

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

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

For the transition period from _____ to _____

Commission File No.: 333-146182

Biozone Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

20-5978559
(I.R.S. Employer
Identification No.)

550 Sylvan Avenue
Suite 101
Englewood Cliffs, NJ 07632
(Address of principal executive offices)

Issuer's telephone number: **(201) 608-5101**

Check whether the registrant filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of May 10, 2013, there were 69,461,325 shares of our common stock outstanding.

**Quarterly Report on Form 10-Q for the
Three months ended March 31, 2013
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PART 1: FINANCIAL INFORMATION
ITEM 1 – FINANCIAL STATEMENTS

BIOZONE PHARMACEUTICALS, INC.
CONSOLIDATED BALANCE SHEET
(unaudited)

	<u>March 31,</u> <u>2013</u>	<u>December</u> <u>31, 2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 92,123	\$ 62,296
Account receivable net of allowance for doubtful accounts \$61,973 and \$46,119, respectively	563,258	834,998
Inventories	1,678,316	1,651,087
Prepaid expenses and other current assets	188,934	121,912
Total current assets	<u>2,522,631</u>	<u>2,670,293</u>
Property and equipment, net	3,371,270	3,333,919
Goodwill	1,026,984	1,026,984
Intangibles, net	176,755	190,894
Deferred financing costs, net	15,766	17,677
	<u>4,590,775</u>	<u>4,569,474</u>
Total Assets	<u>\$ 7,113,406</u>	<u>\$ 7,239,767</u>
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current liabilities:		
Account payable	1,467,092	736,279
Accrued expenses and other current liabilities	3,257,023	3,127,817
Accrued interest	364,183	286,382
Notes payable - shareholder	1,099,715	1,099,715
Convertible notes payable, net of debt discount	1,816,562	1,472,152
Deferred income tax	102,022	102,022
Derivative instruments	900,292	919,394
Current portion of long term debt	206,040	181,752
Total current liabilities	<u>9,212,929</u>	<u>7,925,513</u>
Long Term Debt	<u>2,956,565</u>	<u>2,894,579</u>
Shareholders' deficiency		
Common stock, \$.001 par value, 100,000,000 shares authorized, 63,142,969 shares issued and outstanding at March 31, 2013, and December 31, 2012	63,143	63,143
Additional paid-in capital	10,484,611	10,484,611
Accumulated deficit	(15,603,842)	(14,128,079)
Total shareholders' deficiency	<u>(5,056,088)</u>	<u>(3,580,325)</u>
Total liabilities and shareholders' deficiency	<u>\$ 7,113,406</u>	<u>\$ 7,239,767</u>

See accompanying notes to consolidated financial statements

BIOZONE PHARMACEUTICALS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended	
	March 31,	
	2013	2012
	<u> </u>	<u> </u>
Sales	\$ 2,028,897	\$ 3,510,042
Cost of sales	<u>(1,436,814)</u>	<u>(2,064,881)</u>
Gross profit	<u>592,083</u>	<u>1,445,161</u>
Operating Expenses:		
General and administrative expenses	1,416,918	1,593,369
Selling expenses	175,261	221,561
Research and development expenses	<u>19,831</u>	<u>221,614</u>
Total Operating Expenses	<u>1,612,010</u>	<u>2,036,544</u>
Loss from operations	(1,019,927)	(591,383)
Interest expense	(474,938)	(3,472,845)
Change in fair market value of derivative liability	19,102	418,192
Loss before provision for income taxes	<u>(1,475,763)</u>	<u>(3,646,036)</u>
Provision for income taxes		-
Net loss	<u>\$ (1,475,763)</u>	<u>\$ (3,646,036)</u>
Loss per common share	<u>\$ (0.02)</u>	<u>\$ (0.06)</u>
Basic and diluted weighted average common share outstanding	<u>63,142,969</u>	<u>56,366,331</u>

See accompanying notes to consolidated financial statements

BIOZONE PHARMACEUTICAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	March 31,	
	2013	2012
Cash flows from operating activities		
Net loss	\$ (1,475,763)	\$ (3,646,036)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Bad debt expense	16,667	9,000
Depreciation and amortization	128,612	114,716
Amortization of deferred financing costs	1,911	1,910
Change in fair value of derivative liability	(19,102)	(418,192)
Non-cash interest expense	422,211	3,359,905
Changes in assets and liabilities:		
Account receivable-trade	255,073	(522,319)
Inventories	(27,229)	78,014
Prepaid expenses and other current assets	(67,022)	(235,914)
Accounts payable	730,813	(446,504)
Accrued expenses and other current liabilities	129,206	(230,162)
Net cash provided by (used in) operating activities	95,377	(1,935,582)
Cash flows from investing activities		
Purchase of property and equipment	(40,484)	(242,427)
<i>Cash acquired on business combination</i>		
Net cash used in investing activities	(40,484)	(242,427)
Cash flows from financing activities		
Proceeds from convertible debt	-	3,300,000
Repayment of borrowings from noteholders	-	(2,111,441)
Proceeds from sale of common stock	-	650,000
Repayment of debt	(25,066)	
Net cash provided by (used in) financing activities	(25,066)	1,838,559
Net increase (decrease) in cash and cash equivalents	29,827	(339,450)
Cash and cash equivalents, beginning of period	62,296	416,333
Cash and cash equivalents, end of period	\$ 92,123	\$ 76,883
Supplemental disclosures of cash flow information:		
Interest paid	\$ 52,727	\$ 223,885

See accompanying notes to consolidated financial statements

Biozone Pharmaceuticals, Inc.
Notes to the Consolidated Financial Statements
March 31, 2013
(unaudited)

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements presented herein have been prepared in accordance with the instructions to Form 10-Q and do not include all the information and note disclosures required by accounting principles generally accepted in the United States. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012 filed with the Securities and Exchange Commission (the "SEC") on April 1, 2013. In the opinion of management, this interim information includes all material adjustments, which are of a normal and recurring nature, necessary for fair presentation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change include assumptions used in determining the fair value of securities owned and non-readily marketable securities.

The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the entire year or for any other period.

NOTE 2 - Business Description

BioZone Pharmaceuticals, Inc. (formerly, International Surf Resorts, Inc.; the "Company", "we", "our") was incorporated under the laws of the State of Nevada on December 4, 2006. On March 1, 2011, we changed our name from International Surf Resorts, Inc. to BioZone Pharmaceuticals, Inc.

The BioZone Lab Group has operated since inception as a developer, manufacturer, and marketer of over-the-counter drugs and preparations, cosmetics, and nutritional supplements on behalf of health care product marketing companies and national retailers. We have been developing our proprietary drug delivery technology (the "BioZone Technology") as an enhancement for approved, generic prescription drugs that are limited due to poor stability or bioavailability or variable absorption.

NOTE 3 - Going Concern

These consolidated financial statements are presented on the basis that we will continue as a going concern. The going concern concept contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The Company has incurred operating losses for the current quarter ended March 31, 2013 as well as its last two fiscal years, has a working capital deficiency of \$6,690,298 and an accumulated deficit of \$15,603,842 as of March 31, 2013. These conditions, among others, raise substantial doubt about the Company's ability to continue as a going concern. The Company is implementing a growth strategy for our contract manufacturing business is to increase sales by establishing a dedicated sales team with industry experience who will leverage our expertise in product development and formulation to attract new contract manufacturing customers. Our growth strategy for our proprietary brand business is to increase our promotional efforts through direct mail, internet and participation at trade shows. The Company is also working to reduce selling and administrative expenses as shown by our liquidation of two of our subsidiary companies and folding their operations into BioZone Labs. The Company has secured a financing agreement to assist with its cash needs. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

NOTE 4. - Summary of Significant Accounting Policies

Revenue Recognition. We follow the guidance of the SEC’s Staff Accounting Bulletin (“SAB”) 104 for revenue recognition and Accounting Standards Codification (“ASC”) Topic 605, “Revenue Recognition”. The Company operates as a contract manufacturer and produces finished goods according to customer specifications. The agreements with customers do not contain any rights of return other than for goods that fail to meet the specifications provided by the customer. The Company has not experienced any significant returns from customers and accordingly, in management’s opinion, no reserve for returns is provided. We record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the selling price to the customer is fixed or determinable and collectability of the revenue is reasonably assured.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned, its equity investment in BetaZone Laboratories LLC. (“BetaZone”) and 580 Garcia Ave, LLC (“580 Garcia”) a Variable Interest Entity (“VIE”).

