Rosetta Resources Inc.
Form FWP
May 21, 2014

Issuer Free Writing Prospectus filed pursuant to Rule 433

supplementing the Preliminary Prospectus Supplement dated

May 21, 2014 and the Prospectus dated March 29, 2012

Registration No. 333-180439

May 21, 2014

ROSETTA RESOURCES INC.

$500,000,000 5.875% Senior Notes due 2024

(the Notes Offering)

The information in this pricing term sheet supplements the information in (i) the preliminary prospectus supplement dated May 21, 2014 relating to the Notes Offering, including the documents incorporated by reference therein (the Prospectus Supplement) and (ii) the related base prospectus dated March 29, 2012.

Other information presented in the Prospectus Supplement is deemed to have changed to the extent affected by the changes described herein. Capitalized terms not defined herein have the meaning ascribed to them in the Prospectus Supplement.

Issuer:	Rosetta Resources Inc.
Security:	5.875% Senior Notes due 2024
Offering Size:	$500,000,000 aggregate principal amount
Net Proceeds to Issuer (before expenses):	$492,500,000
Distribution:	SEC Registered
Final Maturity Date:	June 1, 2024
Issue Price:	100.000% plus accrued interest, if any, from May 29, 2014
Coupon:	5.875%
Yield to Maturity:	5.875%
Spread to Benchmark Treasury:	+334 bps
Benchmark Treasury:	UST 2.5% due May 15, 2024
Interest Payment Dates:	June 1 and December 1
Record Dates:	May 15 and November 15
First Interest Payment Date:	December 1, 2014

Optional Redemption:	Until June 1, 2019, in whole or in part, at a price equal to 100% of the principal amount thereof, plus the Applicable Premium as described in the Prospectus Supplement, plus accrued and unpaid interest to the date of redemption.
	From and after June 1, 2019, in whole or in part, at the prices set forth below (expressed as percentages of the principal amount), plus accrued and unpaid interest, if any, to the date of redemption, on June 1 of the years set forth below:

Date	**Price**
2019	102.938%
2020	101.958%
2021	100.979%
2022 and thereafter	100.000%

Optional Redemption with Equity Proceeds:	In addition, prior to June 1, 2017, up to 35% at a redemption price equal to 105.875% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the date of redemption.
Change of Control:	Putable at 101% of principal, plus accrued and unpaid interest to the date of purchase.
CUSIP/ISIN Numbers:	CUSIP: 777779 AF6 ISIN: US777779AF62
Joint Book-Running Managers:	J.P. Morgan Securities LLC Wells Fargo Securities, LLC BMO Capital Markets Corp. Mitsubishi UFJ Securities (USA), Inc.
Senior Co-Managers:	Merrill Lynch, Pierce, Fenner & Smith Incorporated BBVA Securities, Inc. Comerica Securities, Inc. Scotia Capital (USA) Inc.
Trade Date:	May 21, 2014
Expected Settlement Date:	May 29, 2014 (T+5) We expect that the delivery of the notes will be made against payment therefor on or about May 29, 2014, which is the fifth business day following the date of pricing of the notes (such settlement cycle being herein referred to as T+5). Under Rule 15c6-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act), trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes on the date of pricing of the notes or during the next succeeding business day will be required, by virtue of the fact that the notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade in order to prevent failed settlement and should consult their own advisors.

Additional Changes to the Preliminary Prospectus Supplement:

The aggregate principal amount of notes to be issued in the offering increased from $400.0 million to $500.0 million. The net proceeds received from the increased amount of $100.0 million will be used to increase the amount of cash to the balance sheet to be used for general corporate purposes as set forth under Use of Proceeds in the Prospectus Supplement.

Use of Proceeds

We will receive net proceeds from this offering of approximately $491.8 million, after deducting the underwriting discount and estimated offering expenses.

Capitalization

The As further adjusted column is amended to show (in thousands), Cash and cash equivalents of $277,365, Total long-term debt of $1,800,000 and Total capitalization of $3,176,948.

This information does not purport to be a complete description of the notes or the Notes Offering. This communication does not constitute an offer to sell or the solicitation of an offer to buy any notes in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

Rosetta Resources Inc. has filed a registration statement (including a prospectus and preliminary prospectus supplements) with the SEC for the Notes Offering. Before you invest, you should read the prospectus (including the preliminary prospectus supplements) in that registration statement and other documents Rosetta Resources Inc. has filed with the SEC for more complete information about Rosetta Resources Inc. and these offerings. You may get these documents for free by visiting EDGAR on the SEC web site at www.sec.gov. Alternatively, copies of the Prospectus Supplement may be obtained from your sales representative at: J.P. Morgan at 383 Madison Avenue, 3rd Floor, New York, New York 10179, Attention: Syndicate Desk, or by calling (800) 245-8812; Wells Fargo Securities at 550 South Tryon Street, 7th Floor, Charlotte, North Carolina 28202, Attention: Client Support, by calling: (800) 326-5897 or by e-mailing a request to: cmclientsupport@wellsfargo.com; BMO Capital Markets Corp. at 3 Times Square, 28th Floor, New York, New York 10036, Attention: Maya Patel, or by calling (212) 702-1822; or Mitsubishi UFJ Securities at 1633 Broadway, 29th Floor, New York, NewYork 10019, Attention: Capital Markets Group, or by calling (877) 649-6848.

Any legends, disclaimers or other notices that may appear below are not applicable to this communication and should be disregarded. Such legends, disclaimers or other notices have been automatically generated as a result of this communication having been sent via Bloomberg or another system.

