

Andatee China Marine Fuel Services Corp
Form 10-Q
November 21, 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 September 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.)

800 Baoan Building 23rd Floor, Dongfang Road

Pudong 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 "

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

Large Accelerated Filer ☐ Accelerated Filer ☐

Non-accelerated Filer ☐ Smaller Reporting Company ☒

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

APPLICABLE ONLY TO CORPORATE ISSUERS

As of November 19, 2012, the Company had 9,518,967 shares of common stock outstanding.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

Explanatory Note

Andatee China Marine Fuel Services Corporation (the “Company”) is filing its Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2012 (the “Quarterly Report”) in reliance upon the filing extension relief and assistance provided by the U.S. Securities and Exchange Commission for the parties affected by the Hurricane Sandy.

As previously disclosed, on November 8, 2012, the Company engaged the services of Friedman LLP as its new independent registered public accounting firm (“Friedman LLP”) to audit the Company’s balance sheet as of December 31, 2012, and to review, among others, the Company’s unaudited quarterly financial information as of and for the quarter ending September 30, 2012. Friedman LLP is located in the disaster area affected by the Hurricane Sandy and, therefore, the Quarterly Report review process was delayed due to Friedman LLP’s loss of power, communications capabilities, phone services, etc. Due to these factors and the lack of transportation in and around New York City, customary pre-filing review processes and procedures in connection with the Quarterly Report were substantially delayed. As a result, the Company was not able to meet its filing deadline under Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and is relying on the Securities and Exchange Commission Release No. 68224, issued on November 14, 2012 (Order under Section 17A and Section 36 of the Securities Exchange Act of 1934 granting exemptions from specified provisions of the Exchange Act and certain rules thereunder) exempting it from such filing deadline for the period from October 29, 2012 to November 20, 2012.

Table of Contents

	Page
PART I	
FINANCIAL INFORMATION	2
Item 1. Financial Statements (Unaudited)	2
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	15
Item 4. Controls and Procedures	26
PART II	
OTHER INFORMATION	27

Edgar Filing: Andatee China Marine Fuel Services Corp - Form 10-Q

Item 1.	Legal Proceedings	27
Item 1A.	Risk Factors	27
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	27
Item 3.	Defaults Upon Senior Securities	28
Item 4.	Mine Safety Disclosures.	28
Item 5.	Other Information	28
Item 6.	Exhibits	28
SIGNATURES		29
EXHIBIT INDEX		30

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2012	December 31, 2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,241,813	\$ 3,493,015
Restricted cash	21,345,122	22,507,738
Accounts receivable, net	15,719,597	19,822,345
Notes receivable	1,326,176	1,319,779
Inventories	31,418,354	16,730,307
Advance to suppliers	4,205,834	16,272,434
Deposits	1,326,176	1,969,544
Deferred tax assets	600,591	84,687
Prepaid expense and other current assets	6,811,170	3,340,304
Total current assets	92,994,833	85,540,153
Property, plant and equipment, net	41,005,126	42,016,328
Construction in progress	12,793,397	12,145,273
Intangible assets, net	7,315,945	7,636,462
Goodwill	1,206,736	1,200,915
Total assets	\$ 155,316,037	\$ 148,539,131
LIABILITIES AND EQUITY		
Current liabilities		
Bank notes payable	\$ 43,732,239	\$ 45,092,463
Short-term bank loans	1,736,659	4,242,148
Accounts payable and accrued liabilities	7,539,592	18,566,838
Loans payable	16,236,981	1,571,166
Taxes payable	2,025,013	4,237,465
Advances from customers	21,061,613	13,285,980

Edgar Filing: Andatee China Marine Fuel Services Corp - Form 10-Q

Advance from related party	5,145,650	2,032,963
Other payable	1,950,220	906,804
Total current liabilities	99,427,967	89,935,827
Total liabilities	99,427,967	89,935,827
Commitments and contingencies		
Equity		
Stockholders' equity of the Company		
Common stock, \$0.001 par value; 50,000,000 shares authorized; 9,610,159 shares issued and outstanding	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	3,925,326	3,850,092
Retained earnings	18,684,006	21,291,837
Total stockholders' equity of the Company	52,009,805	54,542,402
Noncontrolling interest	3,878,265	4,060,902
Total equity	55,888,070	58,603,304
Total liabilities and equity	\$ 155,316,037	\$ 148,539,131

