

Puda Coal, Inc.
Form 10-K
March 16, 2011

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

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 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)

Securities registered under Section 12(b) of the Exchange Act:

Title of each class: N/A

Name of each exchange on which registered:
N/A

Securities registered under Section 12(g) of the Exchange Act:

Title of Class: N/A

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Edgar Filing: Puda Coal, Inc. - Form 10-K

Yes No

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 website, if any, any Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.45 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer 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 June 30, 2010, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates, computed by reference to the price at which the common equity was last sold, was approximately \$78,451,634. Solely for the purposes of this calculation, "affiliate" has the meaning defined in Rule 12b-2 of the Exchange Act.

The total number of shares of common stock of the registrant that were outstanding on the latest practicable date, March 7, 2011 was 30,022,856 shares.

TABLE OF CONTENTS

	Page
PART I	
Item 1. Business	3
Item 1A. Risk Factors	15
Item 2. Properties	25
Item 3. Legal Proceedings	26
Item 4. Removed and Reserved	26
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	27
Item 6. Selected Financial Data	29
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	30
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	39
Item 8. Financial Statements and Supplementary Data	41
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	80
Item 9A. Controls and Procedures	80
Item 9B. Other Information	83
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	83
Item 11. Executive Compensation	86
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	92
Item 13. Certain Relationships and Related Transactions and Director Independence	92
Item 14. Principal Accountant Fees and Services	96
PART IV	
Item 15. Exhibits, Financial Statement Schedules	97

Signatures 101

Certifications

1

Forward-Looking Statements

This Annual Report on Form 10-K of Puda Coal, Inc. (“Puda” or the “Company”) contains 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, as amended. These statements include the plans and objectives of management for the future growth of the Company and its subsidiaries, including plans and objectives related to the consummation of acquisitions and future private and public issuances of Puda’s equity and debt securities. 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. Although Puda believes that the assumptions underlying the forward-looking statements are reasonable at the time they were made, there can be no assurance that the forward-looking statements included in this Form 10-K and the underlying assumptions will prove to be accurate. In light of the significant uncertainties inherent in the forward-looking statements included in this Form 10-K, the inclusion of such information should not be regarded as a representation by Puda or any other person that the objectives and plans of Puda will be achieved.

The words “we,” “us”, “our” and “Puda” refer to Puda Coal, Inc. and its subsidiaries. The words or phrases “would be,” “allow,” “intends to,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” and expressions are intended to identify forward-looking statements. Actual results could differ materially from those contained in the forward-looking statements as a result of a number of risks and uncertainties, including but not limited to:

Operational Risks

- our successful execution of our strategy of growth through coal mine acquisitions
- our ability to start a new business and successfully carry out mining operations
- downturns in the economy that may reduce demand for our product
- our principal stockholders’ significant control over the Company and potential conflicts of interest with the Company
 - our dependence on distributions from our subsidiaries to meet our financial obligations
- fluctuations in raw material prices, which we may not be able to pass on cost increases to customers
 - the continuing performance and renewal of Shanxi Coal’s coal sales agreements
 - increases in transportation costs
 - our ability to meet quality specifications required by our customers
- increased competition that could reduce our sales, earnings and profitability
- our dependence on key persons, the loss of any of whom could adversely affect our operations
-

our ability to pay off the obligations secured by the lien held by a company controlled by the Zhaos to which our assets are subject

- Lack of registered patents or other intellectual property
- Downturn and uncertainty in current credit and financial market conditions
- Disruption of business by terrorist attacks or military conflicts

Risks Related to Doing Business in China

- the evolving state of the Chinese economy, political, legislative and regulatory systems, including any changes in the interpretations of existing laws and the enactment of new laws
 - unanticipated costs because of the unpredictability of the Chinese legal system
 - our ability to remain in compliance with all applicable regulations
- the ability of our shareholders to commence a legal action against our Company as we have minimal assets in the United States and against our directors and officers who are located in China

- our ability to obtain operating capital, move funds out of China and pay dividends in light of China's currency restrictions
 - Currency fluctuations from our Chinese operations and fluctuations in the exchange rate
- the possibility that information about our operations are not readily available from independent third-party sources because our operations are all in China
 - regulatory and physical risks posed by climate changes

Risks Associated with Our Common Stock

- the volatility and fluctuation in our stock price
 - the downward impact on our stock price decrease if a substantial number of shares are sold under Rule 144
- our principal stockholders' ability to exert significant control in matters requiring stockholder vote and to delay, deter or prevent a change in control of our Company
- the dilution of your ownership in the Company and the decrease of the value of your investment as a result of additional equity issuance
 - our intention not to pay dividends in the foreseeable future
 - our ability to satisfy regulatory requirements relating to our internal controls over financial reporting

PART I

Item 1. Business

Overview

We are a supplier of premium high grade cleaned coking coal used to produce coke for steel manufacturing in the People's Republic of China (the "PRC" or "China"). We have also been appointed by government as a designated acquirer and consolidator of two coal mine consolidation projects, "Pinglu Project" and "Jianhe Project". Our headquarters is located in Taiyuan, Shanxi Province, China.

Coal Washing Business:

Our processed coking coal is primarily purchased by coke and steel producers for the purpose of making the coke required for the steel manufacturing process. Our operations are conducted exclusively by an entity in China, Shanxi Puda Coal Group Co., Ltd ("Shanxi Coal"), which we control through 90% indirect equity ownership.

We clean raw coking coal sourced from third-party coal mines primarily located in the central area of Shanxi Province, and market the cleaned, high quality coking coal to coke and steel makers in our geographic market. Our current primary geographic markets include Shanxi Province, Inner Mongolia Autonomous Region, Hebei Province, Beijing and Tianjin, China.

The central area of Shanxi Province, where our three coal washing plants are located, is known for its high quality coking coal reserves. We are strategically located in proximity to some of the highest quality coking coal reserves suitable for steel making. Our three coal washing plants are all located within approximately 150 miles of our headquarters in Taiyuan City. Shanxi Liulin Jucai Plant, located in Liulin County has an annual cleaning capacity of 1.1 million metric tons (“MT”); Shanxi Zhongyang Ruixu Plant, located in Zhongyang County, has an annual clean coal washing capacity of 1.2 million MT; Linshi Dongqiang Plant, located in Linshi County, has an annual coal washing capacity of 1.2 million MT. In 2010, we produced about 2.35 million MT of cleaned coal, which is 67% of our annual production capacity of 3.5 million MT.

As a large-volume supplier, we expect to continue to enjoy certain advantages as we believe that our primary customers will continue to focus on suppliers that can deliver large volume, consistently high-quality coking coal. We also expect to be well positioned to serve the demand for steel production in China - mostly, coking companies that supply the steel mills and steel mills with their own coking facilities.

Coal Mining Business:

To diversify our source of revenue and increase our gross margin, in 2009, we modified our business strategy to enter into the upstream coal mining business, which can be operated separately from or synergistically with, our coal washing business.

In order to improve production efficiency, workplace safety and to reduce coal mine accidents, the Shanxi provincial government issued a policy in 2009 requiring mergers and consolidations of smaller coal mining companies in Shanxi Province. Pursuant to the government policy, the government awarded certain selected larger coal production enterprises the opportunity to acquire, consolidate and restructure smaller coal mines through mergers, acquisitions and asset or share transfers.

On May 14, 2009, Shanxi Coal entered into an Agreement of Shares Transfer with two unrelated individuals to purchase their 18% ownership in Shanxi Jianhe Coal Industry Limited Company (“Jianhe Coal”) for an aggregate purchase price of RMB 100 million (approximately \$15.2 million). The transaction was closed on December 3, 2009. According to the agreement, Shanxi Coal will be paid dividends semiannually based on its 18% ownership in Jianhe Coal and aggregate dividend to be declared will be no less than 80% of the net profits of Jianhe Coal. In addition, Shanxi Coal has first priority in the right to purchase other shares of Jianhe Coal within the 24-month period following execution of the agreement.

On September 28, 2009, Shanxi Coal was appointed by the Shanxi provincial government as a consolidator of nine thermal coal mines located in Pinglu County of southern Shanxi Province (the “Pinglu Project”). Pursuant to the government approval, Shanxi Coal will consolidate the nine thermal coal mines into five larger coal mining operations representing total recoverable reserves of 16.4 million MT, based on government records, which were filed by the original owners of the mines. The government has approved an increase in post-consolidation annual production at Pinglu from 1.56 million MT to 3.6 million MT.

Leveraging on the advantages as the sole corporate shareholder of Jianhe Coal and the appointed consolidator of Pinglu Project, Shanxi Coal applied and received provincial government approval in early 2010 to consolidate four metallurgical coal mines, of which the largest one is Jianhe Coal, into one large metallurgical mining operation with total recoverable reserves of approximately 23.7 million MT, based on government records, which were filed by the original owners of the mines (the “Jianhe Project”). The provincial government has further approved an increase in post-consolidation annual production at Jianhe from 720,000 MT to 900,000 MT.

Pursuant to government approval for Pinglu Project, Shanxi Coal will establish five project coal companies to hold and consolidate the mining assets of the nine target coal mines. For Jianhe Project, Shanxi Coal will establish one project coal company to hold the mining assets of the four target coal mines.

The coal mine consolidation process is administered by Shanxi provincial government and has four stages.

- Stage I - acquisition of coal mine assets and mining rights of target coal mines.

- Stage II - preconstruction design of the acquired mines, during which the government reviews and approves all comprehensive pre-construction design reports on geology, construction plans, safety and environmental protection plans prepared by Shanxi Coal for each project coal mine, and issues a coal mine upgrade construction permit upon its approval of such plans.
- Stage III - construction and upgrade of the target coal mines.
- Stage IV - government inspection of the construction quality, environmental and safety practices at the improved coal mines and the issuance of operating licenses.

As of the reporting date, we have closed the mining assets purchase of the nine target coal mines of the Pinglu Project. Other than the 18% equity ownership in Jianhe Coal, no definitive agreement was signed on the Jianhe Project.

Our principal executive office is located at 426 Xuefu Street, Taiyuan City, Shanxi Province, China. Our telephone number is +86 (351) 2281302 and our facsimile number is +86 (351) 7034404.

History and Background of the Company

Puda Coal, Inc. (formerly Purezza Group, Inc.) (the “Company” or “Puda”) was initially incorporated in Florida on August 9, 2001 under Florida law. On July 30, 2009, the Company was reincorporated in the State of Delaware. From September 8, 2005 to September 22, 2009, the Company’s common stock was traded on the over-the-counter Bulletin Board. Since September 22, 2009, the Company’s common stock has been trading on the NYSE Amex LLC Exchange (the “NYSE Amex”) under the ticker symbol “PUDA.”

On July 15, 2005, through a reverse merger, the Company acquired all the outstanding capital stock and ownership interests of Puda Investment Holding Limited (“BVI”), an International Business Company organized in the British Virgin Islands with registered capital of \$50,000, and BVI became a wholly-owned subsidiary of the Company. In exchange, Puda issued to the BVI Members (Mr. Ming Zhao, Mr. Yao Zhao and Worldwide Gateway Co. Ltd.) 1,000,000 shares of Series A convertible preferred stock, par value \$0.01 per share, of the Company, which were 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 1-for-10 reverse stock split of Puda’s outstanding common stock (the “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 Reverse Split. Following the Mandatory Conversion of preferred shares and the Reverse Split, the BVI Members received, in the aggregate, approximately 67,850,000 shares of the total of 73,750,000 of Puda’s common stock, representing 92% of the outstanding shares of Puda’s common stock.

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 PRC. Putai was incorporated on November 5, 2004 with an initial registered capital of \$20,000, which was increased to \$129,800,000 by January 11, 2011, of which \$127,120,000 was paid up. Putai did not have any operating activities from November 5, 2004 (inception) until June 24, 2005 when it entered into certain Operating Agreements with 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. The Operating Agreements provided Putai control over Shanxi Coal, and the risks and rewards associated with equity ownership.

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. Since 2009 Shanxi Coal has been government appointed coal mine consolidator to operate in the coal mining business. Shanxi Coal has a registered capital of RMB22,500,000 (\$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.

Prior to our finalizing acquisition of 90% of the capital stock of Shanxi Coal on November 8, 2007, the owners of Shanxi Coal were Mr. Ming Zhao (80%) and Mr. Yao Zhao (20%). Mr. Ming Zhao is the chairman and was the 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 on November 20, 2006. Mr. Ming Zhao and Mr. Yao Zhao are brothers.

On September 13, 2007, pursuant to an Exclusive Option Agreement between Putai and Shanxi Coal, Putai exercised the Option to acquire 90% of the total registered capital of Shanxi Coal at an acquisition price of RMB20,250,000 (approximately \$2,692,000). Upon the Option exercise, Putai entered into a Share Transfer Agreement with the owners of Shanxi Coal, Mr. Ming Zhao and Mr. Yao Zhao, respectively. The acquisition price of \$2,692,000 was fully paid as of December 31, 2008. After the acquisition, Putai became a 90% owner of Shanxi Coal, and Mr. Ming Zhao and Mr. Yao Zhao owned 8% and 2%, respectively. The Exclusive Option Agreement, Exclusive Consulting Agreement, Operating Agreement, Technology License Agreement and Authorization, each entered into on June 24, 2005, among Putai, Shanxi Coal, Mr. Ming Zhao and Mr. Yao Zhao, were terminated. In May 2010, Mr. Yao Zhao transferred his 2% ownership to Mr. Ming Zhao. Mr. Ming Zhao has assigned to Putai his 10% share of operating results (profit and loss) and dividend rights of Shanxi Coal from January 1, 2010, and has granted Putai the right to vote his 10% interest.

As of December 31, 2010, the percentages owned by Mr. Ming Zhao and Mr. Yao Zhao in the Group companies are as follows:

- Puda Coal, Inc.: Mr. Ming Zhao (approximately 25%); Mr. Yao Zhao (approximately 6%) held directly.
- Puda Investment Holding Limited: Mr. Ming Zhao (approximately 25%); Mr. Yao Zhao (approximately 6%) held indirectly through Puda.
- Shanxi Putai Resources Limited: Mr. Ming Zhao (approximately 25%); Mr. Yao Zhao (approximately 6%) held indirectly through Puda and BVI.
- Shanxi Puda Coal Group Co., Ltd.: Mr. Ming Zhao (10%) held directly, Mr. Ming Zhao (approximately 23%) held indirectly through Puda, BVI and Putai. Mr. Yao Zhao (approximately 5%) held indirectly through Puda, BVI and Putai.

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 shares 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 any 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.

Corporate Structure

Our Company has an offshore holding structure commonly used by public companies with operations in China. We are a Delaware corporation which owns Puda Investment Holding Limited or BVI, an International Business Company incorporated in the British Virgin Islands; BVI owns Putai, a wholly foreign-owned enterprise established under the laws of the PRC. Our operations are conducted exclusively through our 90% subsidiary Shanxi Coal, a PRC limited liability company.

As of December 31, 2010, our organizational structure is as follows:

6

Puda Coal, Inc.
 “Puda”
 | 100%
 Puda Investment
 Holding Limited
 “BVI”
 | 100%

Ming Zhao (10%)

|

Shanxi Putai Resources Limited "Putai" 90%

—>

Shanxi Puda Coal Group Co., Ltd.
 “Shanxi Coal”

Our Business

Coal Washing

Coal cleaning is the physical process and the stage in coal production when the raw “run-of-mine” coal is processed into a range of cleaned, graded and uniform coal products suitable for the commercial market. Shanxi Coal specializes in providing cleaned coking coal for the steel making industry and is located in Shanxi Province - the heartland of China’s raw coal and coke production. High-quality, cleaned coking coal is best suited for making coke for purposes such as steel manufacturing.

Cleaned coking coal contains fewer impurities, and the cleaning process can reduce the ash content of raw coal by 50% and lower emissions of carbon dioxide (CO₂) and sulfur dioxide (SO₂). High-quality, cleaned coking coal provides increased commercial value, reduced ash content, reduced SO₂ and CO₂ emissions, and reduced transportation requirements compared to raw coking coal. Depending on customers’ specifications and requirements, we purchase different qualities of raw coking coal as inputs, mix them together and prepare them into a consistent quality, cleaned coking coal. With Shanxi Coal’s over ten years experience in mixing coal and our raw coal supply sources, we consistently provide cleaned coking coal with an external, or total, ash content of less than 9.5% and maximum 0.6% sulfur content, the industry specification for coking coal, which can be further processed (through a coking process) into coke - a primary feedstock for iron and steel making. We consistently meet or exceed these industry specifications for cleaned coking, although most steel and coke makers are forced to accept off-specification coking coal (external ash content exceeding 9.5%) due to the limited supply of specification grade coking coal.

To produce consistent quality clean coking coal meeting steel makers specifications (less than 9.5% external ash content and 0.6% maximum sulfur content), we mix about 55% to 60% of high quality raw coking coal by weight with 40% to 45% lower quality raw coking coal by weight. Although the supply of high quality raw coking coal is limited even in Shanxi Province, we currently have direct access to an adequate supply of the high quality raw coking coal through several nearby coking coal mines while the lower quality raw coking coal is available in greater supply and is less difficult to source.

Two coal cleaning processes predominate in the industry: dense medium (“DM”) separation and jig washing. Both processes are widely applied throughout the world. Jig washing is perceived as a simpler, lower-cost option than DM separation and a range of improved jigs has continued to find wide application in Germany, India, and China. During the coal cleaning process, either water (for wet washing method) or air (dry washing method) can be used as the medium for the cleaning and beneficiation. The dry coal beneficiation process was widely used in Europe and the United States during the period 1930-1965, but was later abandoned largely because separation was not accurate, available technology severely restricted feed size and throughput and moisture presented a major inhibiting factor on performance. There remain a small number of dry coal beneficiation units in operation, particularly in some areas of

China where water is scarce.

Our cleaning facilities use a proprietary, water supported jig washing technology that management believes gives it a competitive advantage in providing high quality, cleaned coking coal for China's steel making industry.

7

We also have our own wells as a water source for our coal cleaning process and, together with the recycling of water from the coal cleaning system, our plants have a sufficient and reliable supply of water for our existing operations.

Coal Washing Industry in China

Coal plays a fundamental role in the global economy. China is both one of the largest consumers and producers of coal in the world. Based on China's official statistics, in 2010, the raw coal production was 3.20 billion MT, an 8 % increase over 2009, when the raw coal production was 2.96 billion MT. Coal, in its raw or processed forms, is mainly used in four major industries: coal fired power plants, steel manufacturing, metallurgy of non-ferrous metals and cement production.

Steel production is highly dependent on high quality coking coal feedstock. Based on the statistics of International Iron and Steel Institute, China was the largest steel producer in the world, who produced about 626 million MT and 567 million MT of raw steel in 2010 and 2009 respectively, representing 44% and 46% of the world's total steel production in 2010 and 2009. Large Chinese steel industry led China's coking coal industry, which stimulates the cleaned coal industry.

By utilizing modern cleaning facilities and adhering to Shanxi Province's emissions standards, we believe we have adopted a business strategy that should fit the industry's development path. Because of our long-standing relations with our customers - mostly, coking companies that supply the steel mills and steel mills with their own coking facilities - we may in the future increase our market share of cleaned coking coal sold in Shanxi Province.

Coal Washing Operations of the Company

In China, many coal mines do not have their own coal cleaning facilities or have inadequate cleaning capacities. Coal cleaning companies, such as Shanxi Coal, were established to meet the demand for cleaned coal. With our capacity of 3.5 million MT of annual cleaned coal, we believe that we should be able to participate in the early stages of China's modernization of the coal, coking and steel making industries.

Although there are many coal cleaning plants located in the northeast China, the lower quality of the raw coal in that region makes these plants less competitive in the cleaned coal market, especially in the coking coal market which serves the steel making industry and coal-fired electric utilities. Lower quality coal markets include metallurgy of non-ferrous metals and cement production - neither of which are attractive market segments for us.

We have three coal washing plants, one of which is located in the central area of Shanxi Province. In 2010, we produced about 2.35 million MT of clean coal, which is 67% of the total 3.5 million MT of our annual production capacity. The details about the three plants are as follows:

- Shanxi Liulin Jucai Plant - located in Liulin County about 2 miles away from Shanxi Liulin Jucai Coal Industry Co., Limited ("Jucai Coal"), a coal mine which supplies raw coal to Shanxi Coal, has an annual cleaning capacity of 1.1 million MT. Shanxi Coal purchased this facility from Resources Group, a related party, at cost of approximately \$5,800,000, of which \$900,000 is for the 50-year land use rights, \$1,000,000 is for the plant and \$3,900,000 is for the equipment. Shanxi Coal purchased the plant under a financial lease agreement with Resources Group. The financial lease loan of \$5,800,000 due to Resources Group is amortized over 10 years and bears interest at a rate of 6% per annum payable quarterly.

- Shanxi Zhongyang Ruixu Plant - located in Zhongyang County, started production in April of 2006. It has an annual clean coal washing capacity of 1.2 million MT. This plant plus land-use right was acquired by Shanxi Coal from Resources Group at a price of \$7,200,000. Shanxi Coal purchased the plant under a financial lease agreement with Resources Group. The financial lease loan of \$7,200,000 due to Resources Group is amortized over 10 years and bears interest at a rate of 6% per annum payable quarterly.
- Linshi Dongqiang Plant - This facility, which is located in Linshi County, has an annual coal washing capacity of 1.2 million MT. We purchased this facility through an asset exchange with Linshi Jinliao Coal & Chemical Co. on June 22, 2007.

Shanxi Coal, our operating company, has over 10 years of experience in sourcing and mixing different quality of raw coals. Since 1995, Shanxi Coal has been in the business of processing different quality raw coals, and we believe that long-term experience should allow us to produce the optimum raw coking coal mix which typically results in lower effective cost per MT of raw coking coal blended input. An optimum raw coal blended input also is a primary determinate in achieving high processing yield.

As substantially all of our business operations are conducted in China, our results of operations, financial condition and prospects are subject to economic, political and legal developments in China, currency fluctuations and other risks relating to doing business in China. For a detailed description of these risks, see risk factors sections under the sub-heading “Risks Relating to Doing Business in China,” starting from page 20.

We are supplied with raw coking coal by 16 coal mines, of which 14 mines are located in Liuling County in Shanxi Province. The high-quality raw coking coal we need to source and process to meet the quality level required by steel makers is more difficult to access in China than medium and low quality raw coal, which is a commodity and more readily available.

By the end of fiscal year 2010, we had 16 suppliers, with no suppliers who supplied more than 10% of our total raw coal purchase for year 2010. By the end of fiscal year 2009, we had 18 suppliers, with no suppliers who supplied more than 10% of our total raw coal purchase for year 2009. In the years ended December 31, 2010 and 2009, Shanxi Coal purchased raw coal from Jucai Coal, which is 75% owned by the brother of our Chairman, in the amounts of \$26,670,000 and \$15,055,000, respectively.

Most of our current customers are China coke producers (who then sell their coke to major steel makers) and steel mills that have their own coking facilities. In 2009, we sold 1,928,888 MT of cleaned coking coal to 19 different customers. In 2010, we sold 2,400,236 MT of cleaned coking coal to 19 different customers. This represents an increase of 24% from 2009, due primarily to the continued recovery of the steel industry.

In 2010 and 2009, no customer accounted for more than 10% of our annual sales. With highway and railway access to Shanxi Province, Inner Mongolia Autonomous Region, Hebei Province, Beijing and Tianjin, we can readily service the growing demand for steel production among our long-standing coke producing and steel mill customers. Our current primary geographic markets include Shanxi Province, Inner Mongolia Autonomous Region, Hebei Province, Beijing and Tianjin.

Coal Mining Industry In China

China is the largest producer and consumer of coal in the world, and many of China’s large coal reserves have yet to be developed. China had coal production of 3,200 million tons in 2010, 45 % of the world total. The world’s major producers are China, the USA, India, Australia, Russia, Indonesia and South Africa.

Strong Electricity Demand - China is one of the world's largest consumers of coal and approximately 80% of China's electrical power is generated by coal-fired plants. According to the estimates of Energy Information Administration, to keep up with electricity demand, an additional 600 GW (net of retirements) will be required to be brought online in China by 2030.

China's coal sector restructuring - Northern China, especially Shanxi Province, contains most of China's easily accessible coal and virtually all of the large state-owned mines. In February 2006, the National Development and Reform Commission (NDRC) announced a plan to restructure China's coal sector and reduce fragmentation in the industry. Their goal is to establish five to six giant conglomerates in China's main coal-producing provinces and to close down all small coal mines by 2015.

Shanxi's coal industry has traditionally included numerous small and financially weak companies - a business environment that contributed to unsafe working conditions, inefficient use of capital and serious environmental damage. In order to improve production efficiency and capacity, and workplace safety, the Shanxi provincial government put in place a coal mine consolidation program in 2009, which shut down all the small coal mines in the province and appointed larger coal enterprises to consolidate and restructure smaller coal mines through mergers, acquisitions and asset or share transfers.

Coal Mine Consolidation by the Company

Pinglu Project

In September 2009, the Shanxi provincial government approved Shanxi Coal to be an acquirer and consolidator of nine coal mines in Yucheng City, Pinglu County. Shanxi Coal was required to consolidate nine coal mines into five after completion of the acquisitions, increasing their expected aggregate annual capacity from approximately 1.6 million MT to 3.6 million MT. The coal mines under the Pinglu Project have aggregated reserves of approximately 163.9 million MT, based on government records, which were filed by the original owners of the mines. The Company is developing the Pinglu Project in two phases: Phase I includes the acquisitions and consolidation of two coal mines; Phase II includes the acquisitions and consolidation of seven other coal mines.