4pt; font-size: 10pt; text-align: right">3 yearsRisk-free rate1.12%

The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the option at the time of grant. The dividend yield on our common stock is assumed to be zero since we do not pay dividends and have no current plans to pay them in the future. The market price volatility of our common stock was based on historical volatility since October 14, 2010. Our methodology is consistent with prior period volatility assumptions. The expected life of the options is based upon our anticipated expectations of exercise behavior since no options have been exercised in the past to provide relevant historical data.

(2) 2007 Non-Qualified Company Stock Grant and Option Plan

On March 19, 2007, our board of directors approved the 2007 Non-Qualified Company Stock Grant and Option Plan (the "2007 Plan"). The 2007 Plan is intended to serve as an incentive to and to encourage stock ownership by our directors, officers, and employees, and certain persons rendering service to us, so that such persons may acquire or increase their proprietary interest in our success, and to encourage them to remain in our service. Under the 2007, up to 200,000 shares of our common stock may be subject to options.

On January 13, 2010, an option to purchase 50,000 shares was granted under the 2007 Plan to an employee that vests on the 12-month anniversary of the date of grant, conditioned upon continued employment on such date, and has a contractual life of 3 years. The fair value of the option award is estimated on the date of grant using the Black-Scholes option valuation model to be $47,527. The valuation was based on the assumptions noted in the following table. The option was forfeited at departure of the employee on August 6, 2010.

Expected volatility	236.50%
Expected dividends	0.00%
Expected term (in years)	3 years
Risk-free rate	1.50%

The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the option at the time of grant. The dividend yield on our common stock is assumed to be zero since we do not pay dividends and have no current plans to pay them in the future. The market price volatility of our common stock was based on historical volatility since January 13, 2009. Our methodology is consistent with prior period volatility assumptions. The expected life of the options is based upon our anticipated expectations of exercise behavior since no options have been exercised in the past to provide relevant historical data.

(3) Option Activity and Status

A summary of option activity and movement during the three months ended at January 31, 2012 and 2011, respectively, are as follow:

	Options	Weighted average exercise price	Aggregate intrinsic value	Weighted average remaining contractual term
For the three months ended January 31, 2012				
Outstanding at November 1, 2011	284,998	$ 1.96	$ 381,886	4.64
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at January 31, 2012	284,998	$ 1.96	$ 381,886	4.39
For the three months ended January 31, 2011				
Outstanding at November 1, 2010	70,000	$ 2.57	$ 166,832	2.45
Granted	200,000	2.15	259,251	5.87
Exercised	-	-	-	-
Forfeited or expired	-	-	-	-
Outstanding at January 31, 2011	270,000	$ 2.26	$ 426,083	4.99

A summary of the status of the Company's non-vested options as of January 31, 2012 and 2011, respectively, and movements during the three months then ended are as follow:

	Options	Weighted average granted date fair value
For the three months ended January 31, 2012		
Non-vested at November 1, 2011	250,000	$ 1.17
Granted	-	-
Vested	(4,166)	0.68
Forfeited or expired	-	-
Non-vested at January 31, 2012	245,834	$ 1.18
For the three months ended January 31, 2011		
Non-vested at November 1, 2010	58,334	$ 2.38

Granted	200,000		1.30
Vested	(5,833)		2.38
Forfeited or expired	-		-
Non-vested at January 31, 2011	252,501	$	1.52

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The unrecognized compensation costs related to non-vested share-based compensation granted under the Company's option plan were $188,685 and $373,508 on January 31, 2012 and 2011, respectively.

(4) Warrants

A summary of warrant activity and movement during the three months ended at January 31, 2012 and 2011, respectively, are as follow:

	Warrants	Average exercise price
For the three months ended January 31, 2012		
Outstanding warrants at November 1, 2011	1,231,428	$ 1.03
Warrants granted	-	-
Exercised	-	-
Expired/cancelled	-	-
Outstanding warrants at January 31, 2012	1,231,428	$ 1.03
For the three months ended January 31, 2011		
Outstanding warrants at November 1, 2010	1,231,428	$ 1.03
Warrants granted	-	-
Exercised	-	-
Expired/cancelled	-	-
Outstanding warrants at January 31, 2011	1,231,428	$ 1.03

Information regarding the warrants outstanding at January 31, 2012 and 2011 are summarized as below:

	Warrants Outstanding	Weighted average remaining contractual life(years)	Weighted average exercise price
Warrants outstanding at January 31, 2012			
	1,071,428	0.29	$0.88
	160,000	1.15	2.00
	1,231,428	0.4	$1.03
Warrants outstanding at January 31, 2011			
	1,071,428	1.29	$0.88

160,000	2.15	2.00
1,231,428	1.40	$1.03

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20. RESERVES

(1) Statutory reserves

Pursuant to the relevant laws and regulations of the PRC, the Company is required to annually transfer 10% of its after tax profit as reported on condensed consolidated financial statements prepared under the accounting principles of the PRC to a statutory surplus reserve fund until the balance reaches 50% of the registered share capital. This reserve can be used to make up any losses incurred or to increase share capital. Except for reducing losses incurred, any other application may not result in this reserve balance falling below 25% of the registered capital.

(2) Public welfare funds

Prior to January 1, 2007, the Company was required each year to transfer 5% of its after tax profit as reported on condensed consolidated financial statements prepared under the accounting principles of the PRC to the public welfare funds. This reserve was restricted to capital expenditure for employees' collective welfare facilities that are owned by the Company. The public welfare funds are not available for distribution to the stockholders (except in liquidation). Once capital expenditures for staff welfare facilities have been made, an equivalent amount must be transferred from the public welfare funds to the discretionary common reserve funds. Due to a change in PRC law, appropriation of profit to the public welfare funds is no longer required.

