

SINOCOKING COAL & COKE CHEMICAL INDUSTRIES, INC.

Form 10-Q

May 18, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2010

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission File Number 0-28179

SinoCoking Coal and Coke Chemical Industries, Inc.
(Exact name of issuer as specified in its charter)

Florida
(State or other jurisdiction of incorporation or
organization)

65-0420146
(I.R.S. employer identification number)

Kuanggong Road and Tiyu Road 10th Floor,
Chengshi Xin Yong She, Tiyu Road, Xinhua District,
Pingdingshan, Henan Province, China 467000
(Address of principal executive offices and zip code)

+86-3752882999
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) Common Stock, par value \$0.001 per share
of the Act:

Securities registered pursuant to Section 12(g) None
of the Act:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated filer

Smaller reporting company

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

As of March 31, 2010, the Registrant had 20,871,192 shares of common stock outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

All statements contained in this report, other than statements of historical facts, that address future activities, events or developments, are forward-looking statements, including, but not limited to, statements containing the words “believe,” “anticipate,” “expect,” “project,” “may,” “might,” “will” and words of similar import. These statements are based on certain assumptions and analyses made by us in light of our experience and our assessment of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate under the circumstances. Whether actual results will conform to the expectations and predictions of management, however, is subject to a number of risks and uncertainties that may cause actual results to differ materially. Such risks are in the section entitled “Risk Factors” beginning on page 51 of this report.

Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated by management will be realized or, even if substantially realized, that they will have the expected consequences to or effects on our business operations.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
(FORMERLY NAMED ABLEAUCTIONS.COM, INC.)CONSOLIDATED BALANCE SHEETS
AS OF MARCH 31, 2010 AND JUNE 30, 2009

ASSETS	March 31, 2010 (Unaudited)	June 30, 2009
CURRENT ASSETS		
Cash	\$30,425,754	\$278,399
Notes receivable	2,628,800	358,808
Accounts receivable, trade, net	7,302,158	6,454,663
Other receivables	2,681,375	225,288
Inventories	3,384,057	107,187
Advances to suppliers	4,686,862	8,364,448
Total current assets	51,109,006	15,788,793
PROPERTY, PLANT AND EQUIPMENT, net	18,212,181	16,954,659
OTHER ASSETS		
Prepayments for land use rights	5,053,815	-
Prepayments for construction	18,308,710	7,462,008
Intangible - Land use rights, net	1,900,555	1,945,811
Intangible - Mineral rights, net	3,201,726	5,233,992
Other assets	102,690	102,550
Total other assets	28,567,496	14,744,361
Total assets	\$97,888,683	\$47,487,813
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable, trade	\$161,940	\$244,570
Short term loans - Bank	-	2,219,475
Short term loans - Others	513,450	1,098,750
Due to related parties	225,495	259,033
Due to shareholders	1,313,466	1,281,304
Other payables and accrued liabilities	836,900	744,058
Customer deposits	1,799,607	3,751,327

Taxes payable	1,665,512	2,682,254
Total liabilities	6,516,370	12,280,771
OTHER LIABILITIES		
Warrant derivative liability	94,322,156	-
Total other liabilities	94,322,156	-
Total liabilities	100,838,526	12,280,771
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common share, \$0.001 par value, 100,000,000 authorized, 20,871,192 and 13,117,952 issued and outstanding as of March 31, 2010 and June 30, 2009, respectively	20,871	13,118
Additional Paid-in capital	-	3,531,959
Statutory reserves	1,722,441	1,127,710
Retained (deficit) earnings	(5,554,935)	29,754,451
Accumulated other comprehensive income	861,780	779,804
Total shareholders' equity	(2,949,843)	35,207,042
Total liabilities and shareholders' equity	\$97,888,683	\$47,487,813

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

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SINOCOKING COAL AND COKE CHEMICAL INDUSTRIES, INC. AND SUBSIDIARIES
(FORMERLY NAMED ABLEAUCTIONS.COM, INC.)