Our investment in BetaZone, our significant unconsolidated subsidiary, is accounted for using the equity method of accounting.

Convertible Instruments. We evaluate and account for conversion options embedded in convertible instruments in accordance with ASC 815 “Derivatives and Hedging Activities”. Applicable Generally Accepted Accounting Principles (“GAAP”) requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under other GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

We account for convertible instruments (when we have determined that the embedded conversion options should not be bifurcated from their host instruments) as follows: We record when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption.

Common Stock Purchase Warrants. We classify as equity any contracts that require physical settlement or net-share settlement or provide us a choice of net-cash settlement or settlement in our own shares (physical settlement or net-share settlement) provided that such contracts are indexed to our own stock as defined in ASC 815-40 (“Contracts in Entity’s Own Equity”). We classify as assets or liabilities any contracts that require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside our control) or give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). We assess classification of our common stock purchase warrants and other free standing derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required.

Our derivative instruments consisting of warrants to purchase our common stock were valued using the Black-Scholes option pricing model, using the following assumptions at March 31, 2013:

Estimated dividends	None
Expected volatility	184%
Risk-free interest rate	0.83%
Expected term	3.00 years

Goodwill. Goodwill represents the excess of the consideration transferred over the fair value of net assets of business purchased. Goodwill is not being amortized but is evaluated for impairment on at least an annual basis.

Note 5 - Property and Equipment. A summary of property and equipment and the estimated useful lives used in the computation of depreciation and amortization is as follows:

<u>Fixed Asset</u>	<u>Useful Life</u>	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Vehicles	5 years	300,370	300,370
Furniture and Fixtures	10 years	66,711	64,539
Computers	5 years	251,446	234,123
MFG equipment	10 years	4,181,769	4,062,593
Lab Equipment	10 years	985,015	973,772
Bldg/Leasehold	19 years (remainder of lease)	1,676,418	1,676,418
Building	40 years	571,141	571,141
Land	Not depreciated	380,000	380,000
		<u>8,412,870</u>	<u>8,262,956</u>
Accumulated depreciation		(5,041,600)	(4,929,037)
Net		<u>3,371,270</u>	<u>3,333,919</u>

NOTE 6 - Equity Method Investments. Our investment in BetaZone, our significant unconsolidated subsidiary, is accounted for using the equity method of accounting. Summarized financial information for our investment in Betazone assuming 100% ownership interest is as follows:

	<u>March 31, 2013</u>	<u>December 31, 2012</u>
Balance sheet		
Current assets	66,264	3,825
Current liabilities	383,379	301,864
Statement of operations		
Revenues	47,893	40,002
Net loss	(19,075)	(272,935)

In 2011, when the Company's share of losses equaled the carrying value of its investment, the equity method of accounting was suspended, and no additional losses were charged to operations. The Company's unrecorded share of losses for the three months ended March 31, 2013 totaled \$8,584.

NOTE 7 - Convertible Notes Payable

The "February 2012 Notes"

On February 24, 2012, we entered into a Securities Purchase Agreement with OPKO Health Inc. pursuant to which we sold a 10% secured convertible promissory note in the aggregate principal amount of \$1,700,000 due two years from the date of issuance and issued warrants to purchase 8,500,000 shares of the our common stock, at an exercise price of \$0.40 per share, for gross proceeds of \$1,700,000.

On February 28, 2012 and February 29, 2012, we entered in a Securities Purchase Agreement with two additional buyers pursuant to which we sold an additional \$600,000 aggregate principal amount of notes and issued warrants to purchase an additional 3,000,000 shares of our common stock, at an exercise price of \$0.40 per share, for gross proceeds of \$600,000, on the same terms as the notes and warrants issued to OPKO as described above.

In connection with the sale of the notes and the warrants, the Company and the collateral agent for the buyers entered into a Pledge and Security Agreement pursuant to which all of our obligations under the notes are secured by a first priority perfected security interest in all of our tangible and intangible assets, including all of our ownership interest in our subsidiaries.

The entire principal amount and any accrued and unpaid interest on the notes is due and payable in cash on the maturity date set forth in the notes. The notes bear interest at the rate of 10% per annum. The notes are convertible into shares of our common stock at an initial conversion price of \$0.20 per share, subject to adjustment. We may prepay any outstanding amount due under the notes, in whole or in part, prior to the maturity date. The notes are subject to certain “Events of Defaults” which could cause all amounts due and owing thereunder to become immediately due and payable. Among other things, our failure to pay any accrued but unpaid interest when due, the failure to perform any obligation under the governing transaction documents or if any representation or warranty made by the Company in connection with the governing transaction documents proves to have been incorrect in any material respect constitutes an Event of Default under the governing transaction documents.

The Company is prohibited from effecting a conversion of the notes or exercise of the warrants, to the extent that as a result of such conversion or exercise the holder would beneficially own more than 4.99% (subject to waiver) in the aggregate of the issued and outstanding shares of the Company’s common stock, calculated immediately after giving effect to the issuance of shares of common stock upon conversion of such note or exercise of such warrant, as the case may be.

The warrants are immediately exercisable and expire ten years after the date of issuance. The warrants have an initial exercise price of \$0.40 per share. The warrants are exercisable in cash or through a “cashless exercise”. All of the warrants granted with these notes have been exercised.

We determined that the initial fair value of the warrants was \$5,221,172 based on the Black-Scholes option pricing model, which we treated as a liability with a corresponding decrease in the carrying value of the notes. Under authoritative guidance, the carrying value of the notes may not be reduced below zero. Accordingly, we recorded interest expense of \$2,921,172 at the time of the issuance of the notes, which is the excess of the value of the warrants over the allocated fair value of the notes. The discount related to the notes will be amortized over the term of the notes as interest expense, calculated using an effective interest method.

We determined that according to ASC 470120-30, a beneficial conversion feature existed based on the intrinsic value of the conversion feature. Due to the fact that the carrying amount of the convertible notes has been reduced to zero, based on the discount allocated from the value of the warrants referred to above, that no beneficial conversion feature is to be recorded. ASC 470-20-30-8 states that if the intrinsic value of the beneficial conversion feature is greater than the proceeds allocated to the convertible instrument, the amount of the discount assigned to the beneficial conversion feature shall be limited to the amount of the proceeds allocated to the convertible instrument.

The “March 2012 Purchase Order Note”

On March 13, 2012, we sold a 10% senior convertible promissory note with a principal amount of \$1,000,000 (the “Purchase Order Note”) to an accredited investor for a purchase price of \$1,000,000. The principal amount of the Purchase Order Note is payable in cash on such dates and in such amounts as set forth in the Purchase Order Note, based on the receipt of proceeds from sales to a certain vendor (the “Vendor Proceeds”). The last date of the scheduled payments under the Purchase Order Note is referred to as the “Final Maturity Date”. All of our obligations under the Purchase Order Note are secured by a first priority security interest in the Vendor Proceeds as defined. The holder of the notes issued in February 2012 agreed to subordinate their security interest in the Vendor Proceeds to the interest of the holder of the Purchase Order Note.