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

	Three months ended September 30, 2012		Nine months ended September 30, 2011	
	2012	2011	2012	2011
Revenues	\$31,524,045	\$65,751,882	\$139,883,552	\$173,152,081
Cost of revenues	31,448,345	60,410,770	133,980,293	159,938,275
Gross profit	75,700	5,341,112	5,903,259	13,213,806
Operating expenses				
Selling expenses	332,279	1,016,421	1,288,733	988,982
General and administrative expenses	1,432,991	843,131	3,838,453	2,580,676
Total operating expenses	1,765,270	1,859,552	5,127,186	3,569,658
Income (loss) from operations	(1,689,570)	3,481,560	776,073	9,644,148
Other income (expense)				
Interest income	217,141	-	344,899	-
Interest expense	(2,014,360)	(404,351)	(4,654,981)	(1,668,280)
Other income (expense)	(68,024)	6,756	221,848	(1,156)
Total other income (expense)	(1,865,243)	(397,595)	(4,088,234)	(1,669,436)
Net income (loss) before tax provision	(3,554,813)	3,083,965	(3,312,161)	7,974,712
Income tax provision (benefit)				
Current	62,912	927,265	100,332	2,176,547
Deferred	(559,495)	-	(559,495)	-
Net income (loss)	(3,058,230)	2,156,700	(2,852,998)	5,798,165
Net income (loss) attributable to the noncontrolling interests	(75,082)	(116,935)	(245,167)	(132,778)
Net income (loss) attributable to the Company	\$(2,983,148)	\$2,273,635	\$(2,607,831)	\$5,930,943
Net income (loss)	(3,058,230)	2,156,700	(2,852,998)	5,798,165
Foreign currency translation adjustment	(201,429)	661,064	75,234	1,875,614
Comprehensive income (loss)	(3,259,659)	2,817,764	(2,777,764)	7,673,779
Comprehensive income (loss) attributable to the noncontrolling interests	(182,637)	(116,935)	(182,637)	(132,778)
Comprehensive income (loss) attributable to the Company	\$(3,077,022)	\$2,934,699	\$(2,595,127)	\$7,806,557
Basic and diluted weighted average shares outstanding	9,518,967	9,747,268	9,518,967	9,747,268
Basic and diluted net earnings (loss) per share	\$(0.31)	\$0.23	\$(0.27)	\$0.61

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine months ended September 30, 2012 2011	
Cash flows from operating activities:		
Net income (loss)	\$(2,852,998)	\$5,798,165
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Option issued for services	-	61,396
Depreciation	1,343,388	869,377
Amortization	262,740	63,145
Bad debt allowance	305,534	-
Deferred tax benefit	(515,904)	-
Changes in operating assets and liabilities:		
Accounts receivable	3,797,214	3,252,123
Inventories	(14,688,047)	449,139
Advances to suppliers	12,066,600	4,074,661
Prepaid expense and other current assets	(3,470,866)	2,600,660
Accounts payable and accrued liabilities	(11,027,246)	371,936
Taxes payable	(2,212,452)	(8,930,325)
Advances from customers	7,775,633	(5,286,552)
Other payable	1,043,416	(945,175)
Net cash provided by (used in) operating activities	(8,172,988)	2,378,550
Cash flows from investing activities		
Net additions to constuction-in-progress and property and equipment	(588,945)	(7,214,345)
Refund of deposit toward purchase of land use right	643,368	708,705
Net cash provided by (used in) investing activities	54,423	(6,505,640)
Cash flows from financing activities		
Proceeds from short term loans	3,283,865	3,443,688
Repayment of short term loans	(5,809,915)	(3,753,930)
Collection from escrow account for bank notes	1,162,616	6,307,422
Proceeds from bank notes	89,595,832	23,636,221
Repayment of bank notes	(91,174,613)	(31,761,396)
Proceeds of loan from unrelated party	14,665,815	-
Proceeds of loan from related party	3,112,687	-
Net cash provided by (used in) financing activities	14,836,287	(2,127,995)
Effect of exchange rate on cash	31,076	1,750,538
Net increase(decrease) in cash and cash equivalents	6,748,798	(4,504,547)
Cash and cash equivalents, beginning of period	\$3,493,015	\$10,813,103
Cash and cash equivalents, end of period	\$10,241,813	\$6,308,556
Supplemental cash flow information:		
Cash paid during the period for:		

Edgar Filing: Andatee China Marine Fuel Services Corp - Form 10-Q

Interest	\$4,653,830	\$1,833,163
Income taxes	\$491,902	\$5,868,167

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Andatee China Marine Fuel Services Corporation (“the Company”), its subsidiaries, its variable interest entities (“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.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP") for interim financial information pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary to make the financial statements not misleading have been included. Operating results for the interim period ended September 30, 2012 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2012. The information included in this Form 10-Q should be read in conjunction with Management’s Discussion and Analysis, and the financial statements and notes thereto included in our Form 10-K for the fiscal year ended December 31, 2011, filed with the Securities and Exchange Commission on April 16, 2012.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, Goodwill Rich International Limited ("Goodwill Rich") and Dalian Fusheng Petrochemical Company (“Fusheng”), as well as Dalian Xingyuan Marine Bunker Co., Ltd. (“Xingyuan”), the Company’s VIE in which the Company is the primary beneficiary. The noncontrolling interests represent the minority stockholders’ interest in the Group’s majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of unaudited condensed financial statements in conformity with US GAAP 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. Significant estimates required to be made by management include, but are not limited to, useful lives of property, buildings and equipment, intangible assets, the recoverability of long-lived assets and the valuation of accounts receivable, notes receivable, inventories, deposits, advance to suppliers and prepaid expenses and other current assets. 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 subsidiaries, VIE and its subsidiary 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. The equity denominated in the functional currency is translated at the historical rate of exchange at the time of capital contribution. Due to the fact that cash flows are translated based on the average translation rate, amounts related to assets and liabilities reported on the statement of cash flows will not necessarily agree with changes in the corresponding balances on the balance sheet. 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.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 unaudited condensed consolidated statements of operations.

Financial Instruments

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, restricted cash, accounts receivable, advances to suppliers, accounts payable, short term loans, bank notes payable and accrued liabilities. 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.

Restricted Cash

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

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Inventories

Inventories are stated at the lower of cost or 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.

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
Equipment	3-12 years
Transportation vehicles	8 years

Intangible Assets

Intangible assets consist primarily of land use rights, leasehold right and licenses and permits.

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

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.

