

NF Energy Saving CORP of America
Form 10-Q
November 13, 2008

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

FORM 10-Q

- Quarterly Report Pursuant to Section 13 Or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended September 30, 2008**
- 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: 000-50155

NF Energy Saving Corporation of America
(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
incorporation or organization)

02-0563302
(I.R.S. Employer
Identification No.)

21-Jia Bei Si Dong Road, Tie Xi Qu
Shenyang, P. R. China 110021
(Address of Principal Executive Offices)

(8624) 2560-9750
(Registrant's Telephone Number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer,

Edgar Filing: NF Energy Saving CORP of America - Form 10-Q

or a smaller reporting company.

Large accelerated filer	<input type="radio"/>	Accelerated filer	<input type="radio"/>
Non-accelerated filer	<input type="radio"/>	Smaller reporting company	<input checked="" type="radio"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

As of November 10, 2008, the registrant had 39,872,704 shares of common stock, \$0.001 par value, issued and outstanding.

1

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING INFORMATION

The discussion contained in this 10-Q under the Securities Exchange Act of 1934, as amended, contains forward-looking statements that involve risks and uncertainties. The issuer's actual results could differ significantly from those discussed herein. These include statements about our expectations, beliefs, intentions or strategies for the future, which we indicate by words or phrases such as "anticipate," "expect," "intend," "plan," "will," "we believe," "the Company believes," "management believes" and similar language, including those set forth in the discussions under "Notes to Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations " as well as those discussed elsewhere in this Form 10-Q. We base our forward-looking statements on information currently available to us, and we assume no obligation to update them. Statements contained in this Form 10-Q that are not historical facts are forward-looking statements that are subject to the "safe harbor" created by the Private Securities Litigation Reform Act of 1995.

2

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures About Market Risk	35
Item 4T. Controls and Procedures	35

PART II - OTHER INFORMATION

Item 1. Legal Proceedings	35
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 3. Defaults Upon Senior Securities	35
Item 4. Submission of Matters to a Vote of Security Holders	36
Item 5. Other Information	36
Item 6. Exhibits	36
Signatures	36

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

NF ENERGY SAVING CORPORATION OF AMERICA

**INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

	Page
Condensed Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007	5
Condensed Consolidated Statements of Operations And Comprehensive Income for the three and nine months ended September 30, 2008 and 2007	6
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007	7
Condensed Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2008	8
Notes to Condensed Consolidated Financial Statements	9 to 23

NF ENERGY SAVING CORPORATION OF AMERICA
CONDENSED CONSOLIDATED BALANCE SHEETS
AS OF SEPTEMBER 30, 2008 AND DECEMBER 31, 2007
(Currency expressed in United States Dollars (“US\$”), except for number of shares)
(Unaudited)

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,904,609	\$ 2,240,901
Accounts receivable, trade	8,264,829	4,061,352
Inventories	2,175,182	1,448,386
Prepayments and other receivables	953,803	605,989
Total current assets	14,298,423	8,356,628
Plant and equipment, net	3,150,192	2,514,795
TOTAL ASSETS	\$ 17,448,615	\$ 10,871,423
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	\$ 2,221,138	\$ 1,259,081
Customer deposits	379,229	22,719
Value added tax payable	76,293	70,604
Other payables and accrued liabilities	166,487	355,390
Total current liabilities	2,843,147	1,707,794
Stockholders' equity:		
Common stock, \$0.001 par value; 50,000,000 shares authorized; 39,872,704 and 33,227,328 shares issued and outstanding as of September 30, 2008 and December 31, 2007	39,872	33,227
Additional paid-in capital	7,706,587	5,713,232
Statutory reserve	517,774	517,774
Accumulated other comprehensive income	1,323,135	557,503
Retained earnings	5,018,100	2,341,893
Total stockholders' equity	14,605,468	9,163,629
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 17,448,615	\$ 10,871,423