The reserve funds as of January 31, 2012 and October 31, 2011 were comprised of the following:

	2012 US$	2011 US$
Statutory surplus reserve	3,090,320	3,090,320
Public welfare fund	282,377	282,377
Total	3,372,697	3,372,697

21. COMMITMENTS AND CONTINGENCIES

The Company has various purchase commitments for materials, supplies and services incident to the ordinary conduct of business, generally for quantities required for the Company's business and at prevailing market prices. No material annual loss is expected from these commitments and there are no minimum purchase commitments.

The Company and its subsidiaries are self-insured, and they do not carry any property insurance, general liability insurance, or any other insurance that covers the risks of their business operations. As a result any material loss or damage to its properties or other assets, or personal injuries arising from its business operations would have a material adverse effect on the Company's financial condition and operations.

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 it might involve in the future are not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flows.

(1) Operating lease arrangements

We currently have no lease agreement with any company.

(2) Capital commitments

On October 12, 2009, we entered into a purchase agreement with Harbin Renhuang Pharmaceutical Stock Co. Ltd ("Renhuang Stock") to acquire the land use right, property and plant located at our Ah City Natural and Biopharmaceutical plant for a total consideration of $25,448,125. Pursuant to the purchase agreement, a payment of $15,905,078 was made to Renhuang Stock in October 2009 and a payment of $7,952,539 was made to Renhuang Stock in January 2011, with a final payment of $1,590,508 will be paid once we received all the related title transfer documents from local government, at which time title for the assets will be transferred. According to the agreement, we were exempted from lease payments for the underlying assets starting from May 1, 2010.

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On April 10, 2010, CBP China entered into a Purchase Agreement with Hongxiangmingyuan of Heilongjiang Yongtai Company, to acquire two office floors for a total consideration of $6,101,920. Pursuant to the Purchase Agreement, a payment of $4,271,344 was made in April 2010 and recorded as deposits on the condensed consolidated balance sheet. Pursuant to the Purchase Agreement, final payment of $1,830,576 is due by December 20, 2012, at which time title for the assets will be transferred.

Name of Fixed Asset	Purchase Date	Prepaid Amount	Remaining Amount	Total Amount
Ah City Pharmaceutical Plant	October 2009	$23,857,617	$1,590,508	$25,448,125
Two Office Floor	April 2010	4,271,344	1,830,576	6,101,920
Total		$28,128,961	$3,421,084	$31,550,045

In January 2011, CBP China started its Ah City Phase Two project for Siberian Ginseng products development and industrialization and entered into a Construction and Engineering Design Contract (the "Contract") with Heilongjiang Medical Architecture Design Institute (the "Institute") for architectural design. A few payments have been made to Institute and relevant local government departments for design and start up fees and we recorded $1,964,277 as Construction-in-progress for Ah City Phase Two project. The estimated total investment for Ah City Phase Two is $19,086,094. In anticipation of the project proceeding, we expect to pay approximately $9,487,379 in our fiscal year 2012 and $7,634,438 in our fiscal year 2013. The project is anticipated to be finished in 2013.

Name of Construction-in-Progress	Start Date	Paid Amount	Remaining Amount	Projected Total Amount
Ah City Phase Two (Siberian Ginseng Product Industrialization)	January 2011	$1,964,277	$17,121,817	$19,086,094

On January 11, 2011, CBP China entered into an Exclusive Licensing Agreement for Harbin Renhuang Pharmaceutical Co., Ltd. to Use Forest Resources under Yichun Red Star Forestry Bureau (the "Agreement") with Yichun Red Star Forestry Bureau of Heilongjiang Province (the "Forestry Bureau") which provides us with 30 years exclusive license right to use approximately 6,667 hectares of undergrowth resources including approximately 67 hectares of Siberian Ginseng GAP cultivation base in Heilongjiang Province. Pursuant to the Agreement, a payment of $7,952,539 was made to Forestry Bureau in January 2011, second payment of $6,362,031 was made in October 2011 and with a final payment of $1,590,508 remaining until receive all the required material from local government authorities for a total consideration of $15,905,078. Siberian Ginseng is a plant with medically-established anti-depressant and mood regulation qualities and is also an active ingredient in our market-leading line of all-natural anti-depressant medications. We will be responsible for continued maintenance and protection of wild resources to make this area a professional Siberian Ginseng base.

In the fiscal year 2011, we purchased the following intangible assets:

Name of Intangible Assets	Purchase Date	Paid Amount	Remaining Amount	Total Amount
Patent of Ingredients and preparation for Parkinson Drug	August 2011	$1,367,837	$1,367,837	$2,735,674
Patent of Ingredients and preparation for XiangDousu	August 2011	1,351,932	1,351,932	2,703,864
Patent of Mudouye Extract	September 2011	1,908,609	1,908,609	3,817,218
Patent of Hongdoushan Extract	September 2011	2,401,667	2,401,667	4,803,334
Patent of Ingredients and preparation for Jizhi Pills	October 2011	2,147,186	2,147,186	4,294,372
Yichun Undergrowth Resource Exclusive Using right	January 2011	14,314,570	1,590,508	15,905,078
Total		$23,491,801	$10,767,739	$34,259,540

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On January 24, 2012, the Company entered into an advertising contract with Harbin Weishi Advertising Company to advertise its products from February 1, 2012 to January 31, 2013 as shown on the following table.

Advertising Contract	Contract Date	Paid Amount US$	Remaining Amount US$	Total Amount US$
Harbin TV Weishi Advertising Company	January 2012	-	7,252,716	7,252,716

As of January 31, 2012, the Company has capital commitments for purchase of Ah City Nature and Pharmaceutical Plant, two office floors, undergrowth resources right, product patents, advertising contract and Ah City Phase Two construction-in-progress of approximately $38,563,356. The amounts to be paid in the future years are as follows:

Year	Payment for properties
2012	$27,285,163
2013	11,278,193
Total	$38,563,356

22. SUBSEQUENT EVENT

Management has evaluated subsequent events through the date these condensed consolidated financial statements were issued and has concluded no events need to be reported during this period.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report. See also Risk Factors contained in our Form 10-K for the year ended October 31, 2011.