Revenue Recognition

The Company recognizes revenues in accordance with the guidance in the 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.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

In the PRC, value added tax (VAT) of 17% of the invoice amount is collected in respect of the sales of goods on behalf of tax authorities. The VAT collected is not revenue of the Company; instead, the amount is recorded as a liability on the balance sheet until such VAT is paid to the authorities

Income Taxes

The Company uses the asset and liability method of accounting for income taxes in accordance with ASC 740-10, "Accounting for Income Taxes." Under this method, income tax expense is recognized for the amount of: (i) taxes payable or refundable for the current year; and, (ii) deferred tax consequences of temporary differences resulting from matters that have been recognized in an entity's financial statements or tax returns. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date.

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 September 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.

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.

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.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. Accounts Receivable

The Company's accounts receivable is summarized as follows:

	September 30, 2012	December 31, 2011
Trade accounts receivable	\$16,198,530	\$20,161,094
Allowances for doubtful accounts	(478,933)	(338,749)
Accounts receivables, net	\$15,719,597	\$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 \$1,326,176). 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. Since the third party debtor did not reach the operating metrics, the Company expects to receive the full amount by December 31, 2012.

5. Settlement Receivable

In late June 2012, the Company became aware of certain misappropriations of Company assets. The Company engaged a Shanghai accounting firm to perform an inquiry, conclusions of which were provided to the Company's management in late July. The report findings identified four instances of misappropriation by an employee during June and July 2012 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 and report, 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. 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. As of the date of this report, the Company has recovered all the cash and part of the fuel. There are still approximately 150 tons in the amount of \$125,152 of fuel to be recovered, which the Company recorded as settlement receivable and is included in prepaid expense and other current assets. The Company expects to receive the remaining fuel in the fourth quarter of 2012.

6. Inventories

The Company's inventory consists of marine fuel in the amount of \$31,418,354 and \$16,730,307 at September 30, 2012 and December 31, 2011, respectively.

At September 30, 2012 and December 31, 2011, fuel inventory in the amount of \$16,870,405 and \$6,827,491, respectively, has been pledged as collateral for certain Bank Acceptance Notes.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. Major Suppliers

There was no single supplier accounted for over 10% of the total raw material costs for the nine months ended September 30, 2012. There were two suppliers provided 42.9% of the Company's raw materials for the same period ended September 30, 2011.

Two suppliers provided 33.6% of the total purchases for the three months ended September 30, 2012.

8. Property and Equipment

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

	September 30, 2012	December 31, 2011
Property and buildings	\$34,321,405	\$33,190,784
Laboratory equipment	120,101	511,310
Boiler equipment	414,890	442,802
Machinery Equipment	8,224,425	9,118,061
Marine bunkers	219,876	211,497
Transportation vehicles	1,443,361	960,958
Office equipment	32,931	46,552
Electronic equipment	85,212	48,373
Leasehold improvement	66,575	66,254
Total	44,928,776	44,596,590
Less: Accumulated depreciation	(3,923,650)	(2,580,262)
Property and equipment, net	\$41,005,126	\$42,016,328

Depreciation expense was \$1,343,388 and \$869,377 for the nine months ended September 30, 2012 and 2011, respectively and \$519,842 and \$433,958 for the three months ended September 30, 2012 and 2011, respectively.

Property and equipment with a net book value \$13,046,544 and \$13,661,524 has been pledged as collateral for certain bank acceptance notes and bank loans at September 30, 2012 and December 31, 2011, respectively.

9. Construction-in-Progress

The construction projects in progress at September 30, 2012 and December 31, 2011 are to build facilities to expand production capacity in Tianjin, Donggang, Rongcheng and Wujiang areas. Construction costs mainly represent construction expenditures and equipment costs. The Company estimates to complete the construction by the second quarter of 2013.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

	September 30, 2012	December 31, 2011
Berth and berth improvements	\$ 526,805	\$ 114,372
Oil blending and storage tanks	12,266,592	12,030,901
Total	\$ 12,793,397	\$ 12,145,273

10. Intangible Assets

The Company's Intangible Assets are summarized as follows:

	September 30, 2012	December 31, 2011
Land use rights	\$ 3,966,303	\$ 4,096,747
Leasehold right	2,460,729	2,647,415
Licenses and permits	1,105,147	1,099,816
Software	31,829	20,425
Total	7,564,008	7,864,403
Less: accumulated amortization	(248,063)	(227,941)
Intangible assets, net	\$ 7,315,945	\$ 7,636,462

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	\$ 453,268	April 1, 2004 – May 12, 2047
Development Zone, Donggang, Liaoning Province	21,994.80	\$ 2,222,608	July 16, 2008 – May 15, 2058
	3,659.57	\$ 604,194	Government assignment

Edgar Filing: Andatee China Marine Fuel Services Corp - Form 10-Q

Mashan Village, Chengshan Town, Shandong Province

Linzi borough, Linzi City, Shandong Province	15,130.70	\$ 117,872	Government assignment
Pingwang Town Suzhou City, Jiangsu Province	9,624.30	\$ 568,361	September 1, 2011–January 30, 2055
Total Land Use Rights		\$ 3,966,303	

Land use rights with a net book value of \$539,998 and \$2,968,815 were pledged as collateral for certain bank acceptance notes and bank loans as of September 30, 2012 and December 31, 2011, respectively.

Amortization expenses for the nine months ended September 30, 2012 and 2011 were \$262,740 and \$63,145, respectively and \$112,546 and \$28,553 for the three months ended September 30, 2012 and 2011, respectively.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The estimated future amortization expenses are as follows:

For the twelve months ended September 30	
2013	\$ 296,249
2014	296,249
2015	293,006
2016	288,319
2017	287,289
Thereafter	5,854,833
Total	\$7,315,945

11. Related Party Transactions

During 2011, an entity controlled by a majority shareholder provided advances to the Company in the amount of \$2,045,820. The funds were used for working capital purposes. The Company has paid it back as of September 30, 2012.