The Purchase Order Note is convertible into shares of our common stock at an initial conversion price of \$1.50 per share. The Purchase Order Note bears interest at the rate of 10% per annum. We may prepay any outstanding amounts owing under the Purchase Order Note, in whole or in part, at any time prior to the Final Maturity Date. The entire remaining principal amount and all accrued but unpaid or unconverted interest is due and payable on the earliest of (1) the Final Maturity Date, (2) the consummation of a financing by the Company resulting in net proceeds equal to or greater than 1.5 times the remaining outstanding unconverted principal amount and (3) the occurrence of an Event of Default (as defined in the Purchase Order Note).

The Company has not recorded a BCF on the March 2012 Purchase Order Notes due to the effective conversion price being greater than the fair value of the Company's stock at the issuance date.

The Company is prohibited from effecting a conversion of the Purchase Order Note, to the extent that as a result of such conversion, the holder would beneficially own more than 4.99% (subject to waiver) in the aggregate of the issued and outstanding shares of the Company's common stock, calculated immediately after giving effect to the issuance of shares of common stock upon conversion of the Purchase Order Note.

As of March 31, 2013, the Company repaid \$600,000 of the Purchase Order Note.

The "April 2012 Working Capital Note"

On April 18, 2012, we sold a 10% senior convertible promissory note with a principal amount of \$250,000 (the "Working Capital Note") to an accredited investor for a purchase price of \$250,000. The principal amount of the Working Capital Note is payable in cash on such dates and in such amounts as set forth in the Working Capital Note based on the receipt of the Vendor Proceeds as defined. The last date of the scheduled payments under the Working Capital Note is referred to as the "Final Maturity Date". All of our obligations under the Purchase Order Note are secured by a first priority security interest in the Vendor Proceeds. The buyers of the February 2012 Notes agreed to subordinate their security interest in the Vendor Proceeds to the interest of the holder of the Working Capital Note.

The Working Capital Note is convertible into shares of our common stock at an initial conversion price of \$1.50 per share. The Working Capital Note bears interest at the rate of 10% per annum. We may prepay any outstanding amounts owing under the Working Capital Note, in whole or in part, at any time prior to the Final Maturity Date. The entire remaining principal amount and all accrued but unpaid or unconverted interest is due and payable on the earliest of (1) the Final Maturity Date, (2) the consummation of a financing by the Company resulting in net proceeds equal to or greater than 1.5 times the remaining outstanding unconverted principal amount and (3) the occurrence of an Event of Default (as defined in the Working Capital Note).

The Company is prohibited from effecting a conversion of the Working Capital Note, to the extent that as a result of such conversion, the holder would beneficially own more than 4.99% (subject to waiver) in the aggregate of the issued and outstanding shares of the Company's common stock, calculated immediately after giving effect to the issuance of shares of common stock upon conversion of the Working Capital Note.

On September 28, 2012, the holder of the Working Capital Note exchanged such note for the June 2012 Convertible Notes described below.

The "June 2012 Working Capital Notes"

On June 13, 2012, we sold 10% promissory notes with an aggregate principal amount of \$200,000 (the "June 2012 Working Capital Notes") to accredited investors for an aggregate purchase price of \$200,000. The principal amount of the June 2012 Working Capital Notes is payable in cash on the date that is the earlier of receipt by the Company of \$500,000 or more from any source (other than sales in the ordinary course of business) or three months from the issuance date.

The June 2012 Working Capital Notes bear interest at the rate of 10% per annum. We may prepay any outstanding amounts owing under the June 2012 Working Capital Notes, in whole or in part, at any time prior to the maturity date.

On June 28, 2012, the holders of the June 2012 Working Capital Notes exchanged such notes for the June 2012 Convertible Notes described below.

The “June 2012 Convertible Notes”

On June 28, 2012, we issued 10% convertible promissory notes (the “June 2012 Convertible Notes”) with an aggregate principal amount of \$455,274 and warrants (the “June 2012 Warrants”) to purchase 2,250,000 shares of our common stock at an exercise price of \$0.40 per share to the holders of the Working Capital Notes and June 2012 Working Capital Notes with an aggregate amount of principle and accrued interest due as of such date equal to the aggregate principle amount of the June 2012 Convertible Notes. The Working Capital Notes and June 2012 Working Capital Notes were cancelled.

The June 2012 Convertible Notes bear interest at the rate of 10% per annum and mature two years from their issue date. We may prepay any outstanding amounts owing under the June 2012 Convertible Notes, in whole or in part, at any time prior to the maturity date. The entire remaining principal amount and all accrued but unpaid or unconverted interest is due and payable on the earlier of the Maturity Date or the occurrence of an Event of Default (each as defined in the June 2012 Convertible Notes). The June 2012 Convertible Notes are convertible into shares of our common stock at an initial conversion price of \$0.20 per share.

The Company is prohibited from effecting a conversion of the June 2012 Convertible Notes or exercise of the June 2012 Warrants, to the extent that as a result of such conversion or exercise, the holder would beneficially own more than 4.99% (subject to waiver) in the aggregate of the issued and outstanding shares of the Company’s common stock, calculated immediately after giving effect to the issuance of shares of common stock upon conversion of the June 2012 Convertible Note or exercise of the June 2012 warrant, as the case may be.

The June 2012 Warrants are exercisable immediately expire ten years after the date of issuance and have an initial exercise price of \$0.40 per share. The June 2012 Warrants are exercisable in cash or through a “cashless exercise”. We determined that the initial fair value of the June 2012 Warrants was \$1,036,042 based on the Black-Scholes option pricing model, which we treated as a liability with a corresponding decrease in the carrying value of the June 2012 Convertible Notes. Under authoritative guidance, the carrying value of the June 2012 Convertible Notes may not be reduced below zero. Accordingly, we recorded interest expense of \$580,768, which is the excess of the value of the June 2012 Warrants over the allocated fair value of the June 2012 Convertible Notes, at the date of the issuance. The discount related to the June 2012 Convertible Notes will be amortized over the term of the Notes as interest expense, calculated using an effective interest method.

We determined that according to ASC 470120-30, a beneficial conversion feature existed based on the intrinsic value of the conversion feature. Due to the fact that the carrying amount of the convertible notes has been reduced to zero, based on the discount allocated from the value of the warrants referred to above, that no beneficial conversion feature is to be recorded. ASC 470-20-30-8 states that if the intrinsic value of the beneficial conversion feature is greater than the proceeds allocated to the convertible instrument, the amount of the discount assigned to the beneficial conversion feature shall be limited to the amount of the proceeds allocated to the convertible instrument.

The following table sets forth a summary of all the outstanding convertible promissory notes at March 31, 2013:

Convertible promissory notes issued	6,505,274
Notes repaid	(2,850,000)
Less amounts converted to common stock	(500,000)
	<u>3,155,274</u>
Less debt discount	<u>1,338,712</u>
Balance March 31, 2013	<u><u>1,816,562</u></u>

NOTE 8 - Notes Payable – Shareholder . This amount is due to our former Executive Vice President for advances made to the Company, bears interest at a weighted average rate of approximately 10% and is due on demand. The Company is in dispute with the shareholder as to the balance due but has recorded the full amount claimed by the shareholder.

NOTE 9 - Long Term Debt. Long-term debt matures as follow:

	March 31, 2013	December 31, 2012
Notes payable of Biozone Labs		
Capitalized lease obligations bearing interest at rates ranging from 8.6% to 16.3%, payable in monthly installments of \$168 to \$1,589, inclusive of interest	\$ 300,599	\$ 192,323
City of Pittsburg Redevelopment Agency, 3% interest, payable in monthly installments of \$3,640 inclusive of interest	215,040	221,190
Other	80,000	80,000
Notes payable of 580 Garcia Properties		
Mortgage payable of 580 Garcia collateralized by the land and building payable in monthly installments of \$20,794, inclusive of interest at 7.24% per annum	2,566,966	2,582,818
	<u>\$ 3,162,605</u>	<u>\$ 3,076,331</u>
Less: current portion	206,040	181,752
	<u>\$ 2,956,565</u>	<u>\$ 2,894,579</u>

NOTE 10 - Warrants

The "March 2011 Warrants"

In March, 2011, the Company issued the March 2011 Warrants to purchase securities of the Company in the Target Transaction Financing as defined in the governing purchase agreement (Note 7).