Overview

We are a high-tech enterprise engaged in the research, development, manufacture, and distribution of botanical products, bio-pharmaceutical products, and traditional Chinese medicines, or TCM, in the People's Republic of China ("PRC" or "China"). We have three "Good Manufacturing Practice" or GMP certified production facilities - Ah City Natural and Biopharmaceutical plant, Dongfanghong pharmaceutical plant and Qingyang natural extraction plant - capable of producing 18 dosage forms and over 200 different products. Our products include but are not limited to (i) botanical anti-depression and nerve-regulation products, (ii) biopharmaceutical products, and (iii) botanical antibiotic and traditional over-the-counter ("OTC") Chinese medicines. Botanical anti-depression and nerve-regulation products account for approximately 70% of our revenues and we intend to strengthen our development in this area. We have entered into sales agency agreements with our sales agents. Through our sales agent, we have sold our products to over 3,000 distributors and over 70 sales centers across 24 provinces in the PRC.

Recent Developments

Siberian Ginseng Polysaccharide Extract Powder. On December 13, 2011, the Company issued a press release to announce that we have successfully developed a new Siberian Ginseng Polysaccharide Extract Powder and was awarded the Scientific and Technological Achievements Appraisal Certificate by the Science and Technology Bureau of Heilongjiang Province. The Siberian Ginseng (Acanthopanax) Polysaccharide Extract Powder is an all-natural substance extracted from the stem of Siberian Ginseng utilizing proprietary extraction technology developed by the China Botanic research team. The Company's Extract Powder technology was developed using its patented process of separating and extracting effective parts of the Siberian Ginseng (the PRC Patent Number: ZL200710301682X), which was granted by the State Intellectual Property Office of the People's Republic of China in December 2010. According to pharmacological research, Siberian Ginseng Extract Powder contains strong immunogenic and antitumor properties with minimal side effects. Our management estimates a significant market potential for Extract Powder based products, such as Siberian Ginseng Polysaccharide Extract Powder tablets and capsules.

Ah City Phase Two project. We have finished the architectural design of Ah City Phase Two project and are in the process of obtaining approval from relevant government authorities. We expect to finish all the procedures by April 2012 and will start the construction once we receive approval documents. As of January 31, 2012, we have incurred a total of $1,964,277 of construction-in-progress. The Ah City Phase Two project is expected to be completed in the year of 2013.

Tax Treatment of Subsidiary

As a recipient of the PRC's State High-Tech Enterprise certificate, Harbin Renhuang Pharmaceutical Co. LTD ("CBP China") is eligible for a number of national and local government support programs, including preferential tax treatment. In order to receive these benefits CBP China must, on an annual basis, pass a High-Tech Enterprise assessment. CBP China passed this assessment in February 2012 and, as a result, pays a reduced enterprise income tax rate of 15% in the year of 2012 compared with statutory enterprise income tax rate of 25%.

Critical Accounting Policies

The unaudited condensed consolidated financial statements include the financial statements of the Company and our subsidiaries. All transactions and balances among us and our subsidiaries have been eliminated upon consolidation.

Accounting Judgments and Estimates

Certain amounts included in or affecting our unaudited condensed consolidated financial statements and related disclosures must be estimated, requiring us to make certain assumptions with respect to values or conditions that cannot be known with certainty at the time the condensed consolidated financial statements are prepared. These estimates and assumptions affect the amounts we report for assets and liabilities and our disclosure of contingent assets and liabilities at the date of our condensed consolidated financial statements. We routinely evaluate these estimates, utilizing historical experience, consulting with experts and other methods we consider reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from our estimates. Any effects on our business, financial position or results of operations resulting from revisions to these estimates are recorded in the period in which the facts that give rise to the revision become known.

We believe that certain accounting policies are of more significance in our unaudited condensed consolidated financial statement preparation process than others, which policies are discussed below. See also Note 2 to the unaudited condensed consolidated financial statements for a summary of our significant accounting policies.

Estimates of allowances for bad debts – We must periodically review our trade and other receivables to determine if all are collectible or whether an allowance is required for possible uncollectible balances.

Estimate of the useful lives of property and equipment – We must estimate the useful lives and proper salvage values of our property and equipment. We must also review property and equipment for possible impairment.

Estimate of the useful lives of intangible assets – We must estimate the useful lives of our intangible assets. We must also review intangible assets for possible impairment.

Inventory – We must determine whether we have any obsolete or impaired inventory.

Revenue recognition – Revenue from the sale of goods is recognized on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are shipped to customers and the title has passed.

Please refer to the notes to the unaudited condensed consolidated financial statements included elsewhere in this filing for a more complete listing of all of our significant accounting policies.

Factors Affecting our Results of Operations

Our operating results are primarily affected by the following factors:

- ***Pharmaceutical Industry Growth***. We believe the market for pharmaceutical products in the PRC is growing rapidly driven by the PRC's economic growth, increased pharmaceutical expenditure, an aging population, increased lifestyle-related diseases, government support of the pharmaceutical industry, as well as the increased availability of funding for medical insurance in the PRC. In particular, in January 2009, the PRC's State Council passed a far-reaching medical reform plan ("Health Reform") to help provide universal primary medical insurance coverage and increased access to medical facilities to a greater majority of its citizens. Both the central government of the PRC and provincial governments has published Lists of Essential Medicines to regulate the market. We expect these factors to continue to drive industry growth.