On November 23, 2011, the Company received notice from this majority shareholder 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.

On September 5, 2012, this majority shareholder delivered a written notice to the Special Committee of the Board of Directors of the Company (the “Special Committee”) stating that, effective immediately, he had withdrawn his previously submitted non-binding “going private” proposal to acquire all outstanding shares of the Company not already owned by him and his affiliates.

During 2012, an investor group related to this majority shareholder 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. As of September 30, 2012, the Company has repaid \$10,271,347. The Company expects to pay the remaining balance of \$5,145,650 in the fourth quarter of 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 following is a summary of the Company's short-term bank loans:

		September 30, 2012	December 31, 2011
Short-term bank loans			
Baotou Commerce Bank			
Interest at 6.898%, payable August 19, 2012	(a)	\$-	\$2,042,516
Huaxia Bank			
Interest at 7.272%, payable February 6, 2012	(b)	-	2,199,632
Interest at 8.2%, payable February 7, 2013	(c)	1,736,659	-
Total short-term bank loans		\$1,736,659	\$4,242,148

(a) The loan has been fully repaid in August 2012.

(b) The loan has been fully repaid in February 2012.

On Jan 19, 2012, Dalian Fusheng entered into a loan agreement with Huaxia Bank to borrow \$1,736,659 (RMB 11 (c) million) as working capital for one year through February 7, 2013 with annual interest rate of 8.2%. The Company pledged inventories valued at \$16.2 million (RMB 84,285,000) as collateral for this loan.

13.Loan Payable

Loan payable consist of the following at:

		September 30, 2012	December 31, 2011
Beijing Biyun Lantian Energy Development Co.			
Interest at 1%, payable December 31, 2012	(a)	\$ 1,578,781	\$ 1,571,166
Xu Yaling			
Interest at 8%, payable December 9, 2012	(b)	6,315,125	-
Wang Xiaowei			
Interest at 8%, payable December 14, 2012	(c)	7,893,906	-
Loan from other individuals		449,169	-
Total loan payable		\$ 16,236,981	\$ 1,571,166

Edgar Filing: Andatee China Marine Fuel Services Corp - Form 10-Q

- In May 2011, the Company received short term loans of RMB 10 million (\$1,578,781) from Beijing Biyun Lantian Energy Development Co. as working capital. The loans matures nine months from date of issuance, and accrues monthly interest at a rate of 1.0%. In March 2012, the loan was extended for nine months, and is due on December 31, 2012.
- (a)
 - (b) On August 10, 2012, the Company received short term loans of RMB 40 million (\$6,315,125) from an unrelated individual as working capital. The loan accrues monthly interest at a rate of 8% and is due on December 9, 2012.
 - (c) On August 15, 2012, the Company received short term loans of RMB 50 million (\$7,893,906) from an unrelated individual as working capital. The loan accrues monthly interest at a rate of 8% and is due on December 14, 2012

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****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
Dalian Xingyuan Marine Bunker Co.	SD Bank	04-06-2012	10-06-2012	\$6,315,125
Dalian Xingyuan Marine Bunker Co.	SD Bank	04-09-2012	10-09-2012	2,841,806
Dalian Xingyuan Marine Bunker Co.	SD Bank	05-24-2012	11-22-2012	6,315,125
Dalian Xingyuan Marine Bunker Co.	SD Bank	05-28-2012	11-22-2012	1,578,781
Dalian Xingyuan Marine Bunker Co.	SD Bank	05-31-2012	11-22-2012	947,269
Dalian Xingyuan Marine Bunker Co.	HX Bank	06-27-2012	12-27-2012	2,683,928
Dalian Xingyuan Marine Bunker Co.	HX Bank	08-01-2012	01-01-2013	7,104,515
Dalian Fusheng PetroChemical	SD Bank	05-21-2012	11-17-2012	3,473,319
Dalian Fusheng PetroChemical	SD Bank	08-29-2012	02-28-2013	3,157,562
Dalian Fusheng PetroChemical	SD Bank	08-30-2012	02-28-2013	1,578,781
Dalian Fusheng PetroChemical	SD Bank	09-04-2012	03-04-2013	4,736,344
Dalian Fusheng PetroChemical	SD Bank	09-11-2012	03-10-2013	2,999,684
Total				\$43,732,239

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.

15. Income Tax

The Company's subsidiaries, VIE and its subsidiary in China are governed by the Income Tax Law of the People's Republic of China, which are currently subject to tax at a statutory rate of 25% on net income reported after appropriated tax adjustments. Because of different tax jurisdictions' restriction, The Company's VIE and some of the Company's subsidiaries have loss carryovers that can only be used to offset their own future taxable income. The loss carry forward for those subsidiaries amounted to \$2,237,980 as of September 30, 2012 and expire through 2017.