The March 2011 Warrants may be exercised immediately and expire five years after the date of issue. Each March 2011 Warrant has an initial exercise price of 120% of the price of the securities sold in the Target Transaction Financing (the "Financing Share Price"). The March 2011 Warrant entitles the holder to purchase the number of shares of Common Stock and/or other securities, including units of securities, sold in the Target Transaction Financing equal to the Warrant Coverage (as defined below) (a) multiplied by the principal amount of the Note (the "Purchase Price") and (b) divided by the Financing Share Price. "Warrant Coverage" means (i) 50% if closed on or prior to 120 days, (ii) 75% if closed after 120 days but before 150 days and (iii) 100% if closed after 150 days after the closing of the Private Placement. The March 2011 Warrant is exercisable in cash or by way of a "cashless exercise" during any period that a registration statement covering the resale of the underlying shares of common stock and/or other securities issuable upon exercise of the March 2011 Warrant, or an exemption from registration is not available. The exercise price of the March 2011 Warrant is subject to a "ratchet" anti-dilution adjustment for a period of one year from the closing of the Private Placement. This adjustment provides that in the event that the Company issues certain securities at a price lower than the then applicable exercise price, the exercise price of the March 2011 Warrant will be immediately reduced to equal the price at which the Company issued the securities.

On February 28, 2012, each holder of March 2011 Warrants entered into a Cancellation Agreement, which provides, among other things, for the cancellation of the March 2011 Warrants. In exchange, the Company issued to the former holders of the March 2011 Warrants a total of 1,000,000 replacement warrants (the "Replacement Warrants"). The Replacement Warrants may be exercised immediately and expire four years after the date of issue. Each Warrant has an initial exercise price of \$0.60 per share, subject to adjustment for certain corporate reorganization transactions.

As of March 31, 2013, a total of 1,000,000 Replacement Warrants remain outstanding, with an exercise price of \$0.60 per share

The "September 2011 Warrants"

In connection with the sale of the September 2011 Note, we issued the September 2011 Warrant to purchase certain securities of the Company in the Target Transaction Financing (Note 7).

The September 2011 Warrant may be exercised immediately and expires five years after the date of issue. The September 2011 Warrant has an initial exercise price of the lower of \$1.80 and 120% of the per share price in the Target Transaction Financing. The September 2011 Warrant entitles the holder to purchase the number of shares of common stock and/or other securities, including units of securities, sold in the PIPE Offering (as defined in the Warrant) equal to the principal amount of the note issued pursuant to the Securities Purchase Agreement, divided by the lower of \$1.50 and the per share price in the PIPE Offering. The September 2011 Warrant is exercisable in cash or, while a registration statement covering the resale of the underlying shares of common stock and/or other securities issuable upon exercise of the September 2011 Warrant, or an exemption from registration, is not available, by way of a “cashless exercise”. The exercise price of the September 2011 Warrant is subject to a “ratchet” anti-dilution adjustment for a period of one year from the issue date of the September 2011 Warrant. This adjustment provides that in the event that the Company issues certain securities at a price lower than the then applicable exercise price, the exercise price of the September 2011 Warrant shall be immediately reduced to equal the price at which the Company issued the securities.

On November 30, 2011, the holder of the September 2011 Note converted the entire principal amount and accrued interest due with respect to the note into 1,018,356 shares of our common stock and the September 2011 Warrant was cancelled. In exchange, we issued to the holder a Replacement Warrant to purchase 500,000 shares of our common stock at an exercise price of \$1.00 per share.

On June 28, 2012, the holder of the Replacement Warrant exercised his right to acquire 500,000 shares of our common stock through the cashless exercise feature and we issued to the holder 375,000 shares of our common stock.

The “January 2012 Warrants”

On January 11, 2012 and January 25, 2012, we sold an aggregate of 1,300,000 units (the “Units”) to accredited investors. Each Unit was sold for a purchase price of \$0.50 per Unit and consisted of: (i) one share of the Company’s common stock and (ii) a four-year warrant to purchase 650,000 shares of common stock at an exercise price of \$1.00 per share, subject to adjustment upon the occurrence of certain events (the “January 2012 Warrants”). The January 2012 Warrants may be exercised on a cashless basis after twelve (12) months from the date of closing if there is no effective registration statement covering the resale of the underlying shares of common stock issuable upon exercise of the warrant. The January 2012 warrants provide the holder with “piggyback registration rights”, which obligate us to register the common shares underlying the warrants upon request of the holders in the event that we decide to register any of our common stock either for our own account or the account of a security holder (subject to certain exceptions). Based on authoritative guidance, we have accounted for the January 2012 Warrants as liabilities.

As of March 31, 2013, a total of 650,000 January 2012 Warrants remain outstanding, with an exercise price of \$0.50 per share.

The “February 2012 Warrants”

In connection with the sale of the February 2012 Notes, we issued the February 2012 Warrants entitling the holders to purchase up to 11,500,000 shares of our common stock (Note 7).

The February 2012 Warrants expire ten years from date of issuance and have an exercise price of \$0.40 per common share. The February 2012 Warrants contain a “cashless exercise” feature and provide the holder with “piggyback registration rights”, which obligate us to register the common shares underlying the February 2011 Warrants upon request of the holder in the event that we decide to register any of our common stock either for our own account or the account of a security holder (subject to certain exceptions). Based on authoritative guidance, we have accounted for the February 2012 Warrants as liabilities. The liability for the warrants, measured at fair value, based on a Black-Scholes option pricing model, has been offset by a reduction in the carrying value of the related February 2012 Notes.

On April 25, 2012, certain holders February 2012 Warrants exercised their right to acquire 3,000,000 shares of our common stock through the cashless exercise feature and we issued to the holders a total of 2,636,804 shares of our common stock.

On July 3, 2012, the remaining holder of February 2012 Warrants exercised its right to acquire 8,500,000 shares of our common stock through the cashless exercise feature and we issued to the holder 7,650,000 shares of our common stock.

The Advisory and Consulting Warrants

As part of an Advisory and Consulting Agreement between the Company and Tekesta Capital Partners, in April 2012, we issued 200,000 warrants to purchase the Company's common stock. Based on authoritative guidance, we have accounted for these warrants as liabilities.

The warrants issued under the Advisory and Consulting Agreement expire five years from the date of issuance, have an exercise price of \$0.60 per common share and contain a "cashless exercise" feature.

On August 2, 2012, holders of all the outstanding warrants issued under the Advisory and Consulting Agreement exercised their warrants on a cashless basis and received a total of 170,000 shares of the Company's common stock.

"The June 2012 Warrants"

In connection with the issuance of the June 2012 Notes, we issued the June 2012 Warrants entitling the holders to purchase up to a total of 2,250,000 shares of our common stock (Note 7).

The June 2012 Warrants expire ten years from the date of issuance and have an exercise price of \$0.40 per common share. The June 2012 Warrants contain a "cashless exercise" feature. These warrants provide the holder with "piggyback registration rights", which obligate us to register the common shares underlying the warrants upon the request of the holder in the event that we decide to register any of our common stock either for our own account or the account of a security holder (subject to certain exceptions). Based on authoritative guidance, we have accounted for the June 2012 Warrants as liabilities. The liability for the June 2012 Warrants, measured at fair value, based on a Black-Scholes option pricing model, has been offset by a reduction in the carrying value of the related June 2012 Notes.