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION OF AMERICA
CONDENSED CONSOLIDATED STATEMENTS OF
OPERATIONS AND COMPREHENSIVE INCOME
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(Currency expressed in United States Dollars (“US\$”), except for number of shares)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
REVENUE, NET				
Product	\$ 3,557,112	\$ 1,383,252	\$ 8,836,478	\$ 5,328,588
Services	939,406	211,915	2,108,342	1,297,962
Projects	105,308	435,849	818,490	435,849
Total operation revenues	4,601,826	2,031,016	11,763,310	7,062,399
COST OF REVENUES:				
Cost of products	2,639,688	881,432	6,391,906	3,889,149
Cost of services	711,781	93,152	1,517,172	387,886
Cost of projects	14,115	330,878	609,811	330,878
Total cost of revenues	3,365,584	1,305,462	8,518,889	4,607,913
GROSS PROFIT	1,236,242	725,554	3,244,421	2,454,486
OPERATING EXPENSES:				
Sales and marketing	16,318	9,568	78,598	24,277
Research and development	10,377	14,014	95,963	343,920
Stock-based compensation	-	-	-	510,000
General and administrative	153,262	125,478	411,091	254,707
Total operating expenses	179,957	149,060	585,652	1,132,904
INCOME FROM OPERATIONS	1,056,285	576,494	2,658,769	1,321,582
Other income:				
Interest income	8,902	4,085	17,716	4,427
Other income	76	(2,662)	194	8,857
Total other income	8,978	1,423	17,910	13,284
INCOME BEFORE INCOME TAXES	1,065,263	577,917	2,676,679	1,334,866
Income tax expense	(167)	-	(472)	-
NET INCOME	\$ 1,065,096	\$ 577,917	\$ 2,676,207	\$ 1,334,866
Other comprehensive income:				
- Foreign currency translation gain	77,186	206,182	765,632	278,034

COMPREHENSIVE INCOME	\$	1,142,282	\$	784,099	\$	3,411,839	\$	1,612,900
Net income per share - basic and diluted	\$	0.03	\$	0.02	\$	0.07	\$	0.04
Weighted average shares outstanding - basic and diluted		33,227,328		32,320,661		36,377,728		31,699,180

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION OF AMERICA
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

	Nine months ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 2,676,207	\$ 1,334,866
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	238,702	190,161
Gain on disposal of plant and equipment		(7,640)
Stock-based compensation		510,000
Change in operating assets and liabilities:		
Accounts receivable	(3,804,182)	(1,004,058)
Inventories	(609,412)	213,836
Prepayments and other receivables	(306,187)	(1,878,371)
Accounts payable	849,318	16,063
Customer deposits	343,490	67,294
Income tax payable	167	(392,183)
Value added tax payables	8,618	5,123
Other payables and accrued liabilities	(156,442)	(23,392)
Net cash provided by operating activities	(759,721)	(968,301)
Cash flows from investing activities:		
Purchase of plant and equipment	(738,043)	(166,605)
Proceeds from disposal of plant and equipment	-	79,504
Net cash (used in) provided by investing activities	(738,043)	(87,101)
Cash flows from financing activities:		
Proceeds from private sale of common stock	2,000,000	870,000
Net cash provided by financing activities	2,000,000	870,000
Effect on exchange rate change on cash and cash equivalents	161,472	38,262
NET CHANGE IN CASH AND CASH EQUIVALENTS	663,708	(147,140)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,240,901	796,944
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 2,904,609	\$ 649,804
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	\$ 305	\$ 392,183
Cash paid for interest expenses	\$ -	\$ -

Edgar Filing: NF Energy Saving CORP of America - Form 10-Q
See accompanying notes to condensed consolidated financial statements.

7

NF ENERGY SAVING CORPORATION OF AMERICA
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars ("US\$"), except for number of shares)
(Unaudited)

	Common stock		Additional paid-in capital	Statutory reserve	Accumulated other comprehensive income	Retained earnings	Total stockholders' equity
	No. of shares	Amount					
Balance as of January 1, 2008	33,227,328	\$ 33,227	\$ 5,713,232	\$ 557,503	\$ 517,774	\$ 2,341,893	\$ 9,163,629
Private sale of common stock	6,645,376	6,645	1,993,355	-	-	-	2,000,000
Foreign currency translation adjustment	-	-	-	765,632	-	-	765,632
Net income for the period	-	-	-	-	-	2,676,207	2,676,207
Balance as of September 30, 2008	39,872,704	\$ 39,872	\$ 7,706,587	\$ 1,323,135	\$ 517,774	\$ 5,018,100	\$ 14,605,468

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

NOTE - 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by management in accordance with both accounting principles generally accepted in the United States (“GAAP”), and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and note disclosures normally included in audited financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading.

In the opinion of management, the condensed balance sheet as of December 31, 2007 which has been derived from audited financial statements and these unaudited condensed consolidated financial statements reflect all normal and recurring adjustments considered necessary to state fairly the results for the periods presented. The results for the period ended September 30, 2008 are not necessarily indicative of the results to be expected for the entire fiscal year ended December 31, 2008 or for any future period.

These unaudited condensed consolidated financial statements and notes thereto should be read in conjunction with the Management’s Discussion and the audited financial statements and notes thereto included in the Annual Report on Form 10-KSB for the year ended December 31, 2007.

NOTE - 2 ORGANIZATION AND BUSINESS BACKGROUND

NF Energy Saving Corporation of America (the “Company” or “NFES”) was incorporated in the State of Delaware in the name of Galli Process, Inc. on October 31, 2000. On February 7, 2002, the Company changed its name to “Global Broadcast Group, Inc.” On November 12, 2004, the Company changed its name to “Diagnostic Corporation of America.” On March 15, 2007, the Company further changed to its existing name.