- ***Pricing of Our Products***. Seven of our products, which accounted for 28.4% of our total revenues before sales rebate in the three months ended January 31, 2012, are listed on the National or Provincial List of Essential Medicines published by the Chinese government, and therefore subject to government pricing limits. We do not believe pricing controls will influence our sales significantly and expect that the health care reform will help increase our sales.

- ***Production Capacity***. We believe much of the pharmaceutical market in the PRC is still underserved, particularly with respect to treatment of depression, melancholy and nerve regulation. The demand for our products that treat depression, melancholy and regulate nerves, continuously increased and we were able to increase our production of such products to capture much of this growth. We believe our current facilities with the ability to manufacture 18 dosage forms and over 200 products could not meet our future demand and we are building our Ah City Phase Two project, Depth Development and Industrialization of Siberian Ginseng, to produce more advanced Siberian Ginseng products and to allow us to capture future market growth and increase our revenue and market share accordingly.

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- ***Perceptions of Product Quality***. We believe that rising health concerns in the PRC have contributed to a greater demand for health-care products with perceived health benefits. We believe many consumers in the PRC tend to prefer natural health care products with, we believe, limited side effects. Accordingly, we believe our reputation for quality and leadership position in a number of our products allow our products to command a higher average selling price and generate higher gross margins than our competitors.

- ***Raw Material Supply and Prices***. The per unit costs of producing our products are subject to the supply and price volatility of raw materials, which are affected by various market factors such as market demands, fluctuations in production and competition.

- ***Expenses Associated with Research and Development***. In order to enhance our existing products and develop new products for the market, we have devoted significant resources to research and development.

- ***Expenses Associated with Sales and Marketing***. In order to promote our product brand and gain greater market awareness, we have devoted significant resources to sales and marketing, in particular advertising activities.

- ***Demand for Our Products***. We expect the market demand for our botanic anti-depression and nerve-regulation products will increase along with the growth of the general market for such products.

Results of Operations

Three-Month Period Ended January 31, 2012 Compared to Three-Month Period Ended January 31, 2011

The following table sets forth certain information regarding our results of operation.

	Three Months Ended January 31,	
	2012	2011
Statements of Operations Data		
Sales, net	$28,140,091	$22,625,060
Cost of goods sold	10,815,503	8,807,787
Gross profit	17,324,588	13,817,273
Operating and administrative expenses		
Sales and marketing	1,590,890	1,329,179
General and administrative	1,046,633	659,882
Research and development	236,415	180,674

Other income	32,107	24,189
Income before income tax expenses	14,482,757	11,671,727
Income tax expenses	2,175,525	723,432
Net income	$12,307,232	$10,948,295
Other comprehensive income:		
Cumulative currency translation adjustments	1,485,999	664,421
Total comprehensive income	$13,793,231	$11,612,716

Comparison of Three Months Ended January 31, 2012 and 2011

Total Comprehensive Income

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Total comprehensive income increased by approximately $2.18 million, or 18.8%, from approximately $11.61 million for the three months ended January 31, 2011 to approximately $13.79 million for the three months ended January 31, 2012. This increase was primarily attributable to an increase of approximately $5.52 million, or 24.4%, in net sales, and an increase of approximately $2.01 million, or 22.8%, in cost of goods sold and an increase of approximately $0.26 million, or 19.7%, in sales and marketing expenses, an increase of approximately $0.39 million, or 58.6%, in general and administration expenses, an increase of approximately $56 thousand, or 30.9%, in research and development expenses, and an increase of $0.82 million, or 123.7%, in cumulative currency translation adjustments. Our gross profit margin increased from 61.1% for the three months ended January 31, 2011 to 61.6% for the three months ended January 31, 2012.

Sales

Our sales consist primarily of revenues generated from sales of botanical anti-depression and nerve regulation products, biopharmaceutical products and botanical antibiotics and traditional OTC Chinese medicines. Sales increased by approximately $5.52 million, or 24.4%, from approximately $22.63 million in three months ended January 31, 2011 to approximately $28.14 million in three months ended January 31, 2012. This increase in sales was primarily attributable to strong market acceptance of our Siberian Ginseng Series products and the contributions from Ginseng and Venison Extract (launched in the fourth quarter of fiscal year 2010) and Badger Oil (launched in the first quarter of fiscal year 2011) as a result of our marketing efforts, in addition to the price increase of our overall products in January 2011.

We provide incentive sales rebates to our sales agents. The rebate rate, which is based on a product basis, averaged of 8.5% and 13.3% of total sales for the three months ended January 31, 2012 and 2011, respectively. Sales rebates are netted against total sales. The following table sets forth information regarding the net sales of our principal products before sales rebate during the three months ended January 31, 2012 and 2011:

	Three Months Ended January 31, 2012			Three Months Ended January 31, 2011			Three Months Ended January 31, 2012 over 2011		
Product name	Quantity (Pack'000)	Amount ($000)	% of Sales	Quantity (Pack'000)	Amount ($000)	% of Sales	Quantity (Pack'000)	Amount ($000)	% of Sales
Siberian Ginseng (Acanthopanax) Series	136	17,846	58.0 %	125	13,547	52.0 %	11	4,299	6.0 %
Tianma Series	14	1,678	5.5 %	22	2,152	8.3 %	-8	-474	-2.8 %
Compound Yangjiao Tablets	20	2,443	7.9 %	28	3,001	11.5 %	-8	-558	-3.6 %
Shengmai Granules	10	480	1.6 %	15	682	2.6 %	-5	-202	-1.0 %
Banlangen Granules	12	521	1.7 %	11	432	1.7 %	1	89	0.0 %