On June 28, 2012, the holders of the June 2012 Warrants exercised their rights to acquire 2,250,000 shares of our common stock through the cashless exercise feature and we issued to the holders a total of 2,025,000 shares of our common stock.

NOTE 12 - Concentrations.

Approximately, 18% and 15% of the Company's sales for the three months ended March 31, 2013 were made to two customers. Our top two customers accounted for 26% and 11% of the Company's sales for the three months ended March 31, 2012.

NOTE 13 - Contingencies

Employment Agreements

On June 30, 2011, the Company entered into three year executive employment agreements with three stockholders, Brian Keller, Christian Oertle and Daniel Fisher, to serve as our President, Chief Operating Officer and Executive Vice President, respectively. The agreements with Messrs. Keller and Fisher provide for annual salaries of \$200,000 each and the agreement with Mr. Oertle provides for an annual salary of \$150,000. Pursuant to the terms of the agreements, each of these stockholders is eligible to participate in the Company's long term incentive compensation programs and is entitled to an annual bonus if the Company meets or exceeds criteria adopted by the Compensation Committee of the Board, subject to certain claw back rights. The agreements provide for payments of six months' severance in the event of early termination (other than for cause).

On January 30, 2012, Mr. Fisher was removed from his position as Executive Vice President. Pursuant to his employment agreement, Mr. Fisher was entitled to accrued salary through the date of termination. In addition, Mr. Fisher claimed pay for accrued vacation. We have paid Mr. Fisher \$56,000 in unpaid salary and vacation pay and \$23,000 in penalties of which \$5,769 remains outstanding and is due on April 15, 2013. Mr. Fisher has demanded delivery to him of 6,650,000 shares of the Company's common stock.

Leases

The Company leases its facilities under operating leases that expire at various dates. Total rent expense under these leases is recognized ratably over the initial period of each lease. Total rent and related expenses under operating leases were \$107,604 and \$175,198 for the three months ended March 31, 2013 and 2012, respectively. Operating lease obligations after 2013 relate primarily to office facilities.

Litigation

Except as set forth below, we are not involved in any pending legal proceeding or litigation that could have a material impact upon our business or results of operations. To the best of our knowledge, no governmental authority is contemplating any proceeding to which we are a party or to which any of our properties is subject, which would reasonably be likely to have a material adverse effect on our business or results of operations.

Aphena Pharma Solutions – Maryland, LLC f/k/a Celeste Contract Packaging, LLC, v. BioZone Laboratories, Inc. and BioZone Pharmaceuticals, Inc. and Daniel Fisher

District Court for the District of Maryland Northern Division; Case 1:12-cv-00852-WDQ

An action was commenced on March 19, 2012 against BioZone Labs, the Company and a former officer and director of the Company, Daniel Fisher in the United States District Court for the District of Maryland. The plaintiff alleges breach of contract and other commercial wrongdoing and seeks damages in connection with a single purchase order issued during early 2010 relating to the development of certain over the counter products to treat cough and cold symptoms. The Company refutes the allegations and intends to vigorously defend against this action. We are unable to provide an estimate of the amount or range of reasonable possible losses from this litigation because, among other reasons, the complaint does not set forth a monetary demand.

Daniel Fisher v. BioZone Pharmaceuticals, Inc., Elliot Maza, Brauser Honig Frost Group, Michael Brauser, Barry Honig, and The Frost Group LLC

United States District Court, Northern District of California, No. 12-03716

On July 16, 2012, Daniel Fisher ("Fisher"), a former officer and director of the Company, commenced an action in the United States District Court for the Northern District of California against the Company and certain officers and investors thereof. Fisher asserts claims for breach of contract, conversion, wrongful termination, and unjust enrichment, and violation of the federal whistleblower statute arising from his former role as an officer and director of the Company and certain contractual agreements that he entered into with the Company. Fisher seeks \$23 million in damages against all defendants.

On April 19, 2013, the Company and its co-defendants in the Fisher Action entered into a settlement with Fisher resolving the dispute. The Company, despite what it perceived as valid defenses to enforcement, agreed to honor, in full, the terms of Fisher's Employment and Stock Purchase Agreements. The Company, inter alia, agreed to convey the total consideration for Fisher's interest in the BioZone Labs Group as well as the balance of the consideration under Fisher's Employment Agreement. In return, the Company is obtaining a dismissal of the Fisher Action, a full general release, and will release Fisher as against claims the Company had against him. Upon completion of the settlement agreement and Board approval of the same, the Company will disclose the complete settlement terms in a subsequent filing.

BioZone Pharmaceuticals, Inc. v. Daniel Fisher and 580 Garcia Properties, LLC

Supreme Court of the State of New York, County of New York, No. 652489/2012

On July 18, 2012, the Company commenced an action in New York State Court against Fisher and 580 Garcia Properties, LLC alleging breach of contract, breach of fiduciary duty, negligence, and fraud claims arising from Fisher's former role as an officer and director of the Company. The Company is seeking a minimum of \$2 million in damages, together with the cancellation of 6.65 million shares of the Company's stock, and Fisher's forfeiture of property located at 580 Garcia Avenue, Pittsburg, CA, which property is used by the Company as a warehouse facility.

This suit was dismissed on April 19, 2013 as part of the settlement of the Fisher Action disclosed above.

NOTE 14 - Income Taxes. No provision for income taxes has been recorded due to the 100% valuation allowance provided against net operating loss carry forwards.

NOTE 15 - Subsequent Events

Management has evaluated events occurring after the date of these financial statements through the date these financial statements were issued, other than disclosed below. There were no material subsequent events as of that date.

In April 2013, the Company sold 3,800,000 shares of common stock and issued 1,900,000 warrants and raised \$950,000 in gross proceeds. In connection with the sale of these securities, the Company paid placement agent fees of \$26,500, issued to the placement agent 68,000 warrants and issued 2,518,356 shares of common stock to investors who previously purchased shares of the Company's common stock as an inducement for the investors' new investment and in consideration for dilution resulting from this offering.

On April 19, 2013, the Company and its co-defendants in that action entitled Daniel Fisher v. BioZone Pharmaceuticals, et al; U.S.D.C., ND Cal. Case No. C 12-03716 WHA (the "Fisher Action") entered into a settlement resolving the Fisher Action. The Company, despite what it perceived as valid defenses to enforcement, agreed to honor, in full, the terms of Fisher's Employment and Stock Purchase Agreements. The Company, inter alia, agreed to convey the total consideration for Fisher's interest in BioZone Laboratories and other Company subsidiaries, as well as the balance of the consideration under Fisher's Employment Agreement. In return, the Company is obtaining a dismissal of the Fisher Action, a full general release, and will release Fisher as against claims the Company had against him. Upon completion of the settlement agreement and Board approval of the same, the Company will disclose the complete settlement terms in a subsequent filing.

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 contains information that management believes is relevant to an assessment and understanding of our results of operations. You should read this discussion in conjunction with the Financial Statements and Notes included elsewhere in this report and with Management's Discussion and Analysis of Financial Condition and Results of Operations for the period ended December 31, 2012 and Risk Factors contained in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on April 1, 2013. Certain statements set forth below constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. See "Special Note Regarding Forward-Looking Statements". References to "BioZone," the "Company," "we," "us" and "our" refer to BioZone Pharmaceuticals, Inc. and its subsidiaries.

Company Overview

BioZone Pharmaceuticals, Inc., formerly known as International Surf Resorts, Inc., was incorporated under the laws of the State of Nevada on December 4, 2006 to operate as an internet-based provider of international surf resorts, camps and guided surf tours. The Company proposed to engage in the business of vacation real estate and rentals related to its surf business and it owns the website isurfresorts.com. During late February 2011, the Company began to explore alternatives to its original business plan. On February 22, 2011, the prior officers and directors resigned from their positions and the Company appointed a new President, Director, principal accounting officer and treasurer and began to pursue opportunities in medical and pharmaceutical technologies and products. On March 1, 2011, the Company changed its name to BioZone Pharmaceuticals, Inc.

