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Puda Coal, Inc.
Form 10-Q
August 16, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 333-85306

PUDA COAL, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

65-1129912
(IRS Employer
Identification No.)

426 Xuefu Street, Taiyuan, Shanxi Province,
The People's Republic of China
(Address of principal executive offices)

030006
(Zip Code)

011 86 351 228 1302
(Registrant's telephone number, including area code)

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

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

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

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Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) 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

As of the latest practicable date, August 10, 2010, the issuer had 20,284,737 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PUDA COAL, INC.
CONSOLIDATED BALANCE SHEETS
June 30, 2010 and December 31, 2009
(In thousands of United States dollars)

	Note(s)	June 30, 2010 (Unaudited)	December 31, 2009
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	19	\$ 70,339	\$ 19,918
Accounts receivable		34,505	25,340
Advances to suppliers			
- Related parties	3	1,088	1,020
- Third parties		4,294	3,552
Inventories	4	15,582	22,531
Total current assets		125,808	72,361
PREPAYMENTS		-	6,259
PROPERTY, PLANT, EQUIPMENT AND MINING ASSETS	5	55,109	13,986
INTANGIBLE ASSETS	6	3,927	3,945
INVESTMENT, AT COST	7	14,746	14,650
TOTAL ASSETS		\$ 199,590	\$ 111,201
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Current portion of long-term debt			
- Related party	3, 9	\$ 1,300	\$ 1,300
Accounts payable		7,180	4,839
Other payables			
- Related parties	3	929	1,031
- Third parties		2,705	2,650
Assets acquisition price payable	8	8,399	-
Accrued expenses		702	1,076
Income taxes payable		2,749	1,091
VAT payable		1,397	1,135
Derivative warrants	10, 20	2,464	7,620
Total current liabilities		27,825	20,742

LONG-TERM LIABILITIES

Long-term debt			
- Related party	3,9	41,241	6,500
Total liabilities		69,066	27,242

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PUDA COAL, INC.
CONSOLIDATED BALANCE SHEETS (Continued)
June 30, 2010 and December 31, 2009
(In thousands of United States dollars)

	Note(s)	June 30, 2010 (Unaudited)	December 31, 2009
COMMITMENTS AND CONTINGENCIES	11		
STOCKHOLDERS' EQUITY			
Preferred stock, authorized 5,000,000 shares, par value \$0.01, issued and outstanding None		-	-
Common stock, authorized 150,000,000 shares, par value \$0.001, issued and outstanding 20,257,665 (2009: 15,828,863)	12	20	15
Paid-in capital	12	66,967	35,212
Statutory surplus reserve fund		1,366	1,366
Retained earnings		51,330	37,233
Accumulated other comprehensive income		10,841	10,133
Total stockholders' equity		130,524	83,959
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 199,590	\$ 111,201

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

PUDA COAL, INC.
 UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
 For the three and six months ended June 30, 2010 and 2009
 (In thousands of United States dollars, except per share data)

	Note(s)	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
NET REVENUE		\$ 82,319	\$ 47,990	144,290	97,711
COST OF REVENUE		70,246	44,388	121,943	90,238
GROSS PROFIT		12,073	3,602	22,347	7,473
OPERATING EXPENSES					
Selling expenses		850	533	1,488	1,110
General and administrative expenses		804	404	1,362	745
TOTAL OPERATING EXPENSES		1,654	937	2,850	1,855
INCOME FROM OPERATIONS		10,419	2,665	19,497	5,618
INTEREST INCOME		61	23	83	56
INTEREST EXPENSE	13	(432)	(132)	(549)	(269)
DERIVATIVE UNREALIZED FAIR VALUE GAIN/(LOSS)	10, 14	1,337	(121)	130	(113)
INCOME BEFORE INCOME TAXES		11,385	2,435	19,161	5,292
TAXATION	15	(2,732)	(706)	(5,064)	(1,447)
NET INCOME		8,653	1,729	14,097	3,845
OTHER COMPREHENSIVE INCOME					
Foreign currency translation adjustment		794	(30)	708	(196)
COMPREHENSIVE INCOME		\$ 9,447	\$ 1,699	\$ 14,805	\$ 3,649
EARNINGS PER SHARE - BASIC		\$ 0.44	\$ 0.11	\$ 0.75	\$ 0.25
- DILUTED		\$ 0.36	\$ 0.11	\$ 0.72	\$ 0.25
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING					
- BASIC	16	19,812,130	15,353,176	18,830,771	15,343,482
- DILUTED	16	20,360,158	15,370,319	19,378,799	15,360,625

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

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PUDA COAL, INC.
 UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
 For the six months ended June 30, 2010 and 2009
 (In thousands of United States dollars)

	Six months ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 14,097	\$ 3,845
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of land-use rights	44	44
Depreciation	845	839
Allowance for doubtful debts	-	41
Derivative unrealized fair value (gain)/loss	(130)	113
Stock compensation	393	33
Issue of common stock/warrants to directors	-	86
Changes in operating assets and liabilities:		
Increase in accounts receivable	(8,941)	(13,620)
Decrease in other receivables	-	7
(Increase)/decrease in advances to suppliers	(775)	2,563
Decrease/(increase) in inventories	7,051	(5,309)
Increase in accounts payable	2,294	1,377
Decrease in accrued expenses	(295)	(235)
Decrease in other payables	(69)	(313)
Increase/(decrease) in income tax payable	1,640	(612)
Increase/(decrease) in VAT payable	253	(1,511)
Net cash provided by/(used in) operating activities	16,407	(12,652)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of mining rights and mining assets	(27,219)	-
Prepayment for equity purchase of coal mine	-	(8,781)
Net cash used in investing activities	(27,219)	(8,781)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of warrants	4,679	-
Issue of common shares	14,538	-
Increase in registered capital of Shanxi Coal	7,041	-
Borrowings from related party	35,391	-
Repayment of long-term debt	(650)	(650)
Net cash provided by/(used in) financing activities	60,999	(650)
Effect of exchange rate changes on cash	234	(173)
Net increase/(decrease) in cash and cash equivalents	50,421	(22,256)
Cash and cash equivalents at beginning of period	19,918	39,108

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Cash and cash equivalents at end of period	\$	70,339	\$	16,852
Supplementary cash flow information				
Cash paid during the period for:				
Interest	\$	303	\$	269
Income taxes	\$	3,424	\$	2,058

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

PUDA COAL, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. The Company

Puda Coal, Inc. (formerly Purezza Group, Inc.) (the “Company” or “Puda”) is a corporation organized under Delaware Law and headquartered in Shanxi Province, China. The Company was originally incorporated on August 9, 2001 in Florida.

On July 15, 2005, the Company acquired all the outstanding capital stock and ownership interests of Puda Investment Holding Limited (“BVI”) and BVI became a wholly-owned subsidiary of the Company. In exchange, Puda issued to the BVI members 1,000,000 shares of its Series A convertible preferred stock, par value \$0.01 per share, of the Company, which are convertible into 678,500,000 shares of Puda’s common stock. The purchase agreement provided that the preferred shares would immediately and automatically be converted into shares of Puda’s common stock (the “Mandatory Conversion”), following an increase in the number of authorized shares of Puda’s common stock from 100,000,000 to 150,000,000, and a 10 to 1 reverse stock split of Puda’s outstanding common stock (the “10-to-1 Reverse Split”). On August 2, 2005, the authorized number of shares of common stock of the Company was increased from 100,000,000 shares to 150,000,000 shares. On September 8, 2005, Puda completed the 10-to-1 Reverse Split.

Effective on July 30, 2009 (the “Effective Date”), the Company completed a reincorporation from a Florida corporation to a Delaware corporation. Each issued and outstanding share of common stock, par value \$0.001 per share, of the Florida-incorporated Company was automatically converted into 0.142857 issued and outstanding share of common stock, par value \$0.001 per share, of the Delaware-incorporated Company (the “7-to-1 Share Conversion”). No fractional shares were or will be issued in connection with the conversion; instead, the Company rounded up the fractional share to the nearest whole number. Any common shares exercised from the warrants or stock options which were issued before the Effective Date were also subject to the conversion ratio of 7 to 1. The total number of authorized shares of common stock and preferred stock did not change as a result of the conversion. Although the 7-to-1 Share Conversion occurred on July 30, 2009, it was retroactively reflected in the consolidated financial statements as if the reverse split was effective from January 1, 2009.

BVI is an International Business Company incorporated in the British Virgin Islands on August 19, 2004 and it has a registered capital of \$50,000. BVI has not had any operating activities since its inception on August 19, 2004.

BVI, in turn, owns all of the registered capital of Shanxi Putai Resources Limited (formerly, Taiyuan Putai Business Consulting Co., Ltd.) (“Putai”), a wholly foreign owned enterprise (“WFOE”) registered under the wholly foreign-owned enterprises laws of the People’s Republic of China (“PRC”). Putai was incorporated on November 5, 2004 and has a registered capital of \$20,000. Putai owns 90% of Shanxi Puda Coal Group Co., Ltd. (formerly, Shanxi Puda Resources Co. Ltd.) (“Shanxi Coal”), a company with limited liability established under the laws of the PRC.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. The Company (continued)

Shanxi Coal was established on June 7, 1995. Shanxi Coal mainly processes and washes raw coal and sells from its plants in Shanxi Province, high-quality, low sulfur refined coal for industrial clients mainly in Central and Northern China. In September, 2009, the Shanxi provincial government appointed Shanxi Coal as a consolidator of eight coal mines in Pinglu County, Shanxi Province. In March 2010, Shanxi Coal received an approval from the Shanxi provincial government to acquire and consolidate four additional coking coal mines in Huozhou County, Shanxi Province. As of June 30, 2010, Shanxi Coal has completed the acquisition of two coal mines in Pinglu County (see Note 5). The initial registered capital of Shanxi Coal was RMB 22.5 million (\$2,717,000) which was increased to RMB 500 million (\$73,129,000) in May 2010, as a result of the new guidelines enacted by the Shanxi provincial government, that require the registered paid-in-capital of coal mine consolidators to be at least RMB 200 million. The owners of Shanxi Coal were Putai (90%), Mr. Ming Zhao (8%) and Mr. Yao Zhao (2%). In May 2010, Mr. Yao Zhao transferred his 2% ownership to Mr. Ming Zhao. Mr. Ming Zhao is the chairman and was the president and chief executive officer of Puda until his resignation on June 25, 2008. Mr. Yao Zhao was the chief operating officer of Puda until his resignation became effective on November 20, 2006. Mr. Ming Zhao and Mr. Yao Zhao are brothers.

As of June 30, 2010, the percentages owned by Mr. Ming Zhao and Mr. Yao Zhao in the companies are as follows:

- Puda Coal, Inc.: Mr. Ming Zhao (approximately 37%); Mr. Yao Zhao (approximately 9%) held directly.
- Puda Investment Holding Limited: Mr. Ming Zhao (approximately 37%); Mr. Yao Zhao (approximately 9%) held indirectly through Puda.
- Shanxi Putai Resources Limited: Mr. Ming Zhao (approximately 37%); Mr. Yao Zhao (approximately 9%) held indirectly through Puda and BVI.
- Shanxi Puda Coal Group Co., Ltd.: Mr. Ming Zhao (10%) held directly, Mr. Ming Zhao (approximately 33%) held indirectly through Puda, BVI and Putai.

After the above reorganization and as of June 30, 2010, the organizational structure is as follows:

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The unaudited consolidated financial statements include Puda (Registrant and Legal Parent), BVI, Putai and Shanxi Coal (Operating Company), collectively referred to as “the Group”. Intercompany items have been eliminated.

The accompanying unaudited consolidated financial statements as of June 30, 2010 and for the three and six month periods ended June 30, 2010 and 2009 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to the Securities and Exchange Commission’s rules and regulations. In the opinion of management, these unaudited consolidated interim financial statements include all adjustments and disclosures considered necessary to a fair statement of the results for the interim periods presented. All adjustments are of a normal recurring nature. The results of operations for the six months ended June 30, 2010 are not necessarily indicative of the results for the full fiscal year ending December 31, 2010. The unaudited consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2009 as reported in Form 10-K.

(b) Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reported periods. Significant estimates include depreciation and allowance for doubtful accounts receivable. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

The Group considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents. As of June 30, 2010 and December 31, 2009, the Group did not have any cash equivalents.

(d) Allowance for Doubtful Accounts

The Group recognizes an allowance for doubtful accounts to ensure accounts receivable are not overstated due to uncollectability. An allowance for doubtful accounts is maintained for all customers based on a variety of factors, including the length of time the receivables are past due, significant one-time events and historical experience. An additional reserve for individual accounts is recorded when the Group becomes aware of a customer’s inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer’s operating results or financial position. If circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted.