Compound Honeysuckle Granules	25	1,852	6.0	%	35	2,346	9.0	%	-10	-494	-3.0	%
QingReJieDu Oral Liquid	12	486	1.6	%	13	443	1.7	%	-1	43	-0.1	%
Compound Schizandra Tablets	5	494	1.6	%	4	411	1.6	%	1	83	0.0	%
Ginseng and Venison Extract	28	3,834	12.5	%	22	2,439	9.4	%	6	1,395	3.1	%
Badger Oil	4	1,128	3.6	%	3	605	2.3	%	1	523	1.3	%
Total	266	30,762	100.0	%	278	26,058	100.0	%	-12	4,704	0.0	%

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While we had increased sales, we experienced a decrease in the sales of a number of our products mainly from the following few reasons. First, the average selling price of our products increased 23.4% for the three months ended January 31, 2012 compared with the same period of last year. The market normally needs six months or longer to absorb the impact of price increase. Second, as the PRC government moves forward with the Healthcare Reform, we experienced demanding fluctuation and this situation will continue until the Healthcare Reform is fully in place and the national healthcare system mature. Third, we increased the capacity per package for some of our products, such as Siberian Ginseng Tablets, the tablets per bottle increased from 100 to 400 tablets per bottle. Fourth, we focused our effort to our main products, Siberian Ginseng Series, Ginseng and Venison Extract, Badger Oil and Compound Schizandra Tablets which totally accounted for 75.7% of our total sales for the three months ended January 31, 2012 compared with 65.3% of the same period of last year and have higher gross margin. We have dominated the market of these four products and will continue to put more effort to strengthen our market share.

The PRC government is injecting funds into healthcare insurance system to reimburse full or part of the medical expenses consumed by Chinese citizen. We expect the Healthcare Reform, when fully in place, will greatly improve the affordability of healthcare cost of Chinese people and therefore increase the demand for our products. We have established Medical Reform Sales Department as a dedicated resource focused on capturing this tremendous growth opportunity.

In the third quarter of our fiscal year 2010, we introduced two new products to the market, Qing Re Jie Du Oral Liquid, which is used to cure seasonal flu, and Compound Schisandra Tablets, also known as magnolia vine, has been clinically proven to have significant benefits to the functioning and regulation of the central nervous system. In the last quarter of our fiscal year 2010, we introduced Ginseng and Venison Extract product to the market which nourishes the blood and kidney, restores the body's energy and increase endurance and has been in great demand since we launched the product. In the first quarter of our fiscal year 2011, we introduced Badger Oil which treats burns and scalds and attracted great attention from many patients.

The increase in average sales price per pack, as reflected in the table, is primarily attributable to the increase in the sales price of individual products, namely Siberian Ginseng (Acanthopanax) Series, Tianma Series, QingReJiedu Oral Liquid, Ginseng and Venison Extract and Badger Oil as demonstrated in the following table, which reflects the average sales price per pack by product for the three months ended January 31, 2012 and 2011 and the percentage changes in the sales price per pack.

	Average Price Per Pack		
Product	Three Months Ended January 31, 2012	Three Months Ended January 31, 2011	Percentage Change

Siberian Ginseng (Acanthopanax) Series	$131.2	$ 108.3	21.1	%
Tianma Series	119.9	96.0	24.9	%
Compound Yangjiao Tablets	122.2	108.0	13.1	%
Shengmai Granules	48.0	45.4	5.7	%
Balangen Granules	43.4	38.3	13.3	%
Compound Honeysuckle Granules	74.1	67.5	9.8	%
QingReJieDu Oral Liquid	40.5	33.1	22.4	%
Compound Schizandra Tablets	98.8	96.4	2.5	%
Ginseng and Venison Extract	136.9	112.6	21.6	%
Badger Oil	282.0	232.7	21.2	%
Total	$115.6	$ 93.7	23.4	%

We expect the demand for our products will increase as we continue to garner greater market acceptance, in particular the benefits of our Siberian Ginseng (Acanthopanax) Series in treating depression and nerve-regulation. Further, we see signs of increased demand for our newly launched product, Ginseng and Venison Extract which accounted for 12.5% of our total sales revenue in the first quarter of fiscal year 2012. We believe that we will have a continuous and stable sales increase in these products for fiscal year 2012. In addition, we anticipate that we will be successful in becoming one of the PRC’s essential medicine suppliers as the PRC government moves forward with its Health Reforms in 2012.

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Cost of Goods Sold

Our costs of goods sold consist primarily of direct and indirect manufacturing costs, including production overhead costs, and handling costs for the products sold. Costs of goods sold increased approximately $2.01 million, or 22.8%, from approximately $8.81 million for the three months ended January 31, 2011 to approximately $10.82 million for the three months ended January 31, 2012. This increase was primarily attributable to the increase in Siberian Ginseng Series and Ginseng and Venison Extract products sold and increases in raw material prices as a result of inflation.

Although we anticipate that the cost of goods will increase due to inflationary price increases, we do not believe that such increases will be material for fiscal year 2012. We anticipate that beyond 2012, our price for raw materials and other production costs will continue to increase due to inflation. If our costs of goods increase, this may have a negative effect on our net income because due to market conditions and competitive conditions, we may not be able to increase the price for our products in proportion to the increase in costs of goods sold.

Operating and Administrative Expenses

Our total operating expenses consist primarily of sales and marketing expenses, general and administrative expenses and research and development expenses. Our total operating expenses increased by approximately $0.70 million, or 32.5%, from approximately $2.17 million for the three months ended January 31, 2011 to approximately $2.87 million for the three months ended January 31, 2012.

Sales and Marketing. Our sales and marketing expenses consist primarily of advertising and market promotion expenses, and other overhead expenses incurred by the Company’s sales and marketing personnel. Sales and marketing expenses increased approximately $0.26 million, or 19.7%, from approximately $1.33 million for the three months ended January 31, 2011 to approximately $1.59 million for the three months ended January 31, 2012. This increase was primarily attributable to an increase of approximately $0.28 million, or 22.4%, in advertising expenses as the Company intensified TV advertisements in Heilongjiang province for our botanic anti-depression series. Sales and marketing expenses are likely to increase as we continue expanding our distribution network throughout the PRC and seek to increase our market share and awareness of our products.