Hedging activities by our affiliates or any participating dealer or its affiliates may adversely affect the price of the Fund. We expect to hedge our obligations under the securities through one or more hedge counterparties, which may include our affiliates or any participating dealer or its affiliates. Pursuant to such hedging activities, our hedge counterparties may acquire shares of the Fund, securities included in the Fund or the underlying index or listed or over-the-counter derivative or synthetic instruments related to the Fund or such securities. Depending on, among other things, future market conditions, the aggregate amount and the composition of such positions are likely to vary over time. To the extent that our hedge counterparties have a long hedge position in shares of the Fund or any of the securities included in the Fund or the underlying index, or derivative or synthetic instruments related to the Fund or such securities, they may liquidate a portion of such holdings at or about the time of the calculation day or at or about the time of a change in the securities included in the Fund or the underlying index. These hedging activities could potentially adversely affect the price of the shares of the Fund and, therefore, adversely affect the value of and your return on the securities.

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Market Linked Securities Leveraged Upside Participation and

Contingent Downside

Principal at Risk Securities Linked to the iShares® MSCI EAFE ETF due November 7,

2022

Selected Risk Considerations (Continued)

Trading activities by our affiliates or any participating dealer or its affiliates may adversely affect the price of the Fund. Our affiliates or any participating dealer or its affiliates may engage in trading in the shares of the Fund or the securities included in the Fund or the underlying index and other instruments relating to the Fund or such securities on a regular basis as part of their general broker-dealer and other businesses. Any of these trading activities could potentially adversely affect the price of the shares of the Fund and, therefore, adversely affect the value of and your return on the securities.

A participating dealer or its affiliates may realize hedging profits projected by its proprietary pricing models in addition to any selling concession, creating a further incentive for the participating dealer to sell the securities to you. If any participating dealer or any of its affiliates conducts hedging activities for us in connection with the securities, that participating dealer or its affiliates will expect to realize a projected profit from such hedging activities and this projected hedging profit will be in addition to the concession and/or distribution expense fee that the participating dealer realizes for the sale of the securities to you. This additional projected profit may create a further incentive for the participating dealer to sell the securities to you.

The U.S. Federal Tax Consequences Of An Investment In The Securities Are Unclear. There is no direct legal authority regarding the proper U.S. federal tax treatment of the securities, and we do not plan to request a ruling from the IRS. Consequently, significant aspects of the tax treatment of the securities are uncertain, and the IRS or a court might not agree with the treatment of the securities as prepaid derivative contracts that are open transactions for U.S. federal income tax purposes. If the IRS were successful in asserting an alternative treatment of the securities, the tax consequences of ownership and disposition of the securities might be materially and adversely affected. Even if the treatment of the securities as prepaid derivative contracts that are open transactions is respected, a security may be treated as a constructive ownership transaction, with potentially adverse consequences described below under United States Federal Tax Considerations.

Furthermore, Section 871(m) of the Internal Revenue Code of 1986, as amended (the Code), imposes a withholding tax of up to 30% on dividend equivalents paid or deemed paid to non-U.S. investors in respect of certain financial instruments linked to U.S. equities. In light of IRS regulations providing a general exemption for financial instruments issued in 2017 that do not have a delta of one, as of the date of this preliminary pricing supplement the securities should not be subject to withholding under Section 871(m). However, information about the application of Section 871(m) to the securities will be updated in the final pricing supplement. Moreover, the IRS could challenge a conclusion that the securities should not be subject to withholding under Section 871(m). If withholding applies to the securities, we will not be required to pay any additional amounts with respect to amounts withheld.

In addition, in 2007 the U.S. Treasury Department and the IRS released a notice requesting comments on various issues regarding the U.S. federal income tax treatment of prepaid forward contracts and similar instruments. Any

Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, including the character and timing of income or loss and the degree, if any, to which income realized by non-U.S. persons should be subject to withholding tax, possibly with retroactive effect.