(e) Inventories

Inventories are comprised of raw materials and finished goods and are stated at the lower of cost or market value. Substantially all inventory costs are determined using the weighted average basis. Costs of finished goods include direct labor, direct materials, and production overhead before the goods are ready for sale.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (continued)

(f) Property, Plant, Equipment and Mining Assets, Net

Property, plant and equipment are stated at cost. Depreciation is provided principally by use of the straight-line method over the useful lives of the related assets. Expenditures for maintenance and repairs, which do not improve or extend the expected useful lives of the assets, are expensed to operations while major repairs are capitalized.

Management considers that the Group has a 10% residual value for buildings, and a 5% residual value for other property, plant and equipment. The estimated useful lives are as follows:

Buildings and facilities	20 years
Machinery and equipment	10 years
Motor vehicles	10 years
Office equipment and others	10 years

Mine works and reconstruction costs are capitalized and amortized by the units of production method over estimated total recoverable proven and probable reserves.

Amortization of mining rights is provided by the units of production method over estimated total recoverable proven and probable reserves.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets, and, if any, is recognized in the consolidated statement of operations.

(g) Land-use Rights and Amortization

Land-use rights are stated at cost, less amortization. Amortization of land-use rights is calculated on the straight-line method, based on the period over which the right is granted by the relevant authorities in Shanxi Province, PRC.

(h) Investment

The Group accounts for its equity investment, for which it does not possess the ability to exercise significant influence using the cost method under ASC 325 "Investments". Significant influence generally does not exist if the ownership interest in the voting stock of the investee is less than 20% and the Group does not take part in the operational management of the investee. Under the cost method of accounting, investments are carried at cost and are adjusted only for other-than-temporary declines in realizable value and additional investments. When the decline is determined to be other-than-temporary, the cost basis for the investment is reduced and a loss is realized in the consolidated statement of operations in the period in which it occurs. When the decline is determined to be temporary, the unrealized losses are included in the shareholders' equity section in the consolidated balance sheets. The Group makes such determination based upon a number of factors, including financial condition, operating results, sales forecasts and earnings growth of the investee, broad economic factors impacting the investee's industry, and the Group's intent and ability to retain the investment over a period of time, which is sufficient to allow for any recovery in market value. Under the cost method of accounting, dividend received is recognized as income (see Note 7).

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (continued)

(i) Impairment of Long-Lived Assets

In accordance with ASC 360 "Property, Plant, and Equipment", the Group evaluates its long-lived assets to determine whether later events and circumstances warrant revised estimates of useful lives or a reduction in carrying value due to impairment. If indicators of impairment exist and if the value of the assets is impaired, an impairment loss would be recognized.

(j) Derivative Financial Instruments

Derivative financial instruments are accounted for under ASC 815 "Derivatives and Hedging". Under ASC 815, all derivative instruments are recorded on the balance sheet as assets or liabilities and measured at fair value. Changes in the fair value of derivative instruments are recorded in current earnings.

(k) Income Taxes

The Group accounts for income taxes under ASC 740 "Income Taxes". Under ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Group reviewed the differences between the tax bases under PRC tax laws and financial reporting under US GAAP, and no material differences were found, thus, there were no deferred tax assets or liabilities as of June 30, 2010 and December 31, 2009.

ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and it prescribes a recognition threshold and measurement attributable for the financial statements recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on derecognizing, classification, interest and penalties, accounting in interim periods, disclosures and transitions. Interest and penalties from tax assessments, if any, are included in general and administrative expenses in the consolidated statements of operations.

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

Based on all known facts and circumstances and current tax law, the Group believes that the total amount of unrecognized tax benefits as of June 30, 2010 is not material to its results of operations, financial condition or cash flows. The Group also believes that the total amount of unrecognized tax benefits as of June 30, 2010, if recognized, would not have a material effect on its effective tax rate. The Group further believes that there are no tax positions for which it is reasonably possible, based on current Chinese tax law and policy, that the unrecognized tax benefits will significantly increase or decrease over the next 12 months producing, individually or in the aggregate, a material effect on the Group's results of operations, financial condition or cash flows.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (continued)

(k) Income Taxes (continued)

Under current PRC tax laws, 10% withholding tax is imposed in respect to distributions paid to foreign owners. As the Group has no intention to pay dividends in the foreseeable future, no withholding tax on undistributed earnings has been accrued as of June 30, 2010.

Under current PRC tax laws, no tax is imposed in respect to distributions paid to owners except for individual income tax.

(l) Revenue Recognition

Revenue from goods sold is recognized when (i) persuasive evidence of an arrangement exists, which is generally represented by a contract with the buyer; (ii) title has passed to the buyer, which generally is at the time of delivery; (iii) the price is agreed with the buyer; and (iv) collectability is reasonably assured.

Net revenue represents the invoiced value of products, less returns and discounts and net of VAT.

(m) Foreign Currency Transactions

The reporting currency of the Group is the U.S. dollar. Shanxi Coal uses its local currency, Renminbi, as its functional currency. Results of operations and cash flow are translated at average exchange rates during the period, and assets and liabilities are translated at the end of period exchange rates. Translation adjustments resulting from this process are included in accumulated other comprehensive income in stockholders' equity. Transaction gains and losses that arise from exchange rate fluctuations from transactions denominated in a currency other than the functional currency are included in the results of operations as incurred. These amounts are not material to the consolidated financial statements for the three and six months ended June 30, 2010 and 2009.

The PRC government imposes significant exchange restrictions on fund transfers out of the PRC that are not related to business operations. These restrictions have not had a material impact on the Group because it has not engaged in any significant transactions that are subject to the restrictions.

(n) Fair Value of Financial Instruments

ASC 825 "Financial Instruments", requires disclosing fair value to the extent practicable for financial instruments that are recognized or unrecognized in the balance sheets. The fair value of the financial instruments disclosed herein is not necessarily representative of the amount that could be realized or settled, nor does the fair value amount consider the tax consequences of realization or settlement.

For certain financial instruments, including cash, accounts, related party and other receivables, accounts payable, other payables and accrued expenses, it was assumed that the carrying amounts approximate fair value because of the near term maturities of such obligations. For long-term debt, the carrying amount is assumed to approximate fair value based on the current rates at which the Group could borrow funds with similar remaining maturities.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (continued)

(o) Earnings Per Share

Basic earnings per share is computed by dividing the earnings for the period by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution of securities by including other potential common stock equivalents, including stock options and warrants, in the weighted average number of common shares outstanding for the period, if dilutive.

(p) Accumulated Other Comprehensive Income

Accumulated other comprehensive income represents the change in equity of the Group during the periods presented from foreign currency translation adjustments.

(q) Share-Based Compensation Expense

ASC 718 "Compensation-Stock Compensation", requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and employee stock purchases based on estimated fair values. ASC 718 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of awards that are ultimately expected to vest is recognized as expense over the requisite service periods in the Group's consolidated statements of operations.

(r) Asset Retirement Obligations

Under the Shanxi Province local rules and regulations, the Group is required to make payments for restoration, rehabilitation or environmental protection of the land after the underground sites have been mined. Such costs are recognized in the period in which the obligation is identified and is charged as an expense in proportion to the coal extracted. No such costs were recognized in the six months ended June 30, 2010 as the coal mine operations have not started.

(s) Reclassifications

Certain reclassifications have been made to prior period balances in order to conform to the current period's presentation.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Related Party Transactions

As of June 30, 2010 and December 31, 2009, the Group had the following amounts due from/to related parties:

	June 30, 2010 \$'000	December 31, 2009 \$'000
Advance to Shanxi Liulin Jucai Coal Industry Co., Limited ("Jucai Coal"), a related company with a common owner	\$ 1,088	\$ 1,020
Other payable to Shanxi Puda Resources Group Limited ("Resources Group"), a related company with common owners	\$ 800	\$ 795
Other payable to Mr. Ming Zhao, chairman and shareholder of Puda	129	-
Other payable to Mr. Yao Zhao, shareholder of Puda	-	236
	\$ 929	\$ 1,031
Loan payable to Resources Group -current portion	\$ 1,300	\$ 1,300
Loan payable to Resources Group -long-term portion	5,850	6,500
Loan payable to Mr. Ming Zhao	35,391	-
	\$ 41,241	\$ 6,500

The balances, except for the loans payable to Resources Group and Mr. Ming Zhao, are unsecured, interest-free and there are no fixed terms for repayment.

The balance payable to Resources Group of \$800,000 includes \$901,000 of professional and regulatory charges related to the public listing paid by Resources Group on behalf of the Company, netted against other receivables of \$101,000 due from Resources Group.

In 2001, Shanxi Coal entered into agreements with Resources Group to lease an office and certain equipment. In the three months ended June 30, 2010 and 2009, rental expenses paid to Resources Group were \$40,000 and \$40,000, respectively. In the six months ended June 30, 2010 and 2009, rental expenses paid to Resources Group were \$80,000 and \$79,000, respectively (see Note 11).

In the three months ended June 30, 2010 and 2009, Shanxi Coal purchased raw coal from Jucai Coal in the amounts of \$6,972,000 and \$3,514,000, respectively. In the six months ended June 30, 2010 and 2009, Shanxi Coal purchased raw coal from Jucai Coal in the amounts of \$10,732,000 and \$7,083,000, respectively.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Related Party Transactions (continued)

On November 17, 2005, Shanxi Coal entered into a coal supply agreement with Jucai Coal, pursuant to which Shanxi Coal has priority to Jucai Coal's high grade metallurgical coking coal supply over Jucai Coal's other customers. Under the terms of the agreement, Shanxi Coal receives a discount of approximately RMB 30 (approximately \$4) to RMB 50 (approximately \$7) per metric ton of coal from the price Jucai Coal charges to its other customers.

On November 17, 2005, Shanxi Coal entered into two conveyance agreements with Resources Group. The two agreements transferred two new coal washing plants, related land-use rights and coal washing equipment in Liulin County and Zhongyang County, Shanxi Province. The Liulin County plant has an annual clean coal washing capacity of 1.1 million metric tons while the Zhongyang County plant has an annual clean coal washing capacity of 1.2 million metric tons. The Liulin County plant started formal production in December 2005. The Liulin County plant, land-use rights and related equipment were purchased for a cost of \$5,800,000. The Zhongyang County plant started formal production at the end of March 2006. The Zhongyang County plant, land-use rights and related equipment were purchased for a cost of \$7,200,000. Each conveyance agreement provides that the purchase price paid by Shanxi Coal to Resources Group, which totals \$13,000,000, should be amortized over ten years from December 31, 2005 and bears interest at a rate of 6% per annum payable quarterly. In the three months ended June 30, 2010 and 2009, Shanxi Coal paid principal of \$325,000 (2009: \$325,000) and interest of \$112,000 (2009: \$132,000) to Resources Group. In the six months ended June 30, 2010 and 2009, Shanxi Coal paid principal of \$650,000 (2009: \$650,000) and interest of \$229,000 (2009: \$269,000) to Resources Group. Shanxi Coal pledged the land use rights, plant and equipment of the plants to Resources Group until such time when the purchase price and interest thereupon is fully paid by Shanxi Coal to Resources Group. If Shanxi Coal fails to pay the principal or interest of the purchase price of the plants financed by Resources Group in full when due, the properties acquired by Shanxi Coal, which have been pledged to Resources Group as collateral, are revertible to Resources Group (see Notes 5, 6 and 9).

On December 11, 2009, Shanxi Coal entered into mining rights and mining assets transfer agreements for the acquisition of two coal mines in Pinglu County, Shanxi Province. Shanxi Coal's obligation for payment under the agreements is guaranteed by Mr. Ming Zhao (see Note 5).

On May 7, 2010, Putai and Mr. Ming Zhao signed a loan agreement, pursuant to which, Putai borrowed from Mr. Ming Zhao RMB 240 million (\$35,391,000). The loan is unsecured and bears a 6% annual interest rate, which is payable on a quarterly basis, subject to certain adjustments to be agreed upon by the parties if such adjustments are necessary in light of the official interest rate of the PRC, as specified in the agreement. The term of the loan is 18 months from May 7, 2010. If Putai does not pay off the principal and interest of the loan on time in accordance with the agreement, Mr. Ming Zhao may require Putai to pay off the loan immediately and charge an additional 5% interest on the amount of loan that is not paid off on time. In addition, if the interest rate under the agreement is adjustable according to the agreement and Putai fails to pay interest at the adjusted rate, Mr. Ming Zhao may require Putai to pay off the loan immediately. The loan was used by Putai to increase the registered paid-in capital of Shanxi Coal. In the three and six months ended June 30, 2010, interest accrued on the loan amounted to \$320,000. As of June 30, 2010, Putai paid \$191,000 and the balance of interest payable of \$129,000 was included in other payable (see Note 9).

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Inventories

As of June 30, 2010 and December 31, 2009, inventories consist of the following:

	June 30, 2010	December 31, 2009
	\$'000	\$'000
Raw materials	\$ 4,983	\$ 9,671
Finished goods	10,599	12,860
Total	\$ 15,582	\$ 22,531

There was no allowance for losses on inventories as of June 30, 2010 and December 31, 2009.