The Company, through its subsidiaries, is specialized in the manufacture of industrial valve components and products. Starting from 2007, the Company has commenced the energy-saving related business in the provision of integrated energy conservation solutions utilizing energy-saving equipment, technical services and energy re-engineering management services to clients in the People’s Republic of China (the “PRC”). During 2008, the Company has expanded its business to technology consulting service and production of equipment and infrastructures for the municipalities to improve energy efficiency and emission reduction.

Liaoning Nengfa Weiye Energy Technology Co. Ltd. (“Nengfa Energy”) (formerly Neng Fa Weiye Pipe Network Construction and Operation Co., Ltd.) is a wholly-owned subsidiary of the Company. Nengfa Energy mainly operates the energy-saving business in the PRC and all of the customers are located in the PRC.

Liaoning Nengfa Weiye Tie Fa Sales Co., Ltd. (“Sales Company”) is a wholly-owned subsidiary of Neng Fa in the PRC. Sales Company was incorporated as a limited liability company under the laws of the PRC with a registered capital of \$683,620 (equivalent to RMB 5,000,000) on September 5, 2007. It is mainly engaged in the sales and marketing of valves components and products in the PRC.

NFES, Nengfa Energy and Sales Company are hereinafter referred to as (the “Company”).

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

NOTE - 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 Use of estimates

In preparing these condensed consolidated financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet and revenues and expenses during the period reported. Actual results may differ from these estimates.

1 Basis of consolidation

The condensed consolidated financial statements include the financial statements of NFES and its subsidiaries.

All significant inter-company balances and transactions within the Company have been eliminated upon consolidation.

1 Cash and cash equivalents

Cash and cash equivalents are carried at cost and represent cash on hand, demand deposits placed with banks or other financial institutions and all highly liquid investments with an original maturity of three months or less as of the purchase date of such investments.

1 Accounts receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and determined based on managements' assessment of known requirements, aging of receivables, payment history, the customer's current credit worthiness and the economic environment. As of September 30, 2008, the Company has determined that no allowance for doubtful accounts is necessary.

1 Inventories

Inventories are stated at the lower of cost or market (net realizable value), cost being determined on a weighted average method. Costs include material, labor and manufacturing overhead costs. The Company quarterly reviews historical sales activity to determine excess, slow moving items and potentially obsolete items and also evaluates the impact of any anticipated changes in future demand. The Company provides inventory allowances based on excess and obsolete inventories determined principally by customer demand. As of September 30, 2008, the Company did not record an allowance for obsolete inventories, nor have there been any write-offs.

1 Plant and equipment, net

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on the straight-line basis over the following expected useful lives from the date on which they become fully operational and after taking into account their estimated residual values:

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

	Depreciable life	Residual value
Plant and machinery	3 - 20 years	5%
Furniture, fixture and equipment	5 - 8 years	5%

Expenditure for repairs and maintenance is expensed as incurred. When assets have retired or sold, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the results of operations.

1 Impairment of long-lived assets

In accordance with the Statement of Financial Accounting Standard (SFAS) No. 144, “*Accounting for the Impairment or Disposal of Long-Lived Assets*”, all long-lived assets such as plant and equipment held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of assets to estimated discounted net cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. There has been no impairment as of September 30, 2008.

1 Revenue recognition

In accordance with the SEC’s Staff Accounting Bulletin No. 104, “*Revenue Recognition*”, the Company recognizes revenue when persuasive evidence of an arrangement exists, transfer of title has occurred or services have been rendered, the selling price is fixed or determinable and collectibility is reasonably assured.

(a) Sale of products

The Company derives revenues from the sale of self-manufactured products and provision of engineering services. The Company recognizes its revenues net of related business taxes and value added taxes (“VAT”). The Company is subject to VAT which is levied on the majority of the products at the rate of 17% on the invoiced value of sales. Output VAT is borne by customers in addition to the invoiced value of sales and input VAT is borne by the Company in addition to the invoiced value of purchases to the extent not refunded for export sales.

The Company recognizes revenue from the sale of products upon delivery to the customers and the transfer of title and risk of loss. The Company experienced no product returns and has recorded no reserve for sales returns for the nine months ended September 30, 2008.

(b) Service revenue

Service revenue is primarily derived from energy-saving technical or consulting services that are not an element of an arrangement for the sale of products. These services are generally billed on a time-cost plus basis. Revenue is recognized when service is rendered and accepted by the customers.