The Company periodically evaluates the likelihood of the realization of deferred tax assets, and reduces the carrying amount of the deferred tax assets by a valuation allowance to the extent it believes a portion will not be realized. The Company considers many factors when assessing the likelihood of future realization of the deferred tax assets, including its recent cumulative earnings experience, expectation of future income, the carry forward periods available for tax reporting purposes, and other relevant factors. For the nine months ended September 30, 2012, management concluded PRC deferred tax assets would be realized in the future. Accordingly, the Company recorded a deferred tax benefit of \$559,495 from loss carryover for the nine months ended September 30, 2012. The company believes it can utilize the deferred tax asset to offset future taxable income. Therefore, no valuation allowance has been provided as of September 30, 2012.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. Commitment and Contingencies

Lease Obligations

The Company has entered into several agreements for the lease of storage facilities, offices premises and berth use rights. Lease expense for the nine months ended September 30, 2012 amounted to \$268,668.

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

For the twelve months ended September 30	
2013	\$266,298
2014	266,298
2015	266,298
2016	266,298
2017	266,298
Thereafter	66,574
Total	\$1,398,064

Nanlian Purchase Agreement

In connection with Xingyuan's purchase of a 63% ownership interest in Xiangshan Yongshi Nanlian Petroleum Company ("Nanlian") in December 2005, the Company may become obligated to purchase the remaining 37% ownership interest in Nanlian not owned, 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 required to supply 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.

ANDATEE CHINA MARINE FUEL SERVICES CORPORATION

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On September 7 and 12, 2012, respectively, the Court of Chancery of the State of Delaware granted Notices of Voluntary Dismissals filed by plaintiffs in each of the Shareholder Complaints. The plaintiffs in each of the foregoing Shareholder Complaints dismissed actions against all defendants in each of the complaints without prejudice. No consideration was paid to the plaintiffs or their attorneys in connection with the dismissals.

17. 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 September 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 three months ended September 30, 2012, four customers accounted for 26.6%, 20.6%, 14.4% and 12.1% of the Company's total revenues, respectively and two customers that accounted for 18.3% and 10.2% of the total revenues for the period ended September 30, 2011, respectively.

For the nine months ended September 30, 2012, two customers accounted for 27.9% and 9.7% of the Company's total revenues, respectively and two customers that accounted for 13.2% and 10.6% of the total revenues for the same period ended September 30, 2011.

18. Subsequent Events

During October 2012, the Company received a series of bank notes from Shenzhen Development Bank in the aggregate amount of RMB 58 million (US\$9.16 million). The bank notes bear interest at an annual rate of 7% and

mature six months from issuance.

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.

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.

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.

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 fuel product 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 - 180 days, depending on a customer's credit history, as well as local market practices.

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. 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.

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.

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 800 Baoan Building 23rd Floor, Dongfang Road, Pudong District, Shanghai City, China.

We carry out all of our business through our Hong Kong subsidiary, Goodwill Rich, its wholly-owned Chinese subsidiary, Fusheng, and Fusheng's variable interest entity (VIE), Xingyuan, and Xingyuan's subsidiary (Xingyuan and its subsidiary being collectively referred to as the VIE entities). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders lack adequate decision making ability. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes. 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

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, 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 (\$7.4 million). We expect to put it into use by the end of 2012.

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 (\$4.0 million). We expect to put it into use by the end of 2012.

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 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 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:

Decreasing demand for blended marine fuel — The decreasing demand for blended marine fuel has a impact on our financial position since the fourth quarter of 2011.

Expansion of our sources of supply, production capacity and sales network — To maintain our market share, 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 oil price volatility had a direct adverse impact on the price we pay for these products.

Results of Operations-Comparison of the three and nine months ended September 30, 2012 and 2011

Revenue

For the three months period, our revenue decreased by \$34.2 million, or 52%, from \$65.8 million for the third quarter ended September 30, 2011 to \$31.5 million for the third quarter ended September 30, 2012.

For the nine months period, our revenue decreased by \$33.3 million, or 19%, from \$173.2 million for the nine months ended September 30, 2011 to \$139.9 million for nine months ended September 30, 2012.

The decrease in our revenues was mainly due to the decreased sales volume. Our overall sales volume decrease by 50,601 tons, or 56%, from 90,134 tons for the third quarter ended September 30, 2011 to 39,533 tons for the third quarter ended September 30, 2012. For the nine months period, our overall sales volume decreased by 25% or 56,588 tons, from 228,529 tons for the nine months period ended September 30, 2011 to 171,941 tons for the nine months period ended September 30, 2012.

The decrease in our revenue was due to the following reasons:

The reduction in our sales volume was primarily due to the overall slow-down of the Chinese economy which had an adverse impact on the demand for fishing and cargo vessel fuel. In addition, during the third quarter of 2012, we did not initiate any sales promotion due to our failed privatization plan. In addition, we had to reduce the selling price of our #3 fuel from RMB 5,072 per ton in the third quarter of 2011 to RMB 4,286 per ton in the third quarter of 2012 due to strong competition from other fueling companies. Furthermore, the seasonal factor (1) impacted our sales revenue to certain extent for our third quarter operating result. The Chinese government prohibits fishing vessels from fishing from June 15th to September 15th of each year, the breeding season for many varieties of fish, in order to protect marine resources and prevent overfishing. As a result, the demand for the blended fuel drops, which, in turn, has an adverse effect on our operations in the 3rd fiscal quarter of each calendar year. The decreased market demand for fishing boat fuel in 2012 further exacerbated this seasonality impact on our revenue for the third quarter of 2012.

Starting late 2011, the CEO of the Company proposed a “going private” transaction due to, among other reasons, (2) adverse market environment affecting all China-based listed company, in which sales promotion was reduced even during the second quarter sales peak. The “going private” effort was abandoned by the CEO of the Company, as previously disclosed.