General and Administrative. Our general and administrative expenses consist primarily of salary, travel, entertainment expenses, rental, benefits, share-based compensation, and professional service fees. General and administrative expenses increased by approximately $0.39 million, or 58.6%, from approximately $0.66 million for the three months ended January 31, 2011 to approximately $1.05 million for the three months ended January 31, 2012. This increase was primarily attributable to an increase of approximately $0.18 million in other service fees, an increase of approximately $0.15 million in amortization expenses and an increase of $0.11 million in consultation expenses.

General and administrative expenses are likely to increase as we continue to expand our production, sourcing capacity, and distribution capacity throughout the PRC.

Research and Development. Our research and development expenses consist primarily of salary, equipment rental expenses, and Siberian Ginseng (Acanthopanax) cultivation related expenses. Research and development expenses increased approximately $56 thousand, or 30.9%, from approximately $0.18 million for the three months ended January 31, 2011 to approximately $0.24 million for the three months ended January 31, 2012. This increase was primarily attributable to development of Siberian Ginseng (Acanthopanax) cultivation and extraction of effective components of the Siberian Ginseng (Acanthopanax) plant, and development of other products, and research in cultivation techniques for Siberian Ginseng. Research and development expenses are likely to increase as we continue to devote our resources to development of new products and enhancement of our existing products.

Income before income tax expenses

As a result of the foregoing, our income before income tax expenses increased by approximately $2.81 million, or 24.1%, from approximately $11.67 million for the three months ended January 31, 2011 to approximately $14.48 million for the three months ended January 31, 2012.

Income Tax Expenses

We are subject to U.S. federal and state income taxes. Our subsidiary registered in the PRC is subject to enterprise income taxes. For the calendar years of 2012 and 2011, CBP China was granted a 10% tax exemption, and pays enterprise income taxes of 15%.

Cumulative Currency Translation Adjustments

Our principal country of operations is the PRC and our functional currency is the Renminbi, but our reporting currency is the U.S. dollar. All translation adjustments resulting from the translation of our financial statements into U.S. dollars are reported as cumulative currency translation adjustments. Our cumulative currency translation adjustments increased by approximately $0.82 million, from approximately $0.66 million for the three months ended January 31, 2011 to approximately $1.49 million for the three months ended January 31, 2012.

Liquidity and Capital Resources

We had retained earnings of approximately $91.68 million and $79.38 million as of January 31, 2012 and October 31, 2011, respectively. As of January 31, 2012 and October 31, 2011, we had cash of approximately $21.42 million and $15.28 million, respectively, total current assets of approximately $70.59 million and $51.07 million, respectively. As of January 31, 2012 and October 31, 2011, we had a working capital surplus of approximately $56.93 million and $40.84 million, respectively. With the anticipated income from 2012, we believe our cash are adequate to satisfy our working capital needs and sustain our ongoing operations for the next twelve months.

Our summary of cash flow information is as follows:

	Three months ended January 31	
Net cash provided by (used in):	2012	2011
Operating activities	$3,358,465	$1,300,790
Investing activities	$2,526,967	$(16,920,767)

Net Cash Provided by Operating Activities

Net cash provided by operating activities increased approximately $2.06 million, from net cash provided by operating activities of approximately $1.30 million for the three months ended January 31, 2011 to net cash provided by operating activities of approximately $3.36 million for the three months ended January 31, 2012. This increase was primarily attributable to an increase in net income of approximately $1.36 million, an increase in the trade receivables of approximately $4.59 million as a result of increased sales, an increase in inventories of approximately $4.10 million, and decrease in other receivables of approximately $6.97 million and an increase in tax payable of approximately $1.93 million.

Net Cash Provided by (Used in) Investing Activities

Net cash provided by investing activities increased approximately $19.45 million, from approximately $16.92 million used during the three months ended January 31, 2011 to approximately $2.53 million provided during the three months ended January 31, 2012. This increase was primarily attributable to the payments made to purchase land use right, exclusive using right of undergrowth resources and construction-in-progress in the first quarter of our fiscal year 2011 and no cash used in investing activities in the first quarter of our fiscal year 2012.

Net Cash Provided by Financing Activities

We did not have any financing activities during three months ended January 31, 2012 and 2011.

Trade Receivables

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The net trade receivables increased approximately $11.04 million from approximately $21.55 million on October 31, 2011 to approximately $32.59 million on January 31, 2012. This increase was primarily attributable to the result of our sales increase in the first quarter of our fiscal year 2012.

Inventory

Inventory amounts increased approximately $9.00 million from approximately $7.42 million on October 31, 2011 to approximately $16.42 million on January 31, 2012. This increase was primarily attributable to an increase of $7.44 million in raw materials from approximately $0.95 million on October 31, 2011 to $8.39 million on January 31, 2012, an increase of $3.05 million in packaging materials from $1.89 million on October 31, 2011 to $4.94 million on January 31, 2012 and a decrease of $1.79 million in work-in-progress from $3.21 million on October 31, 2011 to $1.42 million on January 31, 2012.

Outstanding Long-Term Indebtedness

None

Expansion Strategy

We believe the market for pharmaceutical products in the PRC is growing. Our growth strategy involves capturing as much of this market as possible during this growth phase. To implement this strategy we plan to strengthen our dominant position in the Siberian Ginseng (Acanthopanax) market, expand our Siberian Ginseng (Acanthopanax) cultivating bases and improving the quality standards of Siberian Ginseng (Acanthopanax), and extend our distribution network through internal distribution channels reforms. Our expansion strategy will require the continued retention and investment of our earnings from operations and, we believe, additional funding from private debt and equity financing. In general, the commitment of funds to research and development, or acquisition or construction of plant and equipment tends to impair liquidity. However, we believe that because of the upward trend in our revenues in recent years, even if this trend levels off, our income from continuing operations coupled with such additional financing, if required, should provide sufficient liquidity to meet our expansion needs.