(c) Project revenue

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

The Company applies the percentage-of-completion method under SOP 81-1 “*Accounting for Performance of Construction-Type and Production-Type Contracts*”, to recognize revenues for energy-saving re-engineering projects that require significant modification or customization or installation subject to the customers. The Company records a provision in those instances in which the Company believes a contract will probably generate a net loss and the Company can reasonably estimate this loss. If the Company cannot reasonably estimate the loss, the Company limits the amount of revenue that the Company recognizes to the costs the Company has incurred, until the Company can estimate the total loss. Advance payments from customers and amounts billed to clients in excess of revenue recognized are recorded as receipt in advance.

(d) Interest income

Interest income is recognized on a time apportionment basis, taking into account the principal amounts outstanding and the interest rates applicable.

1 Cost of revenues

Cost of revenues consists primarily of material costs, direct labor, depreciation and manufacturing overheads, which are directly attributable to the manufacture of products and the rendering of services.

1 Stock-based compensation

The Company adopts SFAS No. 123 (revised 2004), “*Share-Based Payment*” (“SFAS No. 123R”) using the fair value method. Under SFAS No. 123(R), the stock-based compensation is measured using the Black-Scholes Option-Pricing model on the date of grant. The fair value of stock-based compensation that are expected to vest are recognized using the straight-line method over the requisite service period.

1 Income taxes

The Company also accounts for income tax using SFAS No. 109 “*Accounting for Income Taxes*”, which requires the asset and liability approach for financial accounting and reporting for income taxes. Under this approach, deferred income taxes are provided for the estimated future tax effects attributable to temporary differences between financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from loss carry-forwards and provisions, if any. Deferred tax assets and liabilities are measured using the enacted tax rates expected in the years of recovery or reversal and the effect from a change in tax rates is recognized in the statements of operations and comprehensive income in the period of enactment. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

Effective January 1, 2007, the Company also adopts the provisions of the Financial Accounting Standards Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes*” (“FIN 48”). FIN 48 prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. In connection with the adoption of FIN No. 48, the Company has analyzed the filing positions in all of the jurisdictions where the Company is required to file income tax

returns, as well as all open tax years in these jurisdictions. The Company also follows the policy of recognizing interest and penalties, if any, related to unrecognized tax positions as income tax expense. The Company did not have any unrecognized tax position and there was no effect on the financial condition or results of operations for the period ended September 30, 2008.

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars ("US\$"))
(Unaudited)

The Company conducts its major businesses in the PRC and is subject to tax in this jurisdiction. As a result of its business activities, the Company files tax returns that are subject to examination by the local and foreign tax authority.

1 Net income per share

The Company calculates net income per share in accordance with SFAS No. 128, "*Earnings per Share*." Basic income per share is computed by dividing the net income by the weighted-average number of common shares outstanding during the period. Diluted income per share is computed similar to basic income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common stock equivalents had been issued and if the additional common shares were dilutive.

1 Comprehensive income

SFAS No. 130, "*Reporting Comprehensive Income*", establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income as defined includes all changes in equity during a period from non-owner sources. Accumulated comprehensive income consists of changes in unrealized gains and losses on foreign currency translation. This comprehensive income is not included in the computation of income tax expense or benefit.

1 Product warranty

Under the terms of the contracts, the Company will provide a product warranty to its customers for a period of twelve months, free of charge and then at the discretion of the customers, enter into maintenance contracts. The Company has not experienced any material returns where it was under obligation to honor this standard warranty provision. As such, no reserve for product warranty has been provided in the result of operations for the nine months ended September 30, 2008.

1 Foreign currencies translation

Transactions denominated in currencies other than the functional currency are translated into the functional currency at the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency using the applicable exchange rates at the balance sheet dates. The resulting exchange differences are recorded in the condensed consolidated statement of operations.

The reporting currency of the Company is the United States dollar ("US\$"). The Company's subsidiaries in the PRC, Nengfa Energy and Sales Company maintain their books and records in its local currency, the Renminbi Yuan ("RMB"), which is functional currency as being the primary currency of the economic environment in which these entities operate.

In general, for consolidation purposes, assets and liabilities of its subsidiaries whose functional currency is not the US\$ are translated into US\$, in accordance with SFAS No. 52, "*Foreign Currency Translation*", using the exchange rate on the balance sheet date. Revenues and expenses are translated at average rates prevailing during the period. The gains and losses resulting from translation of financial statements of foreign subsidiaries are recorded as a separate

component of accumulated other comprehensive income within the statement of stockholders' equity.