You should read carefully the sections of this pricing supplement and the accompanying product supplement entitled United States Federal Tax Considerations. You should also consult your tax adviser regarding the U.S. federal tax consequences of an investment in the securities, as well as tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

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Market Linked Securities Leveraged Upside Participation and**Contingent Downside****Principal at Risk Securities Linked to the iShares® MSCI EAFE ETF due November 7,****2022****Hypothetical Returns**

The following table illustrates, for a hypothetical participation rate of 140% (the midpoint of the specified range for the participation rate) and a range of hypothetical ending prices of the Fund:

the hypothetical percentage change from the hypothetical starting price to the hypothetical ending price;

the hypothetical redemption amount payable at stated maturity per security;

the hypothetical total pre-tax rate of return; and

the hypothetical pre-tax annualized rate of return.

Hypothetical	Hypothetical	Hypothetical	Hypothetical	Hypothetical
percentage change	redemption amount	Hypothetical	pre-tax	pre-tax
from the hypothetical	payable at	pre-tax total	annualized	annualized
starting price to the	stated maturity	rate of return	rate of return⁽¹⁾	rate of return⁽¹⁾
ending price	hypothetical ending price	per security	rate of return	rate of return⁽¹⁾
\$175.00	75.00%	\$2,050.00	105.00%	14.87%
\$150.00	50.00%	\$1,700.00	70.00%	10.89%
\$140.00	40.00%	\$1,560.00	56.00%	9.08%
\$130.00	30.00%	\$1,420.00	42.00%	7.13%
\$120.00	20.00%	\$1,280.00	28.00%	4.99%
\$110.00	10.00%	\$1,140.00	14.00%	2.63%
\$105.00	5.00%	\$1,070.00	7.00%	1.36%
\$100.00 ⁽²⁾	0.00%	\$1,000.00	0.00%	0.00%
\$90.00	-10.00%	\$1,000.00	0.00%	0.00%
\$85.00	-15.00%	\$1,000.00	0.00%	0.00%
\$80.00	-20.00%	\$1,000.00	0.00%	0.00%
\$70.00	-30.00%	\$1,000.00	0.00%	0.00%
\$69.00	-31.00%	\$690.00	-31.00%	-7.28%

\$50.00	-50.00%	\$500.00	-50.00%	-13.38%
\$25.00	-75.00%	\$250.00	-75.00%	-25.86%

- (1) The annualized rates of return are calculated on a semi-annual bond equivalent basis with compounding.
- (2) The hypothetical starting price of \$100.00 has been chosen for illustrative purposes only and does not represent the actual starting price. The actual starting price will be determined on the pricing date and will be set forth under Terms of the Securities above. For historical data regarding the actual closing prices of the Fund, see the historical information set forth under the section titled The iShare® MSCI EAFE ETF below.

The above figures are for purposes of illustration only and may have been rounded for ease of analysis. The actual amount you receive at stated maturity and the resulting pre-tax rate of return will depend on the actual starting price, ending price and participation rate.

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Market Linked Securities Leveraged Upside Participation and**Contingent Downside****Principal at Risk Securities Linked to the iShares® MSCI EAFE ETF due November 7,****2022****Hypothetical Payments at Stated Maturity**

Set forth below are three examples of payment at stated maturity calculations, reflecting a hypothetical participation rate of 140% (the midpoint of the specified range for the participation rate) and assuming hypothetical starting prices and ending prices as indicated in the examples. The terms used for purposes of these hypothetical examples do not represent the actual starting price or threshold price. The hypothetical starting price of \$100.00 has been chosen for illustrative purposes only and does not represent the actual starting price. The actual starting price and threshold price will be determined on the pricing date and will be set forth under Terms of the Securities above. For historical data regarding the actual closing prices of the Fund, see the historical information set forth under the section titled The iShares® MSCI EAFE ETF below. These examples are for purposes of illustration only and the values used in the examples may have been rounded for ease of analysis.