On May 16, 2011, the Company acquired substantially all of the assets and assumed all of the liabilities of Aero Pharmaceuticals, Inc. (“Aero”) pursuant to an Asset Purchase Agreement dated as of that date. Aero manufactures markets and distributes a line of dermatological products under the trade name of Baker Cummins Dermatologicals.

In December 2011, in accordance with the intent of the parties participating in the reverse merger described below, the Company transferred its 55% ownership in ISR de Mexico, S. R.L. de C. V., a Mexican corporation that was owned by the Company during the period prior to February 22, 2011, in return for and cancellation of 13,948,001 shares of the Company’s common stock.

Reverse Merger

Pursuant to authoritative accounting guidance, we accounted for the purchase of the BioZone Labs Group as a “Reverse Merger”, with each of BioZone Labs, Equalan and Equachem (each as defined below), treated as the accounting survivor.

On June 30, 2011, the Company acquired all of the outstanding shares of BioZone Laboratories, Inc. (“Biozone Labs”) and its affiliates. BioZone Labs primarily is engaged in the business of developing and manufacturing Over the Counter (“OTC”) drug products and cosmetic and beauty products on behalf of third parties. Equalan LLC (“Equalan”), related to BioZone Labs through common stock ownership, markets a line of proprietary skin care products under the brand names of Glyderm®. Equachem LLC (“Equachem”) also related to BioZone Labs through common stock ownership, sells raw materials used in OTC drugs and cosmetic products. We refer to BioZone Labs, Equalan and Equachem as the “BioZone Labs Group”. The BioZone Labs Group generated \$2.0 and \$3.5 million of sales during the periods ended March 31, 2013 and 2012, respectively, of which \$1.8 million or 89% and \$3.3 million or 94%, respectively, were generated by BioZone Labs from its third party contract manufacturing business.

The BioZone Lab Group has operated since inception as a developer, manufacturer, and marketer of over-the-counter drugs and preparations, cosmetics, and nutritional supplements on behalf of health care product marketing companies and national retailers. The Company has been developing the Biozone Technology as an enhancement for approved, generic prescription drugs that are limited due to poor stability or bioavailability or variable absorption.

Results of Operations

Three months ended March 31, 2013 compared to the three months ended March 31, 2012:

Sales

Sales for the period ended March 31, 2013 and 2012 were \$2,028,897 and \$3,510,042 respectively. The decrease in revenue of \$1,481,145 or 42.2% primarily was attributable to a decrease in customer orders from decreased end-user demand.

Cost of Sales and Gross Profit

Cost of sales for the period ended March 31, 2013 and 2012 was \$1,436,814 and \$2,064,881, respectively, resulting in gross profit of \$592,083 and \$1,445,161, respectively. The gross profit percentage for the periods ended March 31, 2013 and 2012 was 29% and 41% respectively. The decrease in the gross profit percentage was due to our fixed costs being a larger part of our sales than in the prior year period as well as increases in raw material costs, which we were unable to pass along to customers. These factors resulted in a decrease in gross profit of \$853,078 or 59.0%.

Operating Expenses

We had total operating expenses of \$1,612,010 for the period ended March 31, 2013 as compared to \$2,036,544 for the period ended March 31, 2012, a decrease in operating expenses of \$424,534. General and administrative expenses were \$1,416,918 for the quarter ended March 31, 2013 compared to \$1,593,369 for the quarter ended March 31, 2012, a decrease of \$176,451, which is primarily due to a decrease in professional fees of approximately \$177,000 which consist of legal fees relating to general corporate governance, patent fees, consulting fees and audit and accounting fees, this was offset by small increases in various other accounts. Selling expenses were \$175,261 for the quarter ended March 31, 2013, compared to \$221,561 in the prior year period a decrease \$46,300 primarily due to the decrease in sales from the prior year period. Research and Development expenses were \$19,831 for the quarter ended March 31, 2013, compared to \$221,614 in the prior year period a decrease of \$201,783, which is primarily due to the closing of our research facility in Princeton, New Jersey.

Interest Expense

We incurred interest expense of \$474,938 for the period ended March 31, 2013 as compared to \$3,472,845 for the period ended March 31, 2012. The decrease in interest expense of \$2,997,907 is due primarily to the Company recording a derivative liability for the warrants issued in connection with the convertible promissory notes issued in the period ended March 31, 2012 of \$3,111,760 compared to none issued in the period ended March 31, 2013. This decrease was partially offset by an increase in interest expense related to an increase in convertible notes payable for the period ended March 31, 2013.

Change in value of derivative instruments

We recorded a gain of \$19,102 on the fair value of our derivative instruments for the period ended March 31, 2013 compared to a gain of \$418,192 in the prior year period a decrease of \$399,090. This is primarily due to the fact that the Company has fewer warrants outstanding in the current year period.

Net Loss / Income

As a result of the foregoing, we realized a net loss of \$1,475,763 for the period ended March 31, 2013 as compared to a net loss of \$3,646,036 for the period ended March 31, 2012, a decrease in net loss of \$2,170,273.

Evaluation of Disclosure Controls and Procedures

We believe that our disclosure controls and procedures were ineffective as a result of the lack of segregation of duties and responsibilities with respect to our cash control over the disbursements related thereto. The lack of segregation of duties resulted from our limited accounting staff. Although neither management nor our independent auditors discovered any significant errors in the preparation of our financial statements, the lack of multiple levels of review and segregation of duties could lead to error or fraud and is considered a per se material weakness in internal controls over financial reporting.

Liquidity and Capital Resources

As of March 31, 2013, our current assets were \$2,522,631, as compared to \$2,670,293 at December 31, 2012. As of March 31, 2013, our current liabilities were \$9,212,929, as compared to \$7,925,513 at December 31, 2012. Operating activities provided net cash of \$95,377 for the period ended March 31, 2013, as compared to using net cash of \$1,935,582 for the period ended March 31, 2012.

During the period ended March 31, 2013, investing activities used net cash of \$40,484, comprised of cash used for the purchase of property and equipment. During the period ended March 31, 2012, investing activities used net cash of \$242,427.

During the period ended March 31, 2013, cash of \$25,066 was used by financing activities, consisting of repayment of debt, as compared to net cash provided by financing activities of \$1,838,559 during the three-month period ended March 31, 2012, which consisted of proceeds from convertible notes of \$3,300,000, proceeds from the sale of common stock of \$650,000 offset by the repayment of borrowings from note holders of \$2,111,441.

Our net loss for the period ended March 31, 2013 and 2012 was a loss of \$1,475,763 and a loss of \$3,646,036, respectively. We anticipate that we will continue to generate losses from operations for the foreseeable future as we invest in research and development activities in furtherance of our business plan of advancing our drug delivery technology. As of March 31, 2013, we had cash and cash equivalents of \$92,123 and negative working capital of \$6,690,298.

On March 22, 2013, BioZone Labs (the "Seller") entered into a Factoring and Security Agreement (the "Factoring Agreement") with Midland American Capital Corporation ("Midland") pursuant to which Midland will provide up to \$1,500,000 of financing, on a discretionary basis, against the Seller's accounts receivable.

Under the Factoring Agreement, Midland has agreed to purchase certain accounts receivables of the Seller and the Seller has agreed to pay Midland an initial fee of 2.5% of the face amount of an account (subject to certain adjustments) plus 0.833% of the face amount of an account (subject to certain adjustments) for each 10 day period following the first 30 days of financing. If the receivable is not paid within 75 days of the purchase of the account, Midland can chargeback the receivable to the Seller, unless the debtor became insolvent, subject to certain exceptions. In addition, Midland may chargeback the receivable to the Seller in the case of an event of default or upon termination of the Factoring Agreement. The Factoring Agreement provides for certain customary covenants of the Seller and the Seller is subject to penalties in the event of a misdirected fee, a missing notation of Midland on an invoice and late charges on any monies owed to Midland. The term of the Factoring Agreement is one year and is subject to termination by either party upon sixty days prior written notice subject to certain exceptions.

