not involving a public offering.

Item 3. Defaults Upon Senior Securities.

In the three-month period ended June 30, 2009, and subsequent period through the date hereof, we did not default upon any senior securities.

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

In the three-month period ended June 30, 2009, and subsequent period through the date hereof, we did not submit any matters to a vote of our stockholders.

Item 5. Other Information.

There was no information we were required to disclose in a report on Form 8-K during the three-month period ended June 30, 2009, or subsequent period through the date hereof, which was not so reported.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended*
31.2	Certification of Interim Principal Financial and Accounting Officer pursuant to Rule 13a-14 and Rule 15d-14(a), promulgated under the Securities and Exchange Act of 1934, as amended*
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Principal Executive Officer)*
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Interim Principal Financial and Accounting Officer)*

* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CHINA SKY ONE MEDICAL, INC.

Dated: August 14, 2009	By:	/s/ Liu Yan Qing Liu Yan Qing Chairman, Chief Executive Officer and President
Dated: August 14, 2009	By:	/s/ Stanley Hao Stanley Hao Chief Financial Officer and Secretary