Phase I

On June 25, 2010, Shanxi Coal closed a mining right and mining assets transfer agreement dated December 11, 2009 with 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. As consideration, Shanxi Coal agreed to pay Da Wa Coal an aggregate purchase price of RMB 190 million (\$28.8 million) in cash, of which RMB 46.6 million (\$7.1 million) was for the tangible assets and RMB 143.4 million (\$21.7 million) was for the mining right. As of December 31, 2010, Shanxi Coal has paid RMB 152 million (\$23.0 million) and the remainder of the purchase price, RMB 38 million (\$5.8 million) will be due upon the one year anniversary of completion of the transfer. A new project company named Shanxi Pinglu Dajinhe Coal Co., Ltd. ("Dajinhe Coal") will hold the assets and mining right of Da Wa Coal.

On December 9, 2010, Shanxi Yuncheng Municipal Coal Mine Industry Bureau approved all comprehensive reports prepared on Dajinhe Coal's geology, preliminary construction design, and safety and environmental impact. Construction of the production expansion of Dajinhe Coal was also approved to begin on January 1, 2011. On March 10, 2011, Shanxi Coal received transitional business license for Dajinhe Coal. With the transitional business license, which is valid until November 17, 2011, Shanxi Coal will be able to sell thermal coal produced during the construction and expansion period to its customers at prevailing market prices. The annual production capacity is expected to expand from 300,000 MT before the construction to 600,000 MT after the construction and production expansion. Dajinhe Coal's existing coal mine is in good condition, which reduces the complexity of construction and production expansion. The Company estimates the expansion will be completed within a period of eight to twelve months. Since the improvements are based on the existing coal mine, which had good operating record prior to the government mandatory shut down under Shanxi Province's coal mine consolidation program, coal will be produced during the construction period. The Company estimates that Dajinhe Coal will produce approximately 150,000

290,000 MT of thermal coal during the estimated 8 to 12 months construction period.

On June 25, 2010, Shanxi Coal closed a mining right and mining assets transfer agreement dated December 11, 2009 with 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. As consideration, Shanxi Coal agreed to pay Guanyao Coal an aggregate purchase price of RMB 94.80 million (\$14.4 million) in cash, of which RMB 37.6 million (\$5.7 million) was for the tangible assets and RMB 57.2 million (\$8.7 million) was for the mining right. As of December 31, 2010, Shanxi Coal has paid RMB 75.84 million (\$11.5 million) and the remainder of the purchase price, RMB 18.96 million (\$2.9 million) will be due upon the one year anniversary of completion of the transfer. A new project company named Shanxi Pinglu Dajinhe Wujin Coal Co., Ltd. (“Wujin Coal”) will hold the assets and mining right of Guanyao Coal.

Both Dajinhe Coal and Wujin Coal are 100% owned by Shanxi Coal.

Phase II

On August 1, 2010, an Investment Cooperation Agreement (the ‘Agreement’) was signed by Shanxi Coal, Mr. Ming Zhao, Chairman of our Board and our principal stockholder, and Mr. Jianping Gao, an individual unrelated to the Company before the Agreement, (collectively the “Co-Investors”). The Co-Investors entered into a Supplementary Agreement of Investment Cooperation on January 10, 2011. Pursuant to the Agreement and Supplementary Agreement, the Co-Investors will purchase and consolidate seven coal mines in Pinglu County, Shanxi Province into three bigger mines. Shanxi Coal, Mr. Zhao and Mr. Gao will each 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 Co-Investors agreed that Shanxi Coal acts as the representative of each of them to sign the coal mining assets purchase agreement with the 7 coal mines of Phase II. The Co-Investors will share the profits and bear the risks and losses in connection with the project based upon the percentages of their equity ownership and limited by the amount of investment contributed by each party. The Co-Investors further agree that, once the coal mines to be acquired and consolidated under the project are in operation, 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. Shanxi Coal is entitled to purchase the equity interest of Mr. Ming Zhao and/or Mr. Gao in the project companies at Shanxi Coal’s sole discretion at a price with reference to the valuation to be conducted by an independent professional appraiser. In order to guarantee the performance of the Investment Cooperation Agreement, Shanxi Coal is using its investment in each relevant project company as a guarantee to the other co-investors that Shanxi Coal will be responsible for breach of this Agreement in the event that any fraud or gross negligence by Shanxi Coal causes a loss by such project company. A committee of our Board comprised solely of independent directors negotiated terms of the agreement on behalf of the Company and approved the agreement.

On December 23 2010, Shanxi Coal closed a mining right and mining assets transfer agreement dated October 20, 2010 with Samenzhen Xuhutuo Coal Mine Ltd. (“Xuhutuo Coal”), pursuant to which Shanxi Coal purchased from Xuhutuo Coal all its tangible assets and coal mining right with respect to a coal mine located in Pinglu County, Shanxi Province. As consideration, Shanxi Coal agreed to pay Xuhutuo Coal an aggregate purchase price of RMB 125 million (\$18.9 million) in cash, of which RMB 20.7 million (\$3.1 million) is for the tangible assets and RMB 104.3 million (\$15.8 million) is for the mining right. As of December 31, 2010, RMB 112.5 million (\$17.0 million) was paid and the remainder of the purchase price of RMB 12.5 million (\$1.9 million) will be due six months after the completion of transfer.

On December 23, 2010, Shanxi Coal closed a mining right and mining assets transfer agreement dated October 20, 2010 with Daqi Coal Mine Ltd. (“Daqi Coal”), pursuant to which Shanxi Coal purchased from Daqi Coal all its tangible

assets and coal mining right with respect to a coal mine located in Pinglu County, Shanxi Province. As consideration, Shanxi Coal agreed to pay Daqi Coal an aggregate purchase price of RMB 66.2 million (\$10.0 million) in cash, of which RMB 8.4 million (\$1.3 million) is for the tangible assets and RMB 57.8 million (\$8.7 million) is for the mining right. As of December 31, 2010, RMB 59.6 million (\$9.0 million) was paid and the remainder of the purchase price of RMB 6.62 million (\$1.0 million) will be due six months after the completion of transfer.

On December 24, 2010, Shanxi Coal closed a mining right and mining assets transfer agreement dated October 28, 2010 with Renling Coal Mine Ltd. ("Renling Coal"), pursuant to which Shanxi Coal purchased from Renling Coal all its tangible assets and coal mining right with respect to a coal mine located in Pinglu County, Shanxi Province. As consideration, Shanxi Coal agreed to pay Renling Coal an aggregate purchase price of RMB 205 million (\$31.1 million) in cash, of which RMB 38.83 million (\$5.9 million) is for the tangible assets and RMB 166.17 million (\$25.2 million) is for the mining right. As of December 31, 2010, RMB184.5 million (\$28.0 million) was paid and the remainder of the purchase price of RMB 20.5 million (\$3.1 million) will be due six months after the completion of transfer.

On December 24, 2010, Shanxi Coal closed a mining right and mining assets transfer agreement dated October 28, 2010 with Donggou Coal Mine Ltd. ("Donggou Coal"), pursuant to which Shanxi Coal purchased from Donggou Coal all its tangible assets and coal mining right with respect to a coal mine located in Pinglu County, Shanxi Province. As consideration, Shanxi Coal agreed to pay Donggou Coal an aggregate purchase price of RMB 77.5 million (\$11.7 million) in cash, of which RMB 9.13 million (\$1.4 million) is for the tangible assets and RMB 68.37 million (\$10.3 million) is for the mining right. As of December 31, 2010, RMB69.75 million (\$10.5 million) was paid and the remainder of the purchase price of RMB 7.75 million (\$1.2 million) will be due six months after the completion of transfer.

On February 17, 2011, Shanxi Coal closed a mining right and mining assets transfer agreement dated December 28, 2010 with Pinglu County Anrui Coal Industry Co., Ltd. ("Anrui Coal"), pursuant to which Shanxi Coal purchased from Anrui Coal all its tangible assets and coal mining rights located in Pinglu County, Shanxi Province. As consideration, Shanxi Coal agreed to pay Anrui Coal an aggregate purchase price of RMB 250 million (\$37.43 million) in cash, of which RMB 64.81 million (\$9.70 million) is for tangible assets and RMB 185.19 million (\$27.73 million) is for the mining rights.

On February 18, 2011, Shanxi Coal closed a mining right and mining assets transfer agreement dated December 28, 2010 with Pinglu County Xiapingcun Coal Mine ("Xiapingcun Coal"), pursuant to which Shanxi Coal purchased from Xiapingcun Coal all its tangible assets and coal mining rights located in Pinglu County, Shanxi Province. As consideration, Shanxi Coal agreed to pay Xiapingcun Coal an aggregate purchase price of RMB 61.2 million (\$9.16 million) in cash, of which RMB 18.53 million (\$2.77 million) is for Xiapingcun Coal's tangible assets and RMB 42.67 million (\$6.39 million) is for the mining right.

On February 22, 2011, Shanxi Coal closed a mining right and mining assets transfer agreement dated December 28, 2010 with Pinglu County Chuntouao Coal Mine ("Chuntouao Coal"), pursuant to which Shanxi Coal purchased from Chuntouao Coal all its tangible assets and coal mining rights located in Pinglu County, Shanxi Province. As consideration, Shanxi Coal agreed to pay Chuntouao Coal an aggregate purchase price of RMB 140 million (\$20.96 million) in cash, of which RMB 32.36 million (\$4.84 million) is for Chuntouao Coal's tangible assets and RMB 107.64 (\$16.12 million) is for the mining right.

A new project company named Shanxi Pinglu Dajinhe Jinmen Coal Industry Ltd. ("Jinmen Coal") will hold the assets and mining rights of Xuhutuo Coal and Daqi Coal and a new project company named Shanxi Pinglu Dajinhe Jinyi Coal Industry Ltd. ("Jinyi Coal") will hold the assets and mining rights of Renling Coal and Donggou Coal. A new project company named Shanxi Pinglu Dajinhe Anrui Coal Industry Co., Ltd. ("Dijinhe Anrui Coal") will hold the assets and mining rights of Anrui Coal, Chuntouao Coal and Xiapingcun Coal.

The following table summarizes the production capacity before and after consolidation of the target coal mines.

Target Coal Mines	Pre- Consolidation		Post-Consolidation	
	Production Capacity (MT)		Project Companies	Production Capacity (MT)
	Phase I			
Pinglu County Da Wa Coal Industry Co., Ltd.	300,000		Shanxi Pinglu Dajinhe Coal Industry Ltd	600,000
Pinglu County Guanyao Coal Industry Ltd.	150,000		Shanxi Pinglu Dajinhe Wujin Coal Industry Ltd	300,000
	Phase II			
Pinglu County Sanmenzhen Xuhutuo Coal Mine Ltd.	210,000		Shanxi Pinglu Dajinhe Jinmen Coal Industry Ltd	900,000
Pinglu County Daqi Coal Mine Ltd.*	150,000	*		
Shanxi Pinglu Renling Coal Industry Ltd.	300,000		Shanxi Pinglu Dajinhe Jinyi Coal Industry Ltd	900,000
Pinglu County Donggou Coal Mine*	150,000	*		
Pinglu County Anrui Coal Industry Co., Ltd.	150,000		Shanxi Pinglu Dajinhe Anrui Coal Industry Ltd	900,000
Pinglu County Chuntouao Coal Mine*	150,000	*		
Pinglu County Xiapingcun Coal Mine*				
Total	1,560,000			3,600,000

*mines will be closed during consolidation and underground reserves will be merge with nearby bigger mines

Jianhe Project

On May 14, 2009, we entered into an agreement to purchase 18% ownership in Jianhe Coal, for an aggregate purchase price of RMB 100 million (approximately \$15.2 million). The closing occurred in December 2009 when the share transfer was completed. According to the agreement, Shanxi Coal will be paid dividends semiannually proportionate to its 18% ownership in Jianhe Coal. Aggregate dividends to be declared by the Jianhe Coal will be no less than 80% of its annual net profits. In addition, Shanxi Coal has first priority in the right to purchase other shares of Jianhe Coal within the 24-month period following execution of the agreement.

In early 2010, the Shanxi provincial government approved Shanxi Coal to become an acquirer and consolidator of four additional coking coal mines in Huozhou County, including Jianhe Coal, in which we already have 18% equity interest. Shanxi Coal plans to consolidate the four coal mines into one after the completion of the acquisitions, increasing their expected aggregate annual capacity from 720,000 MT to 900,000 MT. The Jianhe project has total recoverable reserves of 23.7 million MT, based on government records filed by original owners of the mines. Shanxi Coal is negotiating with the owners of these four coal mines to finalize definitive acquisition agreements.

Employees

We had approximately 364 employees as of December 31, 2010 as compared to 333 employees as of December 31, 2009. All of our employees are full-time employees. The following table shows the breakdown of the number of employees by department.

Department	Job Title / Responsibility	Number of Employees
Corporate	President, Vice Presidents, Managers	8
Finance	Finance and Accounting	9
Supply; Marketing and Sales	Purchase raw coal and maintain relationship with suppliers; Sell cleaned coal, maintain relationship with customers, and acquire new customers	26
Transportation	Short-range truck drivers (within plant)	15
Production	Produce cleaned coal	243
Quality Control	Quality check on input (raw coal) and output (cleaned coal)	21
Reception and Security	Administrative matters on reception and security	42
Total		364

Distribution

We sell our clean coking coal through a direct sales force of approximately 19 full-time employees who market directly to our customers, who are mostly coking companies that supply steel mills and steel mills with their own coking facilities. We do not have any agreements with any third-party distributors or wholesalers. While individual sales might be made to a customer who is not subject to a supply agreement if requested and we had adequate capacity at the time, most of our sales are pursuant to agreements which are signed for one-year terms, with annual renewals. Our customers are mostly located in Shanxi Province, Inner Mongolia Autonomous Region, Hebei Province, Beijing and Tianjin, all of which are accessible by highways or rail lines.

Intellectual Property

Our cleaning facilities use a proprietary, water supported jig washing technology that management believes gives it a competitive advantage in providing high quality, cleaned coking coal for China's steel making industry.

We have no patents, trademarks, other licenses, franchises, concessions or royalty agreements. In 2010, 2009 and 2008, we did not incur any expenditure on research and development activities.

Governmental Approvals

The coal mining business is highly regulated in China and we require government approvals for our construction and exploration of coal mines.

Available Information

We file electronically with the Securities and Exchange Commission, or SEC, our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The SEC maintains an Internet site that contains reports, proxy information and information statements, and other information regarding issuers that file electronically with the SEC. The address of that website is <http://www.sec.gov>. The materials are also available at the SEC's public Reference Room, located at 100 F Street, Washington, D.C. 20549. The public may obtain information through the public reference room by calling the SEC at

1-800-SEC-0330.

14

We maintain an internet website under the name www.pudacoalinc.com. We make available, free of charge, on our website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, other information and amendments to those reports, as soon as reasonably practicable after providing such reports to the SEC. Information contained on, or connected to, our website is not incorporated by reference into this Form 10-K and should not be considered part of this report of any other filing that we make with the SEC.

Item 1A. Risk Factors

We are subject to a number of risks, including those enumerated below. An investment in our common stock is speculative and involves a high degree of risk. You should carefully consider the following important risks and uncertainties in connection with any investment in our common stock. If the damages threatened by any of the following risks actually occur, our business, financial condition or results of operations, and cash flows would likely suffer significantly. In any of those cases, the value of our common stock could decline significantly, and you may lose all or part of your investment.

Risks Relating to Our Business

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 the 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. 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 December 31, 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 may not be able to timely obtain government permits or approvals for coal mining business. We are required to obtain numerous governmental permits or approvals for our coal mining business, including the approval of pre-construction designs, issuance of upgrade construction permits, approval of post-construction practices, issuance of operating licenses, and issuance and renewal of mining rights. Currently, Shanxi Coal has been given transitional mining permits, which will expire in November-December 2011. The Shanxi government will not issue the final operating licenses and renew the mining permits until the reconstruction works are completed. This is the policy of Shanxi government's consolidation program and applies to all consolidation projects in the province. The permit

application procedures are complex and the timing of permit issuance depends on many factors, practically the quality and speed of our construction works and government's review time. Accordingly, permits required may not be obtained or renewed in a timely manner, which will limit our ability to conduct our mining operations.

- 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 limitations that are 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 depend on third parties for the construction of our coal mines and related facilities, and we may also face delays in the construction 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.
- The coal mining business is highly regulated. The exploration, transportation and distribution of coal are 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 the 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 and Supplementary Investment Cooperation Agreement to acquire and co-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 and Supplementary 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 seven 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 washing 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 and in 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.

Mr. Ming Zhao and Mr. Yao Zhao may have, or may develop in the future, conflicts of interest with us. First, the loan used to finance our 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 a principal amount of RMB240 million (US\$36.4 million) plus quarterly interest pursuant to a loan agreement dated May 7, 2010, which loan proceeds were used to increase Shanxi Coal'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. Ming 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, Mr. Ming Zhao is a party to the Investment Cooperation Agreement and Supplementary Investment Cooperation Agreement we entered into on August 1, 2010 and January 10, 2011, respectively, in which Mr. Ming Zhao will contribute 30% of the equity investment needed for acquiring and developing seven 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. Ming 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. Ming Zhao may be limited given Mr. Ming Zhao's control over our Company.

We are primarily a holding company and depend on distributions from our subsidiaries to meet our financial obligations.

Our Company has an offshore holding structure commonly used by foreign investors with operations in China. We are a corporation which owns BVI, and BVI owns Putai. Our operations are conducted exclusively through Shanxi Coal, in which we own 90% of the equity interest. The operations of Shanxi Coal are our sole source of revenues. We have no operations independent of those of Putai and its subsidiaries. As a result, we are dependent upon the performance of Putai and its subsidiaries and will be subject to the financial, business and other factors affecting such subsidiaries as well as general economic and financial conditions. As substantially all of our operations are conducted through our subsidiaries, we are dependent on the cash flow of our subsidiaries to meet our obligations.

Because virtually all of our assets are held by our operating subsidiaries, the claims of our shareholders will be structurally subordinate to all existing and future liabilities and obligations, and trade payables of such subsidiaries. In the event of a bankruptcy, liquidation or reorganization of the Company, our assets and those of our subsidiaries will be available to satisfy the claims of our shareholders only after all of Putai and its subsidiaries' liabilities and obligations have been paid in full.

Our future operating results have been and may continue to be affected by fluctuations in raw material prices. We may not be able to pass on cost increases to customers.

Our operating profits have been and may continue to be negatively affected by fluctuations in the price of raw coking coal. We are subject to short-term coal price volatility and have purchased and may continue to have to purchase raw coking coal at higher prices. In the past, we were not always able to pass the cost increase of raw coal on to customers and may not be able to do so in the future either. This has adversely affected and may continue to adversely affect our 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 customer under these provisions, many agreements allow customers to terminate the contract or refuse to buy all of the quantities contracted for. Market prices for raw coking coal fluctuate in most regions in China. Raw coal prices increased from an average of RMB 475 per MT in 2008 to RMB 483 per MT in 2009 to RMB 567 per MT in 2010. We were not able to fully pass these cost increases on to our customers and may not be able to do so with any future increases in the cost of raw materials. Top quality raw coking coal is critical to our maintaining operating efficiencies and delivering cleaned coal to our customers which meets their specifications. Since top quality raw coking coal is more limited in supply, its price tends to be more 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.

If any of Shanxi Coal's coal sales agreements terminates or expires, our revenues and operating profits could suffer.

A substantial portion of our sales are made under coal sales agreements, which are important to the stability and profitability of our coal washing operations. It is common business practice in China that coal purchase and sale agreements are signed for one year terms, with annual renewals. This practice makes it difficult for us to forecast long-term purchase and sale quantities and can negatively affect our ability to manage inventory. These agreements may expire or be terminated. Cleaned coal sales agreements also typically contain force majeure provisions allowing temporary suspension of performance by us or the customer during the duration of specified events beyond the control of the affected party. Moreover, even if sales agreements are in force, buyers are generally not obligated to take the quantities specified in the contracts.

Increases in transportation costs could make our operations less competitive and result in the loss of customers.

Coal producers and processors depend upon rail, barge, trucking, overland conveyor and other systems to deliver coal to markets. While our customers typically arrange and pay for transportation of cleaned coking coal from our facilities to the point of use, any disruption of these transportation services because of weather-related problems, strikes, lock-outs or other events could temporarily impair our ability to supply coal to customers and thus could adversely affect our results of operations. For example, the high volume of raw coal shipped from all Shanxi Province mines could create temporary congestion on the rail systems servicing that region. If transportation for our cleaned coking coal becomes unavailable or uneconomic for our customers, our ability to sell cleaned coking coal could suffer. Transportation costs can represent a significant portion of the total cost of cleaned coal. Since our customers typically pay that cost, it is a critical factor in a distant customer's purchasing decision. If transportation costs from our facilities to the customer's are not competitive, the customer may elect to purchase from another company. Moreover, certain coal sales agreements permit the customer to terminate the contract if the cost of transportation increases by specified amounts in any given 12-month period.

We may not be able to meet quality specifications required by our customers and as a result could incur economic penalties or cancelled agreements which would reduce our sales and profitability.

Most of our coal sales agreements contain provisions requiring us to deliver coking coal meeting quality thresholds for certain characteristics such as BTUs, sulfur content, ash content, grindability and ash fusion temperature. If we are not able to meet these specifications, because, for example, we are not able to source coal of the proper quality, we may incur economic penalties, including price adjustments, the rejection of deliveries or termination of the contracts.

Our business is highly competitive and increased competition could reduce our sales, earnings and profitability.

The coal crushing, washing and processing business is highly competitive in China and we face substantial competition in connection with the marketing and sale of our products. Most of our competitors are well established, have greater financial, marketing, personnel and other resources, have been in business for longer periods of time than we have, and have products that have gained wide customer acceptance in the marketplace. The greater financial resources of our competitors will permit them to implement extensive marketing and promotional programs. We could fail to expand our market share, and could fail to maintain our current share.

Increased competition could also result in overcapacity in the Chinese coal industry in general. The coal industry in China has experienced overcapacity in the past. During the mid-1970s and early 1980s, a growing coal market and increased demand for coal in China attracted new investors to the coal industry, spurred the development of new mines and resulted in added production capacity throughout the industry, all of which led to increased competition and lower processed coal prices. Similarly, an increase in future processed coal prices could encourage the development of expanded capacity by new or existing coal processors. Any overcapacity could reduce processed coal prices in the future and our profitability would be impaired.

We depend on key persons and the loss of any key person could adversely affect our operations.

We and our operating company, Shanxi Coal are highly dependent on the marketing ability and credit of Mr. Ming Zhao, our Chairman, and the loss of his service and support would have a material and adverse impact on our operations. We are also dependent upon our relationship with Mr. Ming Zhao and his brother Mr. Yao Zhao and their other controlled businesses. None of our companies has applied for key-man life insurance on the lives of our executives. If we were to lose the services of Mr. Ming Zhao, our ability to operate would be impaired.

Significant assets are subject to a lien held by a company controlled by the Zhaos and their family. If we default on the payment of the obligations secured by the lien we could lose title to assets which are necessary for the operation of our business.

We financed the acquisition of the Shanxi Liulin Jucai Plant and the Zhongyang Plant through Resources Group, an entity owned 80% by Mr. Ming Zhao, 10% by Mr. Yao Zhao, 5% by Xue Ning, Ming Zhao's wife, and 5% by Xue Yue, a second-generation cousin of Xue Ning, for an aggregate cost of \$13 million paid through a 6% secured facilities loan amortized over 10 years. The note is secured by the assets purchased. If we default on the loan, the security could be enforced and title to the assets could be lost, having a significant negative impact on our ability to produce our products.

We do not have any registered patents or other intellectual property and we may not be able to maintain the confidentiality of our processes.

We have no patents covering our cleaning processes and we rely on the confidentiality of our cleaning processes in producing a competitive product. The confidentiality of our know-how may not be maintained and we may lose any meaningful competitive advantage which might arise through our proprietary processes.

The current credit and financial market conditions have a negative impact on global business environment and may exacerbate certain risks affecting our business.

The financial markets are currently experiencing a downturn around the world. 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.

Terrorist attacks or military conflict could result in disruption of our business.

Terrorist attacks and threats, escalation of military activity in response to such attacks or acts of war may negatively affect our business, financial condition and results of operations. Our business is affected by general economic conditions, fluctuations in consumer confidence and spending, and market liquidity, which can decline as a result of numerous factors outside of our control, such as terrorist attacks and acts of war. Future terrorist attacks, rumors or threats of war, actual conflicts involving China or its allies, or military or trade disruptions affecting our customers may materially adversely affect our operations. As a result, there could be delays or losses in transportation and deliveries of processed coal to our customers, decreased sales of coal and extensions of time for payment of accounts receivable from customers. Strategic targets such as energy-related assets may be at greater risk of terrorist attacks than other targets. In addition, disruption or significant increases in energy prices could result in government-imposed price controls. Any, or a combination, of these occurrences could have a material adverse effect on Shanxi Coal's business, financial condition and results of operations.