13

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

Translation of amounts from RMB into US\$ has been made at the following exchange rates for the respective period:

	2008	2007
Months end RMB:US\$ exchange rate	7.0726	7.3141
Average monthly RMB:US\$ exchange rate	6.8718	7.5633

1 Segment reporting

SFAS No. 131 “*Disclosures about Segments of an Enterprise and Related Information*” establishes standards for reporting information about operating segments on a basis consistent with the Company’s internal organization structure as well as information about geographical areas, business segments and major customers in the financial statements. The Company currently operates in two reportable business segments in Tieling City, Liaoning Province, the PRC: Valves manufacturing business and Energy-saving related business.

1 Fair value of financial instruments

The Company values its financial instruments as required by SFAS No. 107, “*Disclosures about Fair Value of Financial Instruments*”. The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of amounts that the Company could realize in a current market exchange.

The Company’s financial instruments primarily include cash and cash equivalents, trade accounts receivable, prepayments and other receivables, accounts payable, customer deposits, value added tax payable and other payables and accrued liabilities.

As of the balance sheet date, the estimated fair values of financial instruments were not materially different from their carrying values as presented due to short maturities of these instruments.

1 Recent accounting pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on its financial condition or the results of its operations.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), “*Business Combinations*” (“SFAS No. 141R”). SFAS No. 141R will change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R will change the accounting treatment and disclosure for certain specific items in a business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, any business combinations the Company engages in will be recorded and disclosed following existing GAAP until January 1, 2009. The Company expects SFAS No. 141R will have an impact on accounting for business combinations once adopted but the effect is dependent upon acquisitions at that time. The Company is still

assessing the impact of this pronouncement.

14

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

In December 2007, the FASB issued SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements--An Amendment of ARB No. 51, or SFAS No. 160"* ("SFAS No. 160"). SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. The Company believes that SFAS 160 should not have a material impact on the consolidated financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, *"Disclosures about Derivative Instruments and Hedging Activities"* ("SFAS No. 161"). SFAS No. 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 *"Accounting for Derivative Instruments and Hedging Activities"* and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of this statement is not expected to have a material effect on the Company's future financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, *"The Hierarchy of Generally Accepted Accounting Principles"* ("SFAS No. 162"). This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements in conformity with generally accepted accounting principles (GAAP) in the United States. This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *"The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles"*. The Company does not expect the adoption of SFAS No. 162 to have a material effect on the financial condition or results of operations of the Company.

In May 2008, the FASB issued SFAS No. 163, *"Accounting for Financial Guarantee Insurance Contracts--an interpretation of FASB Statement No. 60"* ("SFAS No. 163"). SFAS No. 163 interprets Statement 60 and amends existing accounting pronouncements to clarify their application to the financial guarantee insurance contracts included within the scope of that Statement. SFAS No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended December 31, 2009. The Company is currently evaluating the impact of SFAS No. 163 on its financial statements but does not expect it to have an effect on the Company's financial position, results of operations or cash flows.

Also in May 2008, the FASB issued FSP APB 14-1, *"Accounting for Convertible Debt Instruments that may be Settled in Cash upon Conversion (Including Partial Cash Settlement)"* ("FSP APB 14-1"). FSP APB 14-1 applies to convertible debt securities that, upon conversion, may be settled by the issuer fully or partially in cash. FSP APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years after December 15, 2008, and must be applied on a retrospective basis. Early adoption is not permitted. The Company does not expect it to have an effect on the Company's financial position, results of operations or cash flows.

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars ("US\$"))
(Unaudited)

In June 2008, the FASB issued FASB Staff Position ("FSP") EITF 03-6-1, *"Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"* ("FSP EITF 03-6-1"). FSP EITF 03-6-1 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore need to be included in the earnings allocation in computing earnings per share under the two-class method as described in SFAS No. 128, Earnings per Share. Under the guidance of FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and all prior-period earnings per share data presented shall be adjusted retrospectively. Early application is not permitted. The Company does not expect it to have an effect on the Company's financial position, results of operations or cash flows.

Also in June 2008, the FASB ratified EITF No. 07-5, *"Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity's Own Stock"* ("EITF 07-5"). EITF 07-5 provides that an entity should use a two-step approach to evaluate whether an equity-linked financial instrument (or embedded feature) is indexed to its own stock, including evaluating the instrument's contingent exercise and settlement provisions. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008. Early application is not permitted. The Company is assessing the potential impact of this EITF 07-5 on the financial condition and results of operations and does not expect it to have an effect on the Company's financial position, results of operations or cash flows.

NOTE - 4 ACCOUNTS RECEIVABLE, TRADE

The majority of the Company's sales are on open credit terms and in accordance with terms specified in the contracts governing the relevant transactions. The Company evaluates the need of an allowance for doubtful accounts based on specifically identified amounts that management believes to be uncollectible. If actual collections experience changes, revisions to the allowance may be required. Based upon the aforementioned criteria, management has determined that no allowance for doubtful accounts is required for the period ended September 30, 2008.