In addition, due to the global crude oil price fluctuation which impacted the Company’s pricing policy, the Company’s products such as #2 marine fuel for fishing boat and 120CST fuel for cargo vessels lost their competitive price edge to a certain extent, which led to some customers switching to other competitors. Total (3) fishing boat customers decreased approximately 15% and cargo vessel customers lost 10% as compared to the same period of 2011. Sales from our major geographic market Donggang, Shangdong and Zhejiang decreased about 27%, 83% and 21% respectively.

Under a competitive environment, we reduced the averaging selling price of #2 and #3 fuel product in order to stimulate customer purchase, with the average selling price of #2 fuel decreasing from RMB 6,037 per metric ton in the nine months ended September 30, 2011 to only RMB 3,270 per metric ton in the nine months ended (4) September 30, 2012, while average selling price of #3 fuel decreased from RMB 5,213 per metric ton in the nine months ended September 30, 2011 to only RMB 4,416 per metric ton in the nine months ended September 30, 2012. The decrease in average selling price also led to decreased sales.

For the nine months ended September 30, 2012, #1 marine fuel represented 16.1% of our sales, #2 marine fuel represented 12.4% of our sales, #3 marine fuel represented 8.6% of our sales, #4 marine fuel represented 51.7% of our sales, 180CST represented 9.3% of our sales and 120CST represented 1.9% of our sales.

For the nine months ended September 30, 2011, #1 marine fuel represented 14.0% of our sales, #2 marine fuel represented 7.7% of our sales, #3 marine fuel represented 8.6% of our sales, #4 marine fuel represented 52.4% of our sales, 180CST represented 9.8% of our sales and 120CST represented 7.5% of our sales.

Cost of Revenue

Our cost of revenues decreased by \$29.0 million, or 48%, from \$60.4 million for the third quarter ended September 30, 2011 to \$31.5 million for the third quarter ended September 30, 2012 primarily due to decreased sales volume from 90,134 metric ton in third quarter of 2011 to only 39,533 metric tons in third quarter of 2012. For the nine months period, our cost of revenues decreased by \$26.0 million, or 16%, from \$160.0 million for the nine months ended September 30, 2011 to \$134.0 million for the nine months ended September 30, 2012 due to decreased sales volume 228,529 metric ton in 2011 to only 171,941 metric tons in 2012.

The decrease in cost of revenue was primarily due to the following reasons:

- (1) Decreased sales activities affected by seasonality, reduced sales promotion, reduced number of customers, decreased market demand for our products affected by the general economy slow-down as described above, and
- (2) Our main business is to purchase raw materials and crude oil from upstream suppliers and then blend, manufacture and sell to customers. The purchase price for raw materials and crude oil was largely affected by the global and local crude oil price fluctuation. For the nine months ended September 30, 2012, the global crude oil trading prices reached a high of \$109 per barrel in March 2012, and then decreased to \$100 per barrel in May, further decreasing to about \$80 in the June and July period, and then increased to about \$90 per barrel by the end of September 30, 2012. Due to the crude oil price fluctuation, our raw material costs and production costs also fluctuated. Consequently, average unit cost for our products sold was RMB 5,036 per ton for the three months ended

September 30, 2012 as compared to RMB 4,301 per ton for the same period of 2011. For the nine months period, our average unit cost per ton was RMB 4,931 for the nine months ended September 30, 2012 as compared to only RMB 4,541 for the same period of 2011. Although the overall cost of sales decreased was affected by the decreased sales, we note that the percent of decrease in our cost of sales was less than the percent of decrease in our revenue, due to increased unit cost of product affected by the global crude price volatility.

Gross Profit

Our gross profit and gross profit margin was affected by several factors, including (1) the gross profit margin of our six major products are different. Fuel #3 and fuel #4 has a higher gross profit margin than other products, and fuel 120CST and fuel 180CST has the lowest margin. Therefore, the sales of different product mix in different reporting period impacted our gross profit (2) we retail our products to end user and also wholesale side to distributors as well. Gross profit from the retail side is normally higher than the wholesale because we can set the selling price higher and can control the operating costs more easily. Accordingly, an increase or decrease in the retail sales will impact our gross profit to a certain extent. (3) The increase and decrease in the average selling price and average unit cost will also impact our gross margin.

As a result of the increased average unit cost from RMB 4,301 per ton in third quarter of 2011 to RMB 5,036 per ton in third quarter of 2012, and decrease in sales of our high gross margin product, such as fuel #4 within our product mix and decrease in sales from the retail side, our gross profit decreased by \$5.2 million, or 99%, to \$0.08 million for the third quarter of 2012 as compared to \$5.3 million in the third quarter of 2011. As a percentage of revenues, our gross profit margin was 0.02% and 8.1% for the third quarter of 2012 and 2011, respectively.

As a result of the increased average unit cost from RMB 4,541 per ton in the nine months ended September 30, 2011 to RMB 4,931 per ton in the same period of 2012, and a decrease in sales of high gross margin products, such as fuel #1 and fuel #4 within our product mix and a decrease in sales from the retail side, our gross profit decreased by \$7.3 million, or 55%, from \$13.2 million for the nine months ended September 30, 2011 to \$5.9 million for the nine months ended September 30, 2012. As a percentage of revenues, our gross profit margin dropped to 4.2% for the nine months ended September 30, 2012 compared to 7.6% for the nine months ended September 30, 2011.