Risks Relating to Doing Business in China

Our Chinese operations pose certain risks because of the evolving state of the Chinese economy, political, and legislative and regulatory systems. Changes in the interpretations of existing laws and the enactment of new laws may negatively impact our business and results of operation.

Substantially all of our business operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including its levels of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Doing business in China involves various risks including internal and international political risks, evolving national economic policies as well as financial accounting standards, expropriation and the potential for a reversal in economic conditions. Since the late 1970s, the Chinese government has been reforming its economic system. These policies and measures may from time to time be modified or revised. While the Chinese economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors of China. Furthermore, while the Chinese government has implemented various measures to encourage economic development and guide the allocation of resources, some of these measures may also have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. Also, since early 2004, the Chinese government has implemented certain measures to control the pace of economic growth including certain levels of price controls on raw coking coal. Such controls could cause our margins to be decreased. In addition, such measures may cause a decrease in the level of economic activity in China, which in turn could adversely affect our results of operations and financial condition. Adverse changes in economic policies of the Chinese government or in the laws and regulations, if any, could have a material and adverse effect on the overall economic growth of China, and could adversely affect our business operations.

There are substantial uncertainties regarding the application of Chinese laws, especially with respect to existing and future foreign investments in China. The interpretation and application of existing Chinese laws, regulations and policies, and the stated positions of the Chinese authorities may change and possible new laws, regulations or policies will impact our business and operations. For example, due to the uncertainties surrounding the interpretation of the transfer pricing rules relating to related party transactions in China, it is possible that tax authorities in China may challenge the transfer prices that we have used for related party transactions among our entities in China in the future. Because of the evolving nature of the law, it will be difficult for us to manage and plan for changes that may arise. Our business is and will continue to be subject central, provincial, local and municipal regulation and licensing in China. Compliance with such regulations and licensing can be expected to be a time-consuming, expensive process. Compliance with foreign country laws and regulations affecting foreign investment, business operations, currency exchange, repatriation of profits, and taxation, will increase the risk of investing in our stock.

We may have to incur unanticipated costs because of the unpredictability of the Chinese legal system.

The Chinese legal system has many uncertainties. The Chinese legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, Chinese legislation and regulations have enhanced the protections afforded to various forms of foreign investments in China. However, China has not developed a fully integrated legal system and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. In addition, the Chinese legal system is based in part on government policies and internal rules (some of which are not published on a timely basis or at all) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

Our industry is heavily regulated and we may not be able to remain in compliance with all such regulations and we may be required to incur substantial costs in complying with such regulation.

We are subject to extensive regulation by China's Mining Ministry, and by other provincial, county and local authorities in jurisdictions in which our products are processed or sold, regarding the processing, storage, and distribution of our product. Our processing facilities are subject to periodic inspection by national, province, county and local authorities. We may not be able to comply with current laws and regulations, or any future laws and regulations. To the extent that new regulations are adopted, we will be required to adjust our activities in order to comply with such regulations. We may be required to incur substantial costs in order to comply. Our failure to comply with applicable laws and regulations could subject us to civil remedies, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material and adverse effect on our business, operations and finances. Changes in applicable laws and regulations may also have a negative impact on our sales. Certain of our contracts with customers permit the customers to terminate the contract in the event of changes in regulations affecting the industry that increase the price of coal beyond specified limits.

The government regulation of our coal processing operations imposes additional costs on us, and future regulations could increase those costs or limit our ability to crush, clean and process coking coal. China's central, provincial and local authorities regulate the coal mining industry with respect to matters such as employee health and safety, permitting and licensing requirements, air quality standards, water pollution, plant and wildlife protection, reclamation and restoration of mining properties after mining is completed, the discharge of materials into the environment, surface subsidence from underground mining and the effects that mining has on groundwater quality and availability. We are required to prepare and present to China's central, provincial and local authorities data pertaining to the effect or impact that any proposed processing of coal may have upon the environment. The costs, liabilities and requirements associated with these regulations may be costly and time-consuming and may delay commencement, expansion or

continuation of our coal processing operations. The possibility exists that new legislation and/or regulations and orders may be adopted that may materially and adversely affect our operations, our cost structure and/or our customers' ability to use coal. New legislation or administrative regulations (or judicial interpretations of existing laws and regulations), including proposals related to the protection of the environment that would further regulate and tax the coal industry, may also require us and our customers to change operations significantly or incur increased costs. Certain sales agreements contain provisions that allow a purchaser to terminate its contract if legislation is passed that either restricts the use or type of coal permissible at the purchaser's plant or results in specified increases in the cost of coal or its use. These factors and legislation, if enacted, could have a material adverse effect on our financial condition and results of operations.

It will be difficult for any shareholder of our Company to commence a legal action against our executives. Other than the stock of our subsidiaries, we have minimal assets in the United States.

We conduct substantially all of our operations through our control of Shanxi Coal. Shanxi Coal and substantially all of Shanxi Coal's assets are located in Shanxi Province, China. Other than our stock in our direct subsidiary, Puda Investments Holding Limited, an International Business Company incorporated in the British Virgin Islands, we have very minimal assets in the United States. In addition, all of our executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of China upon our senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. Moreover, our Chinese counsel has advised us that China does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgments of courts.

Restrictions on Chinese currency may limit our ability to obtain operating capital and could restrict our ability to move funds out of China and to pay dividends.

The Chinese currency, "Renminbi", or "RMB", is not a freely convertible currency, which could limit our ability to obtain sufficient foreign currency to support Shanxi Coal's business operations in the future and could impair the ability of Shanxi Coal to pay dividends or other distributions to Puda. We rely on the Chinese government's foreign currency conversion policies, which may change at any time, in regard to our currency exchange needs. Shanxi Coal receives all of its revenues in Renminbi, which is not freely convertible into other foreign currencies. Under our current structure, our income is derived from payments from Shanxi Coal through Putai and BVI. In China, the government has control over Renminbi reserves through, among other things, direct regulation of the conversion of Renminbi into other foreign currencies and restrictions on foreign imports. Although foreign currencies which are required for "current account" transactions can be bought freely at authorized Chinese banks, the proper procedural requirements prescribed by Chinese law must be met. Current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the Chinese State Administration of Foreign Exchange by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of bank loans denominated in foreign currencies. At the same time, Chinese companies are also required to sell their foreign exchange earnings to authorized Chinese banks and the purchase of foreign currencies for capital account transactions still requires prior approval of the Chinese government. This type of heavy regulation by the Chinese government of foreign currency exchange restricts certain of our business operations and a change in any of these government policies, or any other, could further negatively impact our operations.

In order to pay dividends, a conversion of Renminbi into U.S. dollar is required. Under current Chinese law, the conversion of Renminbi into foreign currency generally requires government consent. Government authorities may impose restrictions that could have a negative impact in the future on the conversion process and upon the ability of Shanxi Coal to meet its cash needs, and to pay dividends to Puda. However, Putai is presently classified as a wholly-owned foreign enterprise, or WFOE, in China that has verifiable foreign investment in China, funding having been made through an official Chinese banking channel. Because Putai qualifies for treatment as a WFOE, it can convert Renminbi, declare dividends and its funds can be repatriated to Puda in the United States under current laws and regulations in China, subject to limitations and restrictions imposed by Chinese laws, such as the SAFE notices issued by the State Administration of Foreign Exchange. However, the Chinese laws governing foreign currency exchange are evolving, and changes in such laws or their interpretation or application may adversely affect the ability to convert Renminbi, declare dividends and repatriate funds to the United States. Because our cash flow is dependent on dividend distributions from our subsidiaries in China, we may be restricted from distributing dividends to stockholders if we do not receive distributions of dividends from our subsidiaries.

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.

Effective July 21, 2005, The People's Bank of China announced that the Renminbi exchange rate regime is reformed by moving from a fixed rate of exchange based upon the U.S. dollar to a managed floating exchange rate regime based upon market supply and demand of a basket of currencies. As of December 31, 2010, the last trading day in 2010, Renminbi appreciated to approximately 6.60 Renminbi per U.S. dollar. It is expected that the revaluation of the Renminbi and the exchange rate of the Renminbi may continue to change in the future. Fluctuations in the exchange rate between the Chinese RMB and the United States dollar could adversely affect our operating results. Results of Shanxi Coal's operations are translated at average exchange rates into United States dollar for purposes of reporting results. As a result, fluctuations in exchange rates may adversely affect our expenses and results of operations as well as the value of our assets and liabilities. Fluctuations may adversely affect the comparability of period-to-period results. We do not use hedging techniques to eliminate the effects of currency fluctuations. Thus, exchange rate fluctuations could have a material adverse impact on our operating results and stock prices.

Because our operations are located in China, information about our operations are not readily available from independent third-party sources.

Because our sole operating company, Shanxi Coal, is based in China, shareholders may have greater difficulty in obtaining information about Shanxi Coal on a timely basis than would shareholders of an entirely U.S.-based company. Shanxi Coal's operations will continue to be conducted in China and shareholders may have difficulty in obtaining information about Shanxi Coal from sources other than Shanxi Coal itself. Information available from newspapers, trade journals, or local, regional or national regulatory agencies such as issuance of construction permits and contract awards for development projects will not be readily available to shareholders. Shareholders will be dependent upon Shanxi Coal's management for reports of Shanxi Coal's progress, development, activities and expenditure of proceeds.

Climate change poses both regulatory and physical risks that could adversely impact our business, financial position, results of operations and liquidity.

Climate change could have a potential economic impact on us and climate change mitigation programs and regulations could increase our costs. Energy costs could be higher as a result of climate change regulations. Our costs could increase if utility companies pass on their costs, such as those associated with carbon taxes, emission cap and trade programs, or renewable portfolio standards. In addition, climate change may increase the frequency or intensity of natural disasters. As such, we cannot assure you that climate change will not adversely impact our business, financial position, results of operations and liquidity.

Risks Associated with Our Common Stock

Our stock price has been extremely volatile and may continue to fluctuate significantly, which may make it more difficult for you to resell shares when you want at prices you find attractive.

The trading price of our common stock has been and may continue to be subject to significant daily fluctuations. During the year ended December 31, 2010, the closing sale prices of our ordinary shares on the NYSE Amex ranged from \$4.90 to \$16.47 per share. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of material customer agreements or acquisition, the operating and stock price performance of other companies that investors may deem comparable, new government restrictions or regulations and news reports relating to trends in our markets. In addition, the stock market in general, and the market prices for China-related companies recently have experienced extreme volatility that often has been unrelated to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the price of our common stock, regardless of our operating performance.

Our stock prices could decrease if a substantial number of shares are sold under Rule 144.

A substantial number of Puda's outstanding shares of common stock are "restricted securities" within the meaning of Rule 144 under the Securities Act. As restricted shares, these shares may be resold only pursuant to an effective registration statement or under the requirements of Rule 144 or other applicable exemption from registration under the Act and as required under applicable state securities laws. Rule 144 provides in essence that a person who has held restricted securities for a period of at least one year may, under certain conditions, sell every three months, in brokerage transactions, a number of shares that does not exceed 1.0% of our outstanding common stock. There is no limit on the amount of restricted securities that may be sold by a non-affiliate after the restricted securities have been held by the owner for a period of two years or more. The SEC amended Rule 144 and, effective February 15, 2008, non-affiliates may sell restricted securities without volume limitations or other requirements after having held the securities for six months. If a substantial number of shares of our stock are sold under the amended Rule 144 or other exemption, it could cause the price our stock to go down.

Our principal stockholders have the ability to exert significant control in matters requiring stockholder vote and could delay, deter or prevent a change in control of our Company.

As of the date of this report, Mr. Ming Zhao and Mr. Yao Zhao own in total approximately 31.64% of the Company's outstanding shares and, acting together, will be able to exert a significant degree of influence over our management and affairs and all actions requiring stockholder approval, such as the election of directors and approval of significant corporate transactions. In addition, corporate law provides that certain actions may be taken by consent action of stockholders holding a majority of the outstanding shares. In the event that the requisite approval of stockholders is obtained by consent action, without any meeting of stockholders, dissenting or non-participating stockholders generally would be bound by such vote. Through their concentration of voting power, the Zhao brothers could delay, deter or prevent a change in control of our Company or other business combinations that might otherwise be beneficial to our other stockholders. Accordingly, this concentration of ownership may harm the market price of our common stock. In addition, the interest of the Zhao brothers may not always coincide with the interest of the Company's other stockholders. In deciding how to vote on such matters, the Zhao brothers may be influenced by interests that conflict with yours. You should not buy our common stock unless you are willing to entrust all aspects of operational control to Puda's current management team.

We do not intend to pay dividends in the foreseeable future.

In 2005, Shanxi Coal, our 90% subsidiary, declared dividends of \$1,715,470, payable to Mr. Ming Zhao (80%) and Mr. Yao Zhao (20%), of which \$543,470 was paid in 2005 and \$1,172,000 was paid on October 17, 2008. In September 2008, Shanxi Coal declared an RMB 8 million (\$1,170,754) dividend to its shareholders, which has not been paid as of the date of this report. No dividend was declared in 2009 or 2010. We do not intend to pay any dividends in the foreseeable future. We do not plan on making any cash contributions in the manner of a dividend or otherwise. Our board of directors presently intends to follow a policy of retaining earnings, if any. See "Dividend" on page 27.

The Company has the right to issue additional common stock and preferred stock without the consent of shareholders. This would have the effect of diluting your ownership in the Company and could decrease the value of your stock.

There are additional authorized but unissued shares of our common stock that may be later issued by our board of directors for any purpose without the consent or vote of the stockholders that would dilute a stockholder's percentage ownership of the Company.

In addition, our articles of incorporation authorize the issuance of shares of preferred stock, the rights, preferences, designations and limitations of which may be set by the board of directors. While no preferred stock is currently outstanding or subject to be issued, the articles of incorporation have authorized issuance of up to 5,000,000 shares of preferred stock in the discretion of the board of directors. Such preferred stock may be issued upon filing of amended Articles of Incorporation and the payment of required fees; no further shareholder action is required. If issued, the rights, preferences, designations and limitations of such preferred stock would be set by the board of directors and could operate to the disadvantage of the outstanding common stock. Such terms could include, among others, preferences as to dividends and distributions on liquidation.

We may be subject to regulatory scrutiny and sustain a loss of public confidence if we are unable to satisfy regulatory requirements relating to our internal controls over financial reporting and/or we have material internal control weaknesses which may result in material financial reporting errors.

Section 404 of the Sarbanes Oxley Act of 2002 requires us to perform an evaluation of our internal controls over financial reporting beginning with our Annual Report filed for a fiscal year ending on or after December 15, 2007 and have our independent registered public accounting firm attest to such evaluation for fiscal years ending on or after June 15, 2010. Compliance with these requirements can be expensive and time consuming. While we believe that we met and will continue to be able to meet the applicable deadlines, no assurance can be given that we will meet the required deadlines in future years. If we fail to timely complete this evaluation, or if our auditors cannot timely attest to our evaluation when we are required to have such attestation, we may be subject to regulatory scrutiny and a loss of public confidence in our internal controls.

Item 2. Properties

Shanxi Coal has the following facilities for the production of cleaned coking coal:

Shanxi Coal has significantly increased its coal cleaning capacity through its acquisition of a new facility in Liulin County, which has an annual capacity of 1.1 million MT, as well as through its acquisition of a new facility and related land use rights in Zhongyang County, Shanxi Province which has an annual capacity of 1.2 million MT.

The two plants, related land-use rights and coal washing equipment were acquired by Shanxi Coal from Resources Group on November 17, 2005, which is controlled by Mr. Ming Zhao (80%) and by Mr. Yao Zhao (10%). The Shanxi Liulin County Plant, which is located in Liulin County, Shanxi province, started production in December of 2005. The Shanxi Liulin County Plant, land-use rights and related equipment were purchased for a cost of \$5.8 million. The Zhongyang County Plant, which is located in Zhongyang County, Shanxi province, started production in April of 2006. The Zhongyang County Plant, land-use rights and related equipment were purchased for a cost of \$7.2 million. The purchase price paid by Shanxi Coal to Resources Group, which totals \$13 million, is amortized over 10 years and bears interest at a rate of 6% per annum payable quarterly. The loan is secured by the Shanxi Liulin Jucai Plant and the Zhongyang Plant. 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 to Resources Group. The annual purchase price payment made by Shanxi Coal to Resources Group in 2009 and 2010 were \$1,300,000.

Our Linshi Plant, which is located in Linshi County, has an annual coal washing capacity of 1.2 million MT. We purchased this facility through an asset exchange with Linshi Coal & Chemical on June 22, 2007. Upon the closing of the asset exchange, Shanxi Coal acquired all the assets of a coal washing plant of Linshi Coal & Chemical, which has an annual coal washing capacity of 1.2 million MT and a book value of RMB 57 million (approximately \$7.4 million). In exchange, Linshi Coal & Chemical received RMB 45.5 million (approximately \$5.9 million) in cash from Shanxi Coal and all the assets of a coal washing plant of Shanxi Coal located in Liulin County of the same province, which has an annual coal washing capacity of 400,000 ton and a book value of RMB 11.5 million (approximately \$1.5 million).

The management believes that the above facilities are in good condition and suitable for the cleaned coking coal production.

As of December 31, 2010, Shanxi Coal also owned the following mining rights and tangible assets located in Pinglu County, Shanxi Province at the following prices:

	Total purchase price RMB'000	Amount for mining rights RMB'000	Amount for tangible assets RMB'000
Da Wa Coal	190,000	143,400	46,600
Guanyao Coal	94,800	57,200	37,600
Xuhutuo Coal	125,000	104,300	20,700
Daqi Coal	66,200	57,800	8,400
Renling Coal	205,000	166,170	38,830
Donggou Coal	77,500	68,370	9,130
Total (in RMB'000)	758,500	597,240	161,260
	\$'000	\$'000	\$'000
Total (in USD'000)	\$ 114,924	\$ 90,491	\$ 24,433

Xuhutuo Coal, Daqi Coal, Renling Coal and Donggou Coal are four of the six coal mines co-developed under the Investment Cooperation Agreement dated August 1, 2010, pursuant to which Shanxi Coal is responsible to contribute 40% of the total investment needed for the consolidation and construction of these coal mines.

Shanxi Coal entered into agreements with Resources Group in 2001 to lease 200 square meters office as headquarters office of Shanxi Coal, which is in Taiyuan, Shanxi, and certain equipment (“the office lease agreement”). The rent was RMB50,000 per year with the lease term of 8 years ended December 31, 2008. On January 10, 2009, the office lease agreement was renewed with rent of RMB 90,000 per month for 1500 square meters office and lease term of 5 years ending December 31, 2013.

In 2010, Shanxi Coal maintained property insurances coverage in the amount of \$29,909,000 (RMB197,400,000) through The People’s Insurance Company of China (“PICC”).

Mining is inherently dangerous and subject to conditions or events beyond our control, and any operating hazards could have a material adverse effect on our business. Mining involves various types of risks and hazards, including: environmental hazards, industrial accidents, metallurgical and other processing problems, unusual or unexpected rock formations, structure cave-in or slides, flooding, fires and interruption due to inclement or hazardous weather conditions. These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury or death, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability. We may not be able to obtain insurance to cover these risks at economically feasible premiums and some types of insurance may be unavailable or too expensive to maintain.

Item 3. Legal Proceedings

There is currently no material, pending legal proceedings against us or with respect to any of our property.

Item 4. Removed and Reserved

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Effective on July 30, 2009, we completed a reincorporation from Florida to Delaware. Following the reincorporation, 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.

Our common stock ceased trading on the OTC and commenced trading on the NYSE Amex on September 22, 2009 under the ticker symbol "PUDA."

Our common stock is quoted under the symbol "PUDA" on NYSE Amex exchange market, The high and low sales prices for the periods presented have been adjusted to reflect the 7-to-1 Share Conversion:

	High*	Low*
2010		
March 31, 2010	10.19	4.90
June 30, 2010	11.31	7.33
September 30, 2010	9.80	6.46
December 31, 2010	16.47	7.50
2009		
March 31, 2009	2.03	1.19
June 30, 2009	4.34	1.75
September 30, 2009	6.65	3.15
December 31, 2009	8.46	5.16

* Source: Yahoo! Finance

Holders

As of December 31, 2010 there were 30,022,856 shares outstanding and approximately 136 holders of record of our common stock. See "Security Ownership of Certain Beneficial Owners and Management."

Dividend

In 2005, Shanxi Coal declared dividends, adjusted at exchange rate, equals to \$1,715,470, payable to Mr. Ming Zhao (80%) and Mr. Yao Zhao (20%), of which \$543,470 was paid in 2005 and \$1,172,000 was paid on October 17, 2008. In September 2008, Shanxi Coal declared dividends equal to \$1,170,754 to its shareholders as follows: \$1,053,678 to Putai, a 90% equity owner; \$93,661 to Mr. Ming Zhao, an 8% owner, and \$23,415 to Mr. Yao Zhao, a 2% owner. As of the date of this report, the declared dividend has not been paid.

Any future determination as to the declaration and payment of dividends on Puda's common stock will be made at the discretion of Puda's board of directors out of funds legally available for such purpose. Puda is under no contractual obligations or restrictions to declare or pay dividends on its common stock. In addition we currently have no plans to

pay such dividends. However, even if we wish to pay dividends, because our cash flow is dependent on dividend distributions from our subsidiaries, we may be restricted from distributing dividends to our holders of common stock in the future if at the time we were unable to obtain sufficient dividend distributions from Shanxi Coal or Putai. We acquired 90% of the total capital stock of Shanxi Coal. Under current law there is no restriction on a PRC company's ability to pay dividends to its shareholders because its shareholders are not Chinese, however, various factors could limit the ability of Shanxi Coal and Putai to distribute dividends to their shareholders, including the obligations of Shanxi Coal and Putai under the laws of China to maintain and continuously fund certain Chinese government mandated reserve accounts and foreign currency exchange regulations. The board of directors currently intends to retain all earnings for use in the business for the foreseeable future. See "Risk Factors."

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth, as of December 31, 2010, information with respect to our equity compensation plans:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders:			
Puda Coal, Inc. 2008 Equity Incentive Plan *	1,429	\$ 17.5	456,557(1)
Equity compensation plans not approved by security holders:	None	N/A	N/A

* after the 7-to-1 Share Conversion

(1) This number represents the number (after 7 to 1 Share Conversion) of securities available for future issuance under the Plan, excluding the shares that the Company is obligated to issue to the directors under the directors contracts and the shares issuable upon the exercise of 1,429 warrants hold by Mr. Ni.

Sales of Unregistered Securities

None.

Purchases of Equity Securities by Issuer

None.

Item 6. Selected Financial Data

SELECTED FINANCIAL DATA

The following selected financial data for the five years ended December 31, 2010 are derived from the audited consolidated financial statements of Puda Coal, Inc. The data should be read in conjunction with the consolidated financial statements, related notes, and other financial information.

OPERATIONS DATA	Year ended December 31,				
	2010 \$'000	2009 \$'000	2008 \$'000	2007 \$'000	2006 \$'000
Revenues	\$ 324,821	\$ 214,066	\$ 242,338	\$ 165,267	\$ 137,771
Net income	\$ 23,528	\$ 5,481	\$ 17,061	\$ 10,874	\$ 1,354
Option holder preference dividend	-	-	-	-	\$ (2,717)
Income/(loss) applicable to common Shares	\$ 23,528	\$ 5,481	\$ 17,061	\$ 10,874	\$ (1,363)
Income/(loss) per common share –					
-basic	\$ 1.17	\$ 0.36	\$ 1.12	\$ 0.77	\$ (0.14)
-diluted	\$ 1.15	\$ 0.36	\$ 1.12	\$ 0.77	\$ (0.14)
Cash dividends declared per common Share	\$ -	\$ -	\$ -	\$ -	\$ -
BALANCE SHEET DATA					
Total assets	\$ 366,097	\$ 111,201	\$ 98,632	\$ 81,264	\$ 62,984
Convertible notes and warrants	\$ -	\$ 7,620	\$ 4,086	\$ 7,421	\$ 13,894
Current portion of long-term debt	\$ 37,664	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300
Long-term debt	\$ 5,200	\$ 6,500	\$ 7,800	\$ 9,100	\$ 10,400
Shareholders' equity	\$ 250,876	\$ 83,959	\$ 72,277	\$ 48,581	\$ 23,037

QUARTERLY FINANCIAL DATA

Unaudited quarterly results of operations for the years ended December 31, 2010 and 2009 should be read in conjunction with the consolidated financial statements, related notes and other financial information and the Company's quarterly reports on Form 10-Q for the fiscal years 2010 and 2009.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
YEAR ENDED December 31, 2010					
Revenues	\$ 61,971	\$ 82,319	\$ 90,002	\$ 90,529	\$ 324,821
Gross profit	\$ 10,274	\$ 12,073	\$ 9,607	\$ 9,219	\$ 41,173
Net income	\$ 5,444	\$ 8,653	\$ 5,041	\$ 4,390	\$ 23,528
Income per common share -					
-basic	\$ 0.31	\$ 0.44	\$ 0.25	\$ 0.19	\$ 1.17
-diluted	\$ 0.31	\$ 0.36	\$ 0.25	\$ 0.18	\$ 1.15
YEAR ENDED December 31, 2009					
Revenues	\$ 49,721	\$ 47,990	\$ 56,106	\$ 60,249	\$ 214,066

Edgar Filing: Puda Coal, Inc. - Form 10-K

Gross profit	\$	3,871	\$	3,602	\$	5,375	\$	5,309	\$	18,157
Net income	\$	2,116	\$	1,729	\$	(621)	\$	2,257	\$	5,481
Income per common share - -basic and diluted	\$	0.14	\$	0.11	\$	(0.04)	\$	0.15	\$	0.36

29

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following description of our results of operations and financial condition in conjunction with the audited financial statements contained herein. Unless otherwise specified, all dollar amounts are in U.S. dollars.