NOTE - 5 INVENTORIES

Inventories consisted of the following:

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Raw materials	\$ 910,352	\$ 310,040
Work-in-process	896,625	734,711
Finished goods	368,205	403,635
	\$ 2,175,182	\$ 1,448,386

For the three and nine months ended September 30, 2008 and 2007, no allowance for obsolete inventories was recorded by the Company.

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

NOTE - 6 PREPAYMENTS AND OTHER RECEIVABLES

Prepayments and other receivables consisted of the following:

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Prepayment to vendors for raw materials	\$ 839,914	\$ 558,047
Prepaid operating expenses	27,975	25,874
Value added tax receivable	5,431	12,537
Other receivables	80,483	9,531
	\$ 953,803	\$ 605,989

NOTE - 7 PLANT AND EQUIPMENT, NET

Plant and equipment, net, consisted of the following:

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Plant and machinery	\$ 2,832,941	\$ 2,566,042
Furniture, fixture and equipment	43,454	33,968
Construction in progress	843,023	223,029
Foreign translation difference	179,689	162,460
	3,899,107	2,985,499
Less: accumulated depreciation	(709,406)	(448,981)
Less: foreign translation difference	(39,509)	(21,723)
	\$ 3,150,192	\$ 2,514,795

Depreciation expenses for the three months ended September 30, 2008 and 2007 were \$68,287 and \$50,856 respectively.

Depreciation expenses for the nine months ended September 30, 2008 and 2007 were \$238,702 and \$190,161 respectively.

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

NOTE - 8 OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities consisted of the following:

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Rent payable	\$ 29,175	\$ 37,599
Welfare payable	56,524	108,125
Accrued expenses	68,534	74,576
Payable to equipment vendors	12,254	135,090
	\$ 166,487	\$ 355,390

NOTE - 9 COMMON STOCK SUBSCRIPTIONS

In January 2008, the Company entered a loan agreement to borrow an aggregate of \$2,000,000 from two independent investors namely, South World Ltd. and Oriental United Resources Ltd. (the “Investors”), which are established under the laws of the British Virgin Islands. The loans were unsecured, non-interest bearing and convertible into common stock in a term of 3 months from the drawdown date. The Company also had an option to repay the balance with interest charge at a rate of 36% per annum. The Company received the aggregate amount of \$2,000,000 in January and March 2008, respectively.

On April 28, 2008, the Company entered into a Securities Purchase Agreement with two independent investors (“the Investors”) to consummate a private placement of 6,645,376 shares of restricted common stock for an aggregate purchase price of \$2,000,000 at a 50-trading days weighted average market quoted price of \$0.30 per share. The Investors are South World Ltd. and Oriental United Resources Ltd., which are established under the laws of the British Virgin Islands, each of the Investors acquired one half of these common stock, or 3,322,688 shares. As a result of this transaction, each of the investors owns 8.33% of the issued and outstanding common stock of the Company. The proceeds were used to fund the working capital. The Company also entered into various covenants with the Investors, including its (i) obtaining a listing on a United States stock exchange not later than December 31, 2009, (ii) developing a step by step energy saving and emission reduction business plan as a products and service provider in consultation with the Investors, (iii) limiting business arrangements with affiliates, and (iv) establishing good corporate governance and seeking good financial development.

As of September 30, 2008, the number of issued and outstanding shares of the Company’s common stock was 39,872,704.

NOTE - 10 INCOME TAXES

NFES is registered in the State of Delaware and is subject to United States of America tax law.

As of September 30, 2008, the operation in the United States of America has incurred \$664,569 of cumulative net operating losses which can be carried forward to offset future taxable income. The net operating loss carryforwards begin to expire in 2029, if unutilized. The Company has provided for a full valuation allowance against the deferred tax assets of \$232,599 on the expected future tax benefits from the net operating loss carryforwards as the

management believes it is more likely than not that these assets will not be realized in the future.

The Company's subsidiaries operating in the PRC, Nengfa Energy and Sales Company are subject to the Corporate Income Tax governed by the Income Tax Law of the People's Republic of China.

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

Effective from January 1, 2008, the Corporate Income Tax Law of the People’s Republic of China (the “New CIT Law”) is followed. Under the New CIT Law, Nengfa Energy, as a foreign investment enterprise continues to enjoy the unexpired tax holidays for a full exemption of income tax for the first two profit making years with a 15% exemption of income tax for the next three years. Sales Company is a domestic company which is entitled to the tax rate reduction from 33% to 25%.

The Company’s effective income tax rates for the nine months ended September 30, 2008 and 2007 were 0%, and 0%.

NOTE - 11 SEGMENT INFORMATION

The Company’s business units have been aggregated into two reportable segments: Valves manufacturing business and Energy-saving related business. Valves manufacturing business included the production of valves components and provision of valve improvement and engineering services. Energy-saving related business included the provision of energy-saving related re-engineering and technical services and long-term construction project. The Company operates these segments in the PRC and all of the identifiable assets of the Company are located in the PRC during the periods presented.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 3). The Company had no inter-segment sales for the periods ended September 30, 2008 and 2007. The Company’s reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Summarized financial information concerning the Company’s reportable segments is shown in the following table for the three and nine months ended September 30, 2008:

Three months ended September 30, 2008:	Valves manufacturing business	Energy-saving related business	Total
Operating revenues			
- Products	\$ 3,557,112	\$ -	\$ 3,557,112
- Services	939,406	-	939,406
- Projects	-	105,308	105,308
Total operating revenues	4,496,518	105,308	4,601,826
Cost of revenues	3,351,469	14,115	3,365,584
Gross profit	1,145,049	91,193	1,236,242
Depreciation	66,724	1,563	68,287
Net income	1,040,722	24,374	1,065,096
Expenditure for long-lived assets	\$ 564,110	\$ 13,211	\$ 557,321

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

Nine months ended September 30, 2008:	Valves manufacturing business	Energy-saving related business	Total
Operating revenues			
- Products	\$ 8,836,478	\$ -	\$ 8,836,478
- Services	2,108,342	-	2,108,342
- Projects	-	818,490	818,490
Total operating revenues	10,944,820	818,490	11,763,310
Cost of revenues	7,909,078	609,811	8,518,889
Gross profit	3,035,742	208,679	3,244,421
Depreciation	222,093	16,609	238,702
Net income	2,489,997	186,210	2,676,207
Expenditure for long-lived assets	\$ 686,690	51,353	738,043

Summarized financial information concerning the Company’s reportable segments is shown in the following table for the three and nine months ended September 30, 2007:

Three months ended September 30, 2007:	Valves manufacturing business	Energy-saving related business	Total
Operating revenues			
- Products	\$ 1,383,252	\$ -	\$ 1,383,252
- Services	211,915	-	211,915
- Projects	-	435,849	435,849
Total operating revenues	1,595,167	435,849	2,031,016
Cost of revenues	974,584	330,878	1,305,462
Gross profit	620,583	104,971	725,554
Depreciation	39,943	10,913	50,856
Net income	418,731	159,186	577,917
Expenditure for long-lived assets	\$ 72,599	\$ 19,836	\$ 92,435

Nine months ended September 30, 2007:	Valves manufacturing business	Energy-saving related business	Total
Operating revenues			
- Products	\$ 5,328,588	\$ -	\$ 5,328,588
- Services	1,297,962	-	1,297,962
- Projects	-	435,849	435,849

Edgar Filing: NF Energy Saving CORP of America - Form 10-Q

Total operating revenues	6,626,550	435,849	7,062,399
Cost of revenues	4,277,035	330,878	4,607,913
Gross profit	2,349,515	104,971	2,454,486
Depreciation	144,522	45,639	190,161
Net income	689,205	645,661	1,334,866
Expenditure for long-lived assets	\$ 156,323	\$ 10,282	\$ 166,605

20

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

NOTE - 12 CONCENTRATIONS OF RISK

The Company is exposed to the followings concentrations of risk:

For the nine months ended September 30, 2008, 100% of the Company’s assets were located in the PRC and 100% of the Company’s revenues and purchases were derived from customers and vendors located in the PRC.

(a) Major customers

For the three and nine months ended September 30, 2008, customers who account for 10% or more of revenues are presented as follows:

Customers	Three months ended September 30, 2008		September 30, 2008 Accounts receivable, trade
	Revenues	Percentage of revenues	
Customer A	\$ 2,212,765	48%	\$ 5,150,727
Customer D	624,632	14%	709,051
	Total: \$ 2,837,397	62%	Total: \$ 5,859,778

Customers	Nine months ended September 30, 2008		September 30, 2008 Accounts receivable, trade
	Revenues	Percentage of revenues	
Customer A	\$ 6,833,406	58%	\$ 5,150,727
Customer D	1,499,557	13%	709,051
	Total: \$ 8,332,963	71%	Total: \$ 5,859,778

For the three and nine months ended September 30, 2007, customers who account for 10% or more of revenues are presented as follows:

Customers	Three months ended September 30, 2007		September 30, 2007 Accounts receivable, trade
	Revenues	Percentage of revenues	
Customer A	\$ 1,170,151	58%	\$ 766,359
Customer B	385,082	19%	-
Customer C	230,960	11%	-

Total: \$	1,786,193	88%	Total: \$	766,359
-----------	-----------	-----	-----------	---------