Example 1. Redemption amount is greater than the original offering price:

Hypothetical starting price: \$100.00

Hypothetical ending price: \$110.00

Since the hypothetical ending price is greater than the hypothetical starting price, the redemption amount would equal:

$$\$1,000 + \$1,000 \times \frac{\$110.00 - \$100.00}{\$100.00} \times 140\% = \$1,140.00$$

On the stated maturity date you would receive \$1,140.00 per security.

Example 2. Redemption amount is equal to the original offering price:

Hypothetical starting price: \$100.00

Hypothetical ending price: \$90.00

Hypothetical threshold price: \$70.00, which is 70% of the hypothetical starting price

Since the hypothetical ending price is less than the hypothetical starting price, but not by more than 30%, you would not lose any of the original offering price of your securities.

On the stated maturity date you would receive \$1,000.00 per security.

Example 3. Redemption amount is less than the original offering price:

Hypothetical starting price: \$100.00

Hypothetical ending price: \$50.00

Hypothetical threshold price: \$70.00, which is 70% of the hypothetical starting price

Since the hypothetical ending price is less than the hypothetical starting price by more than 30%, you would lose a portion of the original offering price of your securities and receive the redemption amount equal to:

$$\$1,000 \quad \$1,000 \times \frac{\$100.00 - \$50.00}{\$100.00} = \$500.00$$

On the stated maturity date you would receive \$500.00 per security.

To the extent that the starting price, ending price and participation rate differ from the values assumed above, the results indicated above would be different.

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Market Linked Securities Leveraged Upside Participation and

Contingent Downside

Principal at Risk Securities Linked to the iShares® MSCI EAFE ETF due November 7,

2022

The iShares® MSCI EAFE ETF

The iShares MSCI EAFE ETF seeks investment results that correspond generally to the price and yield performance, before fees and expenses, of the MSCI EAFE Index, an equity index that is designed to measure equity performance in developed markets, excluding the United States and Canada. See Description of Exchange Traded Funds The iShares® MSCI EAFE ETF in the accompanying market measure supplement for additional information about the iShares MSCI EAFE ETF.

MSCI, Inc. has announced that, effective with the November 2015 semi-annual index review, companies traded outside of their country of classification (i.e., foreign listed companies) will become eligible for inclusion in the component country indices included in the MSCI EAFE Index. In order for a component country index to be eligible to include foreign listed companies, it must meet the Foreign Listing Materiality Requirement. To meet the Foreign Listing Materiality Requirement, the aggregate market capitalization of all securities represented by foreign listings should represent at least (i) 5% of the free float-adjusted market capitalization of the relevant component country index and (ii) 0.05% of the free-float adjusted market capitalization of the MSCI ACWI Investable Market Index (an index that measures equity performance in both the developed and emerging markets). In connection with the November 2015 semi-annual index review, three of the component country indices included in the MSCI EAFE Index, the MSCI Hong Kong Index, the MSCI Israel Index and the MSCI Netherlands Index, became eligible to include foreign listed companies. The newly eligible foreign listed securities were added at half their free float-adjusted market capitalization as part of the November 2015 semi-annual index review, and their remaining free float-adjusted market capitalization were added as part of the May 2016 semi-annual index review.

The information about the MSCI EAFE Index contained herein updates the information included in the accompanying market measure supplement. See Description of Equity Indices The MSCI EAFE Index in the accompanying market measure supplement for additional information about the MSCI EAFE Index.

Historical Information

We obtained the closing prices listed below from Bloomberg Financial Markets without independent verification.

The following graph sets forth daily closing prices of the Fund for the period from January 1, 2007 to September 28, 2017. The closing price on September 28, 2017 was \$68.08. The historical performance of the Fund should not be taken as an indication of the future performance of the Fund during the term of the securities.

Market Linked Securities Leveraged Upside Participation and**Contingent Downside****Principal at Risk Securities Linked to the iShares® MSCI EAFE ETF due November 7,****2022****The iShares® MSCI EAFE ETF (Continued)**

The following table sets forth the high and low closing prices, as well as end-of-period closing prices, of the Fund for each quarter in the period from January 1, 2007 through June 30, 2017 and for the period from July 1, 2017 to September 28, 2017.