Overview

We process high-grade metallurgical coking coal and supply it to coke and steel manufacturers. High-grade, cleaned coking coal is an important input in the steel manufacturing process. We source raw coal from third-party coal mines located in Shanxi Province, China and after we process it to a quality which is required to produce steel, we sell it to our customers in and around Shanxi Province.

Results of Operations

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Net Revenue. Net revenue was \$324,821,000 for the year ended December 31, 2010, compared to \$214,066,000 for the year ended December 31, 2009, an increase of \$110,755,000, or 52%. 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 471,000 MT, or 24%, from approximately 1,929,000 MT for the year ended December 31, 2009 to approximately 2,400,000 MT for the year ended December 31, 2010. Approximately \$52,281,000 of the total revenue increase in the year ended December 31, 2010 is attributed to the increase in tonnage sales of cleaned coal. The selling price of cleaned coal increased approximately \$24 or 22%, from approximately \$111 per ton for the year ended December 31, 2009 to approximately \$135 per ton for the year ended December 31, 2010. Approximately \$57,600,000 of the total revenue increase in the year ended December 31, 2010 is attributed 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 year ended December 31, 2010 as a result of the continued recovery of the steel industry.

Cost of Revenue. Cost of revenue was \$283,648,000 for the year ended December 31, 2010, compared to \$195,909,000 for the year ended December 31, 2009, an increase of \$87,739,000, or 45%. This was primarily due to increased tonnage sales of cleaned coal and increased raw coal unit cost. Approximately \$45,687,000 of the increase in the total cost of revenue in the year ended December 31, 2010 is attributable to the increase in tonnage sales of cleaned coal. The average unit cost of raw coal increased \$16 or 16%, from approximately \$97 per ton for the year ended December 31, 2009 to approximately \$113 per ton for the year ended December 31, 2010. Approximately \$38,400,000 of the increase in the total cost of revenue in the year ended December 31, 2010 is attributable to the increase in raw coal unit cost.

Gross Profit. Gross profit was \$41,173,000 for the year ended December 31, 2010, compared to \$18,157,000 for the year ended December 31, 2009, an increase of \$23,016,000, or 127%. Gross profit margins for the year ended December 31, 2010 and 2009 were 13% and 8%, respectively. Such increase in gross profit margins was primarily due to an increase in average selling price of cleaned coal across the year ended December 31, 2010 which exceeded the increase in purchase price of raw coal.

Selling Expenses. Selling expenses were \$3,218,000 for the year ended December 31, 2010, compared to \$2,453,000 for the year ended December 31, 2009. This represents an increase of \$765,000, or 31%, primarily due to the increase in sales volume in the year ended December 31, 2010.

General and Administrative Expenses. General and administrative expenses were \$3,831,000 for the year ended December 31, 2010, compared to \$1,167,000 for the year ended December 31, 2009. This represents an increase of

\$2,664,000, or 228%, which was primarily a result of the reversal of overaccrued staff welfare benefits of \$979,000 in the year ended December 31, 2009. Excluding this one-time reversal, the remaining increase of \$1,685,000 reflects increased compensation expenses, increased pre-operating expenses for coal mining business, increased professional fees and increased Delaware franchise tax in the year ended December 31, 2010.

Income from Operations. Income from operations was \$34,124,000 for the year ended December 31, 2010, compared to \$14,537,000 for the year ended December 31, 2009. The increase of \$19,587,000, or 135%, was primarily the result of increase in gross profit of \$23,016,000, which was partially offset by an increase in operating expenses of \$3,429,000.

Interest Expense. Interest expense was \$1,850,000 for the year ended December 31, 2010, compared to \$518,000 for the year ended December 31, 2009. This represents an increase of \$1,332,000, or 257%, and such increase was primarily due to an increase in interest payments of \$1,412,000 for the 6% loan from Mr. Ming Zhao, which was partially offset by a decrease in interest payments of \$80,000 for the 6% loan from Resources Group for the purchase of the Liulin and Zhongyang plants.

Derivative Unrealized Fair Value Gain. Derivative unrealized fair value gain of \$215,000 for the year ended December 31, 2010 and derivative unrealized fair value loss of \$5,036,000 for the year ended December 31, 2009, respectively represented a change in fair value of the warrants. The warrants expired on November 17, 2010.

Income Before Income Taxes. Income before income taxes was \$32,703,000 for the year ended December 31, 2010, compared to \$9,131,000 for the year ended December 31, 2009. The increase of \$23,572,000, or 258%, was primarily the result of an increase in operating profit of \$19,587,000, and an increase in derivative unrealized fair value gain of \$5,251,000, which were partially offset by an increase in interest expense of \$1,332,000 in the year ended December 31, 2010.

Income Taxes. Income taxes were \$9,175,000 for the year ended December 31, 2010, compared to \$3,650,000 for the year ended December 31, 2009, an increase of \$5,525,000, or 151%. 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 income before income taxes of Shanxi Coal from \$15,469,000 in the year ended December 31, 2009 to \$36,333,000 in the year ended December 31, 2010.

Net Income. Net income was \$23,528,000 for the year ended December 31, 2010, compared to \$5,481,000 for the year ended December 31, 2009, an increase of \$18,047,000, or 329%, mainly due to an increase in operating profit of \$19,587,000, and an increase in derivative unrealized fair value gain of \$5,251,000, which were partially offset by an increase in income tax of \$5,525,000, and an increase in interest expense in interest expense of \$1,332,000 in the year ended December 31, 2010.

Inflation had no significant impact on the Company's results of operations for the years ended December 31, 2010 and 2009.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Net Revenue. Net revenue was \$214,066,000 for the year ended December 31, 2009, compared to \$242,338,000 for the year ended December 31, 2008, a decrease of \$28,272,000, or 12%. The decrease in revenue was primarily due to decreased tonnage sales of cleaned coal, which was partially offset by increased selling price. The tonnage sales of cleaned coal decreased approximately 413,000 MT, or 18%, from approximately 2,342,000 MT for the year ended December 31, 2008 to approximately 1,929,000 MT for the year ended December 31, 2009. Approximately \$42,539,000 of the total revenue decrease in the year ended December 31, 2009 is attributed to the decrease in tonnage sales of cleaned coal. The selling price of cleaned coal increased approximately \$8 or 8%, from approximately \$103 per ton for the year ended December 31, 2008 to approximately \$111 per ton for the year ended December 31, 2009. This increase in average selling price offset the decrease in total revenue by approximately \$15,432,000. The decrease in tonnage sales were primarily due to decreased orders of cleaned coal from customers for the year ended December 31, 2009 as a result of general economic downturn.

Cost of Revenue. Cost of revenue was \$195,909,000 for the year ended December 31, 2009, compared to \$212,002,000 for the year ended December 31, 2008, a decrease of \$16,093,000, or 8%. This was primarily due to decreased tonnage sales of cleaned coal, which was partially offset by increased raw coal unit cost. Approximately \$35,518,000 of the decrease in the total cost of revenue in the year ended December 31, 2009 is attributable to the decrease in tonnage sales of cleaned coal. The average unit cost of raw coal increased \$11 or 13%, from approximately \$86 per ton for the year ended December 31, 2008 to approximately \$97 per ton for the year ended December 31, 2009. This increase in average raw coal unit cost offset the decrease in cost of revenue by approximately \$21,219,000.

Gross Profit. Gross profit was \$18,157,000 for the year ended December 31, 2009, compared to \$30,336,000 for the year ended December 31, 2008, a decrease of \$12,179,000, or 40%. Gross profit margins for the year ended December 31, 2009 and 2008 were 8% and 13%, respectively. Such decrease in gross profit margins was primarily due to an increase in average purchase price of raw coal across the year ended December 31, 2009 which exceeded the increase in selling price.

Selling Expenses. Selling expenses were \$2,453,000 for the year ended December 31, 2009, compared to \$3,191,000 for the year ended December 31, 2008. This represents a decrease of \$738,000, or 23%, primarily due to the decrease in sales volume in the year ended December 31, 2009.

General and Administrative Expenses. General and administrative expenses were \$1,167,000 for the year ended December 31, 2009, compared to \$2,207,000 for the year ended December 31, 2008. This represents a decrease of \$1,040,000, or 47%, which was primarily a result of a \$979,000 reversal of accrual on overprovided staff welfare benefits.

Income from Operations. Income from operations was \$14,537,000 for the year ended December 31, 2009, compared to \$24,938,000 for the year ended December 31, 2008. The decrease of \$10,401,000, or 42%, was primarily the result of a decrease in gross profit of \$12,179,000, which was partially offset by a decrease in operating expenses of \$1,778,000.

Interest Income. Interest income was \$89,000 for the year ended December 31, 2009, compared to \$406,000 for the year ended December 31, 2008. This represents a decrease of \$317,000, or 78%. The decrease is primarily due to a decrease in interest income from a short-term loan to an unrelated party.

Interest Expense. Interest expense was \$518,000 for the year ended December 31, 2009, compared to \$763,000 for the year ended December 31, 2008. This represents a decrease of \$245,000, or 32%, and such decrease was primarily due to a decrease in interest payments of \$169,000 for the 8% convertible notes, and a decrease in interest payments of \$76,000 for the 6% loan from Resources Group for the purchase of the Liulin and Zhongyang plants.

Debt Financing Costs. Debt financing costs were \$nil for the year ended December 31, 2009, compared to \$778,000 for the year ended December 31, 2008. The decrease was primarily due to a decrease in amortization of discount on convertible notes and warrants of \$399,000, and a decrease in penalty payment of \$379,000 for not having the registration statement effective by March 17, 2006.

Derivative Unrealized Fair Value Loss. Derivative unrealized fair value loss of \$5,036,000 for the year ended December 31, 2009 and derivative unrealized fair value gain of \$394,000 for the year ended December 31, 2008, respectively represented a change in fair value of the warrants.

Other Income (Expense). Other income of \$59,000 in the year ended December 31, 2009 represented the interest payments unclaimed by the convertible note investors. Other expense of \$719,000 in the year ended December 31,

2008 represented the donation for earthquake rescue efforts in Sichuan Province, PRC.

Income Before Income Taxes. Income before income taxes was \$9,131,000 for the year ended December 31, 2009, compared to \$23,478,000 for the year ended December 31, 2008. The decrease of \$14,347,000, or 61%, was primarily the result of a decrease in operating profit of \$10,401,000, an increase in derivative unrealized fair value loss of \$5,430,000, and a decrease in interest income of \$317,000, which were offset by a decrease in debt financing costs of \$778,000, a decrease in other expense of \$778,000, and a decrease in interest expense of \$245,000 in the year ended December 31, 2009.

Income Taxes. Income taxes were \$3,650,000 for the year ended December 31, 2009, compared to \$6,417,000 for the year ended December 31, 2008, a decrease of \$2,767,000, or 43%. Income tax was imposed by the China Tax Bureau on income of Shanxi Coal, as calculated under Chinese GAAP and tax rules. The decrease was primarily the result of the decrease in income before income taxes of Shanxi Coal from \$25,160,000 in the year ended December 31, 2008 to \$15,469,000 in the year ended December 31, 2009.

Net Income. Net income was \$5,481,000 for the year ended December 31, 2009, compared to \$17,061,000 for the year ended December 31, 2008, a decrease of \$11,580,000, or 68%, mainly due to, a decrease in operating profit of \$10,401,000, an increase in derivative unrealized fair value loss of \$5,430,000, and a decrease in interest income of \$317,000, which were offset by a decrease in income taxes of \$2,767,000, a decrease in debt financing costs of \$778,000, a decrease in other expense of \$778,000, and a decrease in interest expense of \$245,000 in the year ended December 31, 2009.

Inflation had no significant impact on the Company's results of operations for the years ended December 31, 2009 and 2008.

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. Starting in 2011, China will begin developing its high-speed rail way on a large scale, which is the 12th five-year developing plan of the country. These have 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 660 million MT of steel in 2011, roughly half the world's total output, according to Ministry of Industry and Information Technology of People's Republic of China.

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 demand in 2011 will remain stable as compared to 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 for the past several years have 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 risk due to the weakened business environment and credit availability. As a result, these customers and suppliers may be unable to satisfy their contractual 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 67% 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 Jianhe Coal for an aggregate purchase price of RMB 100 million (\$15.2 million). 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 nine coal mines in Pinglu County. Shanxi Coal has the government's permission to acquire and consolidate the nine coal mines into five, which could increase their total annual capacity from approximately 1.6 million to 3.6 million MT.

During 2010, Shanxi Coal closed on the following agreements for mining rights and tangible assets located in Pinglu County, Shanxi Province:

	Closing date of agreement	Total purchase price RMB'000	Amount for mining rights RMB'000	Amount for tangible assets RMB'000	Purchase price paid as of December 31, 2010 RMB'000	Purchase price payable as of December 31, 2010 RMB'000
Da Wa Coal	June 25, 2010	190,000	143,400	46,600	152,000	38,000
Guanyao Coal	June 25, 2010	94,800	57,200	37,600	75,840	18,960
Xuhutuo Coal	December 23, 2010	125,000	104,300	20,700	112,500	12,500
Daqi Coal	December 23, 2010	66,200	57,800	8,400	59,580	6,620
Renling Coal	December 24, 2010	205,000	166,170	38,830	184,500	20,500
Donggou Coal	December 24, 2010	77,500	68,370	9,130	69,750	7,750
Total (in RMB'000)		758,500	597,240	161,260	654,170	104,330
		\$'000	\$'000	\$'000	\$'000	\$'000
Total (in USD'000)		\$ 114,924	\$ 90,491	\$ 24,433	\$ 99,116	\$ 15,808

A new project company named Dajinhe Coal will hold the assets and mining right of Da Wa Coal. On December 9, 2010, Shanxi Yuncheng Municipal Coal Mine Industry Bureau approved all comprehensive reports prepared on Dajinhe Coal's geology, preliminary construction design, and safety and environmental impact. Construction of the production expansion of Dajinhe Coal was also approved to begin on January 1, 2011. On March 10, 2011, Shanxi Coal received transitional business license for Dajinhe Coal. With the transitional business license, which is valid until November 17, 2011, Shanxi Coal will be able to sell thermal coal produced during the construction and expansion period to its customers at prevailing market prices. The annual production capacity is expected to expand from 300,000 MT before the construction to 600,000 MT after the construction and production expansion. Dajinhe Coal's existing coal mine is in good condition, which reduces the complexity of construction and production expansion. The Company estimates the expansion will be completed within a period of eight to twelve months. Since the improvements are based on the existing coal mine, which had a good operating record prior to the government mandated shutdown under Shanxi Province's coal mine consolidation program, coal will be produced during the construction period. The Company estimates that Dajinhe Coal will produce approximately 150,000 to 290,000 MT of thermal coal during the construction period. A new project company named Wujin Coal will hold the assets and mining right of Guanyao Coal. Both Dajinhe Coal and Wujin Coal are 100% owned by Shanxi Coal.

On August 1, 2010, Shanxi Coal entered into an Investment Cooperation Agreement with Mr. Ming Zhao, Chairman of our Board and our principal stockholder, and Mr. Jianping Gao, an individual unrelated to the Company before the agreement. Pursuant to the agreement, the parties will purchase, consolidate and re-develop six coal mines in Pinglu County, Shanxi Province (“Phase II of the Pinglu Project”). Shanxi Coal, Mr. Zhao and Mr. Gao will each 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, based upon the percentages of their equity ownership and limited by the amount of investment contributed by each party. The parties further agree that, once the coal mines to be acquired and consolidated under the project are operational, 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. Shanxi Coal is entitled to purchase the equity interest of Mr. Ming Zhao and/or Mr. Gao in the project companies at Shanxi Coal’s sole discretion at a price with reference to the valuation as to be conducted by an independent professional appraiser. In order to guarantee the performance of the Investment Cooperation Agreement, Shanxi Coal is using its investment to each relevant project company as guarantee to the other co-investors that Shanxi Coal will be responsible for breach of this Agreement in the event that any fraud or gross negligence by Shanxi Coal causes loss by such project company. A committee of our Board comprised solely of independent directors negotiated terms of the agreement on behalf of the Company and approved the agreement.

Xuhutuo Coal, Daqi Coal, Rengling Coal and Donggou Coal are four of the six coal mines co-developed under the Investment Cooperation Agreement dated August 1, 2010, pursuant to which Shanxi Coal is responsible to contribute 40% of the total investment needed for the consolidation and construction of these coal mines. A new project company named Jinmen Coal will hold the assets and mining rights of the Xuhutuo and Daqi coal mines and a new project company named Jinyi Coal will hold the assets and mining rights of the Renling and Donggou coal mines. Jinmen Coal and Jinyi Coal were not yet established as of the date of this report.

On January 10, 2011, Shanxi Coal entered into a Supplementary Agreement of Investment Cooperation with Mr. Ming Zhao and Mr. Gao. The Supplementary Agreement amends and supplements that certain Agreement of Investment Cooperation among the same parties, dated August 1, 2010. Pursuant to the Investment Cooperation Agreement, the parties will purchase, consolidate and co-develop six coal mines in Phase II of the Pinglu Project. Pursuant to the Supplementary Agreement, the parties will include the Pinglu County Xiapingcun Coal Mine, a coal mine which was not initially contemplated to be acquired as part of Phase Two of the Pinglu Project, in Phase Two of the Pinglu Project.

Subsequent to the year end 2010, Shanxi Coal closed on the following agreements for mining rights and tangible assets located in Pinglu County, Shanxi Province:

	Closing date of agreement	Total purchase price RMB’000	Amount for mining rights RMB’000	Amount for tangible assets RMB’000
Anrui Coal	February 17, 2011	250,000	185,190	64,810
Chuntouao Coal	February 22, 2011	140,000	107,640	32,360
Xiapingcun Coal	February 18, 2011	61,200	42,670	18,530
Total (in RMB’000)		451,200	335,500	115,700

Edgar Filing: Puda Coal, Inc. - Form 10-K

	\$'000	\$'000	\$'000
Total (in USD'000)	\$ 67,550	\$ 50,240	\$ 17,310

Under each agreement with Anrui Coal, Chuntouao Coal and Xiapingcun Coal, Shanxi Coal agreed to pay 50% of the purchase price within three days of the execution of the agreement, 40% of the purchase price within 30 days after assets transfer is completed and the mining permits are transferred, and the remaining 10% of the purchase price six months after the completion of transfer. As of date of this report, Shanxi Coal has paid 90% of the purchase price under each agreement. Anrui Coal, Chuntouao Coal and Xiapingcun Coal are the coal mines co-developed under the Investment Cooperation Agreement dated August 1, 2010 and Supplementary Agreement of Investment Cooperation dated January 12, 2011 pursuant to which Shanxi Coal is responsible to contribute 40% of the total investment needed for the consolidation and construction of these coal mines. A new project company named Dajinhe Anrui Coal will hold the assets and mining rights of the above acquired mines.

Liquidity and Capital Resources

Net cash provided by operating activities was \$19,900,000 for the year ended December 31, 2010, compared to \$1,423,000 for the year ended December 31, 2009, an increase of \$18,477,000. This increase was primarily due to an increase in net income and a decrease in working capital needs resulting from decreased inventory.

Net cash used in investing activities of \$53,443,000 for the year ended December 31, 2010 was for the purchase of the six coal mines in Pinglu County. Net cash used in investing activities of \$20,909,000 for the year ended December 31, 2009 was for the 18% equity purchase of Jianhe Coal and prepayment for the purchase of Pinglu coal mines.

Net cash provided by financing activities of \$164,355,000 for the year ended December 31, 2010 includes \$115,845,000 from the sale of 12,284,000 shares of common stock, the \$35,391,000 loan from Mr. Ming Zhao, \$7,041,000 increase of registered capital of Shanxi Coal, and \$7,378,000 from the exercise of warrants, which were offset by \$1,300,000 for the repayment of the long-term debt to Resources Group. Net cash used in financing activities of \$578,000 for the year ended December 31, 2009 includes \$1,878,000 from the exercise of warrants, which was offset by \$1,300,000 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 \$42,864,000 as of December 31, 2010, to pay for the acquisition of coal mines and coal mining assets, and for the construction and expansion of production capacity of the coal mines.

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. On December 16, 2010, we completed the offering and sale of 9,000,000 shares (including 1,150,000 overallotment shares to underwriters), for net proceeds of approximately \$101.5 million. Our cash balance was \$156 million as of December 31, 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.

CRITICAL ACCOUNTING ESTIMATES

The discussion and analysis of Puda's financial condition and results of operations is based upon Puda's consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires Puda to make estimates and judgments that affect the reported amounts of assets and liabilities. On an on-going basis, Puda evaluates its estimates including the allowance for doubtful accounts, the salability and recoverability of inventory, income taxes and contingencies. Puda bases its estimates on historical experience and on various other assumptions that Puda believes to be reasonable under the circumstances, the results of which form Puda's basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Allowance for doubtful accounts

Puda must make estimates of the collectability of accounts receivable. Puda analyzes historical write-offs, changes in its internal credit policies and customer concentrations when evaluating the adequacy of its allowance for doubtful accounts. Differences may result in the amount and timing of expenses for any period if Puda makes different judgments or uses different estimates.

Impairment of long-lived assets

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

Impairment of investments

Investments are evaluated for impairment. Investments carried at cost are adjusted 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 Company makes such determination based upon a number of factors, including financial condition, operating results, sales forecasts and earnings growth of the investee.

Share-based compensation

Share-based compensation expenses are recognized in accordance with ASC 718 "Compensation-Stock Compensation", which requires us to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model.

Coal reserves

"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.

Renewal of mining rights and operating licenses for coal mining business

Currently, Shanxi Coal has been given transitional mining permits which will expire in November-December 2011. On March 10, 2011, Dajinhe Coal received approval for the transitional business license, which is valid until November 17, 2011. Our ability to economically conduct our mining operations is based on the assumption that the mining permits and business licenses can be renewed on or before the expiration date.

CRITICAL ACCOUNTING POLICIES

Revenue recognition

Revenue from sales of processed coal is generally recognized when the coal is delivered, title passes to the customer and collectability is reasonably assured. We assess collectability based primarily on the creditworthiness of the customer and customer's payment history.

Foreign currency translation

Shanxi Coal's functional currency is China's Renminbi ("RMB") and its reporting currency is the U.S. dollar. Shanxi Coal's 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. Transaction gains and losses are not material to the consolidated financial statements for the years ended December 31, 2009, 2008 and 2007. At December 31, 2010, 2009 and 2008, the exchange rates per US\$1.00 were RMB 6.60, RMB 6.83 and RMB 6.82, respectively.

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 Puda because it has not previously engaged in any significant transactions that are subject to the restrictions.

Off Balance Sheet Arrangements

None.

Tabular Disclosure of Contractual Obligations

The contractual obligations presented in the table below represent our future payments under fixed contractual obligations and commitments as of December 31, 2010.

(In thousand dollars)

Obligations	Total Ending Balance	Less Than One Year	1-3 Years	3-5 Years	More than 5 Years
Long Term Debt Obligations	\$ 42,864	\$ 37,664	\$ 2,600	\$ 2,600	-
Operating Lease Obligations	\$ 492	\$ 164	\$ 328	-	-
Purchase Obligations	\$ 83,358	\$ 83,358	-	-	-
Total	\$ 126,714	\$ 121,186	2,928	2,600	-

The purchase obligations of \$83,358,000 represented the balance of the purchase price payable for the nine coal mines in Pinglu County, of which \$44,836,000 will be contributed by Mr. Ming Zhao and Mr. Gao in accordance with the Investment Cooperation Agreement dated August 1, 2010 and Supplementary Agreement dated January 10, 2011.

Item 7A. Quantitative and Qualitative Disclosures about 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, security market risk, commodity price risk, and other relevant market rate or price risks. We do not have any significant risks related to equity investments, security markets or derivative financial instruments as we do not have equity investments in privately held companies, security markets or derivative financial instruments. Nor do we have any significant interest rate risk, as we do not have bank loans, and its promissory notes and loans to 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 year ended December 31, 2010 are denominated in RMB, with the balance denominated in U.S. dollars. Approximately 91% of our assets were denominated in RMB as of December 31, 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 historical exchange rate and their income and expenses 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. See “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” in Part I Item 1A of the annual report on Form 10-K for the fiscal year ended December 31, 2010 under the heading “Risk Factors.” During the year 2010, the foreign currency translation adjustment to our comprehensive income was \$4.695 million, primarily as a result of RMB appreciating against the U.S. dollar. An average appreciation (depreciation) of the RMB against the U.S. dollar of 5% could increase (decrease) our net income by \$1.3 million for the year 2010. As of December 31, 2010, our accumulated other comprehensive income was \$14.828 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 increased from approximately RMB483 per ton in 2009 to approximately RMB567 per ton in 2010. Top quality raw coking coal is critical for us to maintain our operating efficiencies and deliver cleaned coal to our customers meeting their specifications. Since top quality raw

coking coal is more limited in supply, its price tends to be more 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 \$13.4 million for the year 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 December 31, 2010, we had a credit risk exposure of cash at bank of approximately \$156 million. The credit risk for cash at bank is limited because the bank in which our cash is deposited is a very reputable bank and it is not 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 in China. Accounts receivables are subject to credit evaluations. We periodically record a provision for doubtful collections based on an evaluation of the collectability 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. Our customers have good payment history and our accounts are current, and we currently do not have significant bad debt provision.