In connection with the execution of the Factoring Agreement, the Seller entered into a Purchase Money Rider (the "Purchase Money Rider") with Midland pursuant to which Midland will provide to the Seller, on a discretionary basis, financing to procure raw materials for the manufacture of Seller's goods. The financing under the Purchase Money Rider may be made via direct payment to the Seller's suppliers or issuance of letters of credit. The Seller will be required to pay Midland an initial purchase fee of 2.95% of the amount financed plus a purchase money fee of 0.933% of the amount financed for each 10 day period following the first 30 days of financing.

As collateral security for all of the Seller's obligations under the Factoring Agreement and Purchase Money Rider, the Seller granted Midland a security interest in all of its assets. To further secure the Seller's obligations under the Factoring Agreement and Purchase Money Rider, the Company and Baker Cummins Corp. executed a Guarantee and Security Agreement pursuant to which each of them agreed to guaranty the Seller's obligations owed by such entity to Midland secured by a security interest in all of their assets.

In addition, in connection with the execution of the Factoring Agreement and Purchase Money Rider, Elliot Maza, the Chief Executive Officer, Chief Financial Officer and Secretary of the Company and Brian Keller, the President and Chief Scientific Officer of the Company executed a Validity Guaranty pursuant to which each of these persons has agreed to indemnify Midland from any loss incurred in the event of breach of certain representations and warranties made to Midland or any misstatement, fraud or criminal act on the part of any officer or agent of the Seller. Furthermore, certain note holders holding notes in the aggregate principal amount of \$2,300,000 entered into inter-creditor agreements, whereby such note-holders agreed to subordinate to Midland their security interest in certain assets of the Company.

We are in the process of reviewing our contract manufacturing cost structure to identify inefficiencies and opportunities for reductions. Also, we are reviewing our sales efforts and programs to identify opportunities for increasing sales volume. We anticipate that these efforts will reduce or eliminate ongoing losses from our contract manufacturing business and allow us to continue contract manufacturing operations for the foreseeable future.

Our current balances of cash will not meet our working capital and capital expenditure needs for the next twelve months. Because we are not currently generating sufficient cash to fund our operations and we have debt that is in default, we may need to rely on external financing to meet future operating, debt repayment and capital requirements. Any projections of future cash needs and cash flows are subject to substantial uncertainty. We can make no assurance that financing will be available in amounts or on terms acceptable to us, if at all. Further, if we issue equity securities, stockholders may experience additional dilution or the new equity securities may have rights, preferences, or privileges senior to those of existing holders of common stock, and debt financing, if available, may involve restrictive covenants that could restrict our operations or finances. If we cannot raise funds, when needed, on acceptable terms, we may not be able to continue our operations, grow market share, take advantage of future opportunities, or respond to competitive pressures or unanticipated requirements, all of which could negatively impact our business, operating results, and financial condition. These conditions raise substantial doubt about our ability to continue as a going concern.

Off-Balance Sheet Arrangements

As of March 31, 2013 we had no material off-balance sheet arrangements other than operating leases.

Contractual Obligations

On June 30, 2011, the Company entered into three year executive employment agreements with three stockholders, Brian Keller, Christian Oertle and Daniel Fisher, to serve as our President, Chief Operating Officer and Executive Vice President, respectively. The agreements with Messrs. Keller and Fisher provide for annual salaries of \$200,000 each and the agreement with Mr. Oertle that provides for an annual salary of \$150,000. Pursuant to the terms of the agreements, each of these executives is eligible to participate in the Company's long term incentive compensation programs and is entitled to an annual bonus if the Company meets or exceeds criteria adopted by the Compensation Committee of the Board, subject to certain claw back rights. The agreements provide for payments of six months' severance in the event of early termination (other than for cause).

On January 30, 2012, Mr. Fisher was removed from his position as Executive Vice President. Pursuant to his employment agreement, Mr. Fisher is entitled to accrued salary through the date of termination. In addition, Mr. Fisher claimed pay for accrued vacation. We have paid Mr. Fisher \$56,000 in unpaid salary and vacation pay and \$23,000 in penalties of which \$5,769 remains outstanding and is due on April 15, 2013.

Impact of Inflation

The impact of inflation upon our revenue and income/(loss) from continuing operations during each of the past two fiscal years has not been material to our financial position or results of operations for those years because we do not maintain significant inventories whose costs are affected by inflation.

Properties

Our facilities are located in Pittsburg, California, Princeton, New Jersey, and Englewood Cliffs, New Jersey.

BioZone Labs manufactures its products in a 20,000 square feet, cGMP facility owned by 580 Garcia Avenue, LLC, its consolidated VIE and fills and stores its products at a 60,000 square feet rented facility located at 701 Willow Pass Road, Pittsburg, CA. The lease for the Willow Pass Road facility expires on April 30, 2014 and provides for annual rentals of approximately \$341,000.

In July 2011, we entered into a lease for approximately 3,869 square feet of laboratory space in Princeton, New Jersey where we conduct research and development activities related to our proprietary drug delivery technology. The lease expires on July 20, 2016. Rent expense is approximately \$8,065 per month.

Our corporate headquarters is located at 550 Sylvan Avenue, Englewood Cliffs, New Jersey, where we lease approximately 800 square feet of office space. The lease expires on June 30, 2013. Rent expense is approximately \$2,250 per month.

Seasonality

Many of our products include cough/cold remedies, which are often sold in the winter months. Accordingly, our business is cyclical. Approximately two thirds of our revenue is generated in the second half of the calendar year.

Critical Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts and related disclosures in the financial statements. Management considers an accounting estimate to be critical if it requires assumptions to be made that were uncertain at the time the estimate was made, and changes in the estimate or different estimates that could have been selected could have a material impact on our consolidated results of operations or financial condition.

Basis of Consolidation

The consolidated financial statements include the accounts of Biozone Pharmaceuticals, Inc. and its subsidiaries, all of which are wholly owned, its equity investment in Betazone, Inc. and its 580 Garcia Ave, a Variable Interest Entity (“VIE”).

The Company considered the terms of its interest in 580 Garcia and determined that it was a VIE in accordance with ACS 810-10-55, which should be consolidated. As of March 31, 2013, amounts included in the consolidated assets, which are shown in Property and equipment and consolidated liabilities, which are reported in long-term debt total \$755,240 and \$2,566,966, respectively relating to 580 Garcia. The Company’s involvement with the entity is limited to the lease it has to rent its facility from 580 Garcia, in which the Company is the only tenant, and the guarantee of the mortgage on the property of 580 Garcia. The Company’s maximum exposure to loss, which is based on the Company’s guarantee of the mortgage of 580 Garcia is \$2,566,966, which equals the carrying amount of its liability as of March 31, 2013.

The Company accounts for its investment in Betazone by the equity method since it has significant influence but not operating control over this entity. Condensed financial information of Betazone as of and the period ended March 31, 2013 and for the year ended December 31, 2012 is as follows:

	March 31, 2013	December 31, 2012
Balance sheet		
Current assets	66,264	3,825
Current liabilities	383,379	301,864
Statement of operations		
Revenues	47,893	40,002
Net loss	(19,075)	(272,935)

Convertible Instruments. We evaluate and account for conversion options embedded in convertible instruments in accordance with ASC 815 “Derivatives and Hedging Activities”. Applicable GAAP requires companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments according to certain criteria. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under other GAAP with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument.