	High	Low	Last
2007			
First Quarter	\$ 76.94	\$ 70.95	\$ 76.27
Second Quarter	\$ 81.79	\$ 76.47	\$ 80.63
Third Quarter	\$ 83.77	\$ 73.70	\$ 82.56
Fourth Quarter	\$ 86.18	\$ 78.24	\$ 78.50
2008			
First Quarter	\$ 78.35	\$ 68.31	\$ 71.90
Second Quarter	\$ 78.52	\$ 68.10	\$ 68.70
Third Quarter	\$ 68.04	\$ 53.08	\$ 56.30
Fourth Quarter	\$ 55.88	\$ 35.71	\$ 44.87
2009			
First Quarter	\$ 45.44	\$ 31.69	\$ 37.59
Second Quarter	\$ 49.04	\$ 38.57	\$ 45.81
Third Quarter	\$ 55.81	\$ 43.91	\$ 54.70
Fourth Quarter	\$ 57.28	\$ 52.66	\$ 55.30
2010			
First Quarter	\$ 57.96	\$ 50.45	\$ 56.00
Second Quarter	\$ 58.03	\$ 46.29	\$ 46.51
Third Quarter	\$ 55.42	\$ 47.09	\$ 54.92
Fourth Quarter	\$ 59.46	\$ 54.25	\$ 58.23
2011			
First Quarter	\$ 61.91	\$ 55.31	\$ 60.09
Second Quarter	\$ 63.87	\$ 57.10	\$ 60.14
Third Quarter	\$ 60.80	\$ 46.66	\$ 47.75
Fourth Quarter	\$ 55.57	\$ 46.45	\$ 49.53
2012			
First Quarter	\$ 55.80	\$ 49.15	\$ 54.90
Second Quarter	\$ 55.51	\$ 46.55	\$ 49.96
Third Quarter	\$ 55.15	\$ 47.62	\$ 53.00
Fourth Quarter	\$ 56.88	\$ 51.96	\$ 56.82

2013			
First Quarter	\$ 59.89	\$ 56.90	\$ 58.98
Second Quarter	\$ 63.53	\$ 57.03	\$ 57.38
Third Quarter	\$ 65.05	\$ 57.55	\$ 63.79
Fourth Quarter	\$ 67.06	\$ 62.71	\$ 67.06
2014			
First Quarter	\$ 68.03	\$ 62.31	\$ 67.17
Second Quarter	\$ 70.67	\$ 66.26	\$ 68.37
Third Quarter	\$ 69.25	\$ 64.12	\$ 64.12
Fourth Quarter	\$ 64.51	\$ 59.53	\$ 60.84
2015			
First Quarter	\$ 65.99	\$ 58.48	\$ 64.17
Second Quarter	\$ 68.42	\$ 63.49	\$ 63.49
Third Quarter	\$ 65.46	\$ 56.25	\$ 57.32
Fourth Quarter	\$ 62.06	\$ 57.50	\$ 58.75
2016			
First Quarter	\$ 57.80	\$ 51.38	\$ 57.13
Second Quarter	\$ 59.87	\$ 52.64	\$ 55.81
Third Quarter	\$ 59.86	\$ 54.44	\$ 59.13
Fourth Quarter	\$ 59.20	\$ 56.20	\$ 57.73
2017			
First Quarter	\$ 62.60	\$ 58.09	\$ 62.29
Second Quarter	\$ 67.22	\$ 61.44	\$ 65.20
July 1, 2017 to September 28, 2017	\$ 68.47	\$ 64.83	\$ 68.08

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Market Linked Securities Leveraged Upside Participation and

Contingent Downside

Principal at Risk Securities Linked to the iShares® MSCI EAFE ETF due November 7,

2022

United States Federal Tax Considerations

You should read carefully the discussion under United States Federal Tax Considerations in the accompanying product supplement and Selected Risk Considerations in this pricing supplement.