5. Property, Plant, Equipment and Mining Assets

As of June 30, 2010 and December 31, 2009, property, plant and equipment consists of the following:

	June 30, 2010	December 31, 2009
	\$'000	\$'000
Cost:		
Buildings and facilities	\$ 5,480	\$ 3,899
Machinery equipment	18,650	15,682
Motor vehicles	115	114
Office equipment and others	35	35
Mine works	7,869	-
Mining rights	29,586	-
	61,735	19,730
Accumulated depreciation:		
Buildings and facilities	742	650
Machinery equipment	5,846	5,063
Motor vehicles	29	24
Office equipment and others	9	7
Mine works	-	-
Mining rights	-	-
	6,626	5,744
Carrying value:		
Buildings and facilities	4,738	3,249
Machinery equipment	12,804	10,619
Motor vehicles	86	90
Office equipment and others	26	28
Mine works	7,869	-

Mining rights	29,586	-
	\$ 55,109	\$ 13,986

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PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Property, Plant, Equipment and Mining Assets (continued)

Shanxi Coal pledged the Liulin and Zhongyang coal washing plants and related equipment to Resources Group until such time when the purchase price and interest thereon is fully paid by Shanxi Coal. If Shanxi Coal fails to pay the principal and interest of the purchase prices of these two plants financed by Resources Group in full when due, the properties acquired by Shanxi Coal, which have been pledged to Resources Group as the collateral, are revertible to Resources Group (see Notes 3 and 9).

On June 25, 2010, Shanxi Coal closed a mining right and mining assets transfer agreement dated December 11, 2009 with Pinglu County Da Wa Coal Industry Co., Ltd. ("Da Wa Coal"), pursuant to which Shanxi Coal purchased from Da Wa Coal all its tangible assets and coal mining right with respect to a coal mine located in Pinglu County, Shanxi Province of China. As consideration, Shanxi Coal agreed to pay Da Wa Coal an aggregate purchase price of RMB 190 million (\$28,018,000) in cash, of which RMB 46.6 million (\$6.9 million) was for the tangible assets and RMB 143.4 million (\$21.1 million) was for the mining right. Management estimates that the total proven and probable reserve of Da Wa Coal is approximately 10.8 million metric tons by reference to the geological report dated August 2007. The report was prepared by a geological firm hired by the seller. We have hired an independent geological firm to prepare an updated report which is now in progress. As of June 30, 2010, Shanxi Coal has paid RMB 152 million (\$22,415,000). Shanxi Coal will pay the remainder of the purchase price, RMB 38 million (\$5,603,000) upon the one year anniversary of completion of the transfer. Shanxi Coal's obligation for payment is guaranteed by Mr. Ming Zhao (see Note 8).

On June 25, 2010, Shanxi Coal closed a mining right and mining assets transfer agreement dated December 11, 2009 with Pinglu County Guanyao Coal Industry Co., Ltd. ("Guanyao Coal"), pursuant to which, Shanxi Coal purchased from Guanyao Coal all its tangible assets and coal mining right with respect to a coal mine located in Pinglu County, Shanxi Province of China. As consideration, Shanxi Coal agreed to pay Guanyao Coal an aggregate purchase price of RMB 94.80 million (\$13,979,000) in cash, of which RMB 37.6 million (\$5.6 million) was for the tangible assets and RMB 57.2 million (\$8.4 million) was for the mining right. Management estimates that the total proven and probable reserve of Guanyao Coal is approximately 7.4 million metric tons by reference to the geological report dated March 2007. The report was prepared by a geological firm hired by the seller. We have hired an independent geological firm to prepare an updated report which is now in progress. As of June 30, 2010, Shanxi Coal has paid RMB 75.84 million (\$11,183,000). Shanxi Coal will pay the remainder of the purchase price, RMB 18.96 million (\$2,796,000) upon the one year anniversary of completion of the transfer. Shanxi Coal's obligation for payment is guaranteed by Mr. Ming Zhao (see Note 8).

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Property, Plant, Equipment and Mining Assets (continued)

Da Wa Coal and Guanyao Coal are both selling their coal mine assets and coal mining rights to Shanxi Coal as a result of the Chinese government's requirement to close, consolidate and restructure smaller coal mines and the government's approval of Puda Coal as one of the few coal mine consolidators that have the capacity to acquire and consolidate such coal mines. Da Wa Coal and Guanyao Coal were closing their coal mine operations. Shanxi Coal is merely acquiring the tangible assets and coal mining rights from them in their liquidation process; Shanxi Coal is not acquiring or assuming any business, customers, vendors, business partners, contracts, employees or goodwill from the sellers, nor will Shanxi Coal assume any indebtedness or liabilities from them. The Group accounted for these transactions as asset acquisitions. We have completed the appraisals for the tangible assets but the appraisals of the mining rights are still in progress. The valuations will be finalized within 12 months of the close of the acquisitions. When the valuations are finalized, we will adjust the allocation of purchase price to individual tangible assets and mining rights based on the relative fair values. Depreciation on the tangible assets and amortization of mining rights will not be started until the completion of the reconstruction works, which are now in progress. The mining assets of Da Wa Coal and Guanyao Coal will be eventually injected into two new companies, Shanxi Pinglu Dajinhe Coal Co., Ltd. and Shanxi Pinglu Dajinhe Wujin Coal Co., Ltd, respectively. The Shanxi government will approve the establishment and registration of these two companies, which are wholly-owned subsidiaries of Shanxi Coal, upon the completion of the reconstruction works. Shanxi Coal was given transitional mining permits, which will expire in November 2011. After the establishment of the two new companies, the mining permits will be renewed by Shanxi government. The property deeds for the buildings will also be issued to the two companies.

Depreciation expense for the three months ended June 30, 2010 and 2009 was \$425,000 and \$420,000, respectively. Depreciation expense for the six months ended June 30, 2010 and 2009 was \$845,000 and \$839,000, respectively. In the six months ended June 30, 2010 and 2009, the amount included in cost of sales and general and administrative expenses was \$829,000 (2009: \$823,000) and \$16,000 (2009: \$16,000), respectively.

There was no impairment in the value of property, plant and equipment for the three and six months ended June 30, 2010 and 2009.

6. Intangible Assets

	June 30, 2010	Land-use rights December 31, 2009
	\$'000	\$'000
Cost	\$ 4,325	\$ 4,297
Accumulated amortization	398	352
Carrying value	\$ 3,927	\$ 3,945

Land-use rights include \$2,669,000 in Liulin County purchased from Resources Group, which are located in Shanxi Province and are amortized over fifty years up to August 4, 2055, and \$1,656,000 in Zhongyang County purchased from Resources Group, which are located in Shanxi Province and are amortized over fifty years up to May 20, 2055. Shanxi Coal pledged these land-use rights to Resources Group until such time when the purchase price and interest thereon is fully paid by Shanxi Coal (see Notes 3 and 9).

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Intangible Assets (continued)

Amortization expense for the three months ended June 30, 2010 and 2009 was \$22,000 and \$23,000, respectively. Amortization expense for the six months ended June 30, 2010 and 2009 was \$44,000 and \$44,000, respectively. The estimated aggregate amortization expense for the five years ending December 31, 2010 (remaining six months), 2011, 2012, 2013 and 2014 amounts to approximately \$44,000, \$88,000, \$88,000, \$88,000 and \$88,000, respectively.

There was no impairment in the value of intangible assets for the three and six months ended June 30, 2010 and 2009.

7. Investment, at Cost

On May 14, 2009, Shanxi Coal entered into an agreement of share transfer with two unrelated individuals to purchase their equity, constituting 18% ownership, in Shanxi Jianhe Coal Industry Limited Company (“Jianhe Coal”) for an aggregate purchase price of \$14,746,000. The governmental registration of the share transfer was completed on December 3, 2009 and the purchase price was fully paid. In addition, under the agreement, the individual, owning the other 82% of Jianhe Coal, guaranteed Shanxi Coal first priority in the right to purchase other shares of Jianhe Coal within the 24-month period following execution of the agreement. Shanxi Coal will not take part in the operational management of the coal mine but will be paid dividends semiannually based on its 18% ownership in Jianhe Coal, and the dividends declared each year will be no less than 80% of the annual net profits of Jianhe Coal. No dividend was declared by Jianhe Coal for the six months ended June 30, 2010.

The investment was recorded at cost and there was no impairment in the value of investment for the three and six months ended June 30, 2010 (see Note 2(h)).

8. Assets Acquisition Price Payable

The amount represented the balance of the purchase price for Da Wa Coal of \$5,603,000 and Guanyao Coal of \$2,796,000, which will be due on June 25, 2011, one year anniversary of completion of the transfer (see Note 5).

9. Long-term Debt

	June 30, 2010	December 31, 2009
	\$'000	\$'000
Conveyance loan	\$ 7,150	\$ 7,800
Loan from Mr. Ming Zhao	35,391	-
	42,541	7,800
Less: current portion	(1,300)	(1,300)
Long-term portion	\$ 41,241	\$ 6,500

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Long-term Debt (continued)

The conveyance loan is seller-financed, payable over ten years from December 31, 2005 and bears interest at a rate of 6% per annum, payable quarterly. In the three months ended June 30, 2010 and 2009, Shanxi Coal paid principal of \$325,000 (2009: \$325,000) and interest of \$112,000 (2009: \$132,000) to Resources Group. In the six months ended June 30, 2010 and 2009, Shanxi Coal paid principal of \$650,000 (2009: \$650,000) and interest of \$229,000 (2009: \$269,000) to Resources Group. Shanxi Coal pledged the land-use rights and plant and equipment until such time when the purchase price and interest thereon is fully paid by Shanxi Coal to Resources Group (see Notes 3, 5 and 6).

The loan from Mr. Ming Zhao is unsecured and bears a 6% annual interest rate, which is payable on a quarterly basis. The term of the loan is 18 months from May 7, 2010. In the three and six months ended June 30, 2010, interest accrued on the loan amounted to \$320,000. As of June 30, 2010, Putai paid \$191,000 and the balance of interest payable of \$129,000 was included in other payable (see Note 3).

The future principal payments under the conveyance loan and the loan from Mr. Ming Zhao as of June 30, 2010 are as follows:

Year Ending December 31,	\$'000
2010 (remaining six months)	\$ 650
2011	36,691
2012	1,300
2013	1,300
2014	1,300
Thereafter	1,300
	\$ 42,541

10. Derivative Warrants

(a) On November 18, 2005, the Company issued \$12,500,000 8% unsecured convertible notes due October 31, 2008 and related warrants to purchase shares of common stock of the Company. The notes were convertible into common stock at \$.50 per share over the term of the debt. As of June 30, 2010, the notes with an aggregate principal amount of \$10,260,000 were converted into 2,931,429 shares (after adjusting for the 7-to-1 Share Conversion) of common stock, the notes with an aggregate principal amount of \$2,115,000 were redeemed upon maturity, and the remaining notes with an aggregate principal amount of \$125,000 will be paid off upon the receipt of the original notes from the investors. The remaining notes with an aggregate principal amount of \$125,000 are included in other payables in the consolidated balance sheet as of June 30, 2010. The related warrants to purchase 3,571,429 shares (after adjusting for the 7-to-1 Share Conversion) of common stock, exercisable at \$4.2 per share (after adjusting for the 7-to-1 Share Conversion), have a term of five years from the date of issuance. As of June 30, 2010, 2,850,061 warrants (after adjusting for the 7-to-1 Share Conversion) were exercised into 2,850,061 shares (after adjusting for the 7-to-1 Share Conversion) of common stock.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Derivative Warrants (continued)

Investors were given "full ratchet" anti-dilution protection under the warrants, meaning that the exercise price under the warrants will be adjusted to the lowest per share price for future issuances of Puda's common stock should such per share price be lower than the exercise price of the warrants, with carve-outs for (i) issuance of shares of common stock in connection with the exercise of the warrants, or (ii) the issuance of common stock to employees or directors pursuant to an equity incentive plan approved by Puda's stockholders. The exercise price of the warrants is also subject to proportional adjustments for issuance of shares as payment of dividends, stock splits, and rights offerings to shareholders in conjunction with payment of cash dividends. Investors were also given registration rights in connection with the resale of the common stock underlying the warrants, on a registration statement to be filed with the SEC. Puda may redeem all, but not less than all, of the warrants at \$0.001 per share subject to 30 business days' prior notice to the holders of the warrants, and provided that (i) a registration statement is in effect covering the common stock underlying the warrants, (ii) the closing bid price of the common stock of Puda exceeds \$2.50 per share on an adjusted basis for at least 20 consecutive trading days (prior to the adjustment for the 7-to-1 share conversion) and (iii) the average daily trading volume of the common stock exceeds 50,000 shares per day during the same period.