In summary, the decrease in our gross profit margin during the three and nine months ended September 30, 2012 as compared to the same period of 2011 was primarily due to (i) a decrease in revenue; (ii) increased costs of revenue which were mainly caused by increased raw material cost, (iii) and competition in the market. As a result, our gross profit margin was lower than the level we normally would expect. With the completion of the Company's distribution network setup in Shandong, Jiangsu and Zhejiang, we intend to increase our sales in these regions in the coming quarters to improve our gross profit margin, and we expect to have a margin recovery as the new market gains sales momentum and recovery of macroeconomic conditions in the energy industry. Moreover, we are working on research and development of better formula for blended fuel products to decrease our costs to increase our gross profit margin.

Selling Expenses

Selling expenses decreased by \$0.7 million, or 67%, from \$1.0 million for the third quarter of 2011 to \$0.3 million in the third quarter of 2012. This decrease is mainly due to reduced sales promotion expenses and lease expenses. As a percentage of revenues, selling expenses decreased from 1.5% for the third quarter of 2011 to 1.1% for 2012.

Our selling expenses increased by \$0.3 million, or 30%, from \$1.0 million for the nine months ended September 30, 2011 to \$1.3 million for the nine months ended September 30, 2012. As a percentage of revenues, selling expenses increased from 0.6% for the nine months ended September 30, 2011 to 0.9% for 2012.

General and Administrative Expenses

General and administrative expenses increased by \$0.6 million, or 70.0%, from \$0.8 million for the third quarter of 2011 to \$1.4 million for the third quarter of 2012. The higher general and administrative expenses incurred in the third quarter of 2012 was caused by an increase in overhead due to the higher labor cost at the new headquarters in Shanghai. As a percentage of revenues, general and administrative expenses increased from 1.3% for the third quarter of 2011 to 4.5% for 2012.

General and administrative expenses increased \$1.3 million, or 49%, from \$2.6 million for the nine months ended September 30, 2011 to \$3.8 million for the nine months ended September 30, 2012. The increase was caused by an increase in professional services fees, various vendor expenses and overhead due to the higher labor cost at the new headquarters in Shanghai. As a percentage of revenues, general and administrative expenses increased from 1.5% for the nine months ended September 30, 2011 to 2.7% for 2012.

Operating Income

As a result of the factors discussed above, our operating income decreased by \$5.2 million, or 149%, from an income of \$3.5 million for the third quarter of 2011 to a loss of \$1.7 million for the third quarter of 2012.

Our operating income decreased \$8.89 million, or 92%, from \$9.6 million for the nine months ended September 30, 2011 to \$0.8 million for the nine months ended September 30, 2012.

Interest Expense

Interest expense increased by \$1.6 million, or 398%, from \$0.4 million for the third quarter of 2011 to \$2.0 million for the third quarter of 2012.

Interest expense increased by \$3.0 million, from \$1.7 million for the nine months ended September 30, 2011 to \$4.7 million for the nine months ended September 30, 2012. The increase in interest expense was from the following aspects:

- Bank notes payable average balance increased to \$44 million for the nine month ended September, 2012, from an average balance of \$25 million for the same period in 2011.
- The Company had more loans from third parties with higher interest rates to fund the Company's working capital in 2012.

Provision (Benefit) for Income Taxes

For the third quarter of 2012, we reported an income tax benefit of \$0.5 million due to operating losses incurred during the quarter. For the same period in 2011, we reported an income tax provision of \$0.9 million.

For the nine months ended September 30, 2012, we reported an income tax benefit of \$0.5 million due to operating losses incurred during the period. For the same period in 2011, we reported an income tax provision of \$2.2 million.

Net Income(Loss) Attributable to the Company

Net income (loss) attributable to the Company decreased by \$5.3 million, from a net income of \$2.3 million for the third quarter of 2011 to a net loss of \$3.0 million for the third quarter of 2012.

Net income (loss) attributable to the Company decreased by \$8.5 million, from a net income of \$5.9 million for the nine months ended September 30, 2011 to a net loss of \$2.6 million for the nine months ended September 30, 2012. The decrease in net income was mainly the result of the 62% decrease in profit margins of \$7.3 million and higher interest expense of \$3.0 million, offset by a decrease in income taxes of \$2.6 million.

Liquidity and Capital Resources

As of September 30, 2012, we had cash of approximately \$10 million in our bank accounts, and additionally, we have set aside \$21 million of restricted cash on bankers' acceptance notes. We received a credit rating of AA- from our banks. Therefore we believe that we are able to renew current short-term bank loans upon maturity and obtain additional new bank loans, if necessary, in the fourth quarter of 2012 and during 2013. As disclosed in our subsequent event note 18 of our quarterly financial statements, we were able to secure another series of bank acceptance notes from Shenzhen Development Bank in the aggregate amount of \$9.16 million. We are expecting to generate additional cash flows in the coming quarters from our new sales regions and an increase in our revenue during the upcoming sales season. We believe our existing cash and cash equivalents will be sufficient to maintain our operations at present level for at least the next 12 months.

On an on-going basis, we will 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 providing working capital to support our routine activities, we also need funds for the construction and upgrade of our strategic facilities, acquisition of assets and/or equity acquisition, and repayment of debt.

Our future capital expenditures will include building new fueling facilities, increase our blending and storage capacity, berth improvements, expanding our product lines, research and development capabilities, and making acquisitions when 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. Our growth strategy, which is initially focused on accretive acquisitions and organically expanding our products 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.

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 required to supply 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.