Item 8. Financial Statements and Supplementary Data

PUDA COAL, INC.
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2010 and 2009
Together With Report Of
Independent Registered Public Accounting Firm
PUDA COAL, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm	42
Consolidated Balance Sheets	43-44
Consolidated Statements of Operations	45
Consolidated Statements of Changes in Equity	46-47
Consolidated Statements of Cash Flows	48-49
Notes to Consolidated Financial Statements	50-79

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Puda Coal, Inc.

We have audited the accompanying consolidated balance sheets of Puda Coal, Inc. and subsidiaries (the “Company”) as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in equity, and cash flows for each of the three years in the period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Puda Coal, Inc. and subsidiaries as of December 31, 2010 and 2009 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organization of the Treadway Commission and our report dated March 16, 2011, expressed an unqualified opinion.

Moore Stephens

Certified Public Accountants
Hong Kong

March 16, 2011

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

	Note(s)	December 31, 2010	December 31, 2009
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	23	\$ 156,171	\$ 19,918
Accounts receivable, net	3	36,866	25,340
Other receivables			
- Related party	4	4,448	-
- Third parties		3	-
Advances to suppliers			
- Related party	4	1,055	1,020
- Third parties		4,075	3,552
Inventories	5	15,342	22,531
Total current assets		217,960	72,361
PREPAYMENTS		-	6,259
PROPERTY, PLANT, EQUIPMENT AND MINING ASSETS, NET	6	128,995	13,986
INTANGIBLE ASSETS, NET	7	3,990	3,945
INVESTMENT, AT COST	8	15,152	14,650
TOTAL ASSETS		\$ 366,097	\$ 111,201
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Current portion of long-term debt			
- Related parties	4, 9	\$ 37,664	\$ 1,300
Accounts payable		3,736	4,839
Other payables			
- Related parties	4	2,055	1,031
- Third parties		3,096	2,650
Assets acquisition price payable	6	15,808	-
Accrued expenses		1,406	1,076
Income taxes payable		2,035	1,091
VAT payable		1,016	1,135
Derivative warrants	10	-	7,620
Total current liabilities		66,816	20,742
LONG-TERM LIABILITIES			

Long-term debt			
- Related party	4,9	5,200	6,500
Total long-term liabilities		5,200	6,500

43

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

	Note(s)	December 31, 2010	December 31, 2009
COMMITMENTS AND CONTINGENCIES	11		
EQUITY			
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 30,022,856 (2009: 15,828,863)		30	15
Paid-in capital		173,891	35,212
Statutory surplus reserve fund	14	5,568	1,366
Retained earnings		56,559	37,233
Accumulated other comprehensive income		14,828	10,133
Total stockholders' equity		250,876	83,959
Noncontrolling interests	13	43,205	-
Total equity		294,081	83,959
TOTAL LIABILITIES AND EQUITY		\$ 366,097	\$ 111,201

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

PUDA COAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended December 31, 2010, 2009 and 2008
(In thousands of United States dollars, except per share data)

	Note(s)	Years ended December 31,		
		2010	2009	2008
NET REVENUE		\$ 324,821	\$ 214,066	\$ 242,338
COST OF REVENUE		283,648	195,909	212,002
GROSS PROFIT		41,173	18,157	30,336
OPERATING EXPENSES				
Selling expenses		3,218	2,453	3,191
General and administrative expenses		3,831	1,167	2,207
TOTAL OPERATING EXPENSES		7,049	3,620	5,398
INCOME FROM OPERATIONS		34,124	14,537	24,938
INTEREST INCOME		214	89	406
INTEREST EXPENSE – related parties	15	(1,850)	(518)	(763)
DEBT FINANCING COSTS	16	-	-	(778)
DERIVATIVE UNREALIZED FAIR VALUE GAIN/(LOSS)	10, 17	215	(5,036)	394
OTHER INCOME/(EXPENSE)	18	-	59	(719)
INCOME BEFORE INCOME TAXES		32,703	9,131	23,478
INCOME TAXES	19	(9,175)	(3,650)	(6,417)
NET INCOME – attributable to the parent		23,528	5,481	17,061
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustment		4,695	2,636	3,498
COMPREHENSIVE INCOME – attributable to the parent		\$ 28,223	\$ 8,117	\$ 20,559
EARNINGS PER SHARE - BASIC		\$ 1.17	\$ 0.36	\$ 1.12
- DILUTED		\$ 1.15	\$ 0.36	\$ 1.12
WEIGHTED AVERAGE NUMBER OF SHARES				
OUTSTANDING – BASIC	20	20,114,316	15,409,726	15,184,086

- DILUTED	20	20,228,792	15,593,201	15,228,950
-----------	----	------------	------------	------------

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

PUDA COAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2010, 2009 and 2008

(In thousands of United States dollars)

	STATUTORY SURPLUS	ACCUMULATED OTHER PAID-IN RESERVE	RETAINED EARNINGS	PREPARED STOCK INCOME	NON-CONTROLLING EQUITY INTERESTS	TOTAL EQUITY			
COMMON STOCK No. of shares	CAPITAL FUND	FUND	EARNINGS	SINCOME	EQUITY	INTERESTS	EQUITY		
Balance, January 1, 2008 (after adjusting for the 7-to-1 Share Conversion (Note 1))	15,036,026	\$ 15	\$ 28,394	\$ 1,366	\$ 14,807	\$ 3,999	\$ 48,581	\$ -	\$ 48,581
Derivative conversion feature transferred to equity upon maturity (Note 10)	-	-	1,100	-	-	-	1,100	-	1,100
Issue of penalty shares	294,009	-	2,104	-	-	-	2,104	-	2,104
Issue of directors shares	3,645	-	49	-	-	-	49	-	49
Dividend distribution				(116)	-	-	(116)	-	(116)
Net income	-	-	-	-	17,061	-	17,061	-	17,061
Foreign currency translation adjustment	-	-	-	-	-	3,498	3,498	-	3,498
Balance, December 31, 2008	15,333,680	\$ 15	\$ 31,647	\$ 1,366	\$ 31,752	\$ 7,497	\$ 72,277	\$ -	\$ 72,277
Issue of directors shares	27,721	-	65	-	-	-	65	-	65
Exercise of warrants, at \$4.20 per share	439,954	-	1,848	-	-	-	1,848	-	1,848
Exercise of placement agent warrants	24,316	-	30	-	-	-	30	-	30
		-	1,369	-	-	-	1,369	-	1,369

Derivative note warrants transferred to equity upon exercise (Note 10)									
Derivative placement agent warrants transferred to equity upon exercise (Note 10)	-	-	133	-	-	-	133	-	133
Stock-based compensation	-	-	120	-	-	-	120	-	120
Round up fractional shares for 7-to-1 Share Conversion	3,192	-	-	-	-	-	-	-	-
Net income	-	-	-	-	5,481	-	5,481	-	5,481
Foreign currency translation adjustment	-	-	-	-	-	2,636	2,636	-	2,636
Balance, December 31, 2009	15,828,863	\$ 15	\$ 35,212	\$ 1,366	\$ 37,233	\$ 10,133	\$ 83,959	\$ -	\$ 83,959

PUDA COAL, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)

For the years ended December 31, 2010, 2009 and 2008

(In thousands of United States dollars)

	COMMON STOCK No. of shares	CAPITAL	STATUTORY SURPLUS	FUND EARNINGS	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL STOCKHOLDERS' EQUITY	CONTROLLING INTEREST	TOTAL EQUITY
Issue of shares to directors and employees	115,530	-	164	-	-	-	164	-	164
Exercise of warrants, at \$4.20 per share	1,752,923	-	7,362	-	-	-	7,362	-	7,362
Exercise of placement agent warrants	41,540	-	16	-	-	-	16	-	16
Derivative note warrants transferred to equity upon exercise (Note 10)	-	3	7,172	-	-	-	7,175	-	7,175
Derivative placement agent warrants transferred to equity upon exercise (Note 10)	-	-	230	-	-	-	230	-	230
Issue of shares for public offering (Note 12)	12,284,000	12	115,833	-	-	-	115,845	-	115,845
Increase in registered capital of Shanxi Coal	-	-	7,041	-	-	-	7,041	-	7,041
Stock-based compensation	-	-	861	-	-	-	861	-	861
Net income	-	-	-	-	23,528	-	23,528	-	23,528
Transfer to statutory reserve (Note	-	-	-	4,202	(4,202)	-	-	-	-

14)									
Foreign currency translation adjustment	-	-	-	-	4,695	4,695	-	4,695	
Noncontrolling interests in coal mines (Note 13)							43,205	43,205	
Balance, December 31, 2010	30,022,856	\$ 30	\$ 173,891	\$ 5,568	\$ 56,559	\$ 14,828	\$ 250,876	\$ 43,205	\$ 294,081

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

PUDA COAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2010, 2009 and 2008
(In thousands of United States dollars)

	Years ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$23,528	\$5,481	\$17,061
Adjustments to reconcile net income to net cash provided by operating activities			
Amortization of land-use rights	87	86	85
Depreciation	1,693	1,678	1,650
(Reverse)/provision for doubtful debts	-	(69)	17
Amortization of discount on convertible notes and warrants	-	-	399
Derivative unrealized fair value (gain)/loss	(215)	5,036	(394)
Stock compensation expense	926	234	74
Issue of common stock for penalty	-	-	379
Changes in operating assets and liabilities:			
Increase in accounts receivable	(10,391)	(10,626)	(5,844)
(Increase)/decrease in other receivables	(4,340)	7	4
(Increase)/decrease in advances to suppliers	(391)	1,937	(4,243)
Decrease/(increase) in inventories	7,761	(952)	16,600
(Decrease)/increase in accounts payable	(1,237)	569	1,754
Increase/(decrease) in accrued expenses	407	(963)	526
Increase/(decrease) in other payables	1,342	(178)	(991)
Increase/(decrease) in income tax payable	884	(227)	(1,042)
(Decrease)/increase in VAT payable	(154)	(590)	245
Decrease in restricted cash	-	-	233
Net cash provided by operating activities	19,900	1,423	26,513
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of mining rights and assets	(53,443)	(6,259)	-
Investment in coal mine	-	(14,650)	-
Purchase of property, plant and equipment	-	-	(2)
Payment for the purchase of equity interest in Shanxi Coal	-	-	(893)
Net cash used in investing activities	(53,443)	(20,909)	(895)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Exercise of warrants	7,378	1,878	-
Repayment of long-term debt	(1,300)	(1,300)	(1,300)
Issue of common shares for public offerings	115,845	-	-
Increase in registered capital of Shanxi Coal	7,041	-	-
Borrowings from related party	35,391	-	-
Repayment of convertible notes	-	-	(2,015)
Distribution paid to owners of a subsidiary	-	-	(1,172)

Edgar Filing: Puda Coal, Inc. - Form 10-K

Net cash provided by/(used in) financing activities	164,355	578	(4,487)
Effect of exchange rate changes on cash	5,441	(282)	1,596

48

PUDA COAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
For the years ended December 31, 2010, 2009 and 2008
(In thousands of United States dollars)

	Note	Years ended December 31,		
		2010	2009	2008
Net increase/(decrease) in cash and cash equivalents		136,253	(19,190)	22,727
Cash and cash equivalents at beginning of year		19,918	39,108	16,381
Cash and cash equivalents at end of year		\$ 156,171	\$ 19,918	\$ 39,108
Supplementary cash flow information:	19			
Cash paid during the period for:				
Interest		\$ 629	\$ 518	\$ 763
Income taxes		\$ 8,298	\$ 3,876	\$ 7,454
Major non-cash financing activities:				
Derivative note warrants transferred to equity upon exercise		\$ 7,175	\$ 1,369	\$ -
Derivative placement agent warrants transferred to equity upon exercise		\$ 230	\$ 133	\$ -
Stock-based compensation		\$ 861	\$ 120	\$ -
Issue of shares to directors and employees		\$ 164	\$ 65	\$ 49
Issue of common shares for penalty		\$ -	\$ -	\$ 2,104
Derivative conversion feature transferred to equity upon maturity		\$ -	\$ -	\$ 1,100

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

PUDA COAL, INC.

NOTES TO 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. 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 did not have any operating activities from August 19, 2004 (inception) to December 31, 2010.

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, 2008.

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 with an initial registered capital of \$20,000, which was increased to \$129,800,000 by January 11, 2011, of which \$127,120,000 was paid up. 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.

Shanxi Coal was established on June 7, 1995. Shanxi Coal mainly processes and washes raw coal and sells high-quality, low sulfur, refined coal from its plants in Shanxi Province to industrial clients located mainly in Central and Northern China. In September, 2009, the Shanxi provincial government appointed Shanxi Coal as a consolidator of nine coal mines in Pinglu County, Shanxi Province. In March 2010, Shanxi Coal received approval from the Shanxi provincial government to acquire and consolidate four additional coking coal mines in Huozhou County, Shanxi Province. As of December 31, 2010, Shanxi Coal completed the acquisition of six 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 has assigned to Putai his 10% share of operating results (profit and loss) and dividend rights of Shanxi Coal from January 1, 2010, and has granted Putai the right to vote his 10% interest. Mr. Ming Zhao is the chairman and was the president and chief executive officer of Puda until his resignation on June 25, 2008. Mr. Ming Zhao and Mr. Yao Zhao are brothers.

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

1. The Company (continued)

As of December 31, 2010, the percentages owned by Mr. Ming Zhao and Mr. Yao Zhao in the companies are as follows:

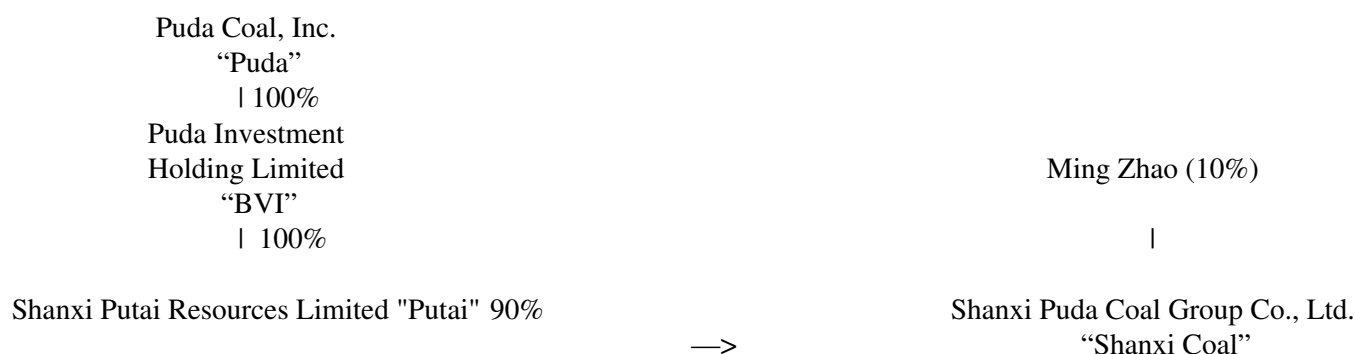
1 Puda Coal, Inc.: Mr. Ming Zhao (approximately 25%); Mr. Yao Zhao (approximately 6%) held directly.

1 Puda Investment Holding Limited: Mr. Ming Zhao (approximately 25%); Mr. Yao Zhao (approximately 6%) held indirectly through Puda.

1 Shanxi Putai Resources Limited: Mr. Ming Zhao (approximately 25%); Mr. Yao Zhao (approximately 6%) held indirectly through Puda and BVI.

1 Shanxi Puda Coal Group Co., Ltd.: Mr. Ming Zhao (10%) held directly, Mr. Ming Zhao (approximately 23%) held indirectly through Puda, BVI and Putai. Mr. Yao Zhao (approximately 5%) held indirectly through Puda, BVI and Putai.

After the above reorganization and as of December 31, 2010, the organizational structure of the Group is as follows:



2. Summary of Significant Accounting Policies

(a) Basis of Presentation and Consolidation

The consolidated balance sheets as of December 31, 2010 and 2009 include Puda (Registrant and Legal Parent), BVI, Putai and Shanxi Coal (Operating Company), collectively referred to as "the Group". The consolidated statements of operations for the years ended December 31, 2010, 2009 and 2008 include Puda, BVI, Putai and Shanxi Coal for the full year. Intercompany items have been eliminated.

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

2. Summary of Significant Accounting Policies (continued)

(b) Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, 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 December 31, 2010 and 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.

(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

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

2. Summary of Significant Accounting Policies (continued)

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

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.

Construction-in-progress represents mine works under construction which mainly includes safety and environmental studies, purchase of materials, and labor. Construction-in-progress is not depreciated until amounts are transferred to property when available for use.

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 factor 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 8).

(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.

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

2. Summary of Significant Accounting Policies (continued)

(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 December 31, 2010 and 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 December 31, 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 December 31, 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.

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 December 31, 2010.

Under current PRC tax laws, no tax is imposed in respect to distributions paid to non-foreign owners.

(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.

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

2. Summary of Significant Accounting Policies (continued)

(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 years ended December 31, 2010, 2009 and 2008.

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.

(o) Earnings Per Share

Basic earnings per share is computed by dividing the earnings for the year by the weighted average number of common shares outstanding for the year. 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 year, if dilutive.

(p) Accumulated Other Comprehensive Income

Accumulated other comprehensive income represents the change in equity of the Group during the years 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.

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

2. Summary of Significant Accounting Policies (continued)

(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 year ended December 31, 2010 as the coal mine operations have not started.

(s) New Accounting Pronouncements

In July 2010, the FASB issued an accounting standard to provide guidance to enhance disclosures related to the credit quality of a company's financing receivables portfolio and the associated allowance for credit losses. Pursuant to this accounting update, a company is required to provide a greater level of disaggregated information about its allowance for credit loss with the objective of facilitating users' evaluation of the nature of credit risk inherent in the company's portfolio of financing receivables, how that risk is analyzed and assessed in arriving at the allowance for credit losses, and the changes and reasons for those changes in the allowance for credit losses. The revised disclosures related to the period end balances are effective for the Group beginning in the second quarter of fiscal 2011, and the revised disclosures related to activity during the reporting period are effective for the Group beginning in the third quarter of fiscal 2011. The adoption of the provisions of this standard is not anticipated to impact the Group's consolidated financial position or results of operations.

In December 2010, the FASB issued an accounting standard to clarify the acquisition date that should be used for reporting the pro forma financial information disclosures when comparative financial statements are presented. The accounting update also improves the usefulness of the pro forma revenue and earnings disclosures by requiring a description of the nature and amount of material, nonrecurring pro forma adjustments that are directly attributable to the business combinations. The amendments in this update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of the provisions of this standard is not anticipated to impact the Group's consolidated financial position or results of operations

3. Allowance for Doubtful Receivables

Details of allowance for doubtful receivables deducted from accounts receivable are as follows:-

	December 31, 2010 \$'000	December 31, 2009 \$'000
Balance, beginning of year	\$ -	\$ 70
Reversal	-	(70)
Balance, end of year	\$ -	\$ -

The Group did not write off any bad debts in the years ended December 31, 2010, 2009 and 2008.

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

4. Related Party Transactions

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

	December 31, 2010 \$'000	December 31, 2009 \$'000
Advance to Shanxi Liulin Jucai Coal Industry Co., Limited ("Jucai Coal"), a related company with a common owner	\$ 1,055	\$ 1,020
Other receivable from Mr. Ming Zhao, chairman and shareholder of Puda	\$ 2,224	\$ -
Other receivable from Mr. Jianping Gao, our investment partner for coal mines	2,224	-
	\$ 4,448	\$ -
Other payable to Shanxi Puda Resources Group Limited ("Resources Group"), a related company with common owners	\$ 823	\$ 795
Other payable to Mr. Ming Zhao	1,232	-
Other payable to Mr. Yao Zhao, manager and shareholder of Puda	-	236
	\$ 2,055	\$ 1,031
Loan payable to Resources Group-current portion	\$ 1,300	\$ 1,300
Loan payable to Mr. Ming Zhao	36,364	-
	\$ 37,664	\$ 1,300
Loan payable to Resources Group-long-term portion	\$ 5,200	\$ 6,500

The balances, except for the loan 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 \$823,000 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 \$78,000 due from Resources Group.

In 2001, Shanxi Coal entered into agreements with Resources Group to lease office premises. In the years ended December 31, 2010, 2009 and 2008, rental expenses paid to Resources Group were \$161,000, \$158,000 and \$7,000, respectively (see Note 11).

In the years ended December 31, 2010, 2009 and 2008, Shanxi Coal purchased raw coal from Jucai Coal in the amounts of \$26,670,000, \$15,055,000 and \$16,083,000, respectively.

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

4. Related Party Transactions (continued)

On November 17, 2005, Shanxi Coal entered into a coal supply agreement with Jucai Coal for a term of 10 years, 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 transfer 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, land-use rights and related equipment were purchased for a cost of \$5,800,000. 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 year ended December 31, 2010, Shanxi Coal paid principal of \$1,300,000 (2009: \$1,300,000, 2008: \$1,300,000) and interest of \$438,000 (2009: \$518,000, 2008: \$594,000) 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 6, 7 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 6).

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 (\$36,364,000). The loan is unsecured and bears a 6% annual interest rate, in which the interest 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 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. The loan was used by Putai to increase the registered paid-in capital of Shanxi Coal. In the year ended December 31, 2010, interest accrued on the loan amounted to \$1,412,000. As of December 31, 2010, Putai paid interest of \$180,000 and the balance of interest payable of \$1,232,000 was included in other payables (see Note 9).

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

4. Related Party Transactions (continued)

On August 1, 2010, Shanxi Coal entered into an Investment Cooperation Agreement with Mr. Ming Zhao and Mr. Jianping Gao (“Mr Gao”), an individual unrelated to the Company before the Agreement. Pursuant to the Agreement, the parties will purchase, consolidate and co-develop the six coal mines in Pinglu County, Shanxi Province (“Phase II of the Pinglu Project”). Under the Agreement, Shanxi Coal, Mr. Ming Zhao and Mr. Gao will contribute 40%, 30% and 30%, respectively, of the total investment needed for Phase II of the Pinglu Project. Shanxi Coal will be the project manager. In addition, each of Mr. Ming Zhao and Mr. Gao has agreed to assign 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 Phase II of the Pinglu 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 is entitled to purchase the equity interest of Mr. Ming Zhao and/or Mr. Gao in the project companies at Shanxi Coal’s sole discretion at a price with reference to the valuation as to be conducted by an independent professional appraiser. Shanxi Coal will only 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. As of December 31, 2010, Shanxi Coal completed the acquisition of four of these six coal mines and the balance receivable from Mr. Ming Zhao of \$2,224,000 represented his 30% share of the balance of the purchase price and construction works incurred for these coal mines. The same amount of \$2,224,000 was recorded as receivable from Mr. Gao in the consolidated balance sheet (see Notes 6, 13 and 26).

5. Inventories

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

	December 31, 2010 \$'000	December 31, 2009 \$'000
Raw materials	\$ 5,435	\$ 9,671
Finished goods	9,907	12,860
Total	\$ 15,342	\$ 22,531

There was no allowance for losses on inventories as of December 31, 2010, 2009 and 2008.

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

6. Property, Plant, Equipment and Mining Assets, Net

As of December 31, 2010 and 2009, property, plant, equipment and mining assets consist of the following:

	December 31, 2010 \$'000	December 31, 2009 \$'000
Cost:		
Buildings and facilities	\$ 7,687	\$ 3,899
Machinery equipment	21,825	15,682
Motor vehicles	205	114
Office equipment and others	36	35
Mine works	14,464	-
Mining rights	90,531	-
Construction in progress	1,924	-
	136,672	19,730
Accumulated depreciation:		
Buildings and facilities	853	650
Machinery equipment	6,778	5,063
Motor vehicles	35	24
Office equipment and others	11	7
Mine works	-	-
Mining rights	-	-
Construction in progress	-	-
	7,677	5,744
Carrying value:		
Buildings and facilities	6,834	3,249
Machinery equipment	15,047	10,619
Motor vehicles	170	90
Office equipment and others	25	28
Mine works	14,464	-
Mining rights	90,531	-
Construction in progress	1,924	-
	\$ 128,995	\$ 13,986

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 the new 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 4 and 9).