The warrants require the Company to register the resale of the shares of common stock upon exercise of these securities. The warrants are freestanding derivative financial instruments. The Group accounts for the fair value of these outstanding warrants to purchase common stock in accordance with ASC 815 "Derivatives and Hedging," which requires the Group to account for the warrants as derivatives. Since the effective registration of the securities underlying the warrants is an event outside of the control of the Company, pursuant to ASC 815, the Group recorded the fair value of the warrants as liabilities. The Group is required to carry these derivatives on its consolidated balance sheet at fair value and unrealized changes in the values of these derivatives are reflected in the consolidated statement of operations as "Derivative unrealized fair value gain/(loss)".

The warrants are classified as a derivative liability because they embody an obligation to issue a variable number of shares. This obligation is generated by the Registration Rights described above. Warrants are being amortized over the term of five years using the effective interest method up to October 31, 2010. Upon exercise, the pro rata percentage of the amount actually exercised in relation to the total exercisable is multiplied by the remaining derivative liability, and transferred to equity. The amount of derivative warrants transferred to equity in the three months ended June 30, 2010 and 2009 was \$3,002,000 and \$nil, respectively. The amount of derivative warrants transferred to equity in the six months ended June 30, 2010 and 2009 was \$4,987,000 and \$nil, respectively.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Derivative Warrants (continued)

(b) In conjunction with the issuance of the notes, the placement agent was issued five year warrants, exercisable from November 18, 2005, to purchase 357,143 shares (after adjusting for the 7-to-1 Share Conversion) of common stock of the Company at an exercise price of \$4.2 per share (after adjusting for the 7-to-1 Share Conversion). The warrants issued to the placement agent have the same terms and conditions as the warrants issued to the investors, including "full ratchet" anti-dilution protection, proportional exercise price adjustments based on issuances of stock as dividends and share splits, and Puda's right to redeem the warrants subject to an effective registration statement covering the underlying shares of the placement agent's warrant, and certain share price and trading volume requirements. However, the warrants issued to the placement agent, unlike the warrants issued to the investors, have a cashless exercise feature. With a cashless exercise feature, the warrant holders have the option to pay the exercise price of \$4.2 (after adjusting for the 7-to-1 Share Conversion) not in cash, but by reducing the number of common share issued to them. As with the warrants related to the notes, the placement agent warrants are classified as a derivative liability and are freestanding derivative financial instruments and contain Registration Rights and Late Filing Penalties identical to those held by the investors. These warrants are being amortized over the term of five years using the effective interest method. Upon exercise, the pro rata percentage of the amount actually exercised in relation to the total exercisable is multiplied by the remaining derivative liability, and transferred to equity. The amount of derivative placement agent warrants transferred to equity in the three months ended June 30, 2010 and 2009 was \$19,000 and \$nil, respectively. The amount of derivative placement agent warrants transferred to equity in the six months ended June 30, 2010 and 2009 was \$39,000 and \$nil, respectively. As of June 30, 2010, 298,949 (after adjusting for the 7-to-1 Share Conversion) placement agent warrants were exercised and resulted in the issuance of 215,238 shares (after adjusting for the 7-to-1 Share Conversion) of common stock.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Derivative Warrants (continued)

(c) The derivative warrants as of June 30, 2010 and December 31, 2009:

	June 30, 2010	December 31, 2009
	\$000	\$000
Amount allocated to note warrants	\$ 6,363	\$ 6,363
Placement agent warrants	5,625	5,625
Less: amount transferred to equity upon exercise of note warrants in 2006	(789)	(789)
Less: amount transferred to equity upon exercise of placement agent warrants in 2006	(882)	(882)
Less: amount transferred to equity upon exercise of note warrants in 2007	(1,527)	(1,527)
Less: amount transferred to equity upon exercise of placement agent warrants in 2007	(2,716)	(2,716)
Less: change in fair value in 2005	(700)	(700)
Less: change in fair value in 2006	(1,237)	(1,237)
Add: change in fair value in 2007	343	343
Less: change in fair value in 2008	(394)	(394)
Less: amount transferred to equity upon exercise of note warrants in 2009	(1,369)	(1,369)
Less: amount transferred to equity upon exercise of placement agent warrants in 2009	(133)	(133)
Add: change in fair value in 2009	5,036	5,036
Less: amount transferred to equity upon exercise of note warrants in 2010	(4,987)	-
Less: amount transferred to equity upon exercise of placement agent warrants in 2010	(39)	-
Less: change in fair value in 2010	(130)	-
	\$ 2,464	\$ 7,620

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Derivative Warrants (continued)

The following table shows (i) fair values of derivative instruments in our statement of financial position as of June 30, 2010, and (ii) the effect of derivative instruments on the statement of financial performance for the six months ended June 30, 2010 in accordance with Accounting Standards Update (“ASU”) 2009-05 “Fair Value Measurements and Disclosure (Topic 820)”:

(i) Fair values of derivative instruments

	Balance sheet location	Liability derivatives	Fair Value
		June 30, 2010	
		\$000	
Derivatives not designated as hedging instruments under ASC 815			
Derivative warrants	Current liabilities	\$	2,464
Total derivatives		\$	2,464

(ii) Effect of derivative instruments on the statement of operations

Derivatives not designated as hedging instruments under ASC 815

		Six months ended June 30, 2010	
	Location of gain recognized in income on derivatives	Amount of gain recognized	in income on derivatives
		\$000	
Derivative warrants	Derivative unrealized fair value gain	\$	130
Total		\$	130

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Commitments and Contingencies

As of June 30, 2010, the Group leased office premises under the operating lease agreement expiring on December 31, 2013.

The future minimum lease payments under the above-mentioned lease as of June 30, 2010 are as follows:

Year Ending December 31,	\$'000
2010 (remaining six months)	\$ 80
2011	160
2012	160
2013	160
	\$ 560

The above future lease payments represent amounts payable to Resources Group (see Note 3).

In September, 2009, the Shanxi provincial government appointed Shanxi Coal as a consolidator of eight coal mines in Pinglu County. Shanxi Coal has the government's permission to acquire and consolidate the eight coal mines into five, which could increase their total annual capacity from approximately 1.6 million to 3.6 million metric tons. As of June 30, 2010, Shanxi Coal has completed the acquisitions of Da Wa Coal and Guanyao Coal (see Note 5) but has not entered into any definitive agreements for the acquisition of the other six coal mines.

In March 2010, Shanxi Coal received an approval from the Shanxi provincial government to acquire and consolidate four additional coking coal mines in Huozhou County, Shanxi Province, including Jianhe Coal. Shanxi Coal has the government's permission to acquire and consolidate the four coal mines into one, which could increase the total annual capacity of target coal mines from current accumulated 720,000 metric tons to 900,000 metric tons per year. As of June 30, 2010, Shanxi Coal has acquired 18% equity ownership of Jianhe Coal (see Note 7) but has not entered into any definitive agreements for the acquisition of the other three coal mines.

As of June 30, 2010 and December 31, 2009, the Group did not have any contingent liabilities.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. Common Stock and Paid-in Capital

	Common Stock N o . o f shares	\$000	P a i d - i n Capital \$000
Balance, January 1, 2010	15,828,863	\$ 15	\$ 35,212
Issue of shares to directors/employees	28,475	-	115
Issue of common shares	3,284,000	3	14,535
Increase in registered capital of Shanxi Coal	-	-	7,041
Exercise of note warrants	1,110,128	-	4,663
Derivative note warrants transferred to equity upon exercise	-	2	4,985
Exercise of placement agent warrants	6,199	-	16
Derivative placement agent warrants transferred to equity upon exercise	-	-	39
Stock-based compensation	-	-	361
Balance, June 30, 2010	20,257,665	\$ 20	\$ 66,967

On February 18, 2010, the Company completed the offering and sale of 2,855,652 shares (the "Primary Shares") of the Company's common stock, par value \$0.001 per share pursuant to an underwriting agreement with Brean Murray, Carret & Co., LLC and Newbridge Securities Corporation (collectively, the "Underwriters") dated February 11, 2010. The Primary Shares were sold to the public at a price of \$4.75 per share. The Company granted the Underwriters a 30-day option to purchase an aggregate of 428,348 additional shares of common stock (the "Overallotment Shares"). On February 16, 2010, the Underwriters exercised the option in full. The offering of the Overallotment Shares closed simultaneously with the closing of the offering of the Primary Shares. The net proceeds to the Company were \$14,538,000 after deducting underwriting commissions and expenses associated with the offering.

In May 2010, the registered capital of Shanxi Coal was increased from RMB 22.5 million (\$2,717,000) to RMB 500 million (\$73,129,000) as a result of the new guidelines enacted by the Shanxi provincial government, that require the registered paid-in-capital of coal mine consolidators to be at least RMB 200 million. RMB 430 million (\$63,371,000), or 90%, of the increased capital was made by Putai, Shanxi Coal's 90% shareholder and the Company's wholly-owned subsidiary. The remaining RMB 48 million (\$7,041,000), or 10% of the increased capital was made by Mr. Ming Zhao, who is Shanxi Coal's 10% shareholder.

13. Interest Expense

Interest expense for the three months ended June 30, 2010 includes a \$320,000 interest payment for the 6% loan from Mr. Ming Zhao (2009: \$nil), and a \$112,000 (2009: \$132,000) interest payment for the 6% loan from Resources Group for the purchase of the Liulin and Zhongyang plants. Interest expense for the six months ended June 30, 2010 includes a \$320,000 interest payment for the 6% loan from Mr. Ming Zhao (2009: \$nil), and a \$229,000 (2009: \$269,000) interest payment for the 6% loan from Resources Group for the purchase of the Liulin and Zhongyang plants.

PUDA COAL, INC.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Derivative Unrealized Fair Value Gain/(Loss)

Derivative unrealized fair value gain of \$1,337,000 in the three months ended June 30, 2010 (2009: derivative unrealized fair value loss of \$121,000) and derivative unrealized fair value gain of \$130,000 in the six months ended June 30, 2010 (2009: derivative unrealized fair value loss of \$113,000), represented the change in fair value of the derivative warrants (see Note 10).

15. Taxation

No provision for taxation has been made for Puda, BVI and Putai for the three and six months ended June 30, 2010 and 2009, as they did not generate any taxable profits during these periods.

Pursuant to the PRC Income Tax Laws, Shanxi Coal is subject to enterprise income tax at a statutory rate of 25% for the three and six months ended June 30, 2010 and 2009.

Details of income taxes in the statements of operations are as follows:

	Three months ended June 30, 2010 \$'000	Three months ended June 30, 2009 \$'000	Six months ended June 30, 2010 \$'000	Six months ended June 30, 2009 \$'000
Current period provision	\$ 2,732	\$ 706	\$ 5,064	\$ 1,447

A reconciliation between taxes computed at the operating company's statutory rate of 25% and the Group's effective tax rate is as follows:

	Three months ended June 30, 2010 \$'000	Three months ended June 30, 2009 \$'000	Six months ended June 30, 2010 \$'000	Six months ended June 30, 2009 \$'000
Income before income taxes	\$ 11,385	\$ 2,435	\$ 19,161	\$ 5,292
Income tax on pretax income at statutory rate	2,846	609	4,790	1,323
Tax effect of income that are not taxable in determining taxable profits	(334)	-	(33)	-
Tax effect of expenses that are not deductible in determining taxable profits	53	44	112	61
Effect of different tax rates of companies operating in other jurisdictions	72	(30)	(65)	(36)
Valuation allowance	95	83	260	99
Income tax at effective rate	\$ 2,732	\$ 706	\$ 5,064	\$ 1,447

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Taxation (continued)

As at June 30, 2010 and December 31, 2009, the Group had accumulated net operating loss carryforwards for United States federal income tax purposes of approximately of \$7,396,000 and \$6,938,000, respectively, which are available to offset future taxable income. Realization of the net operating loss carryforwards is dependent upon future profitable operations. In addition, the carryforwards may be limited upon a change of control in accordance with Internal Revenue Code Section 382, as amended. Accordingly, management has recorded a valuation allowance to reduce deferred tax assets associated with the net operating loss carryforwards to zero at June 30, 2010 and December 31, 2009. The net operating loss carryforwards expire in years 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029 and 2030 in the amounts of \$132,000, \$394,000, \$153,000, \$371,000, \$287,000, \$1,968,000, \$1,341,000, \$1,225,000 and \$1,067,000 and \$458,000, respectively.

The Group has no intention to distribute earnings in the foreseeable future, and therefore no US tax liability has been accrued on undistributed earnings.