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 September 30,	
	2012	2011
Cash flow data:		
Net cash (used in) provided by operating activities	(8,172,988)	2,378,550
Net cash provided by (used in) investing activities	54,423	(6,505,640)
Net cash provided by (used in) financing activities	14,836,287	(2,127,995)
Effect of exchange rate on cash	31,076	1,750,538
Net changes in cash	6,748,798	(4,504,547)
Cash at beginning of period	3,493,015	10,813,103

Cash at end of period	10,241,813	6,308,556
-----------------------	------------	-----------

Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2012 was approximately \$8.2 million, which was primarily as a result of the following factors:

- net loss of \$2.9 million;
- a decrease in accounts and customer notes receivable of \$3.8 million as a result of our efforts in collection;
- purchase of inventories of \$14.7 million as a result of anticipating increased sales volume in the expanded distribution network and upcoming fishing season;
- a decrease in advances to suppliers of \$12.1 million ;
- an increase in advances from customers of \$7.8 million;
- an increase in prepaid expenses and other current assets of \$3.5 million primarily contributed to increased prepayments for equipment rentals and increases in value added tax credit;
- an increase in accounts payable of \$11.0 million in line with increased purchasing;
- a decrease in tax payable of \$2.2 million;

Net cash provided by operating activities for the nine months ended September 30, 2011 was approximately \$2.4 million, which was primarily as a result of the following factors:

- net income of \$5.8 million;
- collections from accounts receivable of \$3.2 million as a result of increased efforts in tightening policy of sales on credit during the second and third quarter in 2011;
- a decrease in inventories of \$0.4 million resulting from cutting back on inventory level on account of the growing volatility of oil price, which requires less inventory to manage the risks followed;
- a decrease in advances to suppliers of \$4.1 million as a result of reducing purchasing activities;
- a decrease in prepaid expense and other current assets of \$2.6 million due to decreased prepayment for services and deposits under signed agreements;

a decrease in advance from customers of \$5.3 million;
an increase in accounts payable and accrued liabilities of \$0.4 million;
a decrease in tax payable of \$8.9 million;

Investing Activities

Cash provided by investing activities was \$0.05 million for the nine months ended September 30, 2012, which was attributable to

expenditures in construction projects of \$0.6 million to expand the production capacity in Shandong Rongcheng and Suzhou Wujiang area, and purchase of property and equipment of \$0.09 million
refunds of \$0.6 million for purchase of land use right.

Cash used in investing activities was \$6.5 million for nine months ended September 30, 2011, which was attributable to:

expenditures in construction projects of \$6.2 million to expand the production capacity in Nanlian, Zhejiang province; Panjin, Liaoning province; Dongying, Shandong province
expenditures in purchase of property and equipment of \$1.0 million
refunds of \$0.7 million for purchase of land use right.

Financing Activities

Cash provided by financing activities was \$14.8 million for the nine months ended September 30, 2012. It consists of net bank repayments of \$1.6 million in short-term bank notes and \$2.5 million in short term loans, and net borrowings of \$14.7 million in loans from third parties, \$3.1 million loans from related party and \$1.2 million in net escrow collections.

Cash used in financing activities was \$2.1 million for the nine months ended September 30, 2011. It consists of net bank repayments of \$8.1 million in short-term bank notes and \$6.3 million in net escrow collections.

Seasonality

The Chinese government prohibits fishing boats and vessels from fishing from June 15th to September 15th of each year, the breeding season for many varieties of fish, in order to protect marine resources and prevent overfishing. In addition, we are also subject to the reduced commercial activity during the Chinese New Year, the most important of the traditional Chinese holidays. During this time, both cargo and fishing traffic decrease and we expect the demand for our products to decrease accordingly. During the slow season of marine fuel products, we adjust our marketing strategy by increasing the trading of our products.

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

Evaluation of Disclosure 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 by this report. 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, the continued integration of these businesses as well as the recent Company asset misappropriation described in Part II, Item 1 (Legal Proceedings) and Note 5 to the financial statements included in this 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.

Changes in Internal Controls Over Financial Reporting

Except as described above, there was no change in our internal control over financial reporting during our third 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

As previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 and as updated in the subsequent quarterly reports, 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. Namely, these shareholder lawsuits include complaints entitled (i) *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, (ii) *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, (iii) *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, and (iv) *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 (collectively, the "Shareholder Complaints").

On September 7 and 12, 2012, respectively, the Court of Chancery of the State of Delaware granted Notices of Voluntary Dismissals filed by plaintiffs in each of the Shareholder Complaints. The plaintiffs in each of the foregoing Shareholder Complaints dismissed actions against all defendants in each of the complaints without prejudice. No consideration was paid to the plaintiffs or their attorneys in connection with the dismissals.

As previously disclosed, in late June 2012, the Company became aware of certain misappropriations of Company assets. The Company engaged a Shanghai accounting firm to perform an inquiry, conclusions of which were provided to the Company's management in late July. The report findings identified four instances of misappropriation by an employee during June and July 2012 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 and report, 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. 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.

Edgar Filing: Andatee China Marine Fuel Services Corp - Form 10-Q

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. As of the date of this report, the Company has recovered all the cash and part of the fuel. There are still approximately 150 tons in the amount of \$125,152 of fuel to be recovered, which the Company recorded as settlement receivable and is included in Prepaid expense and other current assets. The Company expects to recover the remaining fuel in the fourth quarter of 2012.

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 September 30, 2012. The Company did not repurchase any of its equity securities during the same fiscal period.

Item 3. Defaults Upon Senior Securities

None.

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: November 21, 2012 By: */s/ An Fengbin*
An Fengbin
President, Chief Executive Officer
(Principal Executive Officer)

Date: November 21, 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.