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

6. Property, Plant, Equipment and Mining Assets, Net (continued)

During 2010, Shanxi Coal closed on the following agreements for mining rights and tangible assets located in Pinglu County, Shanxi Province:

Sellers	Closing date of agreement	Total purchase price RMB'000	Amount for mining rights RMB'000	Amount for tangible assets RMB'000	Purchase price paid as of December 31, 2010 RMB'000	Purchase price payable as of December 31, 2010 RMB'000
Da Wa Coal Industry Co., Ltd. ("Da Wa Coal")	June 25, 2010	190,000	143,400	46,600	152,000	38,000
Guanyao Coal Industry Co., Ltd. ("Guanyao Coal")	June 25, 2010	94,800	57,200	37,600	75,840	18,960
Samenzhen Xuhutuo Coal Mine Ltd. ("Xuhutuo Coal")	December 23, 2010	125,000	104,300	20,700	112,500	12,500
Daqi Coal Mine Ltd. ("Daqi Coal")	December 23, 2010	66,200	57,800	8,400	59,580	6,620
Renling Coal Mine Ltd. ("Renling Coal")	December 24, 2010	205,000	166,170	38,830	184,500	20,500
Donggou Coal Mine Ltd. ("Donggou Coal")	December 24, 2010	77,500	68,370	9,130	69,750	7,750
Total (in RMB'000)		758,500	597,240	161,260	654,170	104,330
		\$ '000	\$ '000	\$ '000	\$ '000	\$ '000
Total (in USD'000)		\$ 114,924	\$ 90,491	\$ 24,433	\$ 99,116	\$ 15,808

According to the geological technical report, which was issued by an independent geological coal resource company based on PRC standards and approved by Shanxi Provincial government, the reserves of Da Wa Coal and Guanyao Coal are 10.8 million MT and 7.4 million MT, respectively. On December 9, 2010, Shanxi Coal has received approval from the Shanxi Yuncheng Municipal Coal Mine Industry Bureau to commence construction of the designed production expansion of Da Wa Coal. On March 10, 2011, Dajinhe Coal received approval for transitional business license, which is valid until November 17, 2011.

Shanxi Coal's obligation for payment for Da Wa Coal and Guanyao Coal are guaranteed by Mr. Ming Zhao (see Note 4).

The purchase price payable for Da Wa Coal and Guanyao Coal will be due June, 2011, the one year anniversary of completion of the transfer. The purchase price payable for Xuhutuo Coal, Daqi Coal, Renling Coal and Donggou Coal will be due June, 2011, six months after the completion of the transfer. Xuhutuo Coal, Daqi Coal, Renling Coal and Donggou Coal are four of the six coal mines co-developed under the Investment Cooperation Agreement dated August 1, 2010, pursuant to which Shanxi Coal is responsible to contribute 40% of the total investment needed for the consolidation and construction of Phase II of the Pinglu Project (see Note 4).

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

6. Property, Plant, Equipment and Mining Assets, Net (continued)

The above six coal mines in Pinglu County are 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 Shanxi Coal as one of the few coal mine consolidators that have the capacity to acquire and consolidate such coal mines. These coal mines 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. We are in the process of hiring an independent geological firm to provide a geological technical report based on international standards. 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.

A new project company named Shanxi Pinglu Dajinhe Coal Co., Ltd. ("Dajinhe Coal") will hold the assets and mining right of Da Wa Coal. A new project company named Shanxi Pinglu Dajinhe Wujin Coal Co., Ltd. ("Wujin Coal") will hold the assets and mining right of Guanyao Coal. Both Dajinhe Coal and Wujin Coal are 100% owned by Shanxi Coal. A new project company named Shanxi Pinglu Dajinhe Jinmen Coal Co., Ltd. ("Jinmen Coal") will hold the assets and mining rights of Xuhutuo Coal and Daqi Coal. A new project company named Shanxi Pinglu Dajinhe Jinyi Coal Industry Co., Ltd. ("Jinyi Coal") will hold the assets and mining rights of Renling Coal and Donggou Coal. Shanxi Coal has been given transitional mining permits, which will expire in November-December 2011. Upon the completion and approval of the reconstruction works, the Shanxi government will issue formal final business licenses for the new project companies and renew the mining permits. The property deeds for the buildings will also be issued to the new companies.

Depreciation expense for the years ended December 31, 2010, 2009 and 2008 was approximately \$1,693,000, \$1,678,000 and \$1,650,000, respectively. In the year ended December 31, 2009, the amount included in cost of sales and general and administrative expenses was approximately \$1,660,000 (2009: \$1,645,000, 2008: \$1,618,000) and \$33,000 (2009: \$33,000, 2008: \$32,000), respectively.

There was no impairment in the value of property, plant and equipment for the years ended December 31, 2010, 2009 and 2008.

7. Intangible Assets, Net

	Land-use rights	
	December 31, 2010 \$'000	December 31, 2009 \$'000
Cost	\$ 4,444	\$ 4,297
Accumulated amortization	454	352

Carrying value	\$ 3,990	\$ 3,945
----------------	----------	----------

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

7. Intangible Assets, Net (continued)

Land-use rights include \$2,742,000 purchased from Resources Group which are located in Liulin County, Shanxi Province and are amortized over fifty years up to August 4, 2055, and \$1,702,000 purchased from Resources Group, which are located in Zhongyang County, 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 4 and 9).

Amortization expense for the years ended December 31, 2010, 2009 and 2008 was approximately \$87,000, \$86,000 and 85,000, respectively. The estimated aggregate amortization expense for the five years ending December 31, 2011, 2012, 2013, 2014 and 2015 amounts to approximately \$87,000, \$87,000, \$87,000, \$87,000 and \$87,000, respectively.

There was no impairment in the value of intangible assets for the years ended December 31, 2010, 2009 and 2008.

8. Investment, at Cost

On May 14, 2009, Shanxi Coal entered into an agreement of shares 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 \$15,152,000. The governmental registration of the share transfer was completed on December 3, 2009 and the purchase price was fully paid as of December 31, 2010. 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.

The investment was recorded at cost and there was no impairment in the value of investment for the year ended December 31, 2010 and 2009 (see Note 2(h)).

9. Long-term Debt

	December 31, 2010 \$'000	December 31, 2009 \$'000
Conveyance loan	\$ 6,500	\$ 7,800
Loan from Mr. Ming Zhao	36,364	-
	42,864	7,800
Less: current portion	(37,664)	(1,300)
Long-term portion	\$ 5,200	\$ 6,500

PUDA COAL, INC.
NOTES TO 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 year ended December 31, 2010, Shanxi Coal paid principal of \$1,300,000 (2009: \$1,300,000, 2008: \$1,300,000) and interest of \$438,000 (2009: \$518,000, 2008: \$594,000) 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 4, 6 and 7).

The loan from Mr. Ming Zhao is unsecured and bears a 6% annual interest rate, in which the interest is payable on a quarterly basis. The term of the loan is 18 months from May 7, 2010. In the year ended December 31, 2010, interest accrued on the loan amounted to \$1,412,000. As of December 31, 2010, the balance of interest payable of \$1,232,000 was included in other payables (see Note 4).

The future principal payments under the conveyance loan and the loan from Mr. Ming Zhao as of December 31, 2010 are as follows:

Year Ending December 31,	\$'000
2011	37,664
2012	1,300
2013	1,300
2014	1,300
2015	1,300
	\$ 42,864

10. Derivative Warrants

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 are convertible into common stock at \$.50 per share over the term of the debt. As of December 31, 2010, \$10,260,000 was converted into 2,931,429 shares (after adjusting for the 7-to-1 Share Conversion) of common stock, \$2,215,000 was redeemed upon maturity, and the remaining \$25,000 will be paid off upon the receipt of the original notes from the investors. The balance of \$25,000 is included in other payables in the consolidated balance sheet as of December 31, 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 December 31, 2010, 3,492,856 warrants (after adjusting for the 7-to-1 Share Conversion) were exercised into 3,492,856 shares (after adjusting for the 7-to-1 Share Conversion) of common stock. The remaining 78,573 warrants expired on November 17, 2010.

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)”.

64

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

10. Derivative Warrants (continued)

The warrants are classified as a derivative liability because they embody an obligation to issue a variable number of shares. Warrants are being amortized over the term of five years using the effective interest method up to November 17, 2010, and the amount amortized in the years ended December 31, 2010, 2009 and 2008 was \$nil, \$nil and \$33,000, respectively. Upon exercise, the pro rata % 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 years ended December 31, 2010, 2009 and 2008 was \$7,175,000, \$1,369,000 and \$nil, respectively.

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. 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 shares 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. Upon exercise, the pro rata % 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 years ended December 31, 2010, 2009 and 2008 was \$230,000, \$133,000 and \$nil, respectively. As of December 31, 2010, 354,307 (after adjusting for the 7-to-1 Share Conversion) placement agent warrants were exercised and resulted in the issuance of 250,579 shares (after adjusting for the 7-to-1 Share Conversion) of common stock. The remaining 2,836 placement agent warrants expired on November 17, 2010.

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

10. Derivative Warrants (continued)

The derivative warrants as of December 31, 2010 and 2009:

	December 31, 2010 \$000	December 31, 2009 \$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	(7,175)	-
Less: amount transferred to equity upon exercise of placement agent warrants in 2010	(230)	-
Less: change in fair value in 2010	(215)	-
	\$ -	\$ 7,620

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

10. Derivative Warrants (continued)

The following table shows (i) the effect of derivative instruments on the statement of financial performance for the year ended December 31, 2010 in accordance with Accounting Standards Update (“ASU”) 2009-05 “Fair Value Measurements and Disclosure (Topic 820)”:

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

Derivatives not designated as hedging instruments under ASC 815

	Year ended December 31, 2010	
	Location of gain or (loss) recognized in income on derivatives	Amount of gain or (loss) recognized in income on derivatives \$000
Derivative warrants	Derivative unrealized fair value gain	\$ 215
Total		\$ 215

11. Commitments and Contingencies

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

The future minimum lease payments under the above-mentioned lease as of December 31, 2010 are as follows:

Year Ending December 31,	\$'000
2011	161
2012	161
2013	161
	\$ 483

The above future lease payments represent amounts payable to Resources Group (see Note 4).

On December 28, 2010, Shanxi Coal entered into a mining right and mining assets transfer agreement with Pinglu County Anrui Coal Industry Co., Ltd. (“Anrui Coal”), pursuant to which Shanxi Coal will purchase from Anrui Coal all its tangible assets and coal mining rights located in Pinglu County, Shanxi Province. As consideration, Shanxi Coal will pay Anrui Coal an aggregate purchase price of RMB 250 million (approximately \$37.43 million) in cash, of which RMB 64.81 million (\$9.70 million) is for tangible assets and RMB 185.19 million (\$27.73 million) is for the mining rights.

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

11. Commitments and Contingencies (continued)

On December 28, 2010, Shanxi Coal entered into a mining right and mining assets transfer agreement with Pinglu County Chuntouao Coal Mine ("Chuntouao Coal"), pursuant to which Shanxi Coal will purchase from Chuntouao Coal all its tangible assets and coal mining rights located in Pinglu County, Shanxi Province. As consideration, Shanxi Coal will pay Chuntouao Coal an aggregate purchase price of RMB 140 million (approximately \$20.96 million) in cash, of which RMB 32.36 million (\$4.84 million) is for Chuntouao Coal's tangible assets and RMB 107.64 (\$16.12 million) is for the mining right.

On December 28, 2010, Shanxi Coal entered into a mining right and mining assets transfer agreement with Pinglu County Xiapingcun Coal Mine ("Xiapingcun Coal"), pursuant to which Shanxi Coal will purchase from Xiapingcun Coal all its tangible assets and coal mining rights located in Pinglu County, Shanxi Province. As consideration, Shanxi Coal will pay Xiapingcun Coal an aggregate purchase price of RMB 61.2 million (approximately \$9.16 million) in cash, of which RMB 18.53 million (\$2.77 million) is for Xiapingcun Coal's tangible assets and RMB 42.67 million (\$6.39 million) is for the mining right.

Under each agreement, Shanxi Coal agrees to pay 50% of the purchase price within three days of the execution of the agreement, 40% of the purchase price within 30 days after assets transfer is completed and the mining permits are transferred, and the remaining 10% of the purchase price six months after the completion of transfer. Anrui Coal, Chuntouao Coal and Xiapingcun Coal are the coal mines co-developed under the Investment Cooperation Agreement signed on August 1, 2010 and Supplementary Agreement of Investment Cooperation signed on January 12, 2011 pursuant to which Shanxi Coal is responsible to contribute 40% of the total investment needed for the consolidation and construction of these coal mines. A new project company named Shanxi Pinglu Dajinhe Anrui Coal Industry Co., Ltd. ("Dajinhe Anrui Coal") will hold the assets and mining rights of the above acquired mines (see Notes 4 and 26).

In order to guarantee the performance of the Investment Cooperation Agreement, Shanxi Coal is using its investment to each relevant project company as guarantee to the other co-investors that Shanxi Coal will be responsible for breach of this Agreement in the event that any fraud or gross negligence by Shanxi Coal causes loss by such project company.

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 MT to 900,000 MT per year. As of December 31, 2010, Shanxi Coal has acquired 18% equity ownership of Jianhe Coal (see Note 8) but has not entered into any definitive agreements for the acquisition of the other three coal mines.

12. Sale of Common Shares

On February 18, 2010, the Company completed the offering and sale of 2,855,652 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 dated February 11, 2010. The 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. On February 16, 2010, the underwriters exercised the option in full. The net proceeds to the Company were approximately \$14.5 million after deducting underwriting commissions and estimated expenses payable by the Company associated with the offering.

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

12. Sale of Common Shares (continued)

On December 13, 2010, the Company completed the offering and sale of 7,850,000 shares of the Company's common stock, par value \$0.001 per share pursuant to an underwriting agreement with Macquarie Capital (USA) Inc. and Brean Murray, Carret & Co., LLC dated December 8, 2010. The shares were sold to the public at a price of \$12 per share. The Company granted the underwriters a 30-day option to purchase an aggregate of 1,150,000 additional shares of common stock. On December 16, 2010, the underwriters exercised the option in full. The net proceeds to the Company were approximately \$101.5 million after underwriting discounts and before expenses.

13. Noncontrolling Interests

Noncontrolling interests represented the interests of Mr. Ming Zhao and Mr. Gao in the following coal mines in accordance with the Investment Cooperation Agreement dated August 1, 2010 (see Notes 4 and 6):

	December 31, 2010 \$'000
Xuhutuo Coal (Jinmen Coal)	11,435
Daqi Coal (Jinmen Coal)	6,018
Renling Coal (Jinyi Coal)	18,707
Donggou Coal (Jinyi Coal)	7,045
	\$ 43,205

The coal mining business did not commence any operations and accordingly no comprehensive income was attributable to the noncontrolling interests in the year ended December 31, 2010.

14. Profit Appropriation

In accordance with PRC regulations, Shanxi Coal is required to make appropriations to the statutory surplus reserve fund, based on 10% of the after-tax net income determined in accordance with PRC GAAP, until the reserve fund is equal to 50% of the entity's registered capital. Appropriation to the statutory public welfare fund is voluntary and Shanxi Coal appropriated 5% of the after-tax net income determined in accordance with PRC GAAP. Statutory surplus reserve is established for the purpose of remedying Shanxi Coal's losses, expanding operations, or increasing registered capital, and is non-distributable other than in liquidation. For the year ended December 31, 2010, transfer to statutory surplus reserve fund and statutory public welfare fund amounted to \$4,202,000.

15. Interest Expense

Interest expense for the year ended December 31, 2010 includes a \$1,412,000 (2009: \$nil, 2008: \$nil) interest payment for the 6% loan from Mr. Ming Zhao, a \$438,000 (2009: \$518,000, 2008: \$594,000) interest payment for the 6% loan from Resources Group for the purchase of the Liulin and Zhongyang plants, and a \$nil (2009: \$nil, 2008: \$169,000) interest payment for the 8% convertible notes.

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

16. Debt Financing Costs

Debt financing costs for the year ended December 31, 2008 include amortization of discount on convertible notes and warrants of \$399,000, and penalty for the delay in getting the registration statement effective by March 17, 2006 of \$379,000.

17. Derivative Unrealized Fair Value Gain/(Loss)

Derivative unrealized fair value gain of \$215,000 in the year ended December 31, 2010 (2009: derivative unrealized fair value loss of \$5,036,000, 2008: derivative unrealized fair value gain of \$394,000) represents the change in fair value of the derivative warrants (see Note 10).

18. Other Income/(Expense)

Other income of \$59,000 in the year ended December 31, 2009 represented the interest payments unclaimed by the convertible note investors. Other expense of \$719,000 in the year ended December 31, 2008 represents the donation for earthquake rescue efforts in Sichuan Province, PRC.

19. Taxation

No provision for taxation has been made for Puda, BVI and Putai for the years ended December 31, 2010, 2009 and 2008, 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%.

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

	Years ended December 31,		
	2010 \$'000	2009 \$'000	2008 \$'000
Current year provision	\$9,175	\$3,650	\$6,417

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

	Years ended December 31,		
	2010 \$'000	2009 \$'000	2008 \$'000
Income before income taxes	\$32,703	\$9,131	\$23,478
Income tax on pretax income at statutory rate	8,174	3,105	7,982
Tax effect of expenses that are not deductible in determining taxable profits	408	1,575	417
Tax effect of income that is not taxable in determining taxable profits	(73)	-	(134)

Edgar Filing: Puda Coal, Inc. - Form 10-K

Effect of different tax rates of companies operating In other jurisdictions	(199)	(1,392)	(2,264)
Change in valuation allowance	865	362	416
Income tax at effective rate	\$9,175	\$3,650	\$6,417

70

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

19. Taxation (continued)

As at December 31, 2010 and 2009, the Group had accumulated net operating loss carryforwards of approximately \$11,427,000 and \$8,508,000, respectively, that are available to offset future taxable income. Realization of the net operating loss carryforwards is dependent upon future profitable operations. In addition, the US net operating loss 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 December 31, 2010 and 2009. The net operating loss carryforwards expire in years 2015, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029 and 2030 in the amounts of \$1,411,000, \$132,000, \$394,000, \$153,000, \$371,000, \$321,000, \$2,492,000, \$1,869,000, \$1,709,000 and \$1,067,000 and \$1,508,000, 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 December 31, 2010 and 2009, deferred tax assets consist of:

	December 31, 2010 \$'000	December 31, 2009 \$'000
Net operating loss carryforwards	\$ 3,759	\$ 2,893
Less: Valuation allowance	(3,759)	(2,893)
Net	\$ -	\$ -

20. Basic and Diluted Weighted Average Number of Shares

	Years ended December 31,		
	2010	2009	2008
Basic weighted average number of shares (after adjusting for the 7-to-1 Share Conversion)	20,114,316	15,409,726	15,184,086
Issuance of directors/employees shares (after adjusting for the 7-to-1 Share Conversion)	114,476	183,475	44,864
Diluted weighted average number of shares	20,228,792	15,593,201	15,228,950

The 7-to-1 Share Conversion at 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, 2008 (see Note 1).

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

21. 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 unit activity is as follows:

	Restricted Stock Units	Weighted- Average Grant Date Price per Share	Aggregated Fair Market Value \$'000
Balance at January 1, 2008	-	\$ -	
Granted	44,867	\$ 2.18	
Vested	(22,434)	\$ 2.18	\$ 49
Balance at December 31, 2008	22,433	\$ 2.18	
Granted	166,331	\$ 7.06	
Vested	(28,099)	\$ 4.06	\$ 114
Balance at December 31, 2009	160,665	\$ 6.91	
Granted	46,531	\$ 8.88	
Vested	(75,934)	\$ 7.15	\$ 543
Balance at December 31, 2010 (granted but not vested)	131,262	\$ 7.47	

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

21. Equity incentive plan (continued)

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

	Restricted Stock Units
Balance at January 1, 2008	-
Shares reserved	714,286
Granted	(44,867)
Balance at December 31, 2008	669,419
Granted	(166,331)
Balance at December 31, 2009	503,088
Granted	(46,531)
Balance at December 31, 2010 (available for grant)	456,557

22. Stock Compensation

On June 29, 2007, Puda entered into a director contract with Mr. Jianfei Ni. 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. On August 10, 2010, the annual fee was increased to \$5,000 cash plus stock compensation of \$32,000 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, 2010 and then on each anniversary date of the grant date. Such stock grants are subject to the 2008 Plan.

On August 3, 2007, Puda entered into a director contract with Mr. Larry Wizel. 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. On August 10, 2010, the annual fee was increased to \$48,000 cash plus stock compensation of \$32,000 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, 2010 and then on each anniversary date of the grant date. Such stock grants are subject to the 2008 Plan.

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

22. Stock Compensation (continued)

On October 9, 2007, Puda entered into a director contract with Mr. Mark Tang. 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. On August 10, 2010, the annual fee was increased to \$30,000 cash plus stock compensation of \$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 October 9, 2010 and then on each anniversary date of the grant date. 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 were the one-year anniversary of their respective grant dates. Such grants are subject to the restricted stock unit grant agreements 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 agreements under the 2008 Plan.

On August 10, 2010, the Company granted officers 30,000 shares of common stock, which will be vested on the one-year anniversary of the grant date. Such grants are subject to the restricted stock unit grant agreements under the 2008 Plan.

The stock compensation expenses for the year ended December 31, 2010, 2009 and 2008 were as follows:

	Years ended December 31,		
	2010	2009	2008
	\$'000	\$'000	\$'000
Stock compensation expense	\$926	\$234	\$74

23. 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 December 31, 2010 and 2009, the Group has a credit risk exposure of uninsured cash in banks of approximately \$156,066,000 and \$19,874,000, respectively. The Group does not require collateral or other securities to support financial instruments that are subject to credit risk.

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

23. Concentrations and Credit Risk (continued)

The following customers had balances greater than 10% of the total accounts receivable as of December 31, 2010 and 2009, respectively:

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

24. Black Lung Benefits

In the United States of America, companies are responsible under the Federal Coal Mine Health and Safety Act of 1969, as amended, and various states' statutes for the payment of medical and disability benefits to employees and their dependents resulting from occurrences of coal worker's pneumoconiosis disease (black lung). In the PRC, there is no such special Act or regulatory requirement to cover occurrences of coal worker's black lung. The Group provides no provision for its workers' black lung benefits inasmuch as the aforesaid Act does not apply to the Group.

25. Segment Information

The Company has two segments, coal washing business and coal mining business. For the coal mining business, in May, 2009, the Company acquired 18% equity ownership in Jianhe Coal (see Note 8). In June, 2010, the Company completed the acquisition of Da Wa Coal and Guanyao Coal (see Note 6). In December 2010, the Company completed the acquisition of Xuhutuo Coal, Daqi Coal, Renling Coal and Donggou Coal (see Note 6). As of December 31, 2010, these coal mines are in the process performing geological studies and reconstruction and production has not started. All revenues, depreciation and amortization expenses and income taxes for the years ended December 31, 2010, 2009 and 2008 in the consolidated statement of operations were for coal washing business. The operating income, interest expense, net income and total assets of the two segments are as follows:

	2010 \$'000	2009 \$'000	2008 \$'000
Operating income			
- Coal washing	\$ 37,955	\$ 15,704	\$ 27,145
- Coal mining	(213)	-	-
- Corporate (unallocated)	(3,618)	(1,167)	(2,207)
Total	\$ 34,124	\$ 14,537	\$ 24,938
Interest expense			
- Coal washing	\$ 438	\$ 518	\$ 763
- Coal mining	1,412	-	-
Total	\$ 1,850	\$ 518	\$ 763
Net income(loss)			

Edgar Filing: Puda Coal, Inc. - Form 10-K

- Coal washing	\$ 28,557	\$ 6,500	\$ 19,581
- Coal mining	(1,625)	-	-
- Corporate (unallocated)	(3,404)	(1,019)	(2,520)
Total	\$ 23,528	\$ 5,481	\$ 17,061

75

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

25. Segment Information (continued)

	December 31, 2010 \$'000	December 31, 2009 \$'000
Total assets		
- Coal washing	\$ 74,059	\$ 70,374
- Coal mining	135,867	20,909
- Corporate (unallocated)	156,171	19,918
Total	\$ 366,097	\$ 111,201

26. Subsequent Events

On January 10, 2011, Shanxi Coal entered into a Supplementary Agreement of Investment Cooperation (the "Supplementary Agreement") with Mr. Ming Zhao and Mr. Gao. The Supplementary Agreement amends and supplements that certain Agreement of Investment Cooperation (the "Agreement") among the same parties, dated August 1, 2010. Pursuant to the Agreement, the parties will purchase, consolidate and co-develop six coal mines in Phase II of the Pinglu Project. Pursuant to the Supplementary Agreement, the parties will include the Pinglu County Xiapingcun Coal Mine, a coal mine which was not initially contemplated to be acquired as part of Phase Two of the Pinglu Project, in Phase Two of the Pinglu Project and place the entire mining assets of Xiapingcun Coal Mine into Anrui, a project company established to hold the assets of certain coal mines acquired by Shanxi Coal, under Phase Two of the Pinglu Project (see Notes 6 and 11).

Shanxi Coal closed mining rights and mining assets transfer agreements dated December 28, 2010 with Anrui Coal, Xiapingcun Coal, and Chuntouao Coal on February 17 2011, February 18 2011, and February 22, 2011, respectively. As of the date this report, Shanxi Coal has paid 90% of the purchase price under each agreement and the remaining 10% will be due six months after the completion of the transfer (see Note 11).

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

27. Condensed Financial Information of Registrant

The condensed financial information of Registrant includes the balance sheets as at December 31, 2010 and 2009, and the statements of operations and cash flows for the years ended December 31, 2010, 2009 and 2008.

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

	Note(s)	December 31, 2010	December 31, 2009
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 3,577	\$ 1,576
Total current assets		3,577	1,576
INVESTMENTS IN SUBSIDIARIES			
		103,931	78,184
TOTAL ASSETS		\$ 107,508	\$ 79,760
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Other payable		55	155
Accrued expenses		795	388
Derivative warrants	10	-	7,620
Total current liabilities		850	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 30,022,856 shares (2009: 15,828,863)		30	15
Paid-in capital		141,994	104,729
Accumulated deficit		(35,366)	(33,147)
Total stockholders' equity		106,658	71,597
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		\$ 107,508	\$ 79,760

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

27. Condensed Financial Information of Registrant (continued)

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

	Note(s)	Years ended December 31,		
		2010	2009	2008
Revenue:				
Share of earnings from investment in subsidiaries		\$25,747	\$11,818	\$18,744
Total revenue		25,747	11,818	18,744
General and administrative expenses		2,434	1,360	1,130
Income from operations		23,313	10,458	17,614
Interest expense	15	-	-	(169)
Debt financing costs	16	-	-	(778)
Derivative unrealized fair value gain/(loss)	10, 17	215	(5,036)	394
Other income		-	59	-
Net income		\$23,528	\$5,481	\$17,061

No cash dividends were received from the subsidiaries for the years ended December 31, 2010, 2009 and 2008.

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

27. Condensed Financial Information of Registrant (continued)

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

	Years ended December 31,		
	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$23,528	\$5,481	\$17,061
Adjustments to reconcile net income to net cash provided by operating activities			
Share of earnings from investment in subsidiaries	(25,747)	(11,818)	(18,744)
Amortization of discount on convertible notes and warrants	-	-	399
Derivative unrealized fair value (gain)/loss	(215)	5,036	(394)
Stock compensation expense	926	234	74
Issue of common stock for penalty	-	-	379
Changes in operating assets and liabilities:			
Advance from subsidiary	-	564	3,219
(Decrease)/increase in other payable	(100)	(102)	812
Increase in accrued expenses	506	107	11
Decrease in restricted cash	-	-	233
Net cash (used in)/provided by operating activities	(1,102)	(498)	3,050
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in subsidiaries	(120,120)	-	-
Payment for the purchase of equity interest in Shanxi Coal	-	-	(893)
Net cash used in investing activities	(120,120)	-	(893)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of convertible notes	-	-	(2,015)
Issue of common share for public offering	115,845	-	-
Exercise of warrants	7,378	1,878	-
Net cash provided by/(used in) financing activities	123,223	1,878	(2,015)
Net increase in cash and cash equivalents	2,001	1,380	142
Cash and cash equivalents at beginning of year	1,576	196	54
Cash and cash equivalents at end of year	\$3,577	\$1,576	\$196
Supplementary cash flow information:			
Cash paid during the year for:			
Interest	\$-	\$-	\$169

Income taxes	\$-	\$-	\$-
--------------	-----	-----	-----

79

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There was no change in and no disagreement with accountants on any accounting and financial disclosure matters during fiscal year 2010.

Item 9A. Controls and Procedures

(a) Evaluation of 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 annual report on Form 10-K for the fiscal year ended December 31, 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 annual 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.

(b) Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles, and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles and, that receipts and expenditures of the Company are being made only in accordance with authorization of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including the Chief Executive Officer and Chief Financial Officer, assessed as of December 31, 2010 the effectiveness of the Company's internal control over financial reporting. In making this assessment, management used the criteria set forth in the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of this evaluation, management has concluded that the Company's internal control over financial reporting as of December 31, 2010 was effective.

Attestation Report of Independent Registered Public Accounting Firm

The effectiveness of Puda's internal control over financial reporting as of December 31, 2010 has been audited by Moore Stephens, an independent registered public accounting firm. The related report to the shareholders and the Board of Directors of Puda appears on the next page of this Report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Puda Coal, Inc.

We have audited the internal control over financial reporting of Puda Coal Inc. and its subsidiaries (the “Company”) as of December 31, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s consolidated balance sheet as of December 31, 2010 and the related consolidated statements of operations, changes in equity and cash flows for the year then ended, and our report dated March 16, 2011 expressed an unqualified opinion thereon.

Moore Stephens

Certified Public Accountants

Hong Kong

March 16, 2011

82

(b) Changes in Internal Control over Financial Reporting

During the period covered by this annual report on Form 10-K, we further improved the internal control function throughout our Company and our culture regarding control consciousness by the following steps: We have (i) redesigned control procedures with standard documentation for review and authorization in the purchase, sales and payroll transactions cycles, (ii) implemented a process that ensures the timely review and approval of complex accounting estimates by qualified accounting personnel and subject matter experts, where appropriate, and (iii) established better monitoring controls at the corporate accounting, factory operation and anti-fraud levels. We believe that the actions we have taken have improved our internal control over financial reporting, as well as our disclosure controls and procedures such that, as of December 31, 2010, no material weakness exists in our disclosure controls and procedure or internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

Except as otherwise discussed herein, there have been no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or Rule 15d-15 under the Exchange Act that occurred during the fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The following table shows the names and ages of our directors and executive officers and the positions they hold at Puda.

NAME	AGE	POSITION
Ming Zhao	38	Chairman
Liping Zhu	56	Chief Executive Officer
Qiong Wu	36	Chief Financial Officer
Pengxiang Lang	40	Chief Operating Officer
Lawrence S. Wizel	68	Director
C. Mark Tang	46	Director
Jianfei Ni	64	Director

Management Biographies

Ming Zhao has been the co-founder, Chairman and CEO of Shanxi Coal since 1995. . Mr. Zhao was appointed Chief Executive Officer, President and Chairman of the board of directors of Puda on July 15, 2005. He ceased to be its CEO on June 25, 2008 and currently serves as Chairman. He is the brother of Mr. Yao Zhao, our 6.34% shareholder and a manager of our coal washing plants. Mr. Zhao's extensive experience in the coal production industry, as well as his in-depth knowledge of the Company, including its business, strategy, marketplace, competition, operations and employees, as a founder of the Company and through his former position as the CEO, enables him to make critical contribution as a member of our board.

Liping Zhu became director, President and CEO of the Company, effective on June 25, 2008. Before Mr. Zhu joined the Company, he was Deputy General Manager at Shanxi Loudong-Junan Coal & Gas Company since 1997, which is engaged in the coal mining and washing business in Shanxi Province, China, responsible for public and government relationships and financing of the company. The company that Mr. Zhu was employed by is not a parent, subsidiary or otherwise an affiliate of the Company. Mr. Zhu is not a director of any other public company in the United States. Mr. Zhu's extensive experience in the coal mining and washing business, as well as his in-depth knowledge of the Company, including its business, strategy, marketplace, competition, operation and employees, through his current position as President and CEO of the Company, make him highly qualified to serve as a member of the board.

Qiong (Laby) Wu became CFO of the Company effective on July 23, 2008. Before Ms. Wu joined the Company, she was CFO and Vice President of Financing and Investor Relations at Sinoenergy Corporation (Nasdaq CM: SNEN) since 2006, which is a manufacturer of compressed natural gas ("CNG") vehicle and gas station equipment and a designer, developer and operator of retail CNG filling stations in the PRC. Ms. Wu was employed at Ernst & Young Hua Ming Accounting Firm as a Senior Auditor from 2004 to 2006. From 2000 to 2004, Ms. Wu was a Manager and Tax Consultant at HLB-Beijing Yongtuo CPAs, responsible for financial audits and internal control design. None of the companies that Ms. Wu was employed by is a parent, subsidiary or otherwise an affiliate of the Company.

Pengxiang Lang became the Company's Chief Operating Officer on March 12, 2009. Prior to his involvement with the Company, Mr. Lang served as vice president in charge of operations of Shanxi Coal from 2002 to March, 2009. From 2000 to 2002, he was general manager of Rudi Science Industry & Trade Co., Ltd. Prior to that, he served as the representative officer of Shanxi Coking Coal Group's Tianjian Representative Office and vice general manager of Shanxi Coking Coal Group's Taiyuan subsidiary from 1994 to 1999. Mr. Lang obtained his Master of Business Administration from Tianjin Commercial College.

Lawrence S. Wizer was appointed to the board of directors as an independent director on August 3, 2007. Mr. Wizer is a member and Chairman of our audit committee. He is also a member of the compensation committee and nominating and corporate governance committee. Mr. Wizer began his career in 1965 at Deloitte and was a partner in the firm from 1980 until May 2006 when he retired. At Deloitte, Mr. Wizer was a leader in the New York Office Technology Group and was responsible for serving a diverse client base of publicly held and private companies with a variety of capabilities including SEC filings for initial public offerings, mergers and acquisition transactions and periodic reporting. During the last four years at Deloitte, Mr. Wizer served as a Deputy Professional Practice Director in the Deloitte New York office. Additionally, Mr. Wizer has extensive experience regarding multinational and multi-locational companies, specifically in China. Mr. Wizer holds a BS from Michigan State University and is a Certified Public Accountant. Mr. Wizer is a director of American Oriental Biotech Co. Ltd. (NYSE: ABO) and 3SBIO, Inc. (NASDAQ: SSRX). Mr. Wizer's substantial knowledge and experience in the accounting, auditing and financial matters and in internal control over financial reporting makes him highly qualified to serve as a member of the board and the compensation committee and as Chairman of our audit committee.

C. Mark Tang was appointed to the board of directors as an independent director on October 9, 2007. Dr. Tang is a member and Chairman of our nominating and corporate governance committee. He is also a member of the audit committee and compensation committee. Since 2009, Dr. Tang has been director and Chairman of GCA Therapeutics, Ltd. Dr. Tang was a director of Tongli Pharmaceuticals (USA) Inc. (OTCBB: TGLP) since 2008. Dr. Tang has been the founder and CEO of World Tech Ventures, LLC, an international merchant banking and venture capital firm specialized in advising and investing in life sciences biotechnology since 2002. From 2004 to 2006, Dr. Tang was a director of Biotech Commercialization and Instructor at Rutgers University Business School. From 1997 to 2000, Dr. Tang was a director and Co-founder of Aegisoft Corp. Dr. Tang holds a Ph. D degree in Biochemistry and Molecular Biology from University of California at Riverside and an MBA in Finance from Leonard N. Stern School of Business at New York University. Dr. Tang's extensive experience with Chinese companies and their marketplace and access to capital markets and his familiarity with a broad range of board functions make him highly qualified to serve as a

member of the board and the audit committee and as Chairman of the nominating and corporate governance committee.

Jianfei Ni was appointed to the board of directors as an independent director on June 29, 2007. Mr. Ni retired as Vice President and Chief Engineer from the Taiyuan Institute of Coal Design & Research, in Taiyuan, Shanxi, China, where he worked from 1978 to 2005. Since 2006, Mr. Ni has been a consultant at Shanxi Weide Coal Mine Design & Consulting Company. From 2005 to 2006, Mr. Ni was Chief Engineer at Shanxi Yuantong Coal Mine Engineering Design and Consulting Company. With over thirty years of experience in the coal industry and extensive knowledge as a coal expert, Mr. Ni is highly qualified to serve as a member of the board of directors.

Other Significant Employees

Yao Zhao, the manager of coal washing plants of Shanxi Coal and former Chief Operating Officer of Puda, was one of the two co-founders of Shanxi Coal. He was appointed to be Chief Operating Officer of Shanxi Coal and manager of its coal washing plants in 1999, and Chief Operating Officer of Puda on July 15, 2005. He resigned from the Chief Operating Officer position in November 2006. Mr. Yao Zhao also serves as an executive officer, and currently is a 75% owner of Jucai Coal. Mr. Yao Zhao is the brother of Mr. Ming Zhao, our Chairman of our board of directors.

Board Independence

The board of directors determined that Mr. Lawrence S. Wizel, Dr. Mark C. Tang and Mr. Jianfei Ni are “independent” under Section 803 of the NYSE Amex Company Guide.

On September 15, 2009, the Board of Directors amended and restated the Company’s Audit Committee Charter to be in compliance with the requirements of the NYSE Amex in connection with its application for listing on the Exchange. The Board determined that all the three members of the Audit Committee, Mr. Jianfei Ni, Dr. C. Mark Tang and Mr. Lawrence S. Wizel, are independent as that term is defined in Section 10A(m) of the Exchange Act of 1934, as amended, and meet the independence requirements of the NYSE Amex. To the full extent permitted by applicable law, the Audit Committee will exercise the powers and duties as set forth in the Amended and Restated Audit Committee Charter.

None of our officers, directors or significant employees is involved in any legal proceedings.

Audit Committee

Since the establishment of our audit committee on August 28, 2007, all related party transactions should be subject to our audit committee’s review and approval on an ongoing basis. Our audit committee is comprised of Mr. Lawrence S. Wizel, Dr. Mark C. Tang and Mr. Jianfei Ni, each of whom is “independent,” as that term is defined in Section 10A(m) of the Securities Exchange Act and the Rules and Regulations of the Securities and Exchange Commission, and meets the independence and financial literacy requirements of the NYSE Amex LLC. Our Board of Directors has determined that Mr. Lawrence S. Wizel is the audit committee “financial expert” pursuant to Section 407(d)(5) of the Exchange Act. There are no written policies and procedures regarding review of related party transactions in our audit committee charter. The independent directors who are members of the audit committee follow state fiduciary laws in their review of the related party transactions and will approve such transactions if they are in our best interests.

Board Diversity

We have no formal policy regarding board diversity. Our priority in selection of board members is identification of members who will further the interests of our stockholders through their management experience, knowledge of our business, understanding of the competitive landscape, familiarity with our targeted markets and experience with the regulatory framework to which we are subject.

Board Leadership Structure and Risk Oversight

Mr. Ming Zhao has served as Chairman of our board of directors since our inception and had also served as our CEO since our inception until June 25, 2008. Our board leadership structure is commonly utilized by public companies with all or substantially all of their operations in China, and we believe that this leadership structure has been effective for us. Having our former CEO and our co-founder serve as Chairman of the board shows our employees, customers and other constituencies that we are under strong leadership, with strong continuity in our business, strategy and the management of our operations. We also believe that this eliminates the potential for duplication of efforts and inconsistent actions.

Mr. Wizel has served as the Chairman of our Audit Committee since August 3, 2007. We believe Mr. Wizel's financial literacy, expertise and experience as a senior auditing partner at Deloitte are extremely helpful to us as a NYSE Amex listed company and in our efforts to continue to comply with requirements regarding internal control over financial reporting. We recognize that different board leadership structures may be appropriate for companies with different histories or varying equity ownership structures and percentages. However, we believe our current leadership structure remains the optimal board leadership structure for us.

Our audit committee is responsible for overseeing our risk management function. While the audit committee has primary responsibility for overseeing risk management, our entire board of directors is actively involved in overseeing our risk management. For example, the board engages in periodic discussions with such company officers as the board deems necessary, including the chief executive officer, chief operating officer, chief financial officer and general counsel. We believe that the leadership structure of our board supports effective risk management oversight.

Code of Ethics

On September 15, 2009, the Board of the Company adopted a Code of Business Conduct and Ethics which is applicable to all directors, officers and employees of the Company, including the CEO and CFO. The Code is available on the company's website at <http://www.pudacoalinc.com> under the Investor Relations section. Any amendments to, or waivers of, the Code which applies to any of our executive officers or directors will be disclosed in our website promptly following the date of such amendment or waiver.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company's executive officers and directors, and persons who own more than 10% of the Company's outstanding shares of Common Stock (the "Reporting Persons"), to file reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. Such officers, directors and 10% beneficial owners are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, all of the Section 16 filing requirements were satisfied for 2010.

Item 11. Executive Compensation

Compensation Discussion and Analysis

Objectives

The primary objectives of our compensation programs are to attract, motivate and retain talented and dedicated executive officers. Additionally, our compensation programs are designed to reward good work in connection with the

achievement of corporate performance goals (as described below).

86

Prior to the establishment of our compensation committee in October 2007, our executive compensation decisions were made by our board of directors with the consultation of our executive officers. On October 25, 2007, we established a compensation committee consisting of three members, Jianfei Ni (Chairman), C. Mark Tang and Lawrence S. Wizel. All three members are “independent directors” as that term defined by the NYSE Amex rules and “non-employee directors” under Rule 16b-3(b)(3)(i) promulgated under the Securities Exchange Act of 1934. Our board of directors adopted a compensation committee charter, which is filed as Exhibit 3.01 to the Form 8-K filed on October 25, 2005. To the full extent permitted by applicable law, the compensation committee exercises the powers and duties as set forth in the compensation committee charter. The compensation committee determines the compensation for our directors, CEO and other executive officers, employees, consultants and advisors, reports annually to our stockholders on executive compensation matters, administers our equity-based and other compensation plans, if any, and takes or cause to be taken such other actions and address such other matters as the board of directors may from time to time authorize the compensation committee to undertake or assume responsibility for.

We judge whether our compensation programs have met their goals by whether they have attracted and retained talented and dedicated executives and whether the response from executives is that their overall compensation causes them to feel dedicated to our corporate goals and motivated to perform at highest level.

Compensation Policies in Determination of Compensation

Consultants and Benchmarks

We did not retain any compensation consultant to design or review our compensation policies and procedures in 2010. We conduct an annual review of the aggregate level of our executive compensation, as well as the mix of elements used to compensate our executive officers by taking into account our own corporate goals and performance and local practice in China as well as the general pay level of Chinese companies listed in the U.S.; however, we did not use any specific benchmark companies in connection with the determination of our 2010 compensation.

Compensation Mix

Our executive compensation is allocated in the form of cash and equity-based compensation. We have established Puda Coal, Inc. 2008 Equity Incentive Plan on December 29, 2008 (the “Plan”), and we have granted stock awards to certain directors and officers pursuant to the Plan.

Employment and Change of Control Agreements

We have entered into employment agreements with our CEO on June 25, 2008, CFO on July 23, 2008 and COO on March 6, 2009. The employment agreements do not have change of control provisions and we do not have separate change of control agreements with our employees.

Accounting and Tax Treatment

Given our current levels of compensation, the accounting and tax consideration have not significantly impacted our forms of compensation.

We do not believe there is any substantial risk arising from our compensation policies and practices for our employees that may have a material adverse effect on us, due to the nature of our business and compensation structure.

Elements of Compensation

Our executive compensation consists of the following elements:

87

Base salary

Our Compensation Committee, which was established in July 2007, reviewed and set the base salary level for each executive officers for year 2010 by taking into account our own operating goals and performance and local practice in China, we also refer to the general pay level of executive officers of those companies listed in the U.S.

Base salary is a significant portion of our overall executive compensation, which is consistent with the compensation practices of many Chinese companies. Our current CEO and CFO joined the Company in 2008, their base salaries were determined based on the negotiation between them and the Company, taking into consideration the market practice in China.

Bonus

We may compensate executives with an annual discretionary cash bonus because we want to reward good work in connection with the achievement of certain corporate performance targets. We do not award bonuses based on individual performance measures.

Discretion has been exercised in awarding cash bonuses. In deciding to compensate individual executives with an annual bonus and in setting annual bonus amounts, the board of directors considered whether and to what extent the executive contributed to our business and operations.

Stock Awards and Options Awards

On December 29, 2008, the shareholders of the Company approved a Puda Coal, Inc. 2008 Equity Incentive Plan and amended on July 30, 2009 to reflect the 7-to-1 Share Conversion of the Company (the "2008 Plan"). The purpose of the 2008 Plan is to promote the success of the Company and to increase shareholder value by providing an additional means through the grant of equity incentive awards to attract, motivate, retain and reward employees and directors. 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 71,429 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.

On November 6, 2009, the Compensation Committee approved the grant of restricted stock units to certain officers and employees of the Company and its subsidiary, Shanxi Coal, including without limitation, Mr. Liping Zhu, Chief Executive Officer and President, and Ms. Qiong Wu, Chief Financial Officer, under the 2008 Plan. The Company granted Mr. Zhu and Ms. Wu 15,000 and 30,000 shares of common stock of the Company, respectively. The shares granted to each of Mr. Zhu and Ms. Wu will vest 40% upon the date that is one-year anniversary of the grant date (November 6, 2009), 30% upon the date that is two-year anniversary of the grant date, and 30% upon the date that is three-year anniversary of the grant date.

On August 10, 2010, the Compensation Committee approved the grant of restricted stock units to certain officers of the Company and its subsidiary, Shanxi Coal, under the 2008 Plan. The Company granted Mr. Ming Zhao, Mr. Zhu, Ms. Wu, and Mr. Pengxiang Lang (COO), 15,000, 5,000, 5,000 and 5,000 shares of common stock of the Company, respectively. The shares will be vested on the one-year anniversary of the grant date.

Retirement and/or Deferred Compensation

We do not provide any retirement or deferred compensation to any of our named executives.

Summary Compensation Table

The following table sets forth information concerning all compensation paid to our named executive officers during the last three completed fiscal years as a registrant. No other executive officer received a total compensation that exceeded \$100,000 during 2008, 2009 or 2010.

Name and Principal Position	Year	Salary (\$)(1)	Stock Awards (\$)	Other Annual Compensation (\$)	Total (\$)(1)
Liping Zhu (President and Chief Executive Officer)	2010	100,000	46,750(2)		146,750
	2009	32,992	107,400(2)		140,392
	2008	38,571		1,145	39,716
Qiong Wu (Chief Financial Officer and Company Secretary)	2010	135,033	46,750(2)		181,783
	2009	90,922	214,800(2)		305,722
	2008	50,000		1,410	51,410

(1) All compensations were paid in Reminbi but are reported in U.S. dollars. The currency conversion ratio we used to report the compensation in the table is 6.7696, which is the average conversion ratio for fiscal year 2010, consistent with the conversion ratio we used in our consolidated financial statements for the fiscal year ended December 31, 2010.

(2) Represents aggregate grant date fair value of stock awards computed in accordance with FASB ASC Topic 718.

Grants of plan-based awards

Name	Grant Date	All Other Stock Awards:	
		Number of Shares of Stocks or Units (#)	Grant Date Fair Value of Stock and Option Awards (\$) (1)
Liping Zhu	8/10/2010	5,000(2)	46,750
Qiong Wu	8/10/2010	5,000(2)	46,750

(1) The grant date fair value of each equity award computed in accordance with FASB ASC Topic 718.

(2) The grant date fair value of each equity award computed in accordance with FASB ASC Topic 718. The shares were granted to each of Mr. Zhu and Ms. Wu at August 10, 2010, (the "grant date"). The shares will vest one-year anniversary of the grant date.

Stock Vested Table

Number of Shares	Value
---------------------	-------

Name	Acquired on Vesting (#)	Realized on Vesting (\$ (1))
Liping Zhu	6,000	42,960
Qiong Wu	12,000	85,920

(1) The grant date fair value of the vested shares computed in accordance with FASB ASC Topic 718. The shares were granted to each of Mr. Zhu and Ms. Wu at November 6, 2009, (the “grant date”). The shares will vest 40% upon the date that is one-year anniversary of the grant date, 30% upon the date that is two-year anniversary of the grant date, and 30% upon the date that is three-year anniversary of the grant date.

Outstanding Equity Awards at Fiscal Year-End

Name	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Stock Awards	
			Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)(4)
Liping Zhu	-	-	9,000(1)	64,440(3)
Qiong Wu	-	-	18,000(1)	128,880(3)
Liping Zhu	-	-	5,000(2)	46,750(3)
Qiong Wu	-	-	5,000(2)	46,750(3)

(1) The shares were granted to each of Mr. Zhu and Ms. Wu at November 6, 2009, (the “grant date”). The shares will vest 40% upon the date that is one-year anniversary of the grant date, 30% upon the date that is two-year anniversary of the grant date, and 30% upon the date that is three-year anniversary of the grant date.

(2) The shares were granted to each of Mr. Zhu and Ms. Wu at August 10, 2010, (the “grant date”). The shares will vest one-year anniversary of the grant date.

(3) Market price of unvested shares owned as of December 31, 2010.

(4) The aggregate fair value of equity awards was computed in accordance with FASB ASC Topic 718 at grant dates.

Pension Benefits and Non-Qualified Deferred Compensation

We did not provide any other retirement or deferred compensation to any of our named executive officers in fiscal year 2010. None of our named executive officers had any post termination or change of control benefits.

Compensation of Directors

Our non-employee directors are compensated in accordance with their director contracts with the Company, which includes stock, and cash compensation. Non-employee directors are also reimbursed for reasonable expenses incurred in attending board and committee meetings.

The Company does not have termination or change of control agreements with directors, nor are there any prerequisites or life insurance premium payments to the directors.

Director Compensation Table

The following table summarizes the amounts of compensation received by the directors for the fiscal year 2010:

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(1)	Total (\$)
Ming Zhao	26,723(2)	—	26,723
Lawrence Wizel	44,000(3)	28,500(4)	72,500
C Mark Tang	27,500(5)	20,000(6)	47,500
Jianfei Ni	2,500(7)	28,500(8)	31,000

(1) Represents worth of shares of common stock in dollar amount, calculated based on the closing price of the Company's common stock on the grant date.

(2) Represents the annual cash fee to Mr. Zhao earned from January 1, 2010 to December 31, 2010.

(3) \$20,000 cash fee to Mr. Wizel was earned on February 11, 2010; \$24,000 was earned on August 11, 2010.

(4) \$12,500 of the stock awards to Mr. Wizel was vested on February 11, 2010 and \$16,000 of the stock awards to Mr. Wizel was vested on August 11, 2010.

(5) \$12,500 annual cash fee to Mr. Tang was earned on April 9, 2010; \$15,000 was earned on October 9, 2010.

(6) \$7,500 of the stock awards to Mr. Tang was vested on April 9, 2010 and \$12,500 of the stock awards to Mr. Tang was vested on October 9, 2010.

(7) 50% of annual cash fee of \$5,000 to Mr. Ni was earned on August 11, 2010.

(8) \$12,500 of the stock awards to Mr. Ni was vested on February 11, 2010 and \$16,000 of the stock awards to Mr. Ni was vested on August 11, 2010.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The current members of the compensation committee are Mr. Jianfei Ni (Chairman), Mr. Lawrence S. Wizel and Dr. C. Mark Tang. None of the compensation committee members is an officer or employee of us or our subsidiaries, and none has ever been our officer. No member of our compensation committee or our executive officer has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

COMPENSATION COMMITTEE REPORT

The compensation committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of the Exchange Act with our management. Based on such discussions referred to in the prior sentence of this section, the compensation committee recommended to our board of directors that the Compensation Discussion

and Analysis be included in our annual report on Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding our common stock beneficially owned on March 7, 2011, for (i) each shareholder we know to be the beneficial owner of 5% or more of our outstanding common stock, (ii) each of our executive officers and directors, and (iii) all executive officers and directors as a group. In general, a person is deemed to be a “beneficial owner” of a security if that person has or shares the power to vote or direct the voting of such security, or the power to dispose or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which the person has the right to acquire beneficial ownership within 60 days. To the best of our knowledge, subject to community and marital property laws, all persons named have sole voting and investment power with respect to such shares, except as otherwise noted. At March 7, 2011, we had 30,022,856 shares of our common stock outstanding.

Name of Beneficial Owner(1)	Amount of Beneficial Ownership	Percent of Beneficial Ownership %
Ming Zhao, Former President and CEO; Chairman of the Board	7,594,290	25.30
Yao Zhao	1,902,430	6.34
Liping Zhu, President and CEO	11,000	0.04
Qiong Wu, CFO	17,000	0.06
Lawrence S. Wizel, director	18,404	0.06
C. Mark Tang, director	17,734	0.06
Jianfei Ni, director	16,618	0.06
All executive officers and directors as a group	9,577,476	31.92

(1) Address is c/o Shanxi Puda Coal Group Co., Ltd. 426 Xuefu Street, Taiyuan, Shanxi Province, China.

Item 13. Certain Relationships and Related Transactions, and Director Independence

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Transactions with Related Persons

Dividend Payments. In 2005, Shanxi Coal declared dividends equals to \$1,715,470, payable to Mr. Ming Zhao (80%) and Mr. Yao Zhao (20%), of which \$543,470 was paid in 2005 and \$1,172,000 was paid on October 17, 2008. In September 2008, Shanxi Coal declared dividends of \$1,170,754 to its shareholders, of which \$1,053,678 is payable to Putai, the 90% equity owners of Shanxi Coal, and \$93,661 is payable to Mr. Ming Zhao who is an 8% owner and \$23,415 is payable to Mr. Yao Zhao, who is a 2% owner of Shanxi Coal . As of the date of this report, the declared dividend is not paid.

Coal Supply. We currently obtain raw coal supply from a diversified pool of local Liulin County coal mines, including Jucai Coal, a coal mine that is owned 75% by Mr. Yao Zhao. Jucai Coal supplies raw coal to both Shanxi Coal and other unrelated parties. In 2010 we purchased 284,628 MT of raw coal from Jucai Coal, which represents 9% of our total raw coal purchase in 2010 in terms of tonnage. The dollar value of the sales to us by Jucai in 2010 was \$26,670,000, and as a 75% owner of Jucai Coal, Mr. Yao Zhao, our Chairman’s brother, had personal interest in the transaction of approximately \$20,003,000.

Headquarters Lease. In 2001, Shanxi Coal entered into agreements with Resources Group, an entity owned 80% by Mr. Ming Zhao and 10% by Mr. Yao Zhao, to lease an office and certain equipment. In 2010, the rent expense paid to Resource Group was \$161,000, and as an 80% owner and 10% owner of Resources Group, Mr. Ming Zhao and Mr. Yao Zhao had interest of \$128,800 and \$16,100 in the lease, respectively.

Warehouse Facility. Resources Group also has a large storage facility in Liulin County near Shanxi Coal's Shanxi Liuling Dongqiang Plant which holds cleaned coal processed from our cleaning facilities. The storage facility has a railway dock and spur with access to local rail. It is permitted to use this facility rent-free.

Acquisition of Shanxi Coal. On September 13, 2007, Putai exercised the Option to acquire 90% of the total registered capital of Shanxi Coal at an acquisition price of RMB20,250,000 (approximately \$2,692,000), pursuant to the Exclusive Option Agreement. Upon the Option exercise, Putai entered into a Share Transfer Agreement with the owners of Shanxi Coal, Mr. Ming Zhao and Mr. Yao Zhao, respectively. Pursuant to the Share Transfer Agreements, Putai agrees to acquire 72% of the total registered capital of Shanxi Coal from Mr. Ming Zhao at a purchase price of RMB16,200,000 (approximately \$2,154,000) and 18% of the total registered capital of Shanxi Coal from Mr. Yao Zhao at a purchase price of RMB4,050,000 (approximately \$538,000). The acquisition price of \$2,692,000 was fully paid as of December 31, 2008. After the acquisition, Putai became a 90% owner of Shanxi Coal, and the Exclusive Option Agreement, Exclusive Consulting Agreement, Operating Agreement, Technology License Agreement and Authorization, each entered into on June 24, 2005, among Putai, Shanxi Coal, Mr. Ming Zhao and Mr. Yao Zhao, were terminated. The acquisition of Shanxi Coal was recommended by our audit committee and was approved by all independent members of our board of directors. The Zhao brothers did not participate or vote on the decision to acquire Shanxi Coal.

Conflict of Interest. Mr. Ming Zhao and Mr. Yao Zhao may have, or may develop in the future, conflicts of interest with us. First, the loan used to finance our 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 a principal amount of RMB240 million (US\$36.4 million) plus quarterly interest pursuant to a loan agreement dated May 7, 2010, which loan proceeds were used to increase Shanxi Coal'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. Ming 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 of 31.64% 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, Mr. Ming Zhao is a party to the Investment Cooperation Agreement and Supplementary Investment Cooperation Agreement we entered into on August 1, 2010 and January 10, 2011, respectively, in which Mr. Ming Zhao will contribute 30% of the equity investment needed for acquiring and developing seven 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. Ming 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. Ming Zhao may be limited given Mr. Ming Zhao's control over our Company. In addition, they also control the mines from which we get most of our coal. By limiting or eliminating our coal supply, they could materially adversely impact our production and revenue, which in turn could cause us to default on our loans to Resources Group and Mr. Ming Zhao.

Edgar Filing: Puda Coal, Inc. - Form 10-K

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

	December 31, 2010 \$'000	December 31, 2009 \$'000
Advance to Shanxi Liulin Jucai Coal Industry Co., Limited (“Jucai Coal”), a related company with a common owner	\$ 1,055	\$ 1,020
Other receivable from Mr. Ming Zhao, chairman and shareholder of Puda	\$ 2,224	\$ -
Other receivable from Mr. Jianping Gao, our investment partner for Coal mines	2,224	-
	\$ 4,448	\$ -
Other payable to Shanxi Puda Resources Group Limited (“Resources Group”), a related company with common owners	\$ 823	\$ 795
Other payable to Mr. Ming Zhao	1,232	-
Other payable to Mr. Yao Zhao, manager and shareholder of Puda	-	236
	\$ 2,055	\$ 1,031
Loan payable to Resources Group -current portion	\$ 1,300	\$ 1,300
Loan payable to Mr. Ming Zhao	36,364	-
	\$ 37,664	\$ 1,300
Loan payable to Resources Group -long-term portion	\$ 5,200	\$ 6,500

The balances, except for the loan 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 \$823,000 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 \$78,000 due from Resources Group.

In 2001, Shanxi Coal entered into agreements with Resources Group to lease office premises. In the years ended December 31, 2010, 2009 and 2008, rental expenses paid to Resources Group were \$161,000, \$158,000 and \$7,000, respectively.

In the years ended December 31, 2010, 2009 and 2008, Shanxi Coal purchased raw coal from Jucai Coal in the amounts of \$26,670,000, \$15,055,000 and \$16,083,000, respectively.

On November 17, 2005, Shanxi Coal entered into a coal supply agreement with Jucai Coal, for a term of 10 years, 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 transfer 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 MT while the Zhongyang County plant has an annual clean coal washing capacity of 1.2 million MT. The Liulin County plant, land-use rights and related equipment were purchased for a cost of \$5,800,000. 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 year ended December 31, 2010, Shanxi Coal paid principal of \$1,300,000 (2009: \$1,300,000, 2008: \$1,300,000) and interest of \$438,000 (2009: \$518,000, 2008: \$594,000) 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.

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.

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 (\$36,364,000). The loan is unsecured and bears a 6% annual interest rate, in which the interest 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 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. The loan was used by Putai to increase the registered paid-in capital of Shanxi Coal. In the year ended December 31, 2010, interest accrued on the loan amounted to \$1,412,000. As of December 31, 2010, the balance of interest payable of \$1,232,000 was included in other payables.

On August 1, 2010, Shanxi Coal entered into an Investment Cooperation Agreement with Mr. Ming Zhao and Mr. Jianping Gao, an individual unrelated to the Company before the Agreement ("Mr. Gao"). Pursuant to the Agreement, the parties will purchase, consolidate and co-develop the six coal mines in Pinglu County, Shanxi Province ("Phase II of the Pinglu Project"). Under the Agreement, Shanxi Coal, Mr. Ming Zhao and Mr. Gao will contribute 40%, 30% and 30%, respectively, of the total investment needed for Phase II of the Pinglu Project. Shanxi Coal will be the project manager. In addition, each of Mr. Ming Zhao and Mr. Gao has agreed to assign 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 Phase II of the Pinglu Project, in each case based upon the percentages of their equity ownership and limited by the amount of investment contributed by each party. 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. Shanxi Coal is entitled to purchase the equity interest of Mr. Ming Zhao and/or Mr. Gao in the project companies at Shanxi Coal's sole discretion at a price with reference to the valuation as to be conducted by an independent professional appraiser. In order to guarantee the performance of the Investment Cooperation Agreement, Shanxi Coal is using its investment to each relevant project company as guarantee to the

other co-investors that Shanxi Coal will be responsible for breach of this Agreement in the event that any fraud or gross negligence by Shanxi Coal causes loss by such project company. 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. As of December 31, 2010, Shanxi Coal completed the acquisition of four of these six coal mines and the balance receivable from Mr. Ming Zhao of \$2,224,000 represented his 30% share of the balance of the purchase price and construction works incurred for these coal mines. The same amount of \$2,224,000 was recorded as receivable from Mr. Gao in the consolidated balance sheet.

Since the establishment of our audit committee on August 28, 2007, all related party transactions are subject to our audit committee's review and approval on an ongoing basis. Our audit committee is comprised of three directors, each of whom are "independent," as that term is defined in Section 10A(m) of the Exchange Act of 1934, and the Rules and Regulations of the Securities and Exchange Commission, and shall otherwise meet the applicable independence and financial literacy requirements of the NYSE Amex. There are no written policies and procedures regarding review of related party transactions in our audit committee charter. The independent directors who are members of the audit committee follow state fiduciary laws in their review of the related party transactions and will approve such transactions if they believe them to be in our best interests.

Director Independence

Our board of directors consists of Mr. Ming Zhao, Mr. Lawrence S. Wizel, Mr. C. Mark Tang and Mr. Jianfei Ni as directors. Mr. Ming Zhao is also 25.3% shareholder of us and therefore is not "independent" under the NYSE Amex rules. Mr. Lawrence S. Wizel, Mr. C. Mark Tang and Mr. Jianfei Ni are "independent" under the NYSE Amex rules.

Item 14. Principal Accountant Fees and Services

The fees billed to us by our independent auditors, Moore Stephens, for services for the fiscal year ended December 31, 2010, were as follows:

Audit Fees. This category consists of fees for the audit of consolidated financial statements and review of consolidated financial statements included in our annual report on Form 10-K and quarterly reports on Form 10-Q, and services that are normally provided by the independent auditors in connection with statutory and regulatory filings or engagements for the fiscal periods indicated above. For the years ended December 31, 2010 and December 31, 2009, the audit fee charged by Moore Stephens was approximately \$148,000 and \$123,000, respectively.

Audit-Related Fees. This category consists of assurance and related services by the independent auditors that are reasonably related to the performance of the audit and review of consolidated financial statements and not reported under audit fees. It also includes fees incurred in connection with the issuance of consents related to SEC registration statements, and our current report on Form 8-K and Form 8-K/A and issuance of comfort letters to the Company's investment bankers in connection with the Company's February 2010 and December 2010 common stock offerings. For the years ended December 31, 2010 and December 31, 2009, Moore Stephens billed us for audit related fees in the amount of approximately \$50,000 and \$5,000, respectively.

Tax Fees. This category consists of professional services rendered by the independent auditors for tax compliance and tax planning. The services under this category include tax preparation and technical advice. For the fiscal years ended December 31, 2010 and December 31, 2009, Moore Stephens billed us for tax fees in the amount of approximately \$0 and \$0.

All Other Fees. This category consists of fees not covered by Audit Fees, Audit Related Fees, and Tax Fees. For the fiscal years ended December 31, 2010 and December 31, 2009, Moore Stephens charged us for the audit of internal control over the financial reporting in the amount of approximately \$70,000 and \$70,000 respectively.

PART IV

Item 15. Exhibits, Financial Statement Schedules

The following exhibits are filed herewith or incorporated by reference into this report on Form 10-K:

Exhibit

- | No. | Exhibits |
|------|---|
| 3.1 | Articles of Incorporation (incorporated by reference to Exhibit 3.4 to the Current Report of the Company on Form 8-K filed July 8, 2009). |
| 3.2 | Bylaws of Puda Coal, Inc.(incorporated by reference to Exhibit 3.5 to the Current Report of the Company filed on Form 8-K filed July 8, 2009). |
| 3.3 | Amended and Restated Audit Committee Charter (incorporated by reference to Exhibit 3.1 to Current Report of the Company filed on Form 8-K filed September 15, 2009). |
| 3.4 | Compensation Committee Charter (incorporated by reference to Exhibit 10.1 to Current Report of the Company filed on Form 8-K filed October 29, 2007). |
| 3.5 | Nominating Committee Charter (incorporated by reference to Exhibit 10.1 to Current Report of the Company filed on Form 8-K filed October 29, 2007). |
| 3.6 | Puda Coal, Inc. 2008 Equity Incentive Plan and form agreements under the Plan (incorporated by reference to Exhibits 10.4-10.7 to Current Report of the Company filed on Form 8-K filed December 31, 2008). |
| 3.7 | Amendment No. 1 to Puda Coal, Inc. 2008 Equity Incentive Plan dated July 30, 2009. (incorporated by reference to Exhibits 3.1-3.2 to Current Report of the Company filed on Form 8-K filed November 12, 2009). |
| 10.1 | Zhang Yang Plant Conveyance Agreement dated November 17, 2005 between Shanxi Puda Coal Group Co., Ltd. and Shanxi Puda Resources Group Limited (incorporated by reference to Exhibit 99.5 to Current Report of the Company filed on Form 8-K on November 23, 2005). |
| 10.2 | Coking Coal Supply Agreement dated November 17, 2005 between Shanxi Puda Coal Group Co., Ltd. and Jucai Coal Industry Co. (incorporated by reference to Exhibit 99.4 to Current Report of the Company filed on Form 8-K on November 23, 2005). |
| 10.3 | Liu Lin Plant Conveyance Agreement dated November 17, 2005 between Shanxi Puda Coal Group Co., Ltd. and Shanxi Puda Resources Group Limited (incorporated by reference to Exhibit 99.6 to Current Report of the Company filed on Form 8-K on November 23, 2005). |
| 10.4 | Clean Coal Supply Contract - Taiyuan Steel & Iron (Group) Raw Material Trade Co., Ltd. (incorporated by reference to Exhibit 10.16 to SB-2/A filed March 10, 2006). |
| 10.5 | Clean Coal Supply Contract - Handan Steel & Iron Joint-Stock Co., Ltd. (incorporated by reference to Exhibit 10.17 to SB-2/A filed March 10, 2006). |

Edgar Filing: Puda Coal, Inc. - Form 10-K

- 10.6 Clean Coal Supply Contract - Tangshan Steel & Iron Group Co., Ltd. (incorporated by reference to Exhibit 10.18 to SB-2/A filed March 10, 2006).
- 10.7 Clean Coal Supply Contract - Capital Steel & Iron Group Mineral Co. (incorporated by reference to Exhibit 10.19 to SB-2/A filed March 10, 2006).
- 10.8 Clean Coal Supply Letter of Intent - Shanxi Coal Import & Export Group Luliang Branch (incorporated by reference to Exhibit 10.20 to SB-2/A filed March 10, 2006).

Edgar Filing: Puda Coal, Inc. - Form 10-K

- 10.9 Clean Coal Supply Letter of Intent - Sinochem Corporation (incorporated by reference to Exhibit 10.21 to SB-2/A filed March 10, 2006).
- 10.10 Clean Coal Supply Contract - Shanxi Changzhi Steel Group Raw Material Co. Ltd. (incorporated by reference to Exhibit 10.22 to SB-2/A filed March 10, 2006).
- 10.11 Clean Coal Supply Contract - Baotou Steel Group Resources Supplying Company (incorporated by reference to Exhibit 10.23 to SB-2/A filed March 10, 2006).
- 10.12 Clean Coal Supply Contract - Shandong Haihua Group (incorporated by reference to Exhibit 10.24 to SB-2/A , filed March 10, 2006).
- 10.13 Note & Indebtedness Subordination Agreement dated November 17, 2005 among Puda Coal, Inc., Shanxi Puda Coal Group Co., Ltd., Shanxi Puda Resources Group Limited, and Taiyuan Putai Business Consulting Co., Ltd. (now known as Shanxi Putai Resources Limited) (incorporated by reference to Exhibit 99.7 to Current Report of the Company filed on Form 8-K on November 23, 2005).
- 10.14 Agreement between Shanxi Puda Resources Group, Ltd. and Shanxi Puda Resources Co., Ltd. dated April 25, 2005 (incorporated by reference to Exhibit 10.26 to SB-2/A , File # 333-130380 filed on March 10, 2006).
- 10.15 Summary of Clean Coal Supply Arrangement - Liulin Coal Cleaning Plant (incorporated by reference to Exhibit 10.27 to SB-2 filed on May 31, 2006).
- 10.16 Asset Exchange Agreement, dated June 6, 2007, between the Shanxi Coal and Lingshi Coal & Chemical (incorporated by reference to Exhibit 10.1 to Current Report of the Company filed on Form 8-K filed June 12, 2007).
- 10.17 Director's Contract, dated June 29, 2007, between the Company and Jianfei Ni (incorporated by reference to Exhibit 10.1 to Current Report of the Company filed on Form 8-K filed July 6, 2007).
- 10.18 Director's Contract, dated August 3, 2007, between the Company and Lawrence S. Wizel (incorporated by reference to Exhibit 10.1 to Current Report of the Company filed on Form 8-K filed August 9, 2007).
- 10.19 Share Transfer Agreement, between Putai and Ming Zhao, dated September 13, 2007 (incorporated by reference to Exhibit 10.1 to Current Report of the Company filed on Form 8-K on September 19, 2007).
- 10.20 Share Transfer Agreement, between Putai and Yao Zhao, dated September 13, 2007 (incorporated by reference to Exhibit 10.2 to Current Report of the Company filed on Form 8-K filed September 19, 2007).
- 10.21 Agreement, among Putai, Shanxi Coal, Ming Zhao and Yao Zhao, dated September 13, 2007 (incorporated by reference to Exhibit 10.3 to Current Report of the Company filed on Form 8-K filed September 19, 2007).
- 10.22 Director's Contract, dated October 9, 2007, between the Company and C. Mark Tang (incorporated by reference to Exhibit 10.1 to Current Report of the Company filed on Form 8-K filed October 9, 2007).
- 10.23 Amendment No. 1 to Director's Contract, dated December 29, 2008, between the Company and Lawrence S. Wizel (incorporated by reference to Exhibit 10.1 to Current Report of the Company filed on Form 8-K

filed December 31, 2008).

Edgar Filing: Puda Coal, Inc. - Form 10-K

- 10.24 Amendment No. 1 to Director's Contract, dated December 29, 2008 between the Company and Jianfei Ni (incorporated by reference to Exhibit 10.2 to Current Report of the Company filed on Form 8-K filed December 31, 2008).
- 10.25 Amendment No. 1 to Director's Contract, dated December 29, 2008, between the Company and C. Mark Tang (incorporated by reference to Exhibit 10.3 to Current Report of the Company filed on Form 8-K filed December 31, 2008).
- 10.26 Puda Coal, Inc. 2008 Equity Incentive Plan and form agreements under the plan (incorporated by reference to Exhibits 10.4-10.7 to Current Report of the Company filed on Form 8-K filed December 31, 2008).
- 10.27 Agreement of Shares Transfer by and among Shanxi Puda Coal Group Co., Ltd., Li Jingquan, Feng Ming and Chen Guang dated May 14, 2009 (incorporated by reference to Exhibits 10.1-10.2 to Current Report of the Company filed on Form 8-K filed May 15, 2009).
- 10.28 Plan of Conversion, Delaware Certificate of Conversion, Florida Certificate of Conversion, Certificate of Incorporation of Puda Coal, Inc.-a Delaware corporation, By-laws of Puda Coal, Inc.- a Delaware corporation (incorporated by reference to Exhibits 3.1-3.5 to Current Report of the Company filed on Form 8-K filed July 8, 2009).
- 10.29 Mining Right and Mining Assets Transfer Agreement between Pinglu County Da Wa Coal Industry Co., Ltd. and Shanxi Puda Coal Group Co., Ltd. (incorporated by reference to Exhibits 10.1 to Current Report of the Company filed on Form 8-K filed December 17, 2009).
- 10.30 Mining Right and Mining Assets Transfer Agreement between Pinglu County Guanyao Coal Industry Co., Ltd. and Shanxi Puda Coal Group Co., Ltd. (incorporated by reference to Exhibits 10.2 to Current Report of the Company filed on Form 8-K filed December 17, 2009).
- 10.31 Loan Agreement dated May 7, 2010 between Shanxi Putai Resources Limited Co. and Ming Zhao (incorporated by reference to Exhibit 10.1 to Current Report of the Company filed May 12, 2010).
- 10.32 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).
- 10.33 Mining Right and Mining Assets Transfer Agreement with Pinglu County Samenzhen Xuhutuo Coal Mine Ltd. (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed on October 25, 2010).
- 10.34 Mining Right and Mining Assets Transfer Agreement with Pinglu County Daqi Coal Mine Ltd. (incorporated by reference to Exhibit 10.2 to current report on Form 8-K filed on October 25, 2010).
- 10.35 Mining Right and Mining Assets Transfer Agreement with Pinglu County Donggou Coal Mine (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed on November 3, 2010).
- 10.36 Mining Right and Mining Assets Transfer Agreement with Shanxi Pinglu Renling Coal Industry Ltd. (incorporated by reference to Exhibit 10.2 to current report on Form 8-K filed on November 3, 2010).
- 10.37

Mining Rights and Mining Assets Transfer Agreement, dated December 28, 2010 with Pinglu County Anrui Coal Industry Co., Ltd. (incorporated by reference to Exhibit 10.1 to current report on Form 8-K filed on January 4, 2011).

- 10.38 Mining Rights and Mining Assets Transfer Agreement, dated December 28, 2010 with Pinglu County Chuntouao Coal Mine (incorporated by reference to Exhibit 10.2 to current report on Form 8-K filed on January 4, 2011).
- 10.39 Mining Rights and Mining Assets Transfer Agreement, dated December 28, 2010 with Pinglu County Xiapingcun Coal Mine (incorporated by reference to Exhibit 10.3 to current report on Form 8-K filed on January 4, 2011).
- 10.40 Supplementary Agreement of Investment Cooperation, dated January 10, 2011, 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 January 14, 2011).
- 21.1* Subsidiaries of Puda Coal as of December 31, 2010
- 23.1* Auditors' Consent dated March 16, 2011
- 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

Signatures

In accordance with the requirements of Section 13 or 15(d) of Securities Exchange Act of 1934, the registrant has duly caused this Report on Form 10-K to be signed on its behalf by the undersigned thereunto duly authorized.

PUDA COAL, INC.

Dated: March 16, 2011

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

In accordance with the requirements of the Securities Exchange Act of 1934, this Report on Form 10-K has been signed below by the following persons on behalf of the registrant in the capacities and on the date indicated.

Signature/Title

(i) Principal Executive
Officer:

/s/ Liping Zhu Liping Zhu	Chief Executive Officer (Principal Executive Officer)	Dated: March 16, 2011
------------------------------	--	--------------------------

(ii) Principal Financial
and Accounting Officer:

/s/ Qiong Wu Qiong Wu	Chief Financial Officer (Principal Financial and Accounting Officer)	Dated: March 16, 2011
--------------------------	---	--------------------------

(iii) Directors:

/s/ Ming Zhao Ming Zhao	Chairman of the Board	Dated: March 16, 2011
----------------------------	-----------------------	--------------------------

/s/ Jianfei Ni Jianfei Ni	Director	Dated: March 16, 2011
------------------------------	----------	--------------------------

/s/ C. Mark Tang C. Mark Tang	Director	Dated: March 16, 2011
----------------------------------	----------	--------------------------

/s/ Lawrence Wizel Lawrence Wizel	Director	Dated: March 16, 2011
--------------------------------------	----------	--------------------------