At June 30, 2010 and December 31, 2009, deferred tax assets consist of:

	June 30, 2010	December 31, 2009
	\$'000	\$'000
Net operating loss carryforwards	\$ 2,515	\$ 2,359
Less: Valuation allowance	(2,515)	(2,359)
Net	\$ -	\$ -

16. Basic and Diluted Weighted Average Number of Shares

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Basic weighted average number of shares (after adjusting for the 7-to-1 Share Conversion)	19,812,130	15,353,176	18,830,771	15,343,482
Assumed exercise of warrants	393,028	-	393,028	-
Issuance of directors/employees shares (after adjusting for the 7-to-1 Share Conversion)	155,000	17,143	155,000	17,143
Diluted weighted average number of shares	20,360,158	15,370,319	19,378,799	15,360,625

The 7-to-1 Share Conversion on July 30, 2009 was retroactively reflected in the calculation of weighted average number of shares as if the reverse split was effective from January 1, 2009 (see Note 1).

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. Equity incentive plan

On December 29, 2008, the shareholders of the Company approved a Puda Coal, Inc. 2008 Equity Incentive Plan (the “2008 Plan”). Any employee or director of the Company is eligible to participate in the 2008 Plan and may be granted stock awards and/or options (collectively, “Awards”) by the administrator of the 2008 Plan, which is the Board of Directors, the Compensation Committee or their delegates. The 2008 Plan became effective upon its approval by the shareholders of the Company and will continue in effect for a term of ten years unless terminated by the administrator of the 2008 Plan earlier. The aggregate number of shares of common stock that may be issued pursuant to the Awards under the 2008 Plan is 714,286 shares (after adjusting for the 7-to-1 Share Conversion). The aggregate number of shares subject to the Awards under the 2008 Plan during any calendar year to any one awardee will not exceed 7,143 shares (after adjusting for the 7-to-1 Share Conversion). The fair market value of the common stock should be determined by the administrator of the 2008 Plan in good faith using a reasonable valuation method in a reasonable manner in accordance with Section 409A of the Internal Revenue Code of 1986, as amended. Whenever possible, the determination of fair market value should be based upon the average of the highest and lowest quoted sales prices for such common stock as of such date as reported in sources as determined by the administrator.

A summary of the restricted stock activity is as follows:

	Restricted Stock	Weighted- Average Grant Date Price per Share	Aggregated Fair Market Value \$'000
Balance at January 1, 2010	160,665	\$ 7.11	
Granted	-	\$ -	
Vested	(5,665)	\$ 5.74	\$ 33
Balance at June 30, 2010 (granted but not yet vested)	155,000	\$ 7.16	

A summary of share-based awards available for grant is as follows:

	Restricted Stock
Balance at January 1, 2010	530,088
Shares reserved	-
Granted	-
Balance at June 30, 2010 (available for grant)	530,088

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. Stock Compensation

On June 29, 2007, Puda entered into a contract with a director. Pursuant to the contract, in consideration of his service to the Company as an independent director commencing on July 1, 2007, he will receive compensation in the form of warrants to purchase 1,429 (after adjusting for the 7-to-1 Share Conversion) shares of common stock of the Company per year. The term of the warrants is 5 years and the exercise price is \$17.50 (after adjusting for the 7-to-1 Share Conversion) per share. On December 29, 2008, Puda entered into an amendment to the director's contract dated June 29, 2007. Pursuant to the amendment, in consideration of his continued service to the Company as an independent director, the annual stock compensation will be \$25,000 worth of shares of common stock, calculated based on the closing sale price of the Company's common stock on the grant date of August 11, 2008 and then on each anniversary date of the grant date, and such stock grants are subject to the 2008 Plan.

On August 3, 2007, Puda entered into a contract with another director. Pursuant to the contract, in consideration of his service to the Company as an independent director commencing on August 3, 2007, he will receive an annual fee of \$40,000 in cash and 1,786 shares (after adjusting for the 7-to-1 Share Conversion) of common stock of the Company. On December 29, 2008, Puda entered into an amendment to the director's contract dated August 3, 2007. Pursuant to the amendment, in consideration of his continued service to the Company as an independent director, the annual fee will be \$40,000 cash plus stock compensation of \$25,000 worth of shares of common stock of the Company, calculated based on the closing sale price of the Company's common stock on the grant date of August 11, 2008 and then on each anniversary date of the grant date, and such stock grants are subject to the 2008 Plan.

On October 9, 2007, Puda entered into a contract with another director. Pursuant to the contract, in consideration of his service to the Company as an independent director commencing on October 9, 2007, he will receive an annual fee of \$40,000 in cash and 1,861 shares (after adjusting for the 7-to-1 Share Conversion) of common stock of the Company. On December 29, 2008, the Company entered into an amendment to the director's contract dated October 9, 2007. Pursuant to the amendment, in consideration of his continued service to the Company as an independent director, the annual fee will be \$25,000 cash plus stock compensation of \$15,000 worth of shares of common stock, calculated based on the closing sale price of the Company's common stock on the grant date of October 9, 2008 and then on each anniversary date of the grant date, and such stock grants are subject to the 2008 Plan.

On August 11, 2008 and December 11, 2008, the Company granted Mr. Ming Zhao 2,857 and 5,715 shares (after adjusting for the 7-to-1 Share Conversion) of common stock, respectively. The shares granted vested on the dates that are the one-year anniversary of their respective grant dates and are subject to the restricted stock unit grant agreement under the 2008 Plan.

On November 6, 2009, the Company granted officers and employees 155,000 shares of common stock. 40% of the shares granted will vest on the date that is the one-year anniversary of the grant date, 30% of the shares granted will vest on the date that is the two-year anniversary of the grant date, and 30% of the shares granted will vest on the date that is the three-year anniversary of the grant date. The shares are subject to the restricted stock unit grant agreement under the 2008 Plan.

The stock compensation expenses for the three and six months ended June 30, 2010 and 2009 were as follows:

Three months ended	Three months ended	Six months ended	Six months ended
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	June 30, 2010 \$'000	June 30, 2009 \$'000	June 30, 2010 \$'000	June 30, 2009 \$'000
Stock compensation	\$ 188	\$ 8	\$ 393	\$ 33

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PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Concentrations and Credit Risk

The Group operates principally in the PRC and grants credit to its customers in this geographic region. Although the PRC is economically stable, it is always possible that unanticipated events in foreign countries could disrupt the Group's operations.

At June 30, 2010 and December 31, 2009, the Group has a credit risk exposure of uninsured cash in banks of approximately \$70,339,000 and \$19,918,000, respectively. The Group does not require collateral or other securities to support financial instruments that are subject to credit risk.

No customer accounted for 10% or more of the total net revenue for the three and six months ended June 30, 2010 and 2009. The following customer had balances greater than 10% of the total accounts receivable as of December 31, 2009, respectively:

	June 30, 2010		December 31, 2009	
	\$'000	%	\$'000	%
Customer A	\$ -	-	\$ 2,542	10

20. Fair Value Measurement

ASC 820 "Fair Value Measurements and Disclosures" introduces a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Group utilizes the income approach to measure fair value for its financial assets and liabilities. The income approach includes option pricing models, such as Black-Scholes (See Note 10).

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. Concentrations and Credit Risk (continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below:

Description	Fair Value Measurement as of June 30, 2010			
	Total	Level 1	Level 2	Level 3
	\$'000	\$'000	\$'000	\$'000
Derivative warrants	\$ 2,464	-	\$ 2,464	-
Total	\$ 2,464	\$ -	\$ 2,464	\$ -

Unrealized gains or losses on derivatives are recorded in consolidated statement of operations as “Derivative unrealized fair value gain/ (loss)”.

21. Segment Information

The Company has two segments, coal washing business and coal mining business. For the coal mining business, on May 14, 2009, the Company acquired 18% equity ownership in Jianhe Coal (see Note 7) and on June 25, 2010, the Company completed the acquisition of Da Wa Coal and Guanyao Coal (see Note 5). As of June 30, 2010, these coal mines are in the process of reconstruction and production has not started. All revenues, depreciation and amortization expenses for the three and six months ended June 30, 2010 in the consolidated statement of operations were for coal washing business. The operating income, net income and total assets of the two segments are as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Operating income				
- Coal washing	\$ 11,223	\$ 3,069	\$ 20,859	\$ 6,363
-Coal mining	-	-	-	-
-Corporate (unallocated)	(804)	(404)	(1,362)	(745)
Total	\$ 10,419	\$ 2,665	\$ 19,497	\$ 5,618

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	\$ '000	\$ '000	\$ '000	\$ '000
Net income				
- Coal washing	\$ 9,716	\$ 2,110	\$ 15,696	\$ 4,534
-Coal mining	(320)	-	(320)	-
-Corporate (unallocated)	(743)	(381)	(1,279)	(689)

Total	\$	8,653	\$	1,729	\$	14,097	\$	3,845
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PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

21. Segment Information (continued)

	June 30, 2010	December 31, 2009
	\$'000	\$'000
Total assets		
- Coal washing	\$ 134,221	\$ 90,292
-Coal mining	65,369	20,909
Total	\$ 199,590	\$ 111,201

22. Subsequent Events

On August 1, 2010, Shanxi Coal entered into an Investment Cooperation Agreement (the "Agreement") with Mr. Ming Zhao and Jianping Gao, an individual unrelated to the Company ("Mr. Gao"). Pursuant to the Agreement, the parties will purchase, consolidate and co-develop six coal mines in Pinglu County, Shanghai Province (the "Project"). Under the Agreement, Shanxi Coal, Mr. Zhao and Mr. Gao will contribute 40%, 30% and 30%, respectively, of the total investment needed for the Project. Shanxi Coal will be the project manager. In addition, each of Mr. Zhao and Mr. Gao has agreed to transfer 5.5% of his respective voting rights in the project companies, which will hold the coal mines after they are acquired, to Shanxi Coal to enable Shanxi Coal to exercise full operating and management control of the project companies. The parties will share the profits and bear the risks and losses in connection with the Project, in each case based upon the percentages of their equity ownership and limited by the amount of investment contributed by each party. Shanxi Coal will be responsible for the other parties' losses caused by Shanxi Coal's fraud, gross negligence or breach of material terms of the Agreement. The parties further agree that, to the extent permitted by the Chinese law, at least 80% of the audited annual net profits of the project companies established after the coal mine acquisition will be distributed to the parties at a ratio that is proportionate to their respective investment. . A committee of the Board of Directors comprised solely of independent directors negotiated terms of the Agreement on behalf of the Company and approved the Agreement.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Condensed Financial Information of Registrant

The condensed financial information of Registrant includes the balance sheets as at June 30, 2010 and December 31, 2009 and the statements of operations and cash flows for the six months ended June 30, 2010 and 2009.

Balance Sheet-Parent Company Only
(In thousands of United States dollars)

	Note(s)	June 30, 2010	December 31, 2009
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 1,488	\$ 1,576
Total current assets		1,488	1,576
INVESTMENTS IN SUBSIDIARIES		93,002	78,184
TOTAL ASSETS		\$ 94,490	\$ 79,760
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Other payable		\$ 155	\$ 155
Accrued expenses		58	388
Derivative warrants	10	2,464	7,620
Total current liabilities		2,677	8,163
STOCKHOLDERS' EQUITY			
Preferred stock, authorized 5,000,000 shares, par value \$0.01, issued and outstanding None		-	-
Common stock, authorized 150,000,000 shares, par value \$0.001, issued and outstanding 20,257,665 shares (2009: 15,828,863)		20	15
Paid-in capital		125,661	104,729
Accumulated deficit		(33,868)	(33,147)
Total stockholders' equity		91,813	71,597
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 94,490	\$ 79,760

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Condensed Financial Information of Registrant (continued)

Statement of Operations-Parent Company Only
(In thousands of United States dollars)

	Note(s)	Six months ended June 30,	
		2010	2009
Revenue:			
Share of earnings from investment in subsidiaries		\$ 14,818	\$ 4,242
Total revenue		14,818	4,242
General and administrative expenses		(851)	(284)
Income from operations		13,967	3,958
Derivative unrealized fair value gain/(loss)	10(c), 14	130	(113)
Net income		\$ 14,097	3,845

No cash dividends were received from the subsidiaries for the six months ended June 30, 2010 and 2009.

PUDA COAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23. Condensed Financial Information of Registrant (continued)

Statement of Cash Flows-Parent Company Only
(In thousands of United States dollars)

	Six months ended June 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 14,097	\$ 3,845
Adjustments to reconcile net loss to net cash used in operating activities		
Share of earnings from investment in subsidiaries	(14,818)	(4,242)
Derivative unrealized fair value (gain)/loss	(130)	113
Stock compensation	393	33
Issue of common stock/warrants to directors	-	86
Changes in operating assets and liabilities:		
Advance to subsidiary	(18,600)	353
Decrease in other payable	-	(132)
Decrease in accrued expenses	(247)	(189)
Net cash used in operating activities	(19,305)	(133)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Exercise of warrants	4,679	-
Issue of common shares	14,538	-
Net cash provided by financing activities	19,217	-
Net decrease in cash and cash equivalents	(88)	(133)
Cash and cash equivalents at beginning of period	1,576	196
Cash and cash equivalents at end of period	\$ 1,488	\$ 63

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

The following discussion may contain certain 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 (the "Exchange Act"), which involve substantial risks and uncertainties. These statements include the plans and objectives of management for the future growth of Puda Coal, Inc. ("Puda Coal" or the "Company") and its subsidiaries. The forward-looking statements included herein are based on current expectations that involve numerous risks and uncertainties. Assumptions relating to the foregoing involve judgments with respect to, among other things, future economic, competitive and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of Puda Coal. Although Puda Coal believes that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Form 10-Q will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by Puda Coal or any other person that the objectives and plans of Puda Coal will be achieved.