In the opinion of our counsel, Davis Polk & Wardwell LLP, which is based on current market conditions, a security should be treated as a prepaid derivative contract that is an open transaction for U.S. federal income tax purposes. By purchasing a security, you agree (in the absence of an administrative determination or judicial ruling to the contrary) to this treatment. There is uncertainty regarding this treatment, and the IRS or a court might not agree with it.

Assuming this treatment of the securities is respected and subject to the discussion in United States Federal Tax Considerations in the accompanying product supplement, the following U.S. federal income tax consequences should result under current law:

You should not recognize taxable income over the term of the securities prior to maturity, other than pursuant to a sale or exchange.

Upon a sale or exchange of a security (including retirement at maturity), you should recognize gain or loss equal to the difference between the amount realized and your tax basis in the security. Subject to the discussion below concerning the potential application of the constructive ownership rules under Section 1260 of the Code, any gain or loss recognized upon a sale, exchange or retirement of a security should be long-term capital gain or loss if you held the security for more than one year.

Even if the treatment of the securities as prepaid derivative contracts that are open transactions is respected, your purchase of a security may be treated as entry into a constructive ownership transaction, within the meaning of Section 1260 of the Code, with respect to the shares of the Fund. In that case, all or a portion of any long-term capital gain you would otherwise recognize in respect of your securities would be recharacterized as ordinary income to the extent such gain exceeded the net underlying long-term capital gain. Although the matter is unclear, the net underlying long-term capital gain may equal the amount of long-term capital gain you would have realized if on the issue date you had purchased shares of the Fund with a value equal to the amount you paid to acquire your securities and subsequently sold those shares for their fair market value at the time your securities are sold, exchanged or retired (which would reflect the percentage increase, without regard to the participation rate, in the value of the shares of the Fund over the term of the securities). Alternatively, the net underlying long-term capital gain could be calculated using a number of shares of the Fund that reflects the participation rate used to calculate the payment that you will receive on your securities. Any long-term capital gain recharacterized as ordinary income under Section 1260 would be treated as accruing at a constant rate over the period you held your securities, and you would be subject to an interest charge in respect of the deemed tax liability on the income treated as accruing in prior tax years. Due to the lack of governing authority under Section 1260, our counsel is not able to opine as to whether or how Section 1260 applies to the securities. You should read the section entitled United States Federal Tax Considerations Tax

Consequences to U.S. Holders Potential Application of Section 1260 of the Code in the accompanying product supplement for additional information and consult your tax adviser regarding the potential application of the constructive ownership rule.

Subject to the discussion below, if you are a non-U.S. holder (as defined in the accompanying product supplement) of the securities, you generally should not be subject to U.S. federal withholding or income tax in respect of any amount paid to you with respect to the securities, provided that (i) income in respect of the securities is not effectively connected with your conduct of a trade or business in the United States, and (ii) you comply with the applicable certification requirements.

As discussed in the section of the accompanying product supplement entitled United States Federal Tax Considerations FATCA Legislation, withholding under legislation commonly referred to as FATCA might (if the securities were recharacterized as debt instruments) apply to amounts treated as interest or dividend equivalents paid with respect to the securities. However, under an IRS notice, withholding under FATCA will apply to the payment of gross proceeds (other than any amount treated as interest) only with respect to a disposition of the securities after December 31, 2018. You should consult your tax adviser regarding the potential application of FATCA to the securities.

In 2007, the U.S. Treasury Department and the IRS released a notice requesting comments on the U.S. federal income tax treatment of prepaid forward contracts and similar instruments. The notice focuses in particular on whether to require holders of these instruments to accrue income over the term of their investment. It also asks for comments on a number of related topics, including the character of income or loss with respect to these instruments; whether short-term instruments should be subject to any such accrual regime; the relevance of factors such as the exchange-traded status of the instruments and the nature of the underlying property to which the instruments are linked; the degree, if any, to which income (including any mandated accruals) realized by non-U.S. investors should be subject to withholding tax; and whether these instruments are or should be subject to the constructive ownership

Market Linked Securities Leveraged Upside Participation and

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Principal at Risk Securities Linked to the iShares® MSCI EAFE ETF due November 7,

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United States Federal Tax Considerations (Continued)

regime described above. While the notice requests comments on appropriate transition rules and effective dates, any Treasury regulations or other guidance promulgated after consideration of these issues could materially and adversely affect the tax consequences of an investment in the securities, including the character and timing of income or loss and the degree, if any, to which income realized by non-U.S. persons should be subject to withholding tax, possibly with retroactive effect.