Contractual Obligations

Please refer to Note 21. COMMITMENTS AND CONTINGENCIES.

Off-balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Item 3. ***Quantitative and Qualitative Disclosures about Market Risk***

Because we are a smaller reporting company, this Item 3 is not applicable.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

As of January 31, 2012, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act”). Accordingly, based upon that evaluation, the chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were not effective to ensure that information required to be disclosed in our periodic reports filed under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission’s rules and regulations. Based on the management's assessment and review of our financial statements and results for the three months ended January 31, 2012, we have not established effective internal controls.

Changes in Internal Controls

Since the third quarter of our 2009 fiscal year, we have begun the implementation of remedial measures including hiring of a new chief financial officer in January 2010 (who resigned on August 3, 2010 for personal reason and was replaced by an interim chief financial officer. On December 14, 2010, we subsequently hired Mr. Weiqiu Dong as our new chief financial officer), adding additional staff, appointing three independent Directors to our board of directors, engaging consultants to advise management on the preparation of Sarbanes-Oxley Section 404 compliance with internal controls over financial reporting for fiscal year 2011, providing relevant training to our staff, implementing more rigorous policies and procedures relating to period-end financial reporting and other key processes, strengthening key controls such as journal-entry approval, reconciliation procedures and maintaining relevant supporting documentation. We expect to continue to implement additional financial and management controls and procedures going forward. As results of these measures and until we have completed the remediation process, there has been and will be changes and further improvement to our internal controls over financial reporting.

PART II

Item 1. ***Legal Proceedings.***

As of March 10, 2012, we are not a party to, or threatened by, any legal proceedings.

Item 1A. ***Risk Factors.***

Because we are a smaller reporting company, this Item 1A is not applicable.

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

None.

Item 3. ***Defaults upon Senior Securities.***

In the three-month period ended January 31, 2012, and subsequent period through the date hereof, we did not default upon any senior securities.

Item 4. ***[Removed and Reserved].***

Item 5. ***Other Information.***

None.

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Item 6. ***Exhibits.***

Exhibit No.	Description
3.1	Restated Articles of Incorporation[(1)]
3.2	Amended and Restated Bylaws[(2)]
3.3	Certificate of Amendment to Articles of Incorporation[(3)]
3.4	Certificate of Amendment to Articles of Incorporation reflecting change of name to China Botanic Pharmaceutical Inc. [(4)]
10.1	2007 Non-Qualified Company Stock Grant and Option Plan[(5)]
10.2	2003 Omnibus Securities Plan [(6)]
	Loan Conversion Agreement among the Company, Allied Merit International Inc. and Griffin Ventures Ltd. dated May 15, 2009[(7)]
10.3	Employment Agreements with Weiqiu Dong[(4)]
10.4	English translation of Purchase Agreement for Patents dated September 1, 2009[(8)]
10.5	English translation of Purchase Agreement for Ah City Natural and Biopharmaceutical plant dated October 12, 2009[(8)]
10.6	English translation of Purchase Agreement with Hongxiangmingyuan of Heilongjiang Yongtai Company dated April 10, 2010[(9)]
10.7	Independent Director Agreement with Mr. Xiaoheng (Sean) Shao, dated April 13, 2010[(9)]
10.8	Independent Director Agreement with Mr. Bingchun Wu, dated April 19, 2010[(9)]
10.9	Independent Director Agreement with Mr. Changxiong Sun, dated April 19, 2010[(9)]
10.10	Independent Director Agreement with Mr. Zack Plan, dated October 15, 2011*
10.11	English translation of the Exclusive Licensing Agreement for Harbin Renhuang Pharmaceutical Co., Ltd. to Use Forest Resources under Yichun Red Star Forestry Bureau[(10)]
21.1	Subsidiaries of the registrant (2)
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Principal Executive and Financial Officers pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	XBRL Instance Document (11)
101.SCH	XBRL Taxonomy Extension Schema (11)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (11)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (11)
101.LAB	XBRL Taxonomy Extension Label Linkbase (11)
101.FRE	XBRL Taxonomy Extension Presentation Linkbase (11)

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* Filed herewith

(1) Incorporated by reference from Form 8-K filed with the SEC on April 22, 2003.

(2) Incorporated by reference from Form 8-K filed with the SEC on January 10, 2012.

(3) Incorporated by reference from Form 10-K filed with the SEC on February 13, 2007.
(4) Incorporated by reference from Form 10-K filed with the SEC on January 24, 2011.
(5) Incorporated by reference from Form 8-K filed with the SEC on May 2, 2007.
(6) Incorporated by reference from Form 8-K filed with the SEC on April 22, 2003.
(7) Incorporated by reference from Form 10-Q filed with the SEC on September 21, 2009.
(8) Incorporated by reference from Form 10-K filed with the SEC on January 29, 2010.
(9) Incorporated by reference from Form 10-Q filed with the SEC on June 7, 2010.
(10) Incorporated by reference from Form 10-K filed with the SEC on January 30, 2012.
(11) XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

Date: March 16, 2012	CHINA BOTANIC PHARMACEUTICAL INC.
	By: /s/ Li Shaoming Li Shaoming, Chief Executive Officer and President (Principal Executive Officer)
Date: March 16, 2012	By: /s/ Weiqiu Dong Weiqiu Dong, Chief Financial Officer (Principal Financial Officer)

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