The words "we," "us" and "our" refer to Puda Coal and its subsidiaries. The words or phrases "would be," "will allow," "intend to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements." Actual results could differ materially from those projected in the forward looking statements as a result of a number of risks and uncertainties, including but not limited to: (a) a limited amount of resources devoted to expanding our business plan; (b) our failure to implement our business plan within the time period we originally planned to accomplish; and (c) other risks that are discussed in our Form 10-K filed on March 31, 2010, and incorporated herein by reference or included in our previous filings with the Securities and Exchange Commission.

Results of Operations

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Net Revenue. Net revenue was \$82,319,000 for the three months ended June 30, 2010, compared to \$47,990,000 for the three months ended June 30, 2009, an increase of \$34,329,000, or 72%. The increase in revenue was primarily due to increased tonnage sales of cleaned coal and increased selling price. The tonnage sales of cleaned coal increased approximately 161,000 metric tons (MT), or 37%, from approximately 440,000 MT for the three months ended June 30, 2009 to approximately 601,000 MT for the three months ended June 30, 2010. Approximately \$17,549,000 of the total revenue increase in the three months ended June 30, 2010 is attributable to the increase in tonnage sales of cleaned coal. The selling price of cleaned coal increased approximately \$28, or 26%, from approximately \$109 per ton for the three months ended June 30, 2009 to approximately \$137 per ton for the three months ended June 30, 2010. Approximately \$16,828,000 of the total revenue increase in the three months ended June 30, 2010 is attributable to the increase in selling price of cleaned coal. The increase in tonnage sales and selling price were primarily due to increased orders of cleaned coal from customers for the three months ended June 30, 2010 as a result of continued recovery of steel industries.

Cost of Revenue. Cost of revenue was \$70,246,000 for the three months ended June 30, 2010, compared to \$44,388,000 for the three months ended June 30, 2009, an increase of \$25,858,000, or 58%. This was primarily due to increased tonnage sales of cleaned coal and increased raw coal unit cost. Approximately \$15,456,000 of the increase in the total cost of revenue in the three months ended June 30, 2010 is attributable to the increase in tonnage sales of cleaned coal. The average unit cost of raw coal increased \$16, or 17%, from approximately \$96 per ton for

the three months ended June 30, 2009 to approximately \$112 per ton for the three months ended June 30, 2010. Approximately \$9,616,000 of the increase in the total cost of revenue in the three months ended June 30, 2010 is attributable to the increase in raw coal unit cost.

Gross Profit. Gross profit was \$12,073,000 for the three months ended June 30, 2010, compared to \$3,602,000 for the three months ended June 30, 2009, an increase of \$8,471,000, or 235%. Gross profit margins for the three months ended June 30, 2010 and 2009 were 15% and 8%, respectively. Such increase in gross profit margins was primarily due to an increase in average selling price of cleaned coal, which exceeded the increase in average raw coal unit cost across the three months ended June 30, 2010.

Selling Expenses. Selling expenses were \$850,000 for the three months ended June 30, 2010, compared to \$533,000 for the three months ended June 30, 2009. This represents an increase of \$317,000, or 59%, which was primarily due to the increase in sales volume in the three months ended June 30, 2010.

General and Administrative Expenses. General and administrative expenses were \$804,000 for the three months ended June 30, 2010, compared to \$404,000 for the three months ended June 30, 2009. This represents an increase of \$400,000, or 99%, which was primarily due to an increase in stock compensation expenses and professional fees.

Income from Operations. Income from operations was \$10,419,000 for the three months ended June 30, 2010, compared to \$2,665,000 for the three months ended June 30, 2009. The increase of \$7,754,000, or 291%, was primarily the result of an increase in gross profit of \$8,471,000, which was partially offset by an increase in operating expenses of \$717,000.

Interest Expense. Interest expense was \$432,000 for the three months ended June 30, 2010, compared to \$132,000 for the three months ended June 30, 2009. This represents an increase of \$300,000, or 227%, primarily due to an increase in interest payments for the 6% loan from Mr. Ming Zhao.

Derivative Unrealized Fair Value Gain. Derivative unrealized fair value gain of \$1,337,000 for the three months ended June 30, 2010 and derivative unrealized fair value loss of \$121,000 for the three months ended June 30, 2009, respectively, represented a change in fair value of the warrants.

Income Before Income Taxes. Income before income taxes was \$11,385,000 for the three months ended June 30, 2010, compared to \$2,435,000 for the three months ended June 30, 2009. The increase of \$8,950,000, or 368%, was primarily the result of an increase in operating profit of \$7,754,000, and an increase in derivative unrealized fair value gain of \$1,458,000, which were partially offset by an increase in interest expense of \$300,000 in the three months ended June 30, 2010.

Income Taxes. Income taxes were \$2,732,000 for the three months ended June 30, 2010, compared to \$706,000 for the three months ended June 30, 2009, an increase of \$2,026,000, or 287%. Income tax was imposed by the China Tax Bureau on income of Shanxi Coal, as calculated under Chinese GAAP and tax rules. The increase was primarily the result of the increase in operating profit of Shanxi Coal from \$2,774,000 in the three months ended June 30, 2009 to \$10,904,000 in the three months ended June 30, 2010.

Net Income. Net income was \$8,653,000 for the three months ended June 30, 2010, compared to \$1,729,000 for the three months ended June 30, 2009, an increase of \$6,924,000, or 401%, mainly due to an increase in operating profit of \$7,754,000, and an increase in derivative unrealized fair value gain of \$1,458,000, which were partially offset by an increase in income taxes of \$2,026,000, and an increase in interest expense of \$300,000 in the three months ended June 30, 2010.

Inflation had no significant impact on the Company's results of operations for the three months ended June 30, 2010 and 2009.

Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Net Revenue. Net revenue was \$144,290,000 for the six months ended June 30, 2010, compared to \$97,711,000 for the six months ended June 30, 2009, an increase of \$46,579,000, or 48%. The increase in revenue was primarily due to increased tonnage sales of cleaned coal and increased selling price. The tonnage sales of cleaned coal increased approximately 209,000 MT, or 23%, from approximately 895,000 MT for the six months ended June 30, 2009 to approximately 1,104,000 MT for the six months ended June 30, 2010. Approximately \$22,781,000 of the total revenue increase in the six months ended June 30, 2010 is attributable to the increase in tonnage sales of cleaned coal. The selling price of cleaned coal increased approximately \$22, or 20%, from approximately \$109 per ton for the six months ended June 30, 2009 to approximately \$131 per ton for the six months ended June 30, 2010. Approximately \$24,288,000 of the total revenue increase in the six months ended June 30, 2010 is attributable to the increase in selling price of cleaned coal. The increase in tonnage sales and selling price were primarily due to increased orders of cleaned coal from customers for the six months ended June 30, 2010 as a result of continued recovery of steel industries.

Cost of Revenue. Cost of revenue was \$121,943,000 for the six months ended June 30, 2010, compared to \$90,238,000 for the six months ended June 30, 2009, an increase of \$31,705,000, or 35%. This was primarily due to increased tonnage sales of cleaned coal and increased raw coal unit cost. Approximately \$20,064,000 of the increase in the total cost of revenue in the six months ended June 30, 2010 is attributable to the increase in tonnage sales of cleaned coal. The average unit cost of raw coal increased \$9, or 9%, from approximately \$96 per ton for the six months ended June 30, 2009 to approximately \$105 per ton for the six months ended June 30, 2010. Approximately \$9,936,000 of the increase in the total cost of revenue in the six months ended June 30, 2010 is attributable to the increase in raw coal unit cost.

Gross Profit. Gross profit was \$22,347,000 for the six months ended June 30, 2010, compared to \$7,473,000 for the six months ended June 30, 2009, an increase of \$14,874,000, or 199%. Gross profit margins for the six months ended June 30, 2010 and 2009 were 15% and 8%, respectively. Such increase in gross profit margins was primarily due to an increase in average selling price of cleaned coal, which exceeded the increase in average raw coal unit cost across the six months ended June 30, 2010.

Selling Expenses. Selling expenses were \$1,488,000 for the six months ended June 30, 2010, compared to \$1,110,000 for the six months ended June 30, 2009. This represents an increase of \$378,000, or 34%, which was primarily due to the increase in sales volume in the six months ended June 30, 2010.

General and Administrative Expenses. General and administrative expenses were \$1,362,000 for the six months ended June 30, 2010, compared to \$745,000 for the six months ended June 30, 2009. This represents an increase of \$617,000, or 83%, which was primarily due to an increase in stock compensation expenses and professional fees.

Income from Operations. Income from operations was \$19,497,000 for the six months ended June 30, 2010, compared to \$5,618,000 for the six months ended June 30, 2009. The increase of \$13,879,000, or 247%, was primarily the result of an increase in gross profit of \$14,874,000, which was partially offset by an increase in operating expenses of \$995,000.

Interest Expense. Interest expense was \$549,000 for the six months ended June 30, 2010, compared to \$269,000 for the six months ended June 30, 2009. This represents an increase of \$280,000, or 104%, primarily due to an increase in interest payments for the 6% loan from Mr. Ming Zhao.

Derivative Unrealized Fair Value Gain. Derivative unrealized fair value gain of \$130,000 for the six months ended June 30, 2010 and derivative unrealized fair value loss of \$113,000 for the six months ended June 30, 2009, respectively, represented a change in fair value of the warrants.

Income Before Income Taxes. Income before income taxes was \$19,161,000 for the six months ended June 30, 2010, compared to \$5,292,000 for the six months ended June 30, 2009. The increase of \$13,869,000, or 262%, was primarily the result of an increase in operating profit of \$13,879,000, and an increase in derivative unrealized fair value gain of \$243,000, which were partially offset by an increase in interest expense of \$280,000 in the six months ended June 30, 2010.

Income Taxes. Income taxes were \$5,064,000 for the six months ended June 30, 2010, compared to \$1,447,000 for the six months ended June 30, 2009, an increase of \$3,617,000, or 250%. Income tax was imposed by the China Tax Bureau on income of Shanxi Coal, as calculated under Chinese GAAP and tax rules. The increase was primarily the result of the increase in operating profit of Shanxi Coal from \$5,689,000 in the six months ended June 30, 2009 to \$20,202,000 in the six months ended June 30, 2010.

Net Income. Net income was \$14,097,000 for the six months ended June 30, 2010, compared to \$3,845,000 for the six months ended June 30, 2009, an increase of \$10,252,000, or 267%, mainly due to an increase in operating profit of \$13,879,000, and an increase in derivative unrealized fair value gain of \$243,000, which were partially offset by an increase in income taxes of \$3,617,000, and an increase in interest expense of \$280,000 in the six months ended June 30, 2010.

Inflation had no significant impact on the Company's results of operations for the six months ended June 30, 2010 and 2009.

Business Outlook

China's four trillion yuan economic stimulus package, which was put in place in 2009, has encouraged steel-intensive infrastructure development projects such as the construction of railway and motor vehicle manufacturing as well as real estate projects. It has driven the demand for steel, which is expected to increase over the next several years across infrastructure projects such as railroads, real estate and automobile construction.

China is expected to produce approximately 600 million MT of steel in 2010, roughly half the world's total output, according to China Coal Resource.

In response to record high steel prices driven by the demand in the infrastructure construction sector in China, the steel industry has begun increasing production levels. We experienced improvement in tonnage sales and selling price in 2010 as compared to 2009 levels as steel inventories decline and our customers increase order volumes. We anticipate such year over year demand increase will continue in the remaining quarters of 2010.

We expect that such demand should provide significant opportunities for suppliers of cleaned coking coal like Puda Coal. As a result, the management believes the outlook for its coal washing operations is attractive, as the Company has maintained a stable and increasing customer base and supply tunnels.

It should be noted, however, that the financial markets have recently experienced unprecedented volatility, stress, illiquidity and disruption around the world and may continue to experience difficulties. Many of our customers and suppliers may encounter much uncertainty and risks due to the weakened business environment and credit availability. As a result, these customers and suppliers may be unable to satisfy their contract obligations, may delay payment, or may not repay our credit advance to them, which could negatively affect our business and financial performance. For further discussion see "Risk Factors".

The Company is currently operating at approximately 61% utilization of its production capacity and has the capacity to meet any reasonable increases in future demand. In addition, the Company has taken steps to execute its strategy of entering the coal mining business to increase profitability. On May 14, 2009, Shanxi Coal entered into an agreement to purchase 18% ownership in Shanxi Jianhe Coal Industry Limited Company ("Jianhe Coal") for an aggregate purchase price of RMB 100 million (\$14,746,000). The governmental registration of the share transfer was completed on December 3, 2009 and the purchase price was fully paid.

On September 28, 2009, the Shanxi provincial government appointed Shanxi Coal as a consolidator of eight coal mines in Pinglu County. Shanxi Coal has the government's permission to acquire and consolidate the eight coal mines into five, which could increase their total annual capacity from approximately 1.6 million to 3.6 million metric tons.

On June 25, 2010, Shanxi Coal closed a mining right and mining assets transfer agreement dated December 11, 2009 with Pinglu County Da Wa Coal Industry Co., Ltd. ("Da Wa Coal"), pursuant to which Shanxi Coal purchased from Da Wa Coal all its tangible assets and coal mining right with respect to a coal mine located in Pinglu County, Shanxi Province of China. As consideration, Shanxi Coal agreed to pay Da Wa Coal an aggregate purchase price of RMB 190 million (\$28,018,000) in cash, of which RMB 46.6 million (\$6.9 million) was for the tangible assets and RMB 143.4 million (\$21.1 million) was for the mining right. Management estimates that the total proven and probable reserve of Da Wa Coal is approximately 10.8 million metric tons by reference to the geological report dated August 2007. The report was prepared by a geological firm hired by the seller. We have hired an independent geological firm to prepare an updated report which is now in progress. As of June 30, 2010, Shanxi Coal has paid RMB 152 million (\$22,415,000). Shanxi Coal will pay the remainder of the purchase price, RMB 38 million (\$5,603,000) upon the one year anniversary of completion of the transfer. Shanxi Coal's obligation for payment is guaranteed by Mr. Ming Zhao.

On June 25, 2010, Shanxi Coal closed a mining right and mining assets transfer agreement dated December 11, 2009 with Pinglu County Guanyao Coal Industry Co., Ltd. ("Guanyao Coal"), pursuant to which Shanxi Coal purchased from Guanyao Coal all its tangible assets and coal mining right with respect to a coal mine located in Pinglu County, Shanxi Province of China. As consideration, Shanxi Coal agreed to pay Guanyao Coal an aggregate purchase price of RMB 94.80 million (\$13,979,000) in cash, of which RMB 37.6 million (\$5.6 million) was for the tangible assets and RMB 57.2 million (\$8.4 million) was for the mining right. Management estimates that the total proven and probable reserve of Guanyao Coal is approximately 7.4 million metric tons by reference to the geological report dated March 2007. The report was prepared by a geological firm hired by the seller. We have hired an independent geological firm to prepare an updated report which is now in progress. As of June 30, 2010, Shanxi Coal has paid RMB 75.84 million (\$11,183,000). Shanxi Coal will pay the remainder of the purchase price, RMB 18.96 million (\$2,796,000) upon the one year anniversary of completion of the transfer. Shanxi Coal's obligation for payment is guaranteed by Mr. Ming Zhao.

The mining assets of Da Wa Coal and Guanyao Coal will be eventually injected into two new companies, Shanxi Pinglu Dajinhe Coal Co., Ltd. and Shanxi Pinglu Dajinhe Wujin Coal Co., Ltd, respectively. The Shanxi government will approve the establishment and registration of these two companies, which are wholly-owned subsidiaries of Shanxi Coal, upon the completion of the reconstruction works, which are now in progress. Shanxi Coal was given transitional mining permits, which will expire in November 2011. After the establishment of the two new companies, the mining permits will be renewed by the Shanxi government. The property deeds for the buildings will also be issued to the two companies.

"Coal reserves" are defined by SEC Industry Guide 7 as that part of a mineral deposit which could be economically and legally extracted or produced at the time of the reserve determination. The reserve estimates were prepared using industry-standard methodology to provide reasonable assurance that the reserves are recoverable, considering technical, economic and legal limitations. There are numerous uncertainties inherent in estimating quantities and values of economically recoverable coal reserves. Many of these uncertainties are beyond our control. As a result, estimates of economically recoverable coal reserves are by their nature uncertain. Information about our reserves consists of estimates based on engineering, economic and geological data.

In March 2010, we received an approval by the Shanxi provincial government to acquire and consolidate four additional coking coal mines in Huozhou County, Shanxi Province, including Jianhe Coal. Shanxi Coal has the government's permission to acquire and consolidate the four coal mines into one, which could increase the total annual capacity of target coal mines from the current accumulated 720,000 metric tons to 900,000 metric tons per year.

As part of the Shanxi provincial government's policies to consolidate and redevelop the coal mining industry, new guidelines were enacted by the government in February 2010 to require the registered capital of coal mine consolidators to be at least RMB200 million. The new requirement was adopted to ensure that coal mine consolidators have sufficient financial strength to consolidate coal mines efficiently and timely. In May 2010, the registered paid-in capital of Shanxi Coal was increased from RMB 22.5 million (\$ 2,717,000) to RMB 500 million (\$73,129,000), 90% of which (RMB430 million) was funded by Shanxi Coal's 90% shareholder, Putai, and 10% of which (RMB48 million) was funded by Shanxi Coal's 10% shareholder, Mr. Ming Zhao.

In addition to RMB190 million cash on hand, Putai needs RMB240 million to satisfy the capital injection, therefore Putai entered into a loan agreement with Mr. Ming Zhao on May 7, 2010. Under the agreement, Mr. Zhao agrees to provide Putai with an unsecured loan in an aggregate principal amount of RMB240 million (\$35,391,000). The loan has a maturity date of November 6, 2011 and bears an interest at a rate of 6% per annum, which is payable on a quarterly basis, subject to certain adjustments to be agreed upon by the parties if such adjustments are necessary in light of the official interest rate of the PRC, as specified in the agreement. If Putai does not pay off the principal and interest of the loan on time in accordance with the agreement, Mr. Ming Zhao may require Putai to pay off the loan immediately and charge an additional 5% interest on the amount of loan that is not paid off on time. In addition, if the interest rate under the agreement is adjusted according to the agreement and Putai fails to pay interest at the adjusted rate, Mr. Ming Zhao may require Putai to pay off the loan immediately.

On August 1, 2010, Shanxi Coal entered into an Investment Cooperation Agreement (the "Agreement") with Mr. Ming Zhao and Jianping Gao, an individual unrelated to the Company ("Mr. Gao"). Pursuant to the Agreement, the parties will purchase, consolidate and co-develop six coal mines in Pinglu County, Shanghai Province (the "Project"). Under the Agreement, Shanxi Coal, Mr. Zhao and Mr. Gao will contribute 40%, 30% and 30%, respectively, of the total investment needed for the Project. Shanxi Coal will be the project manager. In addition, each of Mr. Zhao and Mr. Gao has agreed to transfer 5.5% of his respective voting rights in the project companies, which will hold the coal mines after they are acquired, to Shanxi Coal to enable Shanxi Coal to exercise full operating and management control of the project companies. The parties will share the profits and bear the risks and losses in connection with the Project, in each case based upon the percentages of their equity ownership and limited by the amount of investment contributed by each party. Shanxi Coal will be responsible for the other parties' losses caused by Shanxi Coal's fraud, gross negligence or breach of material terms of the Agreement. The parties further agree that, to the extent permitted by the Chinese law, at least 80% of the audited annual net profits of the project companies established after the coal mine acquisition will be distributed to the parties at a ratio that is proportionate to their respective investment. A committee of the Board of Directors comprised solely of independent directors negotiated terms of the Agreement on behalf of the Company and approved the Agreement.

If the Company is unable to manage coal mines successfully, it will not be able to grow its business in the way that it currently expects. Also, in order to pursue such acquisition opportunities, depending on the size of the coal mine acquisition, the Company may need significant additional financing, which may not be available to it on favorable terms, if at all. For further discussion see "Risk Factors".

Liquidity and Capital Resources

Net cash provided by operating activities was \$16,407,000 for the six months ended June 30, 2010, compared to net cash used in operating activities of \$12,652,000 for the six months ended June 30, 2009, an increase of \$29,059,000. This increase was primarily due to an increase in net income and a decrease in working capital needs resulting from decreased accounts receivable and decreased inventory.

Net cash used in investing activities of \$27,219,000 for the six months ended June 30, 2010 was for the purchase of Da Wa Coal and Guanyao Coal. Net cash used in investing activities of \$8,781,000 for the six months ended June 30, 2009 was for the 18% equity purchase of Jianhe Coal.

Net cash provided by financing activities of \$60,999,000 for the six months ended June 30, 2010 includes the \$35,391,000 loan from Mr. Ming Zhao, \$14,538,000 from the sale of 3,284,000 shares of common stock, \$7,041,000 increase of registered capital of Shanxi Coal, and \$4,679,000 from the exercise of warrants, which were offset by \$650,000 for the repayment of the long-term debt to Resources Group. Net cash used in financing activities of \$650,000 for the six months ended June 30, 2009 was for the repayment of long-term debt to Resources Group.

Our principal on-going capital requirements are to finance our coal washing operations, to fund the repayment of the loans to Mr. Ming Zhao and Resources Group, with the combined outstanding loan balance of \$42,541,000 as of June 30, 2010, and to pay for the acquisition of coal mines and coal mining assets.

Warrants were issued in the November 2005 Private Placement to acquire up to 721,368 shares of our common stock which are exercisable at price of \$4.20 per share, or an aggregate of \$3,030,000. We believe that the likelihood of these warrants being exercised increases as our stock price increases and decreases as our stock price decreases, with a corresponding effect on the likelihood of our realizing proceeds from their exercise.

Our business is heavily dependent on our coal inventory. Because of certain coal mining accidents, the Chinese government has been closing mines throughout China. In addition, in Shanxi Province, the authorities are not approving new mines that produce less than 900,000 MT output per year, are closing mines that produce less than 300,000 MT per year and are consolidating existing mines into larger mines with outputs between 300,000 MT and 900,000 MT. These activities may lead to increased competition for coal and result in higher prices for the raw coal we purchase, increasing our need for capital resources and reducing our gross profit margins if we are not able to increase the selling price of our products sufficiently to offset our increased costs.

On February 18, 2010, we completed the offering and sale of 3,284,000 shares (including 428,348 overallotment shares to underwriters), for net proceeds of approximately \$14.5 million. In May 2010, our wholly-owned subsidiary, Putai, received a loan in the aggregate principal amount of RMB 240 million (\$35.4 million) from Mr. Ming Zhao, which Putai used to increase the registered paid-in capital of Shanxi Coal, its 90% subsidiary, to the level that is required for coal mine consolidators by the Shanxi government. Our cash balance was \$70.3 million as of June 30, 2010. We believe that our cash at hand will be adequate to satisfy our anticipated cash requirements for our coal cleaning business, including requirements to maintain current operations, complete projects already underway and achieve stated objectives or plans, commitment for capital or other expenditure and other reasonably likely future needs in the next twelve months. Cash requirements for developing our coal mining strategy and long-term business needs, including the funding of capital expenditure and debt service for outstanding financings, are expected to be financed by a combination of internally generated funds, the proceeds from the sale of our securities, borrowings and other external financing sources, etc., although adequate financing may not be available to us on acceptable terms when we need it. Our belief concerning our liquidity is based on current information. If the current information proves to be inaccurate, or if circumstances change, we may not be able to meet our cash needs.

Off-Balance Sheet Arrangements

None.

Contractual Obligations

On May 7, 2010, our wholly owned subsidiary, Putai, received an unsecured loan in the aggregate principal amount of RMB 240 million (\$35.4 million) from Mr. Ming Zhao. The 18-month term loan has a maturity date of November 6, 2011 and bears an interest at a rate of 6% per annum, which is payable on a quarterly basis.

As of June 30, 2010, except for the related party loan described above, there have been no material changes since December 31, 2009 with respect to our contractual obligations as disclosed under Management's Discussion and Analysis of Financial Condition and Results of Operations - Tabular Disclosure of Contractual Obligations in our Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk represents the risk of loss that may impact our financial position, results of operations or cash flows due to adverse changes in market prices, including interest rate risk, foreign currency exchange rate risk, securities market risk, commodity price risk, and other relevant market rate or price risks. We do not have any significant risks related to equity investments, securities markets or derivative financial instruments as we do not have equity investments in privately held companies other than our subsidiaries, securities markets or derivative financial instruments. Nor do we have any significant interest rate risk, as we do not have bank loans, and our promissory notes and loans from related parties have fixed interest rates. We are exposed to foreign currency exchange rate risk, commodity price risk and credit risk.