We account for convertible instruments (when we have determined that the embedded conversion options should not be bifurcated from their host instruments) as follows: We record when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their stated date of redemption.

Common Stock Purchase Warrants. We classify as equity any contracts that require physical settlement or net-share settlement or provide us a choice of net-cash settlement or settlement in our own shares (physical settlement or net-share settlement) provided that such contracts are indexed to our own stock as defined in ASC 815-40 ("Contracts in Entity's Own Equity"). We classify as assets or liabilities any contracts that require net-cash settlement (including a requirement to net cash settle the contract if an event occurs and if that event is outside our control) or give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement). We assess classification of our common stock purchase warrants and other free standing derivatives at each reporting date to determine whether a change in classification between assets and liabilities is required.

Derivative Instruments. Our derivative financial instruments consist of embedded derivatives related to the convertible debt, warrants and beneficial conversion features embedded within our convertible debt. The accounting treatment of derivative financial instruments requires that we record the derivatives and related warrants at their fair values as of the inception date of the debt agreements and at fair value as of each subsequent balance sheet date. Any change in fair value was recorded as non-operating, non-cash income or expense at each balance sheet date. If the fair value of the derivatives was higher at the subsequent balance sheet date, we recorded a non-operating, non-cash charge. If the fair value of the derivatives was lower at the subsequent balance sheet date, we recorded non-operating, non-cash income.

Research and Development. Research and development expenditures are charged to operations as incurred.

Revenue Recognition. BioZone Labs operates as a contract manufacturer and produces finished goods according to customer specifications. Equalan sells its merchandise directly to dermatologists and to an online retailer. Equachem operates as a reseller of pharmaceutical raw materials and licensor of intellectual property. The agreements with customers for each of the companies do not contain any rights of return other than for goods that fail to meet the specifications provided by the customer. None of the companies has experienced any significant returns from customers and accordingly, in management's opinion, no reserve for returns is provided. We record revenue when persuasive evidence of an arrangement exists, services have been rendered or product delivery has occurred, the selling price to the customer is fixed or determinable and collectability of the revenue is reasonably assured.

Revenue from the licensing of intellectual property is recorded when reported to us by the licensee.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Foreign Exchange Risk

We are subject to foreign exchange risk for revenues and expenses denominated in foreign currencies. Foreign currency risk arises from the fluctuation of foreign exchange rates and the degree of volatility of these rates relative to the United States dollar. We do not believe that we have any material risk due to foreign currency exchange. We do not currently hedge our foreign currency transactions.

Interest Rate Risk

Our exposure to market risks associated with changes in interest rates relates primarily to the increase or decrease in the amount of interest income earned on our invested cash. We ensure the safety and preservation of invested funds by attempting to limit default risk, market risk and reinvestment risk. We attempt to mitigate default risk by investing in investment grade securities. A hypothetical one percentage point decline in interest rates would not have materially affected the fair value of our interest-sensitive financial instruments as of March 31, 2013.

We do not use derivative financial instruments for trading or speculative purposes.

Credit Risk

Our exposure to credit risk consists of cash and cash equivalents, investments and receivables. We place our cash and cash equivalents with what we believe to be highly rated financial institutions. As of March 31, 2013 and December 31, 2012, approximately 5.6% and 16.7%, respectively, of our cash, cash equivalents, restricted cash and investments are issued or insured by the federal government or government agencies. We have not experienced any losses on these accounts related to amounts in excess of insured limits.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our principal executive officer and principal financial officer have evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a – 15(e) and 15d – 15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this quarterly report. They have concluded that, based on such evaluation, our disclosure controls and procedures were not effective due to the material weaknesses in our internal control over financial reporting as of March 31, 2013, as described in our Form 10-K for the year ended December 31, 2012 filed with the SEC on April 1, 2013.

Changes in Internal Controls Over Financial Reporting

There has been no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Aphena Pharma Solutions – Maryland, LLC f/k/a Celeste Contract Packaging, LLC, v. BioZone Laboratories, Inc. and BioZone Pharmaceuticals, Inc. and Daniel Fisher

District Court for the District of Maryland Northern Division; Case 1:12-cv-00852-WDQ

An action was commenced on March 19, 2012 against BioZone Labs, the Company and a former officer and director of the Company, Daniel Fisher in the United States District Court for the District of Maryland. The plaintiff alleges breach of contract and other commercial wrongdoing and seeks damages in connection with a single purchase order issued during early 2010 relating to the development of certain over the counter products to treat cough and cold symptoms. The Company refutes the allegations and intends to vigorously defend against this action. We are unable to provide an estimate of the amount or range of reasonable possible losses from this litigation because, among other reasons, the complaint does not set forth a monetary demand.

Daniel Fisher v. BioZone Pharmaceuticals, Inc., Elliot Maza, Brauser Honig Frost Group, Michael Brauser, Barry Honig, and The Frost Group LLC

United States District Court, Northern District of California, No. 12-03716

On July 16, 2012, Daniel Fisher (“Fisher”), a former officer and director of the Company, commenced an action in the United States District Court for the Northern District of California against the Company and certain officers and investors thereof. Fisher asserts claims for breach of contract, conversion, wrongful termination, and unjust enrichment, and violation of the federal whistleblower statute arising from his former role as an officer and director of the Company and certain contractual agreements that he entered into with the Company. Fisher seeks \$23 million in damages against all defendants.

On April 19, 2013, the Company and its co-defendants in the Fisher Action entered into a settlement with Fisher resolving the dispute. The Company, despite what it perceived as valid defenses to enforcement, agreed to honor, in full, the terms of Fisher's Employment and Stock Purchase Agreements. The Company, inter alia, agreed to convey the total consideration for Fisher's interest in the BioZone Labs Group as well as the balance of the consideration under Fisher's Employment Agreement. In return, the Company is obtaining a dismissal of the Fisher Action, a full general release, and will release Fisher as against claims the Company had against him. Upon completion of the settlement agreement and Board approval of the same, the Company will disclose the complete settlement terms in a subsequent filing.

BioZone Pharmaceuticals, Inc. v. Daniel Fisher and 580 Garcia Properties, LLC

Supreme Court of the State of New York, County of New York, No. 652489/2012

On July 18, 2012, the Company commenced an action in New York State Court against Fisher and 580 Garcia Properties, LLC alleging breach of contract, breach of fiduciary duty, negligence, and fraud claims arising from Fisher's former role as an officer and director of the Company. The Company is seeking a minimum of \$2 million in damages, together with the cancellation of 6.65 million shares of the Company's stock, and Fisher's forfeiture of property located at 580 Garcia Avenue, Pittsburg, CA, which property is used by the Company as a warehouse facility.

This suit was dismissed on April 19, 2013 as part of the settlement of the Fisher Action disclosed above.

ITEM 1A. RISK FACTORS

None

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

ITEM 5. OTHER

None

ITEM 6. EXHIBITS

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith)

32.1 Certification of Chief Executive Officer pursuant to Rule 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith)

SIGNATURES

Pursuant to the requirements 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.

Biozone Pharmaceuticals, Inc.

Dated: May 10, 2013

By: /s/ Elliot Maza
Chief Executive Officer and Chief Financial Officer
(Principal Executive Officer and Principal Financial and
Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, Elliot Maza, certify that:

1. I have reviewed this report on Form 10-Q of Biozone Pharmaceuticals, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2013

/s/ Elliot Maza

Chief Executive Officer and Chief Financial Officer

(Principal Executive Officer and Principal Financial and Accounting Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Biozone Pharmaceuticals, Inc., a Nevada corporation (the "Company"), on Form 10-Q for the period ended March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Elliot Maza, Chief Executive Officer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: May 10, 2013

/s/ Elliot Maza

Chief Executive Officer and Chief Financial Officer

(Principal Executive Officer and Principal Financial and Accounting Officer)