Possible Withholding Under Section 871(m) of the Code. Section 871(m) of the Code and Treasury regulations promulgated thereunder (Section 871(m)) generally impose a 30% withholding tax on dividend equivalents paid or deemed paid to non-U.S. holders with respect to certain financial instruments linked to U.S. equities (U.S. underlying equities) or indices that include U.S. underlying equities. Section 871(m) generally applies to instruments that substantially replicate the economic performance of one or more U.S. underlying equities, as determined based on tests set forth in the applicable Treasury regulations (a specified security). However, the regulations exempt financial instruments issued in 2017 that do not have a Δ of one. Based on the terms of the securities and representations provided by us, our counsel is of the opinion that the securities should not be treated as transactions that have a Δ of one within the meaning of the regulations with respect to any U.S. underlying equity and, therefore, should not be specified securities subject to withholding tax under Section 871(m).

A determination that the securities are not subject to Section 871(m) is not binding on the IRS, and the IRS may disagree with this treatment. Moreover, Section 871(m) is complex and its application may depend on your particular circumstances. For example, if you enter into other transactions relating to a U.S. underlying equity, you could be subject to withholding tax or income tax liability under Section 871(m) even if the securities are not specified securities subject to Section 871(m) as a general matter. You should consult your tax adviser regarding the potential application of Section 871(m) to the securities. This information is indicative and will be updated in the final pricing supplement or may otherwise be updated by us in writing from time to time. Non-U.S. holders should be warned that Section 871(m) may apply to the securities based on circumstances as of the pricing date for the securities and, therefore, it is possible that the securities will be subject to withholding tax under Section 871(m).

If withholding tax applies to the securities, we will not be required to pay any additional amounts with respect to amounts so withheld.

You should read the section entitled United States Federal Tax Considerations in the accompanying product supplement. The preceding discussion, when read in combination with that section, constitutes the full opinion of Davis Polk & Wardwell LLP regarding the material U.S. federal tax consequences of owning and disposing of the securities.

You should consult your tax adviser regarding all aspects of the U.S. federal income and estate tax consequences of an investment in the securities and any tax consequences arising under the laws of any state,

local or non-U.S. taxing jurisdiction.

PRS-19

Market Linked Securities Leveraged Upside Participation and

Contingent Downside

Principal at Risk Securities Linked to the iShares® MSCI EAFE ETF due November 7,

2022

Supplemental Plan of Distribution

We expect that delivery of the securities will be made against payment therefor on or about the issue date specified in this pricing supplement. Under Rule 15c6-1 of the Securities Exchange Act of 1934, as amended, trades in the secondary market generally are required to settle in two business days after the date the securities are priced, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the securities at any time prior to the second business day preceding the issue date will be required, by virtue of the fact that the securities will not settle in T+2, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement; such purchasers should also consult their own advisors in this regard.

Notice to Prospective Investors in Uruguay

The sale of the securities qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The securities must not be offered or sold to the public in Uruguay, except in circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The securities are not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay.

Notice to Prospective Investors in China

This document does not constitute an offer to sell or the solicitation of an offer to buy any securities in the People's Republic of China (excluding Hong Kong, Macau and Taiwan, the PRC) to any person to whom it is unlawful to make the offer or solicitation in the PRC. Wells Fargo does not represent that this document may be lawfully distributed, or that any securities may be lawfully offered, in compliance with any applicable registration or other requirements in the PRC, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. Neither this document nor any advertisement or other offering material may be distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations.