

Andatee China Marine Fuel Services Corp
Form 10-Q
August 17, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2012

OR

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

For the transition period from _____ to _____

Commission file number 001-34608

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware 80-0445030
(State or Other Jurisdiction of (IRS Employer)
Incorporation or Organization) Identification No.)

290 Kangji East Building 22nd Floor, Tianmu West Road

Zhabei District, Shanghai City

People's Republic of China

011 (8621) 50152581

(Address of Principal Executive Offices)(Zip Code)

(Registrant's Telephone Number, Including Area Code)

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

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

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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 <input type="checkbox"/> | Accelerated Filer <input type="checkbox"/> |
| Non-accelerated Filer <input type="checkbox"/> | Smaller Reporting Company <input checked="" type="checkbox"/> |

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of August 10, 2012, the Company had 9,518,967 shares of common stock outstanding.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION.

CONDENSED CONSOLIDATED BALANCE SHEETS

| | June 30, 2012 (Unaudited) | December 31, 2011 (Audited) |
|---|---------------------------------|-----------------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 17,085,006 | \$ 3,493,015 |
| Restricted cash | 21,994,715 | 22,507,738 |
| Accounts receivable, net | 12,350,414 | 19,822,345 |
| Notes receivable | 1,587,101 | 1,319,779 |
| Inventories | 41,970,688 | 16,730,307 |
| Settlement receivable | 421,965 | - |
| Advances to suppliers | 11,210,402 | 16,272,434 |
| Deposits | 1,329,177 | 1,969,544 |
| Prepaid expenses and other current assets | 3,914,316 | 3,424,991 |
| Total current assets | 111,863,784 | 85,540,153 |
| Property and equipment, net | 41,508,499 | 42,016,328 |
| Construction-in-progress | 12,817,208 | 12,145,273 |
| Intangible assets, net | 7,555,321 | 7,636,462 |
| Goodwill | 1,209,465 | 1,200,915 |
| Total assets | \$ 174,954,277 | \$ 148,539,131 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | \$ 21,256,150 | \$ 18,566,838 |
| Advances from customers | 24,210,261 | 13,285,980 |
| Short-term bank loan | 3,164,707 | 4,242,148 |
| Bank notes payable | 45,413,548 | 45,092,463 |
| Loan payable | 1,582,354 | 1,571,166 |
| Advances from related party | 17,449,960 | 2,032,963 |
| Taxes payable | 980,344 | 4,237,465 |
| Other liabilities | 1,641,669 | 906,804 |
| Total current liabilities | 115,698,993 | 89,935,827 |

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| | | |
|---|----------------|----------------|
| Total liabilities | 115,698,993 | 89,935,827 |
| Commitments and contingencies | | |
| Equity | | |
| Shareholder's equity of the Company | | |
| Common stock, \$0.001 par value; 50,000,000 shares authorized; 9,610,159 shares issued and 9,518,967 outstanding at June 30, 2012 and December 31, 2011 | 9,610 | 9,610 |
| Treasury stock, at cost; 91,192 shares | (497,693) | (497,693) |
| Additional paid-in capital | 29,888,556 | 29,888,556 |
| Accumulated other comprehensive income | 4,126,755 | 3,850,092 |
| Retained earnings | 21,667,154 | 21,291,837 |
| Total shareholders' equity of the Company | 55,194,382 | 54,542,402 |
| Noncontrolling interest | 4,060,902 | 4,060,902 |
| Total shareholders' equity | 59,255,284 | 58,603,304 |
| Total liabilities and shareholders' equity | \$ 174,954,277 | \$ 148,539,131 |

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

| | Three months ended June 30, | | Six months ended June 30, | |
|---|-----------------------------|---------------|---------------------------|----------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Revenues | \$ 69,149,363 | \$ 63,142,639 | \$ 108,359,507 | \$ 107,400,199 |
| Cost of revenues | 66,400,189 | 58,964,300 | 102,531,948 | 97,980,119 |
| Gross profit | 2,749,174 | 4,178,339 | 5,827,559 | 9,420,080 |
| Operating expenses | | | | |
| Selling expenses | 409,510 | 600,692 | 956,454 | 1,519,947 |
| General and administrative expenses | 1,258,168 | 986,380 | 2,405,462 | 1,737,545 |
| Total operating expenses | 1,667,678 | 1,587,072 | 3,361,916 | 3,257,492 |
| Income from operations | 1,081,496 | 2,591,267 | 2,465,643 | 6,162,588 |
| Other income (expense) | | | | |
| Interest income | 27,505 | 124,688 | 127,758 | 166,668 |
| Interest expense | (928,513) | (921,049) | (2,640,621) | (1,430,597) |
| Other income (expense) | (11,026) | (6,544) | 289,872 | (7,912) |
| Total other income (expense) | (912,034) | (802,905) | (2,222,991) | (1,271,841) |
| Net income before tax provision | 169,462 | 1,788,362 | 242,652 | 4,890,747 |
| Tax provision | 35,520 | 455,847 | 37,420 | 1,249,282 |
| Net income | 133,942 | 1,332,515 | 205,232 | 3,641,465 |
| Net income (loss) attributable to the noncontrolling interest | (83,507) | (31,163) | (170,085) | (15,843) |
| Net income attributable to the Company | \$ 217,449 | \$ 1,363,678 | \$ 375,317 | \$ 3,657,308 |
| Basic and diluted weighted average shares outstanding | 9,779,092 | 9,822,284 | 9,779,092 | 9,822,284 |
| Basic and diluted net earnings per share | \$ 0.02 | \$ 0.14 | \$ 0.04 | \$ 0.37 |

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Three months ended June 30, | | Six months ended June 30, | |
|--|-----------------------------|--------------|---------------------------|--------------|
| | 2012 | 2011 | 2012 | 2011 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Net income | \$ 133,942 | \$ 1,332,515 | \$ 205,232 | \$ 3,641,465 |
| Less: Net income (loss) attributable to the noncontrolling interest | (83,507) | (31,163) | (170,085) | (15,843) |
| Net income attributable to the Company | \$ 217,449 | \$ 1,363,678 | \$ 375,317 | \$ 3,657,308 |
| Other comprehensive income, net of tax | | | | |
| Foreign currency translation adjustment | \$ (33,280) | \$ 806,459 | \$ 276,663 | \$ 1,214,550 |
| Other comprehensive income, net of tax | (33,280) | 806,459 | 276,663 | 1,214,550 |
| Less: Other comprehensive income attributable to the noncontrolling interest | - | - | - | - |
| Other comprehensive income attributable to the Company | \$ (33,280) | \$ 806,459 | \$ 276,663 | \$ 1,214,550 |
| Comprehensive income, net of tax | 100,662 | 2,138,974 | 481,895 | 4,856,015 |
| Less: Comprehensive income attributable to the noncontrolling interest | (83,507) | (31,163) | (170,085) | (15,843) |
| Comprehensive income | \$ 184,169 | \$ 2,170,137 | \$ 651,980 | \$ 4,871,858 |

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION.**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Six months ended June 30, | |
|---|---------------------------|---------------|
| | 2012 | 2011 |
| | (Unaudited) | (Unaudited) |
| Cash flows from operating activities: | | |
| Net income attributable to the Company | \$375,317 | \$3,657,308 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Noncontrolling interest | (170,085) | (15,843) |
| Depreciation | 895,546 | 435,419 |
| Amortization | 135,517 | 34,592 |
| Changes in operating assets and liabilities: | | |
| Accounts and customer notes receivable | 7,204,609 | 2,120,201 |
| Inventories | (25,240,381) | 666,988 |
| Settlement receivable | (421,965) | - |
| Advances to suppliers | 5,062,032 | 3,033,795 |
| Prepaid expense and other current assets | (489,325) | 724,104 |
| Accounts payable and accrued liabilities | 2,689,312 | (1,216,219) |
| Advances from customers | 10,924,281 | (5,185,165) |
| Taxes payable | (3,257,121) | (8,814,780) |
| Other liabilities | 734,865 | (176,926) |
| Net cash used in operating activities | (1,557,398) | (4,736,526) |
| Cash flows from investing activities | | |
| Net additions to construction-in-progress and property and equipment | (675,576) | (6,669,797) |
| Refunds of deposit | 640,367 | 716,645 |
| Net cash used in investing activities | (35,209) | (5,953,152) |
| Cash flows from financing activities | | |
| Proceeds from short term loans | 3,291,295 | 878,082 |
| Repayment of short term loans | (4,398,943) | - |
| Proceeds from bank notes | - | 24,586,138 |
| Release from (payments to) escrow account for collateral/repayment of bank notes | 513,023 | (21,531,169) |
| Proceeds of advances from related party | 15,416,997 | - |
| Net cash provided by financing activities | 14,822,372 | 3,933,051 |
| Effect of exchange rate on cash | 362,226 | 1,131,524 |
| Net increase (decrease) in cash and cash equivalents | 13,591,991 | (5,625,103) |
| Cash and cash equivalents, beginning of period | \$3,493,015 | \$10,813,103 |
| Cash and cash equivalents, end of period | \$17,085,006 | \$5,188,000 |
| Supplemental cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | \$2,391,738 | \$1,264,941 |

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| | | |
|--------------|-----------|-------------|
| Income taxes | \$491,902 | \$4,639,194 |
|--------------|-----------|-------------|

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2012 and 2011

(Unaudited)

1. Description of Business, Organization, VIE and Basis of Consolidation and Combination

Andatee China Marine Fuel Services Corporation (“Andatee” or “the Company”) was incorporated in the State of Delaware on July 10, 2009. Upon incorporation, the Company had authorized 50,000,000 common stock shares, par value \$0.001 per share. On October 16, 2009 the Company issued 8,000,000 shares in the share exchange with Goodwill Rich International Limited (“Goodwill Rich”), as described below. On October 19, 2009, the Company effected a 1.33334:1 reverse share split. As a result of the split, the number of common stock issued and outstanding has decreased from 8,000,000 to 6,000,000 shares.

The Company was organized as a holding company to acquire Goodwill Rich, a company incorporated in Hong Kong, and its subsidiary in connection with a contemplated initial public offering of the Company’s common stock on the Nasdaq Stock Market. Goodwill Rich was incorporated on October 28, 2008.

Andatee became the owner of 100% of the outstanding common stock of Goodwill Rich and its subsidiary as the result of a share exchange arrangement consummated on October 16, 2009. The stockholders of Andatee and the stockholders of Goodwill Rich were the same, and therefore the August 2009 share exchange was accounting for as a recapitalization of Goodwill Rich. As a result, Goodwill is deemed to be the predecessor of Andatee for financial reporting purposes.

In March 2009, Goodwill Rich established a subsidiary company in Dalian, People’s Republic of China (the “PRC”), named Dalian Fusheng Consulting Company (“Fusheng”), which afterward was changed to “Dalian Fusheng Petrochemical Company” in March 2010.

Dalian Xingyuan Marine Bunker Co., Ltd. (“Xingyuan”) was established in September 2001 with a registered capital of RMB7 million and began providing refueling services to the marine vessels in Dalian Port in Dalian City. Xingyuan holds 100% ownership of Donggang Xingyuan Marine Fuel Company (“Donggang Xingyuan”), a company incorporated in Dalian, PRC, in April, 2008. In addition, in December 2008, Xingyuan acquired 90% ownership of Rongcheng Xinfu Petroleum Company (“Xinfu”) and 63% ownership of Xiangshan Yongshi Nanlian Petroleum Company (“Nanlian”), respectively.

On March 26, 2009, Fusheng, Xingyuan and the stockholders of Xingyuan entered into a series of agreements, as described below (the Consulting Services Agreement, the Operating Agreement, the Equity Pledge Agreement, the Option Agreement and the Proxy and Voting Agreement - collectively "the Agreements"). Under the agreements, as further described below, Goodwill Rich obtained the ability to direct the operations of Xingyuan and its subsidiaries and to obtain the economic benefit of their operations. Therefore, management determined that Xingyuan became a variable interest entity ("VIE") under the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810 (originally issued as FASB Interpretation ("FIN") No. 46(R) "Consolidated Variable Interest Entities - an interpretation of ARB No. 51"), and the Company was determined to be the primary beneficiary of Xingyuan and its subsidiaries. Accordingly, the Company has consolidated the assets, liabilities, results of operations and cash flows of Xingyuan and its subsidiaries its financial statements. The Agreements were entered into to facilitate the raising of capital for the operations of Xingyuan through an offering of the Company's common stock on the Nasdaq Capital Market, and Goodwill Rich paid no consideration to Xingyuan or its stockholders for entering into the agreements under which Xingyuan became a VIE, provided, however, that Mr. An Fengbin, the principle stockholder of Xingyuan became the chairman and CEO of the Company, and Mr. An Fengbin and the other stockholders of Xingyuan have certain rights or options to acquire the 6,000,000 shares of the Company's common stock issued in the share exchange between the Company and Goodwill Rich at later dates when permitted by PRC laws and regulations. Mr. An Fengbin remains the principle stockholder of Xingyuan after the completion of the share exchange between Goodwill Rich and Andatee described above.

Upon the October 28, 2008 incorporation of Goodwill Rich, Goodwill Rich and the stockholders of Xingyuan entered into a series of separate agreements under which Goodwill Rich and Xingyuan were deemed, until March 2009, to be under the common control of the stockholders of Xingyuan. The Agreements provided that the majority stockholder of Goodwill Rich appointed Mr. An Fengbin to (i) act as a director of Xingyuan, Xingyuan's majority stockholder, and Fusheng, (ii) act for the majority stockholder of Goodwill Rich at any meetings of the directors, managers, financial controllers or other senior management of Xingyuan, Xingyuan's majority stockholder, and Fusheng, (iii) exercise all voting and dispositive rights over the common stock of Xingyuan, Xingyuan's majority stockholder, and Fusheng. The Agreements further provided that the majority stockholder of Xingyuan would not appoint any additional directors to the boards of any of these entities without Mr. An Fengbin's approval. As a result, Mr. An Fengbin was deemed to control both Goodwill Rich and Fusheng, and those companies and Xingyuan were deemed to be under common control.

All of the transactions among Andatee, Goodwill Rich, Fusheng and Xingyuan were deemed to be transactions between companies under common control, and therefore the bases of the assets and liabilities in each of the companies were not adjusted in any of the transactions.

The Company, its subsidiaries, its VIE and its VIE's subsidiaries (collectively the "Group") are principally engaged in the production, storage, distribution and trading of blended marine fuel oil for cargo and fishing vessels in the PRC.

Consulting Services Agreement. Pursuant to the exclusive consulting services agreement between Fusheng and Xingyuan, Fusheng has the exclusive right to provide to Xingyuan business consulting and related services in connection with the production and sale of marine bunker (the "Services"). Under this agreement, Fusheng owns the intellectual property rights arising from the performance of the Services, including, but not limited to, any trade secrets, copyrights, patents, know-how, un-patented methods and processes and otherwise, whether developed by Fusheng or Xingyuan based on Fusheng's provision of Services under the agreement. Xingyuan pays 50% of its total net profit to Fusheng on a quarterly basis as consulting service fee. The consulting services agreement is in effect for a term of 10 years starting from March 26, 2009 unless terminated by (a) Xingyuan upon six-months prior written notice and payment to Fusheng of (i) RMB2,000,000 (\$313,062 at September 30, 2011) as liquidated damages and (ii) all of Fusheng's losses resulting from such early termination; (b) Fusheng upon Xingyuan's breach of the agreement; or (c) Fusheng at any time upon thirty-days written notice to Xingyuan. This agreement may be renewed at Fusheng's sole discretion.

Operating Agreement. Pursuant to the operating agreement among Fusheng, Xingyuan and the stockholders of Xingyuan who collectively hold all of the outstanding shares of Xingyuan (collectively "Xingyuan Stockholders"), Fusheng provides guidance and instructions on Xingyuan's daily operations, financial management and employment issues. The stockholders of Xingyuan must appoint the candidates recommended by Fusheng to Xingyuan's board of directors. Fusheng has the right to appoint personnel to high level managerial positions of Xingyuan, including General Manager and Chief Financial Officer. In addition, Fusheng agrees to guarantee Xingyuan's performance under any agreements, contracts or transactions executed by Xingyuan relating to Xingyuan's business. Xingyuan, in return, agrees to pay Fusheng a quarterly fee equal to 50% of Xingyuan's total net profits for such quarter. Moreover,

Xingyuan agrees that without the prior consent of Fusheng, Xingyuan will not engage in any transactions that could materially affect the assets, obligations, rights or the business of Xingyuan, including, without limitation, (a) borrowing money from a third party or assuming any debt, (b) selling to a third party or acquiring from a third party any assets or rights, including without limitation, any plant, equipment, real or personal property, or any intellectual property rights, (c) providing any guaranty for any third party obligations, (d) assigning to a third party any agreements related to Xingyuan's business, (e) engaging in any other business consulting agreements with a third party or engaging in any other business activities other than the business of producing and selling marine bunker, and (f) pledging any of Xingyuan's assets or intellectual property rights to a third party as a security interest. The term of this agreement is 10 years from March 26, 2009 and will be automatically renewed for additional 10 year period upon the expiration of the initial term or any renewal term, unless previously terminated. Fusheng may terminate the agreement at any time upon thirty (30) days written notice to Xingyuan and the Xingyuan Stockholders.

Equity Pledge Agreement. Under the equity pledge agreement between Xingyuan, the Xingyuan Stockholders and Fusheng, the Xingyuan Stockholders pledged all of their equity interests in Xingyuan to Fusheng to guarantee Xingyuan's performance of its obligations under the following agreements entered into by Fusheng and Xingyuan: (a) the Exclusive Consulting Agreement dated March 26, 2009, (b) the Operating Agreement dated March 26, 2009 and (c) any other agreements to be entered into by and between Fusheng and Xingyuan from time to time with respect to Fusheng's provision of services to Xingyuan and Fusheng's collection of appropriate charges from Xingyuan (collectively, (a), (b) and (c) are the "Service Agreements"). If Xingyuan or Xingyuan's Stockholders breach its respective contractual obligations, Fusheng, as pledgee, will be entitled to certain rights, including but not limited to the right to sell the pledged equity interests. The stockholders of Xingyuan agreed that without Fusheng's prior written consent, they will not transfer any equity interest, create or permit to exist any pledge that may damage Fusheng's rights or interests in the pledged equity interests, or cause Xingyuan's meeting of stockholders or board of directors to pass any resolutions about the sale, transfer, pledge or other disposal of the lawful right to derive income from any equity interest in Xingyuan or about the permission of the creation of any other security interests thereon. The term of this agreement is the same as the longest of the Service Agreements. If the term of any Service Agreement is renewed, the term of this agreement will extend accordingly.

Option Agreement. Under the option agreement between Xingyuan, the Xingyuan Stockholders and Fusheng, the Xingyuan Stockholders irrevocably, unconditionally and exclusively granted Fusheng a purchase option (the "Purchase Option") whereby, to the extent permitted under Chinese law, Fusheng has the right to request the Xingyuan Stockholders transfer, to it or its designated entity or person, the total equity interests held by them in the registered capital of Xingyuan, which as a group equals 100% of the outstanding equity of Xingyuan. Fusheng has sole discretion to decide the specific time, method and number of the exercise of the Purchase Option. At the time of each exercise of the Purchase Option by Fusheng, the total consideration to be paid to Xingyuan Stockholders by Fusheng or its designated entity or person shall be determined from one of following two prices i) RMB 10.00; or ii) the lowest price permitted under PRC laws. This agreement will terminate after 100% of the outstanding equity of Xingyuan has been duly transferred to Fusheng and/or Fusheng's designee(s).

Proxy and Voting Agreements. Pursuant to the proxy and voting agreements between Fusheng, Xingyuan, and each of Xingyuan's Stockholders, Xingyuan's Stockholders agreed to irrevocably entrust the person designated by Fusheng with his stockholder voting rights and other stockholder rights for representing him to exercise such rights at the stockholders' meeting of Xingyuan in accordance with applicable laws and its Article of Association, including, but not limited to, the right to sell or transfer all or any of his equity interest in Xingyuan, and appoint and vote for the directors and Chairman as the authorized representative of the Xingyuan Stockholders. The term of each Proxy and Voting Agreement is twenty (20) years from March 26, 2009 and may be extended prior to its expiration by written agreement of the parties.

Acquisitions

During 2011, the Company entered into a corporate reorganization, in which Xingyuan transferred its 90% ownership in Xinfa and 52% ownership in Mashan to Dalian Xifa Petrol Company, and transferred its 100% ownership in Donggang Xingyuan to Fusheng. The reorganization was accounted for at book value, as they were transactions between entities under common control.

In December 2011, Dalian Xifa Petrol Company acquired a 90% equity interest in Wujiang Xinlang Petrochemical Company ("Xinglang") for RMB 2.36 million (approximately US\$ 370,000). Xinglang owns land use rights to develop a riverside fuel oil pump station in Wujiang City, Jiangsu Province.

In December 2011, Fusheng acquired a 61% equity interest in Suzhou Fusheng Petrochemical Company ("Suzhou Fusheng") for RMB 12.2 million (approximately \$1.93 million). Suzhou Fusheng owns storage tanks and land use rights to develop a riverside fuel oil pump station in Suzhou Wujiang City, Jiangsu Province.

In December 2011, Fusheng acquired a 100% equity interest in Rongcheng Zhuoda Trading Co (“Zhuoda”) for RMB 13 million (approximately US\$ 2 million). Zhuoda owns storage tanks with a capacity of 13,000 cubic meters in Rongcheng City, Shandong Province.

2. Summary of Significant Accounting Policies

Basis of presentation

The accompanying condensed consolidated financial statements of Andatee have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") and the rules of the Securities and Exchange Commission.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, and those variable interest entities in which the Company is the primary beneficiary. All intercompany transactions and balances have been eliminated in consolidation.

Interim Period Presentation

The condensed, consolidated financial statements and related notes are unaudited. These statements include all adjustments (consisting of normal recurring accruals) considered necessary to present a fair statement of our results of operations, financial position and cash flows. The results reported in these condensed, consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are based on information as of the date of the financial statements. Actual results could differ from those estimates.

Foreign Currency Translation

The functional currency of the Company's subsidiary in Hong Kong is the US dollars while the local currencies of the Company's subsidiary, VIE and its subsidiaries in China is the Renminbi ("RMB"). Accordingly, assets and liabilities of the China entities are translated into US dollars at the spot rates in effect as of the balance sheet date. Revenues, costs and expenses are translated using monthly average exchange rates during the reporting period. Gains and losses resulting from foreign currency translation to reporting currency are recorded in accumulated other comprehensive income in the statements of changes in shareholders' equity for the periods presented.

Foreign currency transactions are translated at the spot rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-measured at the applicable rates of

exchange in effect at that date. Gains and losses resulting from foreign currency transactions are included in the condensed consolidated statements of operations.

Financial Instruments

Financial instruments consist of cash, cash equivalents, notes receivable, loans and notes payable. ASC 820, "Fair Value Measurements" and ASC 825, Financial Instruments, requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. It establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. It prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 applies to assets or liabilities for which there are inputs other than quoted prices that are observable for the asset or liability such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets); or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3 applies to assets or liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities.

The Company's financial instruments consist principally of cash and cash equivalent, accounts receivable, advances to suppliers, accounts payable, short term loans, bank notes payable and accrued liabilities. Pursuant to ASC 820 and 825, the fair value of cash is determined based on "Level 1" inputs, which consist of quoted prices in active markets for identical assets. The recorded values of all other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

Treasury Stock

Treasury stock is accounted for under the cost method and is included as a component of stockholders' equity.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and cash on deposit, certificates of deposit and all highly liquid debt instruments with maturities of three months or less when acquired.

Restricted Cash

Restricted cash consists of cash equivalents used as collateral to secure short-term bank notes payable.

Accounts Receivable

Accounts receivable are recognized and carried at original invoiced amount less an allowance for uncollectible accounts, as needed.

When evaluating the adequacy of its allowance for doubtful accounts, the Company reviews the collectability of accounts receivable, historical write-offs, and changes in sales policies, customer credibility and general economic tendency.

Settlement Receivable

Settlement receivable represents the fuel inventory and cash amounts recoverable pursuant to a settlement agreement. See Note 16

Inventories

Inventories are stated at the lower of cost and current market value. Costs include the cost of raw materials, freight, direct labor and related production overhead. Inventories are stated at cost upon acquisition.

The cost of inventories is calculated using the weighted average method. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories.

Net realizable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes to make the sale.

Reusable materials include low-value consumables and other materials, which can be in use for more than one year but do not meet the definition of fixed assets. Reusable materials are amortized in half when received for use and in another half when cease to work for any purpose. The amounts of the amortization are included in the cost of the related assets or profit or loss.

Concentration of Risks

All of the Group's sales and a majority of its expense transactions are denominated in RMB and a significant portion of the Group's assets and liabilities are denominated in RMB. RMB is not freely convertible into foreign currencies. In the PRC, certain foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the People's Bank of China ("PBOC"). Remittances in currencies other than RMB by the Group in China must be processed through the PBOC or other China foreign exchange regulatory bodies which require certain supporting documentation in order to affect the remittance.

As of June 30, 2012, all of the Company's cash was on deposit at financial institutions in the PRC where there currently is no rule or regulation requiring such financial institutions to maintain insurance to cover bank deposits in the event of bank failure.

For the six months ended June 30, 2012, two customers accounted for 28.2% and 8.5% of the Company's total revenues, respectively. There were two customers that accounted for 13% and 11.5% of the total revenues for the same period ended June 30, 2011.

For the six months ended June 30, 2012, 7.23% and 5.9% of the Company's raw materials came from two suppliers. The advance payments to these two suppliers at June 30, 2012 were \$141,627 and \$78,182, respectively. The total balance of advances to suppliers at June 30, 2012 was \$11,210,402 which was non-interest bearing and unsecured.

For the six months ended June 30, 2011, 32.9% and 10.2% of the Company's raw materials came from two suppliers. The advance payments to these two suppliers at June 30, 2011 were \$39,268 and \$917,417, respectively. The total balance of advances to suppliers at June 30, 2011 was \$11,363,064, which was non-interest bearing and unsecured.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs, which are not considered improvements and do not extend the useful life of the asset, are expensed as incurred; additions, renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts, and any gain or loss is included in the statement of operations in other income and expenses.

Depreciation is provided to recognize the cost of the asset in the results of operations. The Company calculates depreciation using the straight-line method with estimated useful life as follows:

| Items | Useful Life |
|-------------------------|-------------|
| Property and buildings | 40 years |
| Marine bunkers | 15 years |
| Boiler equipment | 12 years |
| Laboratory equipment | 8 years |
| Transportation vehicles | 8 years |
| Office equipment | 4 years |
| Electronic equipment | 3 years |

Construction-in-Progress

Construction-in-progress represents property and buildings under construction and consists of construction expenditures, equipment procurement, and other direct costs attributable to the construction. Construction-in-progress is not depreciated. Upon completion and ready for intended use, construction-in-progress is reclassified to the appropriate category within property, plant and equipment.

Impairment of Long-Lived Assets

In accordance with FASB ASC Topic 360 (originally Statement of Financial Accounting Standards (“SFAS”) No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”), certain assets such as property, plant, and equipment, and purchased intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets are tested for impairment annually. Recoverability of assets that are held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no events or changes in circumstances that necessitated a review of impairment of long lived assets during the year ended December 31, 2011 and the six month period ended June 30, 2012.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in business acquisitions. The Company performs its impairment test annually. The Company determined that there was no impairment of goodwill during the year ended December 31, 2011 and the six months period ended June 30, 2012.

Intangible Assets

Intangible assets consist mainly of land use rights and software.

Intangible assets are amortized using the straight-line method with the following estimated useful lives:

| Items | Useful Life |
|----------------------|----------------|
| Land use rights | 50 years |
| Leasehold right | 20 years |
| Licenses and permits | Contract Terms |
| Software | 5 years |

The details of land use rights are as follows:

| Location | Land Size (square meters) | Amount | Term |
|---|---------------------------------|-------------|------------------------------------|
| Nanhui Village, Shipu Town, Zhejiang Province | 8,906.90 | \$453,935 | April 1, 2004 – May 12, 2047 |
| Development Zone, Donggang, Liaoning Province | 21,994.80 | \$2,376,398 | July 16, 2008 – May 15, 2058 |
| Mashan Village, Chengshan Town, Shandong Province | 3,659.57 | \$605,082 | Government assignment |
| Linzi borough, Linzi City, Shandong Province | 15,130.70 | \$118,045 | Government assignment |
| Pingwang Town Suzhou City, Jiangsu Province | 9,624.30 | \$569,197 | September 1, 2011–January 30, 2055 |
| Total Land Use Rights | | \$4,122,656 | |

Noncontrolling Interests in Consolidated Financial Statements

Noncontrolling interest represents a portion of the equity ownership in consolidated subsidiaries and share of those subsidiary operations that are not attributable to the Company. Specifically, noncontrolling interests consist of (i) a 37% equity interest in Nanlian, (ii) a 10% equity interest in Xinfu, (iii) a 39% equity interest in Suzhou Fusheng, (iv) a 10% equity interest in Xinlang, (v) a 48% equity interest in Mashan, and (vi) a 48% equity interest in Hailong not held by Andatee.

Revenue Recognition

The Company recognizes revenues in accordance with the guidance in the Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin (“SAB”) No. 104. Revenue is recognized when persuasive evidence of an arrangement exists, when the selling price is fixed or determinable, when delivery occurs and when collection is probable.

Delivery is typically conveyed via pipeline or tanker and sales revenues are recognized when customers take possession of goods in accordance with the terms of purchase order agreements that evidence agreed upon pricing and when collectability is reasonably assured.

As an industry wide practice, the Company requires advances from customers for substantially all sales. Such advances are not recognized as revenues when received as they represent down payments from customers for the marine fuel products and the delivery is not yet completed.

Stock-Based Compensation

The Company measures share-based compensation at fair value, using the Black-Scholes options pricing model to determine the fair value of stock options. The fair value of the Company's restricted stock unit is calculated based on the fair market value of the Company's stock on the date of grant. The determination of the fair value of stock-based payment awards on the date of grant using an option pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables.

Environmental Expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed as incurred.

Research and Development Costs

Research and development costs are recognized in the income statement when incurred.

Income Taxes

The Company provides for income taxes in accordance with FASB ASC Topic 740 (originally SFAS No. 109, "Accounting for Income Taxes") which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period end based on enacted tax laws and statutory tax rates, applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

In the normal course of business, the Company may be subject to challenges from taxing authorities regarding the amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions. Management determines whether the benefits of its tax positions are more-likely-than-not of being sustained upon audit based on the technical merits of the tax position. The Company records a liability for uncertain tax positions when it is probable that a loss has been incurred and the amount can be reasonably estimated. As of December 31, 2011 and June 30,

2012, the Company has no liabilities for uncertain tax positions. The Company continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

Defined Contribution Plan

Pursuant to the relevant laws and regulations in the PRC, the Company participates in various defined contribution retirement plans organized by the respective divisions in municipal and provincial governments for its employees. The Company is required to make contributions to the retirement plans in accordance with the specific contribution rates and basis as defined by the municipal and provincial governments. The contributions are charged to the respective assets or the income statement on an accrual basis. Upon retirement, the respective divisions are responsible for payment of the retirees' basic retirement benefits, and the Company does not have any further obligations.

As of December 31, 2011 and June 30, 2012, the Company made plan contributions in the amount of \$55,911 and \$47,516, respectively.

Housing Fund and Other Social Insurance

In addition to retirement benefits, the Company makes contributions to the housing fund and other social insurances such as basic medical insurance, unemployment insurance, worker injury insurance and maternity insurance for its employees in accordance with relevant laws and regulations. Contributions are made monthly on the basis of the applicable rates of the employee salaries. The contributions are charged to the respective liability account and the income statement on an accrual basis.

Earnings per Share

The Company computes net earnings per share in accordance with FASB ASC Topic 260 Earnings Per Share, which requires presentation of both basic and diluted earnings per share (EPS) on the face of the income statement.

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding for that period.

Diluted net income per share is computed giving effect to all dilutive potential common shares that were outstanding during the period. Dilutive potential shares consist of incremental common shares issuable upon exercise of stock options, vesting of restricted stock units and conversion of preferred stock (none outstanding) for all periods, except in situations where inclusion is anti-dilutive.

Comprehensive Income

Comprehensive income consists of net income and net unrealized foreign currency translation adjustments and is presented in the consolidated statements of stockholders' equity and comprehensive income.

Segment Reporting

The Company operates and manages its business as a single segment. As the Company primarily generates its revenues from customers in the PRC, no geographical segments are presented.

Reclassifications

Certain reclassifications have been made in the 2011 financial statements to conform to the 2012 presentation.

Adoption of Recent Accounting Pronouncements

On January 1, 2012, the Company adopted the new accounting standard that modifies the options for presentation of other comprehensive income. The new accounting standard requires the presentation of comprehensive income either in a single continuous statement or two separate but consecutive statements. We elected to present comprehensive income in two continuous statements.

On January 1, 2012, the Company also adopted the amendments to existing standards for testing for goodwill impairment and for fair value measurement and disclosure.

3. Accounts Receivable

The Company's accounts receivable is summarized as follows:

| | June 30, 2012 | December 31, 2011 |
|----------------------------------|---------------|-------------------|
| Trade accounts receivable | \$ 12,689,163 | \$ 20,161,094 |
| Allowances for doubtful accounts | (338,749) | (338,749) |
| Accounts receivables, net | \$ 12,350,414 | \$ 19,822,345 |

4. Notes Receivable

On March 31, 2011, Fusheng entered into a loan agreement with a third party. In connection with the agreement, Fusheng provided a loan in the amount of RMB 8.4 million (US \$1,319,779). Interest on the loan accrues at 6% per annum, and is convertible into equity of the third party debtor upon the occurrence of certain operating metrics.

5. Inventories

The Company's inventory consists of marine fuel in the amount of \$41,970,688 and \$16,730,307 at June 30, 2012 and December 31, 2011, respectively.

At June 30, 2012 and December 31, 2011, fuel inventory in the amount of \$19,500,690 and \$6,827,491, respectively, has been pledged as collateral for certain Bankers Acceptance Notes.

6. Advance to Suppliers

The Company makes advance payments for the purchase of fuel inventories. Such advance payments were \$11,210,402 and \$16,272,434 at June 30, 2012 and December 31, 2011, respectively.

7. Property and Equipment

The Company's Property Plant and Equipment are summarized as follows:

| | June 30, 2012 | December 31, 2011 |
|------------------------|---------------|-------------------|
| Property and buildings | \$ 33,517,244 | \$ 33,190,784 |
| Laboratory equipment | 514,951 | 511,310 |
| Boiler equipment | 445,955 | 442,802 |
| Machinery Equipment | 9,182,987 | 9,118,061 |
| Marine bunkers | 213,003 | 211,497 |

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| | | |
|--------------------------------|---------------|---------------|
| Transportation vehicles | 967,801 | 960,958 |
| Office equipment | 46,883 | 46,552 |
| Electronic equipment | 48,717 | 48,373 |
| Leasehold improvement | 66,726 | 66,254 |
| Total | 45,004,267 | 44,596,590 |
| Less: Accumulated depreciation | (3,495,768) | (2,580,262) |
| Property and equipment, net | \$ 41,508,499 | \$ 42,016,328 |

Depreciation expense was \$895,546 and \$435,419 for the six months ended June 30, 2012 and 2011, respectively.

Property and equipment with a net book value of \$13,600,949 and \$13,661,524 has been pledged as collateral for loans at June 30, 2012 and December 31, 2011, respectively.

8. Construction-in-Progress

The construction projects in progress at June 30, 2012 and December 31, 2011 are to build facilities to expand production capacity in Tianjin, Donggang, Rongcheng and Wujiang area. Construction costs mainly represent construction expenditures and equipment costs.

The Company's construction-in-progress is summarized as follows:

| | June 30, 2012 | December 31, 2011 |
|--------------------------------|---------------|-------------------|
| Berth and berth improvements | \$ 115,095 | \$ 114,372 |
| Oil blending and storage tanks | 12,702,113 | 12,030,901 |
| Total | \$ 12,817,208 | \$ 12,145,273 |

9. Intangible Assets

The Company's Intangible Assets are summarized as follows:

| | June 30, 2012 | December 31, 2011 |
|--------------------------------|---------------|-------------------|
| Land use rights | \$ 4,125,918 | \$ 4,096,747 |
| Leasehold right | 2,666,266 | 2,647,415 |
| Licenses and permits | 1,106,912 | 1,099,816 |
| Software | 20,570 | 20,425 |
| Total | 7,919,666 | 7,864,403 |
| Less: accumulated amortization | (364,345) | (227,941) |
| Intangible assets, net | \$ 7,555,321 | \$ 7,636,462 |

Land use rights with a net book value of \$2,755,322 and \$2,968,815 were pledged as collateral for certain loans at June 30, 2012 and December 31, 2011.

Amortization expenses for the six months ended June 30, 2012 and 2011 were \$135,517 and \$34,592, respectively.

The estimated aggregate amortization expense for intangible assets for each of the five succeeding year is \$1,364,040 for years 2012 to 2016.

10. Restricted Cash

The Company is required to maintain escrow deposit amounts ranging between 30% and 50% of the total bank acceptance note amounts as a guarantee. Upon the maturity of the bank acceptance notes, the Company is required to deposit the remainder to the escrow account in settlement. See note 14.

11. Related Party Transactions

During 2011, an entity controlled by a majority shareholder (Mr. An Fengbin) provided advances to the Company in the amount of \$2,045,820. The funds were used for working capital purposes. Repayments of the advanced amounts are due upon demand, without interest.

On November 23, 2011, the Company received notice from Mr. An Fengbin of his intention to launch a tender offer to acquire all of the outstanding shares of the Company that he does not already own at a price of \$4.21 per share in cash, subject to financing, due diligence and other conditions.

During 2012, an investor group related to Mr. An Fengbin provided advances to the Company in the aggregate amount of 97 million RMB (US\$15,416,997). The funds were used for working capital purposes. Repayments of the advanced amounts are due upon demand, without interest, after August 31, 2012. The investor group has the right to acquire a non-controlling equity interest in Fusheng Petrochemicals Co., Ltd, upon the occurrence of certain events.

12. Short Term Loans

The Company has short-term loans payable to financial institutions as follows:

| | Interest Rate (Per Annum) | | June 30, 2012 | Dec 31, 2011 | Terms |
|----------------------|------------------------------|---|---------------|--------------|-----------------------------------|
| Baotou Commerce Bank | 6.56 | % | - | 2,042,516 | August 19, 2011-August 19, 2012 |
| Huaxia Bank | 7.87 | % | 1,424,118 | 2,199,632 | August 20, 2011-August 20, 2012 |
| Huaxia Bank | 8.20 | % | 1,740,589 | - | February 9, 2012-February 7, 2013 |
| Total | | | \$ 3,164,707 | \$ 4,242,148 | |

The loans are secured by certain properties, land use rights and inventories of the Company.

13. Loan Payable

In May 2011, the Company received short term loans of RMB 10 million (\$1,571,166) from Beijing Biyun Lantian Energy Development Co. The loans mature nine months from date of issuance, and accrue interest monthly at a rate of 1.0%. In March 2012, the loans were renewed for a term of nine months, and are due on December 31, 2012.

14. Bank Notes Payable

The Company has credit facilities with Shenzhen Development Bank ("SD Bank") and Huaxia Bank ("HX Bank") that provide for working capital in the form of the following bank acceptance notes.

| Beneficiary | Endorser | Origination Date | Maturity Date | Amount |
|----------------------------|----------|------------------|---------------|-------------|
| Xingyuan Marine Bunker Co. | SD Bank | 04-06-2012 | 10-06-2012 | \$6,329,414 |

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| | | | | |
|----------------------------|---------|------------|------------|--------------|
| Xingyuan Marine Bunker Co. | SD Bank | 04-09-2012 | 10-09-2012 | 2,848,236 |
| Xingyuan Marine Bunker Co. | SD Bank | 05-24-2012 | 11-22-2012 | 6,329,414 |
| Xingyuan Marine Bunker Co. | SD Bank | 05-28-2012 | 11-26-2012 | 1,582,354 |
| Xingyuan Marine Bunker Co. | SD Bank | 05-31-2012 | 11-22-2012 | 949,412 |
| Xingyuan Marine Bunker Co. | HX Bank | 02-09-2012 | 08-08-2012 | 7,120,591 |
| Fusheng PetroChemical Co. | SD Bank | 03-12-2012 | 09-12-2012 | 7,278,827 |
| Fusheng PetroChemical Co. | SD Bank | 03-14-2012 | 09-14-2012 | 4,747,061 |
| Fusheng PetroChemical Co. | SD Bank | 03-15-2012 | 09-15-2012 | 4,747,061 |
| Fusheng PetroChemical Co. | SD Bank | 05-21-2012 | 11-17-2012 | 3,481,178 |
| Total | | | | \$45,413,548 |

Borrowings under these credit facilities are made on a when-and-as-needed basis at the Company's discretion. The Company has pledged twenty thousand tons of marine fuel as collateral against credit default. In addition, the Company is required to hold Restricted Cash with SD Bank and HX Bank as additional collateral against these bank acceptance notes. See note 10.

15. Commitment and Contingencies

Lease Obligations

The Company has entered into several agreements for the lease of storage facilities, offices premises and berth use rights.

The leases are for one year terms, and may be extended at the management's option. Management believes that they will remain at these facilities for the next five years and have estimated that the commitments for minimum lease payments under these operating leases are approximately \$2.1 million.

The Company's commitment for minimum lease payments under these operating leases for the next five years and thereafter is as follows:

| | |
|---------------------------|-------------|
| For the remainder of 2012 | 267,098 |
| For the year 2013 | 534,196 |
| For the year 2014 | 534,196 |
| For the year 2015 | 345,657 |
| For the year 2016 | 157,117 |
| Thereafter | - |
| Total | \$1,838,263 |

Nalian Purchase Agreement

In connection with Xingyuan's purchase of the 63% ownership interest in Nalian in December 2005, the Company may become obligated to purchase the remaining 37% ownership interest in Nalian not owned for RMB 8,880,000 (approximately \$1.3 million), upon exercise of the shareholder's option to put the shares to the Company.

Supply Agreements

In September 2010, the Company executed 10-year agreements to supply marine fuel to Haiyu Fishery Limited Corporation ("Haiyu") and Jinghai Group ("Jinghai"). Both Haiyu and Jinghai are located in Rongcheng City, Shandong province.

Under the terms of the agreement with Jinghai, the Company is to supply Jinghai with up to 18,000 tons of marine fuel per year at local market wholesale prices within that particular geographic area. The agreement also provides Jinghai with a rebate equivalent to an annual payment of RMB 1 million (approximately USD 0.15 million) for the first three years of the agreement if certain volume levels are achieved.

Legal proceedings

During the fourth quarter of 2011, a number of class action lawsuits were filed in the Court of Chancery of the State of Delaware by or on behalf of current shareholders against the Company and certain of its officers and directors (the "Individual Defendants") in connection with a contemplated "going private" proposal by the Company's Chief Executive Officer and majority shareholder, An Fengbin (the "Proposed Transaction"). These lawsuits allege, among other things, that the Company and certain of its officers and directors violated fiduciary duties by failing to take steps to maximize the value of the Company to its public shareholders in a change of control transactions. The plaintiffs seek, among other things, unspecified damages and other relief, including, without limitation, to enjoin the Individual Defendants from consummating the Proposed Transaction.

The foregoing lawsuits are in the early stages of their respective proceedings. The Company anticipates that actions similar to the above-mentioned actions may be filed in the future.

The Individual Defendants are contesting each of the lawsuits vigorously, however are not in a position to predict the outcome or impact of the lawsuits.

16. Subsequent Events

Subsequent to June 30, 2012, the Company received a series of bank notes from Shenzhen Development Bank in the aggregate amount of RMB 106 million (US \$16.77 million). The bank notes bear interest at an annual rate of 7% and mature six months from issuance.

Subsequent to June 30, the Company received a series of bank notes from Huaxia Bank in the aggregate amount of RMB 45 million (US \$7.12 million). The bank notes bear interest at an annual rate of 7% and mature six months from issuance.

In late June 2012, the Company became aware of misappropriations of Company assets by an employee during June and July 2012. Specifically, the Company became aware of four instances of misappropriation from several Company managed locations close to Shanghai, which aggregate to approximately 709 tons of fuel with a cost of approximately RMB 3,743,000 (approximately USD\$592,000) and cash in the amount of RMB 469,000 (approximately USD\$74,000). Following this discovery, management has been working with the local law enforcement authorities to recover the misappropriated fuel inventory and cash. The employee's position at the Company has been terminated and he no longer holds any positions at the Company or its subsidiaries. The Company has been reviewing its internal controls and procedures to ensure, to the extent possible, that no such event can occur again in the future.

On August 13, 2012, the Company entered into a settlement agreement with the former employee, in which the Company is to recover the misappropriated fuel and cash during the third quarter of 2012. The Company has recorded a \$421,965 receivable for the loss amount at June 30, 2012 that it expects to recover pursuant to the terms of the settlement agreement. However, there is no assurance that the former employee will have the ability to return or replace the misappropriated assets under the settlement agreement, or if recovery will occur within the timeframe or on the terms agreed upon.

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

This Quarterly Report on Form 10-Q (including the section regarding Management's Discussion and Analysis of Financial Condition and Results of Operations) 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, as well as information relating to Andatee China Marine Fuel Services Corporation that is based on management's exercise of business judgment and assumptions made by and information currently available to management. Although forward-looking statements in this Quarterly Report reflect the good faith judgment of our management, such statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties and actual results and outcomes may differ materially from the results and outcomes discussed in or anticipated by the forward-looking statements. When used in this document and other documents, releases and reports released by us, the words "anticipate," "believe," "estimate," "expect," "intend," "the facts suggest" and words of similar import, are intended to identify any forward-looking statements. You should not place undue reliance on these forward-looking statements. These statements reflect our current view of future events and are subject to certain risks and uncertainties as noted below. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, our actual results could differ materially from those anticipated in these forward-looking statements. Actual events, transactions and results may materially differ from the anticipated events, transactions or results described in such statements. Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. Many factors could cause actual results to differ materially from our forward looking statements. Other unknown, unidentified or unpredictable factors could materially and adversely impact our future results. You should read the following discussion and analysis in conjunction with our unaudited financial statements contained in this report, as well as the audited financial statements, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. We undertake no obligation and do not intend to update, revise or otherwise publicly release any revisions to our forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of any unanticipated events.

Except where the context otherwise requires and for purposes of this Quarterly Report:

- the terms "we," "us," "our company," "our" refer to Andatee China Marine Fuel Services Corporation, a Delaware corporation, its subsidiaries Goodwill Rich International Limited and Dalian Fusheng Consulting Co. Ltd., its subsidiaries, Donggang Xingyuan Marine Bunker Company Ltd., Rongcheng Xinfu Petrol Company Ltd., Rongcheng Mashan Xingyuan Marine Bunker Co. Ltd., Rongcheng Zhuoda Trading Co. Ltd, Suzhou Fusheng Petrol Co. Ltd., Wujiang Xinlang Petrol Co. Ltd, and its previous variable interest entity (VIE), Dalian Xingyuan Marine Bunker Co. Ltd., through which entity we conducted all of our business operations and since we have transferred most of them under the direct control of Dalian Fusheng Petrol Co. Ltd., and only one subsidiary of the VIE, which is Xiangshan Yongshinanlian Petrol Company Ltd.;
- the term "Andatee" refers to Andatee China Marine Fuel Services Corporation, the parent company;

- the term Goodwill'' refers to Goodwill Rich International Limited, a subsidiary of Andatee, which for financial reporting purposes is the predecessor to Andatee; and
- "China" and "PRC" refer to the People's Republic of China, and for the purpose of this Quarterly Report only, excluding Taiwan, Hong Kong and Macau.

Critical Accounting Policies

We prepare financial statements in conformity with U.S. GAAP, which requires us to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and related notes. We periodically evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

We primarily generate revenue from blended products sales to distributors and end users. We also generate revenue from raw materials sales.

We consider revenue from the sale of our blended products and raw materials realized or realizable and earned upon meeting all of the following criteria:

- persuasive evidence of a sale arrangement exists;
- delivery has occurred;
- the price to the distributor is fixed or determinable; and
- collectability of payment is reasonably assured.

These criteria are met at the time of shipment when the risk of loss passes to the distributor or end user. Revenue represents the invoiced value of sold goods, net of VAT. Our products, all of which are sold in China, are subject to a Chinese VAT at a rate of 17% of the gross sales price or at a rate approved by the Chinese local government. This VAT may be offset by VAT we paid on raw materials and other materials included in the cost of producing the finished product. The VAT amounts paid and available for offset are maintained in our current liabilities.

Accounts Receivables

During the normal course of business, we extend to some of our customers interest-free unsecured credit for an initial term of 30 - 60 days, depending on a customer's credit history, as well as local market practices. Our accounts receivable turnover in days for the six months ended June 30, 2012 and 2011 were 13.19 and 8.6 days, respectively.

We review our accounts receivables quarterly and determined the amount of allowances, if any, necessary for doubtful accounts. Historically, we have not had any bad debt write-offs and, as such, we do not provide an arbitrary reserve amount for possible bad debts based upon a percentage of sales or accounts receivable balances. Rather, we review our accounts receivable balances to determine whether specific reserves are required due to such issues as disputed balances with customers, declines in customers' credit worthiness, or unpaid balances exceeding agreed-upon terms. Based upon the results of these reviews, we determine whether a specific provision should be made to provide a reserve for possible bad debt write-offs.

We also communicate with our customers each month to identify any potential issues and reassess our credit limits and terms with them based on their prior payment history and practice. We also plan to continue building upon our existing relationships and history with each of our customers to assist us in the full and timely collection of outstanding payments.

Assessment of Impairment for Long-lived Assets

Our long-lived assets include fixed assets, intangible assets and goodwill. Fixed assets comprise property and buildings, marine bunker, boiler equipment, laboratory equipment, transportation vehicles and other office equipment, and are depreciated over the estimated useful lives of the assets on a straight-line basis. Intangible assets mainly comprise land use right and other finite-lived intangible assets. We amortize the cost of intangible assets over their expected future economic lives. Goodwill represents the excess of the purchase price over the net of the fair value of the identifiable tangible and intangible assets acquired and the fair value of liabilities assumed upon the business acquisitions. Goodwill is stated at cost less provision for impairment loss. Management's judgment is required in the assessment of the economic lives of intangible assets and useful lives of the fixed assets. Based on the existence of one or more indicators of impairment, we measure any impairment of fixed assets, intangible assets and goodwill based on a projected discounted cash flow method using a discount rate determined by our management which is commensurate with the risk inherent in our business model. An impairment charge would be recorded if we determined that the carrying value of fixed assets, intangible assets and goodwill may not be recoverable. Our estimates of future cash flows require significant judgment based on our historical results and anticipated results and are subject to many factors.

Determination of Functional Currencies

Our reporting currency is the U.S. dollar. The functional currency of Andatee and Goodwill are the U.S. dollar. The functional currency of our PRC subsidiary, our VIE and its subsidiaries in China is the RMB. An entity's functional currency is the currency of the primary economic environment in which it operates. Normally, that is the currency of the environment in which it primarily generates and expends cash. Management's judgment is essential in the determination of the functional currency which is made by assessing various indicators, such as cash flows, sales price and market, expenses, financing and inter-company transactions and arrangements. Assets and liabilities of our subsidiary and VIE entities in China are translated into U.S. dollars, our reporting currency, at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at the current exchange rate in effect during the reporting period. Foreign currency translation adjustments are not included in determining net income for the period but are accumulated in a separate component of consolidated equity on the balance sheet. The accumulated foreign currency translation adjustment as of June 30, 2012 and 2011 was a gain of \$276,663 and \$1,214,550 respectively.

Proposed Tender Offer and Subsequent Litigation Matters

On November 23, 2011, the Company announced that it had received notice from An Fengbin, Andatee's majority shareholder and Chief Executive Officer, of his intention to launch a tender offer to acquire all of the outstanding shares of Andatee that he or his affiliates did not own at the time. Specifically, An Fengbin proposed to negotiate the acquisition of all such outstanding shares at a price of \$4.21 per share in cash, subject to financing, the completion of due diligence, the negotiation of a definitive merger agreement with Andatee, and other customary conditions (the "Proposed Transaction"). The Company also announced the establishment of the Special Committee of the Board of Directors of the Company, consisting solely of independent directors, Francis N.S. Leong and Wen Jiang, to consider the terms of the Proposed Transaction. The Special Committee has retained Morris James LLP as its legal counsel. In addition, on March 21, 2012, the Special Committee also announced the engagement of Duff & Phelps, LLC as its independent financial advisor to assist the Special Committee in evaluating the foregoing proposal from Mr. An. As of the date of this filing, the proposed offer for the outstanding shares of Andatee has not yet commenced. No assurance can be given that this proposed offer will ever be commenced under these or any other terms.

As discussed in detail under Part II, Item 1. Legal Proceedings of this Report, during the period of November-December 2011, the Company and certain of its officers and directors have been named as defendants in several shareholder lawsuits filed in the Court of Chancery of the State of Delaware in connection with the Proposed Transaction. These litigation matters are in the early stages of their respective proceedings and the Company is yet to respond to the complaints.

Inventory and Cash Misappropriation

In late June 2012, the Company became aware of misappropriations of Company assets by an employee during June and July 2012. Specifically, the Company became aware of four instances of misappropriation from several Company managed locations close to Shanghai, which aggregate to approximately 709 tons of fuel with a cost of approximately RMB 3,743,000 (approximately USD\$592,000) and cash in the amount of RMB 469,000 (approximately USD\$74,000). Following this discovery, management has been working with the local law enforcement authorities to recover the misappropriated fuel inventory and cash. The employee's position at the Company has been terminated and he no longer holds any positions at the Company or its subsidiaries. The Company has been reviewing its internal controls and procedures to ensure, to the extent possible, that no such event can occur again in the future. On August 13, 2012, the Company entered into a settlement agreement with the former employee, in which the Company is to recover the misappropriated fuel and cash during the third quarter of 2012. The Company has recorded a \$421,965 receivable for the loss amount at June 30, 2012 that it expects to recover pursuant to the terms of the settlement agreement. However, there is no assurance that the former employee will have the ability to return or replace the misappropriated assets under the settlement agreement, or if recovery will occur within the timeframe or on the terms agreed upon.

Business and Operations Overview

Andatee China Marine Fuel Services Corporation is a Delaware corporation. Our executive offices are located in the City of Shanghai, a key international shipping hub and logistics center in China. Our main offices are located at 290 Kangji East Building 22nd Floor, Tianmu West Road, Zhabei District, Shanghai City, China.

We carry out all of our business through our Hong Kong subsidiary, Goodwill, its wholly-owned Chinese subsidiary, Fusheng, and Fusheng's variable interest entity (VIE), Xingyuan, and Xingyuan's subsidiaries (Xingyuan and its subsidiaries being collectively referred to as the VIE entities). A VIE is an entity under FASB Interpretation No. 46R ("Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51") where equity investors do not have the characteristics of a controlling financial interest (see Note 1 of Notes to Consolidated Financial Statements). Through Xingyuan, we are a leading marine fuel supplier along the coast of east China. Our products include cargo vessel fuel classified as CST180 and CST120, fishing boat fuel classified as #1, #2, #3 and #4, which are close substitutes for diesel used throughout the region's fishing industry. We produce, store, distribute and trade the blended marine fuel oil for cargo and fishing vessels. Backed by core facilities, including storage tanks, tankers and berths, our sales network covers major depots along the towns of Dandong, Tianjin, Shidao and Shipu, which are famous for their fishing tradition and industry.

We sell our products through distributors and to retail customers. Our products are substitutes for diesel used throughout east coast of China fishing industry by small to medium sized cargo vessels. Our core facilities include storage tanks, berths (the space allotted to a vessel at the wharf), marine fuel pumps, blending facilities and tankers. Our sales network covers major depots along the towns of Dandong, Shidao, Tianjin, Wujiang, and Shipu along the east coast of China.

Our marine fuel for cargo vessels is classified as CST180 and CST120; our marine fuel for fishing boats/vessels, - #1 fuel (for engines with 2,000 rpm capacity or higher), #2 fuel (for engines with 1,800 rpm capacity), #3 fuel (for engines with 1,600 rpm capacity) and #4 fuel (for engines with 1,400 rpm capacity). We also produce blended marine fuel according to customer specifications using our proprietary blending technology. Our own blend of marine diesel oil, #1, #3 fuel and #4 fuel are substitutes for the traditional diesel oil, commonly known as #0 diesel oil, used by most small to medium vessels. We generate virtually all of our revenues from our own brands of blended oil products.

Business Development and Outlook

Since our inception in 2001, we have taken several steps to increase investment in facilities and product line expansion in order to provide our customers with easier access to our products and services and to build a delivery network closer to target market. These steps include acquiring additional local companies and facilities, and development of new products, all aimed at meeting customer demands in various markets. Historically, we have funded these activities from our working capital.

We continue to ramp up expansion of our distribution network by expanding organically through the opening of new sales and marketing branches in new port locations, building new facilities improving our existing facilities, and signing sole supply agreements with long-term supply partners.

Furthermore, we are setting up market developing offices in large cities, such as Shanghai, Shenzhen, etc. to recruit capable local hands in a bid to establish effective network of information for providing solid foundations to pursue our acquisition-driven growth strategy in neighboring areas around the cities.

Facility Expansion

In April 2011, we commenced the construction of Tengda wharf and storage tanks located in Rongcheng City, Shandong Province. The Tengda projects will expand the existing wharf and storage tanks. The capital expenditure for expanding the wharf and tank storage is estimated to be RMB 46 million (US\$7.36 million).

In July 2011, we commenced the constructions of new blending facilities in Xinfu in Rongcheng City, Shandong province, which is designed to improve our production capabilities in blending with 20,000 cm tanks on site. The capital expenditure is estimated to be RMB 25 million (US\$ 3.97 million),

In January 2011, we commenced the construction of the facilities in Tianjin City, which is expected to be completed during the second half of 2012. This facility will provide additional tank capacities in a region close to the areas where our current major suppliers operate. The cost for construction is estimated to be approximately RMB 4.2 million (US\$ 0.67 million).

Facility Acquisitions

We continue to strategically identify, research, and where appropriate, acquiring entities with desired facilities in various areas that fit into Andatee's strategic growth plans.

In May 2010, we acquired a 52% equity interest in Mashan Xingyuan Marine Fuel Company (“Mashan”). In July 2010, we acquired a 52% ownership of Hailong Petrochemical Company (“Hailong”).

In December 2011, we acquired a 90% equity interest in Wujiang Xinlang Petrochemical Company ("Xinglang") for RMB 2.36 million (approximately US\$ 370,000). Xinglang owns land use rights to develop a riverside fuel oil pump station in Wujiang City, Jiangsu Province.

In December 2011, we acquired a 61% equity interest in Suzhou Fusheng Petrochemical Company ("Suzhou Fusheng") for RMB 12.2 million (approximately \$1.93 million). Suzhou Fusheng owns storage tanks and land use rights to develop a riverside fuel oil pump station in Suzhou Wujiang City, Jiangsu Province.

In December 2011, we acquired a 100% equity interest in Rongcheng Zhuoda Trading Co (“Zhuoda”) for RMB 13 million (approximately US\$ 2 million). Zhuoda owns storage tanks with a capacity of 13,000 cubic meters in Rongcheng City, Shandong Province.

The acquisitions are consistent with Andatee’s strategy of rapidly expanding its geographic base and increasing market share along China’s rivers and coastal line.

Operational Initiatives in 2012

In 2012, we undertook the following steps designed to reduce the overall production and transportation costs:

- Built and/or acquired other distributing facilities to increase our profit margin and sales, enhance our brand and minimize the adverse impact of oil price volatility

- Established regional purchase center to timely collect all information for sales and purchase analysis, to process order making and logistics planning. This allows us to negotiate favorable pricing and volume discounts and maintain an appropriate sale levels

- Worked closely with the managements of the acquired companies to obtain an in-depth knowledge of local markets and developed a list of suppliers to reduce the purchase cost of certain raw materials.

Relocated our production and storage centers closer to our end users which provide us more opportunity to develop an efficient and flexible manufacturing and operational infrastructure and enjoy savings on transportation costs.

In 2012, our overall strategy has been to (i) increase our share of retail sales since such sales had shown to be less price-sensitive than our sales to the distributors, (ii) acquire our own retail facilities to reduce the risk of opportunistic negotiations from our retail customers during periods of volatile oil prices, (iii) build retail points in strategic locations (often close to other, recently acquired locations) to capture a majority of active local markets and (iv) add more products to our current product line to further satisfy customers' diversifying demands .

We believe that maintaining our retail sales and distribution channels will lead to stable gross margins which can help offset the pressure imposed on our profit margin by crude oil price downturn. We believe that higher retail sales and closer ties with our customers as well as wider distribution network are at the core of our strength and business viability going forward.

We intend to (i) control more facilities closer to end markets, through business acquisitions, partner cooperation, building local platform for our products and added-value services, which would enhance the brand awareness of the "Xingyuan" brand and (ii) expand our product line and upgrade our production facilities to explore the markets opportunities and increase our share in retail market.

Principal Factors Affecting our Financial Performance

We believe that the following factors will continue to affect our financial performance:

Increasing demand for blended marine fuel — The increasing demand for blended marine fuel has a positive impact on our financial position. The strong growth in the blended marine fuel industry since 2002 has been driven by several factors, including, among others, steady population growth in the PRC, improvements in the living standards, national energy conservation efforts.

Expansion of our sources of supply, production capacity and sales network — To meet the increasing demand for our products, we need to expand our sources of supply and production capacity. We plan to make capital improvements in our existing production facilities, which would improve both their efficiency and capacity. In the short-run, we intend to increase our investment in our reliable supply network, personnel training, information technology applications and logistic system upgrades.

Fluctuations in Crude Oil Price — We use oil refinery by-products as raw materials for our production. The recent increase in oil prices had a direct impact on the price we pay for these products. However, we mitigated this in the short-term by increasing the price of our products and passing the entirety of the increase to our customers.

Results of Operations-Comparison of the three and six months ended June 30, 2012 and 2011

Revenue

Our revenue increased by US\$6.0 million, or 9.5%, from US\$63.14 million for the second quarter ended June 30, 2011 to US\$69.15 million for second quarter ended June 30, 2012. The increase in our revenues was due to the increased sales volume and higher average crude oil price. The sales volume increase by 2,496 tons, or 3.1%, from 81,400 tons for the second quarter ended June 30, 2011 to 83,896 tons for the second quarter ended June 30, 2012.

Our revenue increased by US\$1 million, or 0.9%, from US\$107.4 million for the six months ended June 30, 2011 to US\$108.4 million for six months ended June 30, 2012.

Our overall sales volume decreased by 4.1% or 5,631 tons, from 138,400 tons for the six months period ended June 30, 2011 to 132,769 tons for the six months period ended June 30, 2012.

For the six months ended June 30, 2012, 1# marine fuel represented 9.4% of our sales, 2# marine fuel represented 16.8% of our sales, 3# marine fuel represented 8.3% of our sales, 4# marine fuel represented 56.1% of our sales, 180CST represented 6.5% of our sales and 120CST represented 2.9% of our sales.

For the six months ended June 30, 2011, 1# marine fuel represented 9.2% of our sales, 2# marine fuel represented 8.1% of our sales, 3# marine fuel represented 9.7% of our sales, 4# marine fuel represented 55.3% of our sales, 180CST represented 9.7% of our sales and 120CST represented 8.0% of our sales.

Cost of Revenue

Our cost of revenues increased by US\$7.4 million, or 12.61%, from US\$59.0 million for the second quarter ended June 30, 2011 to US\$66.4 million for the second quarter ended June 30, 2012 due to higher sales.

Our cost of revenues increased US\$4.6 million, or 4.7%, from US\$98.0 million for the six months ended June 30, 2011 to US\$102.5 million for the six months ended June 30, 2012.

Gross Profit

As a result of the increased average crude oil price and product mix, our gross profit decreased by US\$1.4 million, or 34.2%, to US\$2.7 million for the second quarter of 2012 as compared to US\$4.2 million in the second quarter of 2011. As a percentage of revenues, our gross profit margin was 4.0% and 6.6% for the second quarter of 2012 and 2011, respectively.

Our gross profit decreased by US\$3.6 million, or 38.1%, from US\$9.4 million for the six months ended June 30, 2011 to US\$5.8 million for the six months ended June 30, 2012. As a percentage of revenues, our gross profit margin dropped to 5.4% for the six months ended June 30, 2012 compared to 8.8% for the six months ended June 30, 2011. The decrease in our gross profit percentage results primarily from higher raw materials costs, which we were unable to pass through to customers via increased sales price.

Selling Expenses

Selling expenses decreased by US\$0.2 million, or 31.8%, from US\$0.6 million for the second quarter of 2011 to US\$0.4 million in second quarter of 2012. As a percentage of revenues, selling expenses decreased from 1.0% for the second quarter of 2011 to 0.6% for 2012.

Our selling expenses decreased US\$0.54 million, or 37.1%, from US\$1.5 million for the six months ended June 30, 2011 to US\$0.96 million for the six months ended June 30, 2012. This decrease was due in part to a reclassification of transportation expense from “selling expense” to “cost of revenue,” and a decrease in sales employee compensation and other expenses for promotion of our products. As a percentage of revenues, selling expenses decreased from 1.4% for the six months ended June 30, 2011 to 0.9% for 2012.

General and Administrative Expenses

General and administrative expenses increased by US\$0.3 million, or 27.55%, from US\$1.0 million for the second quarter of 2011 to US\$1.3 million for the second quarter of 2012. The increase was in part due to expenses incurred in connection with the relocation of our executive offices from Dalian to Shanghai. The increase also was due in increases in professional services fees and various vendor expenses. As a percentage of revenues, general and administrative expenses increased from 1.6% for the second quarter of 2011 to 1.8% for 2012.

General and administrative expenses increased US\$0.7 million, or 38.44%, from US\$1.7 million for the six months ended June 30, 2011 to US\$2.4 million for the six months ended June 30, 2012. As a percentage of revenues, general and administrative expenses increased from 1.6% for the six months ended June 30, 2011 to 2.2% for 2012.

Operating Income

As a result of the factors discussed above, our operating income decreased by US\$1.5 million, or 58.3%, from US\$2.6 million for the second quarter of 2011 to US\$1.1 million for the second quarter of 2012. As a percentage of revenues, our operating income decreased from 1.6% for the second quarter of 2011 to 4.1% for 2012.

Our operating income decreased US\$3.7 million, or 60.0%, from US\$6.2 million for the six months ended June 30, 2011 to US\$2.5 million for the six months ended June 30, 2012. As a percentage of revenues, our operating income decreased from 5.7% for the six months ended June 30, 2011 to 2.3% for 2012.

Interest Expense

Interest expense (net) increased by USD\$0.1 million, or 13%, from US\$0.80 million for the second quarter of 2011 to US\$0.90 million for the second quarter of 2012.

Interest expense (net) increased US\$1.2 million, from US\$1.3 million for the six months ended June 30, 2011 to US\$2.5 million for the six months ended June 30, 2012. The increase in interest expense was the result of the increase in benchmark interest rate and tightening in credit policy by China government in late 2011. The benchmark interest rate has increased by 1.89% from 6.31% for 2011 to 8.20% in 2012.

Provision for Income Taxes

Provision for income taxes decreased US\$0.4 million, or 92.2%, from US\$0.5 million for the second quarter of 2011 to US\$0.04 million for the second quarter of 2012. This decrease in the provision for income taxes was primarily attributable to the decrease in our pre-tax income by 91% over 2011.

Provision for income taxes decreased US\$1.21 million, or 97.0%, from US\$1.25 million for the six months ended June 30, 2011 to US\$0.04 million for the six months ended June 30, 2012. This decrease in the provision for income taxes was primarily attributable to the decrease in our pre-tax income by 95.0% over the first half of 2011.

Net Income

Net income attributable to the Company decreased by US\$1.2 million, or 84.0%, from US\$1.4 million for the second quarter of 2011 to US\$0.2 million for 2012.

Net income attributable to the Company decreased by US\$3.3 million, or 90.0%, from US\$3.7 million for the six months ended June 30, 2011 to US\$0.4 million for the six months ended June 30, 2012. The decrease in net income was mainly the result of the 4% decrease in profit margins (\$3.6 million) and higher interest expense (\$1.2 million), offset by lower taxes (\$1.2 million).

Liquidity and Capital Resources

As of June 30, 2012, we had cash of US\$17 million in our bank accounts, and additionally, we have set aside \$22 million for restricted cash on bankers' acceptance notes. The increase in our cash balance as at June 30, 2012 reflects the combined result of significant increased level of institutional financing and significant increase in advances from customers. We believe our existing cash and cash equivalents will be sufficient to maintain our operations at present level for at least next 12 months.

On an on-going basis, we take steps to identify and plan our needs for liquidity and capital resources, to fund our planned ongoing construction and day-to-day business operations. In addition to working capital to support our routine activities, we also will require funds for the construction and upgrade of strategic facilities, acquisition of assets and/or equity, and repayment of debt.

Our future capital expenditures will include building new fueling facilities, increase blending and storage capacity, berth improvement, expanding product lines, research and development capabilities, and making acquisitions where deemed appropriate.

Our operating and capital requirements in connection with supporting our expanding operations and introducing our products to the expanded areas have been and will continue to be significant to us. Although we are profitable, and have been profitable, for the three and six month ended June 30, 2012 and 2011, our growth strategy, which is initially focused on accretive acquisitions and organically expanding our product into expanded areas will require substantial capital which we may not be able to satisfy solely through cash flows from our operations.

The petrochemical business is a capital intensive business. Our ability to maintain and increase our revenues, net income and cash flows depends upon continued capital spending.

Based on our current plans for the next 12 months, we anticipate that additional revenues earned from our expanded operation and broadened distribution channels will be the primary organic source of funding for future operating activities in fiscal 2012. However, to fund continued expansion of our operation and extend our reach to broader markets, and to acquire additional entities, we may rely on bank borrowing, if available, as well as capital raises.

If and to the extent we require additional capital we would likely to raise such additional capital through the issuance of our equity or equity-linked securities, which may result in significant additional dilution to our current investors. Our ability to raise additional capital is dependent on, among other things, the state of the financial markets at the time of any proposed offering. There is no assurance that additional funding will be available on acceptable terms, or at all. If adequate capital cannot be obtained on a timely basis and on satisfactory terms, our operations could be materially negatively impacted.

The following table sets forth a summary of our cash flows for the periods indicated:

| | As of June 30, | |
|---|----------------|--------------|
| | 2012 | 2011 |
| Cash flow data: | | |
| Net cash used in operating activities | (1,557,398) | (4,736,526) |
| Net cash used in investing activities | (35,209) | (5,953,152) |
| Net cash provided by financing activities | 14,822,372 | 3,933,051 |
| Effect of exchange rate on cash | 362,226 | 1,131,524 |
| Net changes in cash | 13,591,991 | (5,625,103) |
| Cash at beginning of period | 3,493,015 | 10,813,103 |
| Cash at end of period | 17,085,006 | 5,188,000 |

Operating Activities

Net cash used in operating activities for the six months ended June 30, 2012 was US\$1.6 million, which was primarily as a result of the following factors:

- net income of US\$0.38 million;
- a decrease in accounts and customer notes receivable of US\$7.20 million as a result of efforts in collection;
- an increase in inventories of US\$25.24 million as a result of anticipating the sales volume will increase in the expanded distribution network;
- a decrease in advances to suppliers of \$5.06 million ;
- an increase in advances from customers of US\$10.92 million;
- an increase in prepaid expenses of US\$0.49 million due to increased prepayment for equipment rentals during the period;
- an increase in accounts payable of US\$2.69 million in line with increased purchasing;
- a decrease in tax payable of US\$3.26 million;
- an increase in other liabilities of US\$0.73 million resulting from temporary borrowings from various parties;

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Net cash provided by operating activities for the six months ended June 30, 2011 was US\$4.7 million, which was primarily as a result of the following factors:

- net income of US\$3.7 million;
- a decrease in accounts receivable of US\$2.1million as a result of increased efforts in tightening policy of sales on credit during the second quarter in 2011;
- a decrease in inventories of US\$0.7 million resulting from cutting back on inventory level on account of the fast increasing cost of raw material and growing volatility of oil price, which requires less inventory to manage the risks followed and upcoming slack season;
- a decrease in advances to suppliers of \$3.0 million as a result of reducing purchasing activities;
- a decrease in prepaid expense and other current assets of US\$0.7 million due to decreased prepayment for services and deposits under signed agreements;
- a decrease in advance from customers of US\$5.2 million;
- a decrease in accounts payable and accrued liabilities of US\$1.1 million in line with decreased purchasing;
- a decrease in tax payable of US\$8.8million;

a decrease in other liabilities of US\$1.1 million resulting from repayment of temporary borrowings from various parties;

Investing Activities

Cash used in investing activities was US\$0.04 million for the six months ended June 30, 2012, which was attributable to

expenditures in construction projects of US\$0.59 million to expand the production capacity in Shandong Rongcheng and Suzhou Wujiang area, and purchase of property and equipment of US\$0.09 million
refunds of US\$0.64 million in business deposit

Cash used in investing activities was US\$5.9 million for six months ended June 30, 2011, which was attributable to:

expenditures in construction projects of US\$6.3 million to expand the production capacity in Nanlian, Zhejiang province; Panjin, Liaoning province; Dongying, Shandong province
expenditures in purchase of property and equipment of US\$0.4 million
refunds of US\$0.7 million for purchase of land use right.

Financing Activities

Cash provided by financing activities was US\$14.82 million for the six months ended June 30, 2012. It consists of bank borrowings of \$3.29 million in short term loans as well as collection from escrow account for bank notes of US\$0.51 million and advances from institutional financing and related parties of US\$15.42 million. The cash used to repay the bank loans was US\$4.40 million.

Cash used in financing activities was US\$3.9 million for the six months ended June 30, 2011. It consists of bank borrowings of US\$24.6 million in short-term bank notes and \$0.8 million in short term loans. The cash used to repay the bank notes and payment to escrow account for bank notes was US\$25.7 million and US\$4.1 million, respectively.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Inflation

The amounts presented in the financial statements do not provide for the effect of inflation on our operations or financial position. The net operating losses shown would be greater than reported if the effects of inflation were reflected either by charging operations with amounts that represent replacement costs or by using other inflation adjustments.

Item 4. Controls and Procedures

As of the end of the period covered by this Report, our management conducted an evaluation, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer (the “Evaluating Officers”), of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Exchange Act). Based on that evaluation, the Evaluating Officers concluded that our disclosure controls and procedures were not effective as of the period covered. The foregoing conclusion was due to the continued presence of material weaknesses in internal control over financial reporting, as discussed under “Management’s Report on Internal Control Over Financial Reporting” in the Company’s previously filed Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (the “Annual Report”). Management anticipates that such disclosure controls and procedures will not be effective until the material weakness described below is remediated.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected and corrected on a timely basis. As reported in the Annual Report, our management was aware of several material weaknesses in the Company's internal control over financial reporting, including weaknesses related to (i) control environment, (ii) control activities, (iii) information and communications, and (iv) internal control monitoring. Our Evaluating Officers concluded that those issues persisted at the time of their most recent evaluation.

We are in the process of reviewing and, where necessary, modifying controls and procedures throughout the Company, particularly in light of our recent acquisitions and the continued integration of these businesses as well as the instances of misappropriation of fuel inventory set forth in Note 16 (Subsequent Events) Note to the financial statements and in the Management's Discussion and Analysis included in this Quarterly Report. We have contracted to install new financial systems and that process is currently expected to be completed during 2012. Our management intends to focus its remediation efforts in the near term on installing a new financial system and documenting formal policies and procedures surrounding transaction processing, period-end account analyses and providing for additional review and monitoring procedures and periodically assess the need for additional accounting resources as the business develops and resources permit. Management is also committed to taking further action and implementing enhancements or improvements as resources permit. We recognize, however, that implementation of additional measures may take considerable time.

Notwithstanding the material weaknesses discussed above, our management has concluded that the financial statements included in this Report fairly present in all material respects our financial condition, results of operations and cash flows for the periods presented in conformity with generally accepted accounting principles.

Except as described above, there was no change in our internal control over financial reporting during our second fiscal quarter of 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

Item 1.

Legal Proceedings

Except as set forth below, the Company is not involved in any legal matters arising out of its operations in the normal course of business, which may be expected, individual or in the aggregate, to have a material effect on the Company. As of the date of this filing, the Company and certain of its officers and directors have been named as defendants in several shareholder lawsuits filed in the Court of Chancery of the State of Delaware in connection with a contemplated “going private” proposal by the Company’s Chief Executive Officer and majority shareholder, An Fengbin (the “Proposed Transaction”). These lawsuits and claims alleged thereunder are as follows:

On or about November 29, 2011, George Durgin, a purported shareholder of the Company, filed a complaint entitled *George Durgin v. An Fengbin, Wen Jiang, Wen Tong, Francis N.S. Leong, Hou Yudong and Andatee China Marine Fuel Services Corporation*, purportedly on behalf of all similarly situated persons (the “Durgin Plaintiffs”), against the Company, An Fengbin, Wen Jiang, Wen Tong, Francis N.S. Leong and Hou Yudong (collectively, the “Individual Defendants”) (the “Durgin Complaint”). The Durgin Plaintiffs allege, among other things, that the Individual Defendants violated fiduciary duties owed to the Company’s public shareholders because such Individual Defendants failed to take steps to maximize the value of the Company to its public shareholders in a change of control transaction. The Durgin Plaintiffs also make allegations of similar breach of fiduciary duties by An Fengbin and allege that the Company aided and abetted the Individual Defendants’ alleged breaches of their fiduciary duties. Based on these allegations, the Durgin Plaintiffs seek, among other things, unspecified damages and other relief, including, without limitation, to enjoin the Individual Defendants from consummating the Proposed Transaction.

On or about December 6, 2011, Roger and Lauresteine Marin, purported shareholders of the Company, filed a complaint entitled *Roger and Lauresteine Marin v. Andatee China Marine Fuel Services Corporation, An Fengbin, Wen Jiang, Wen Tong, Francis N.S. Leong, and Hou Yudong*, purportedly on behalf of all similarly situated persons (the “Marin Plaintiffs”), also against the same Individual Defendants (the “Marin Complaint”). The Marin Complaint’s allegations are substantially similar to and arise out of the same alleged conduct as those set forth in the Durgin Complaint. The Marin Plaintiffs seek, among other things, unspecified damages and other relief, including, without limitation, to enjoin the Individual Defendants from consummating the Proposed Transaction.

On or about December 19, 2011, Harlow Greguire, a purported shareholder of the Company, filed a complaint entitled *Harlow Greguire v. An Fengbin, Wen Tong, Wen Jiang, Francis N.S. Leong, Hou Yudong and Andatee China Marine Fuel Services Corporation*, purportedly on behalf of all similarly situated persons (the “Greguire Plaintiffs”), also against the same Individual Defendants (the “Greguire Complaint”). The Greguire Complaint’s allegations are substantially

similar to and arise out of the same alleged conduct as those set forth in the Durgin Complaint. The Greguire Plaintiffs seek, among other things, unspecified damages and other relief, including, without limitation, to enjoin the Individual Defendants from consummating the Proposed Transaction.

On or about December 27, 2011, Benjamin L. Padnos, a purported shareholder of the Company, filed a complaint entitled Benjamin L. Padnos v. Andatee China Marine Fuel Services Corporation, An Fengbin, Wen Tong, Wen Jiang, Francis N.S. Leong, and Hou Yudong, purportedly on behalf of all similarly situated persons (the “Padnos Plaintiffs”), also against the same Individual Defendants (the “Padnos Complaint”). The Padnos Complaint’s allegations are substantially similar to and arise out of the same alleged conduct as those set forth in the Durgin Complaint. The Padnos Plaintiffs seek, among other things, unspecified damages and other relief, including, without limitation, to enjoin the Individual Defendants from consummating the Proposed Transaction.

The foregoing lawsuits are in the early stages of their respective proceedings and the Company has yet to respond to the Complaints. The Company anticipates that similar actions may be filed in the future. The Company’s by-laws, in currently in effect, provide for advancement and indemnification of directors under certain circumstances that may be applicable here. In addition, the Company maintains a \$5 million directors’ & officers’ liability insurance policy that may apply to some or all of the claims against some or all of the defendants.

Item 1A.

Risk Factors

Except as set forth below, there were no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2011.

Item 2.

Unregistered Sales of Equity Securities and Use of Proceeds

The Company did not engage in any unregistered sales of equity securities during the fiscal quarter ended June 30, 2012. The Company did not repurchase any of its equity securities during the same fiscal period.

Item 3.

Defaults Upon Senior Securities

Not applicable.

Item 4.

Mine Safety Disclosures.

Not applicable.

Item 5.

Other Information

None.

Item 6.

Exhibits

The exhibits listed in the accompanying Exhibit Index are furnished as part of this report.

SIGNATURES

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

Andatee China Marine Fuel Services Corporaiton

Date: August 17, 2012 By: /s/ An Fengbin
An Fengbin
President, Chief Executive Officer
(Principal Executive Officer)

Date: August 17, 2012 By: /s/ Wang Haipeng
Wang Haipeng
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT INDEX

Number Exhibit Table

- 3.1(i) Certificate of Incorporation(1).
- 3.1.1(i) Amendment to the Certificate of Incorporation(1).
- 3.1(ii) By-Laws(1).
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the SOX of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the SOX of 2002.
- 32.1 Certificate of Chief Executive Officer pursuant to 18 U.S.C.ss.1350.
- 32.2 Certificate of Chief Financial Officer pursuant to 18 U.S.C.ss.1350.

(1) Incorporated by reference to the exhibit with the same number to the Company's Registration Statement on Form S-1 (SEC File No. 333-161577) effective as of January 25, 2010.

101.INS**† XBRL Instance Document

101.SCH**† XBRL Taxonomy Extension Schema Document

101.CAL**† XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF**† XBRL Taxonomy Extension Definition Linkbase Document

101.LAB**† XBRL Taxonomy Extension Labels Linkbase Document

101.PRE**† XBRL Taxonomy Extension Presentation Linkbase Document

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.

† To be filed by amendment.