Although our reporting currency is the U.S. dollar, the financial records of our operating subsidiaries are maintained in their local currency, the RMB, which is our functional currency. Approximately 100% of our revenues and 99% of our costs and expenses for the six months ended June 30, 2010 are denominated in RMB, with the balance denominated in U.S. dollars. Approximately 99% of our assets were denominated in RMB as of June 30, 2010. Assets and liabilities of our operating subsidiaries are translated into U.S. dollars at the exchange rate at the balance sheet date, their equity accounts are translated at the historical exchange rate and their income and expense items are translated using the average rate for the period. Any resulting exchange differences are recorded in accumulated other comprehensive income or loss. We have not reduced our exposure to exchange rate fluctuations by using hedging transactions. While we may choose to do so in the future, the availability and effectiveness of any hedging transactions may be limited and we may not be able to successfully hedge our exchange rate risks. Accordingly, we may experience economic losses and negative impacts on earnings and equity as a result of foreign exchange rate fluctuations. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues, earnings and assets as expressed in our U.S. dollar financial statements will decline. We are subject to currency fluctuations from our Chinese operations and fluctuations in the exchange rate may negatively affect our expenses and results of operations, as well as the value of our assets and liabilities. See Part I Item 1 of the Annual Report on Form 10-K for the fiscal year ended December 31, 2009 under the heading "Risk Factors." During the six months ended June 30, 2010, the foreign currency translation adjustment to our comprehensive income was a \$0.7 million gain, primarily as a result of the RMB appreciation against the U.S. dollar in the period. An average appreciation (depreciation) of the RMB against the U.S. dollar of 1% would increase (decrease) our net income for the six months ended June 30, 2010 by approximately \$0.08 million based on our outstanding revenues, costs and expenses, assets and liabilities denominated in RMB as of June 30, 2010. As of June 30, 2010, our accumulated other comprehensive income was \$10.841 million.

Commodity Price Risk

Our operating profits may be negatively affected by fluctuations in the price of raw coking coal. We are subject to short-term coal price volatility and may be forced to purchase raw coking coal at higher prices and may be unable to pass the cost increase of raw coal on to customers. This may adversely affect gross margins and profitability. Our sales agreements with customers generally contain provisions that permit the parties to adjust the contract price of the cleaned coking coal upward or downward at specified times. For example, we may adjust these contract prices because of increases or decreases in the price of raw coal from our mining suppliers, general inflation or deflation, or changes in the cost of producing raw or cleaned coking coal caused by such things as changes in taxes, fees, royalties

or the laws regulating the mining, production, sale or use of coal. However, if we fail to agree on a price with our customers under these provisions, many agreements permit the customers to terminate the contract or refuse to buy all of the quantities contracted for. In China, the purchase price of raw coal fluctuates up and down. The average purchase price of our raw coal increased from about RMB 483 per MT in the six months ended June 30, 2009 to about RMB 539 pr MT in the six months ended June 30, 2010. Top quality raw coking coal is critical for us to maintain our operating efficiencies and to deliver cleaned coal to our customers meeting their specifications. Since top quality raw coking coal is limited in supply, its price tends to be volatile. A general rise in coking coal prices also may adversely affect the price of, and demand for, coke and products made with coke such as pig iron, steel and concrete. This may in turn lead to a fall in demand for our products. An increase (decrease) in raw coal purchase price of 5% could decrease (increase) our income from operations by approximately \$5.7 million for the six months ended June 30, 2010. We generally have not employed forward contracts or other financial instruments to hedge commodity price risk.

Credit Risk

We are exposed to credit risk from our cash at bank and contract receivables. At June 30, 2010, we had a credit risk exposure of cash at bank of approximately \$70.3 million. The credit risk on cash at bank is limited because the bank in which our cash is deposited is a very reputable bank and it is not reasonably expected to have significant credit risk. We do not require collateral or other securities to support financial instruments that are subject to credit risk. We grant credit to our customers subject to credit evaluations. We periodically record a provision for doubtful collections based on an evaluation of the collectibility of contract receivables by assessing, among other factors, the customer's willingness or ability to pay, repayment history, general economic conditions and our ongoing relationship with the customers. We believe that our customers have a good payment history and our accounts are current, and we currently do not have significant bad debt provision.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) are controls and other procedures that are designed to provide reasonable assurance that the information that we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2010, an evaluation was performed by our management, with the participation of our CEO and CFO, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this quarterly report.

Based upon that evaluation, our CEO and CFO concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective and provided reasonable assurance that the information required to be disclosed in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and are designed to ensure that information required to be disclosed in those reports is accumulated and communicated to management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the period covered by this quarterly report on Form 10-Q, there was no change in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations, cash flows, and trading price of our common stock. Please refer to our Annual Report on Form 10-K for fiscal year 2009 for additional information concerning these and other uncertainties that could negatively impact us. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results. The following risk factors have been revised or updated since the filing of our annual report on Form 10-K for the year ended December 31, 2009.

If we do not successfully execute our strategy of growth through coal mine acquisitions, our future performance, particularly our profit margins, could be adversely affected.

We have adopted a business strategy to enter into coal mining business, including acquisitions of coal mines. If we are unable to obtain or manage these external growth opportunities successfully, we will not be able to grow our business in the way that we currently expect. The availability of high quality coal mines is limited and we are not certain that we will be able to identify suitable candidates or complete transactions on terms that are acceptable to us. In order to pursue such opportunities, we may require significant additional financing, which may not be available to us on favorable terms, if at all. If we are unsuccessful in our external growth strategy, we may not be able to grow our business significantly and we may incur asset impairment charges as a result of acquisitions that are not successful.

Because we are entering into a new business line, coal mining, through acquisitions of various coal mine assets, we are subject to the risks faced by a new business and risks relating to coal mine operations.

Under our new business strategy as discussed above, we are entering into the coal mining business through acquisitions of various coal mine assets, which is a new business to us. As of June 30, 2010, our business had been limited to the coal washing business. The operation of the coal mines will be subject to significant additional risks which are not necessarily related to our coal washing business. In addition to the normal risks associated with our business, there are additional risks that relate to the new coal mining business. These risks include, but are not limited to:

- We lack experience in operating coal mines. Although individuals on our board and our management team have extensive experience in operating coal mines and we plan to hire additional outside management company and personnel to operate the coal mines, as a company, we have never operated coal mines, and we cannot assure you that we will be successful in operating coal mines.
- We require significant additional funds to enable us to develop and expand the coal mine business. The construction of coal mines and related facilities is very capital intensive, and we will require significant additional funds for this purpose. We cannot assure you that we will be able to obtain any financing which we may require, or obtain financing on terms that are favorable or acceptable to us.
- Our coal mining business faces many uncertainties, which may change by the time the construction of our coal mines and related facilities is completed. The uncertainties our coal mine operations face include a change in the coal price and price policy and limitation that is imposed or may be imposed by the Chinese government from time to time, which may have an adverse impact on our revenues and reduce our margins. We may also face delays in the construction of our coal mines and related facilities, which depend on third parties to complete, as a result of breach of

contract by the construction contractors, protests or other obstructive or delaying activities by displaced persons and others who may oppose such constructions.

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- The coal mining business is highly regulated. The exploration, transportation and distribution of coal is subject to PRC regulations, including the price at which we sell coal. The price control limits our potential profit from the sale of coal. Other regulations may result in increased costs in order to comply with these regulations.

- Because of the nature of coal mine business, we could be exposed to liability from mining accidents or other safety issues. Any explosions or other safety accidents from our coal mines, once they become operational, could cause severe property damage, personal injury as well as loss of life, which may not be covered by insurance. Any such loss could result in a material adverse impact on our business and operating results or even cause termination of coal mine operations and could subject us to regulatory actions.

- We entered into an Investment Cooperation Agreement to acquire and coal develop certain coal mines, the success of which cooperation relationship is uncertain. Because of the large capital investment required to acquire and co-develop coal mines, we entered into an Investment Cooperation Agreement with Mr. Ming Zhao, our principal stockholder and Chairman of our Board, and Mr. Jianping Gao, under which Shanxi Coal, Mr. Zhao and Mr. Gao each will contribute 40%, 30% and 30% of the total investment needed for the six coal mines under the Pinglu project, and will share economic benefits and bear losses that are proportionate to their respective equity contribution. This is the first time we have entered into such an investment cooperation agreement. If the cooperation is not successful, our coal mining business will be materially impacted. Moreover, if we, as the project manager, act in a way that is considered grossly negligent or in material violation of the agreement, we could be subject to liabilities. Finally, under the agreement, to the extent permitted by the Chinese law, at least 80% of the audited annual net profits of the project companies established after the coal mine acquisition will be distributed to the parties at a ratio that is proportionate to their respective investment. Therefore, the project companies may not have sufficient cash generated from operations for reinvestment or capacity expansion in the future and may need outside financing for its future growth.

In light of these risks and uncertainties, we may not be able to set up the newly acquired coal mines for operation on time, integrate them successfully or take full advantage of them. There can be no assurance that we will recover our investment in this new business, that we will realize a profit from this new business or that diverting our management's attention to this new business will not have a material adverse effect on our existing coal mining businesses, any of which results may have a material adverse effect on our results of operations, financial condition and prospects.

The demand for our product is cyclical and is affected by industrial economic conditions. Downturns in the economy may reduce demand for our product and our revenues could decline.

Because we do not export our product out of China, our business and operating results related to our cleaned coking coal business are primarily dependent upon China's domestic demand for cleaned coking coal, and our business and operating results related to our newly acquired coal mine business will be primarily dependent upon China's domestic demand for raw coal to be produced from our coal mines once those mines are up for operation. However, because the domestic demand for coal in China is impacted by the international demand for coal, we are also susceptible to fluctuations in the international markets. The domestic and international coal markets are cyclical and exhibit fluctuation in supply and demand from year to year and are subject to numerous factors beyond our control, including, but not limited to, the economic conditions in China, the global economic conditions and fluctuations in industries with high demand for coal, such as the steel and power industries. A significant decline in demand or excess supply for coal may have a material adverse effect on our business and results of operations.

In addition, nearly all of our sales are concentrated in the central and northern area of China. Accordingly, we are susceptible to fluctuations in business caused by adverse economic conditions in those regions. Difficult economic conditions in other geographic areas into which we may expand may also adversely affect our business, operations and finances.

Our principal stockholders have significant control over the company and may have conflicts of interest with the company.

Ming Zhao and Yao Zhao may have, or may develop in the future, conflicts of interest with us. First, the loan used to finance our recent facility expansions is held by Resources Group, a company which is owned by the Zhaos. It could be in their economic interest to cause us to default on the payment of the loan with Resources Group since Resources Group could acquire the assets which are subject to the lien as a result of enforcement of the lien after a default. In addition, Putai owes Mr. Ming Zhao an principal amount of RMB240 million (US\$35.4 million) plus quarterly interest pursuant to a loan agreement dated on May 7, 2010, which loan proceeds were used to increase Putai's registered capital to the level required by the Shanxi government to be a coal mine consolidator. It could be in Mr. Ming Zhao's economic interest to cause us to default on the loan as Mr. Zhao would be entitled to an additional 5% penalty interest on top of the 6% regular interest under the loan. With the combined ownership of us by Mr. Ming Zhao and his brother Mr. Yao Zhao, and the position of Mr. Ming Zhao as our Chairman of the board, he can to a large extent control the actions which we take. Second, the Zhao brothers control the mine which is one of our raw coal suppliers. We currently secure raw coal from local Liulin County coal mines, including Jucai Coal, a coal mine that is 75% owned by Yao Zhao, Mr. Ming Zhao's brother and a manager of the coal washing plants of Shanxi Coal. By limiting or eliminating our supply, the Zhao brothers, who control our coal mine supplies, could adversely impact our production and revenue, which in turn could cause us to default on our loan to Resources Group. In addition, the Zhao brothers may declare dividends out of Shanxi Coal, in which Mr. Ming Zhao owns 10% of the direct equity interest even though it would be in the interests of Puda for Shanxi Coal, to reinvest its profits into the business. Finally, Mr. Ming Zhao is a party to the Investment Cooperation Agreement we entered into on August 1, 2010, in which Mr. Zhao will contribute 30% of the equity investment needed for acquiring and developing six mines under the Pinglu Project, and will be entitled to economic benefits and will bear losses that are proportionate to his equity contribution. If Mr. Zhao does not make the required contribution or otherwise does not perform according to the agreement, our coal mining project could be materially impacted, and our recourse against Mr. Zhao may be limited given Mr. Zhao's control over our company.

ITEM 6. EXHIBITS

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| (a) | Exhibits |
| 10.1 | Investment Cooperation Agreement, dated August 1, 2010, among Shanxi Puda Coal Group Co., Ltd., Ming Zhao and Jianping Gao, incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed on August 5, 2010. |
| 31.1* | Certification of Mr. Liping Zhu pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended. |
| 31.2* | Certification of Ms. Qiong Wu pursuant to Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934, as amended. |
| 32.1* | Certification of Chief Executive Officer and Chief Financial Officer of Puda Coal, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Filed herewith.

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Signatures

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

PUDA COAL, INC.

Date: August 16, 2010

By: /s/ Liping Zhu
Liping Zhu
President and Chief Executive
Officer