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

Customers	Nine months ended September 30, 2007		September 30, 2007
	Revenues	Percentage of revenues	Accounts receivable, trade
Customer A	\$ 3,039,508	43%	\$ 766,359
Customer B	918,335	13%	-
	Total: \$ 3,957,843	56%	Total: \$ 766,359

(a) Major vendors

For the three and nine months ended September 30, 2008, vendors who account for 10% or more of purchases are presented as follows:

Vendors	Three months ended September 30, 2008		September 30, 2008
	Purchases	Percentage of purchases	Accounts payable
Vendor A	\$ 2,165,463	31%	\$ 246,096

Vendors	Nine months ended September 30, 2008		September 30, 2008
	Purchases	Percentage of purchases	Accounts Payable
Vendor A	\$ 3,567,924	32%	Total: \$ 246,096

For the three and nine months ended September 30, 2007, one vendor represented more than 10% of the Company’s purchases and accounts payable, respectively. This vendor accounts for 20% of purchases amounting to \$218,499 and 46% of purchases amounting to \$1,809,017 for the three and nine months ended respectively, with \$0 of accounts payable as of September 30, 2007.

(c) Credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of trade accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition, but does not require collateral to support such receivables.

(d) Exchange rate risk

The reporting currency of the Company is US\$, to date the majority of the revenues and costs are denominated in RMB and a significant portion of the assets and liabilities are denominated in RMB. As a result, the Company is

exposed to foreign exchange risk as its revenues and results of operations may be affected by fluctuations in the exchange rate between US\$ and RMB. If RMB depreciates against US\$, the value of RMB revenues and assets as expressed in US\$ financial statements will decline. The Company does not hold any derivative or other financial instruments that expose to substantial market risk.

NF ENERGY SAVING CORPORATION OF AMERICA
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2008
(Currency expressed in United States Dollars (“US\$”))
(Unaudited)

NOTE-13 COMMITMENT AND CONTINGENCIES

(a) Operating lease commitment

The Company leased an office premise under a non-cancelable operating lease agreement for a renewal period of one year, due February 9, 2009. The annual lease payment is \$42,373 (RMB300,000).

(b) Capital commitment

As of September 30, 2008, the Company has contracted for purchase of equipment amounting to \$262,578 (RMB1,800,000), of which \$112,325 (RMB770,000) was paid to suppliers.

(c) Litigation

On May 21, 2007, a civil complaint *Robert Dawley vs NF Energy Saving Corp. of America, et al.* was filed in the United States District Court, Middle District of Florida, Orlando, Civil No. 6:07-cv-872-Orl-18DAB. The complaint faults the defendants in breach of contract, which was signed by Sam Winer, former Chief Executive Officer, before the commencement of reverse merger with the current subsidiary. The case was dismissed on August 13, 2007 without prejudice. On October 5, 2007 the plaintiff filed amended complaint Case No. 6:07-cv-872-Orl-19DAB and the case was authorized by court on November 16, 2007. The plaintiff charged the Company with breach of contract since March 8, 2006 and sought a relief of 11,900,000 shares of common stock plus \$60,000-\$120,000 annual “consultant income”.

On March 5, 2008 the Company has filed a counterclaim against Dawley for \$2,000,000. It included charges of security fraud and conspiracy between Winer and Dawley. The trial was held in the United States District Court, Middle District of Florida in Orlando on October 16. At this point, the Company is waiting for the court rulings from the District Court judge. The Company does not believe that the lawsuit would have a material impact on the Company.

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

GENERAL DESCRIPTION OF BUSINESS

As used herein the terms "we", "us", "our," the "Registrant," "NFES" and the "Company" means, NF Energy Saving Corporation of America, a Delaware corporation, formerly known as Diagnostic Corporation of America, Global Broadcast Group, Inc., Galli Process, Inc. These terms also refer to our subsidiary corporation, Liaoning Nengfa Weiye Energy Technology Co., Ltd. ("Nengfa Energy"), formerly known as Liaoning Nengfa Weiye Pipe Network Construction and Operation Co. Ltd., a corporation organized and existing under the laws of the Peoples' Republic of China ("Neng Fa") acquired in November 2006.

NF Energy Saving Corporation of America was incorporated under the laws of the State of Delaware in the name of Galli Process, Inc. on October 31, 2000 for the purpose of seeking and consummating a merger or acquisition with a business entity organized as a private corporation, partnership, or sole proprietorship. On December 31, 2001, Galli Process, Inc. became a majority owned subsidiary of City View TV, Inc., a Florida corporation ("City View"). On January 31, 2002, Galli Process, Inc. changed its name to Global Broadcast Group, Inc. On March 1, 2002, City View merged into Global Broadcast Group, Inc., which was the surviving entity. On November 3, 2004, the Company changed its name to Diagnostic Corporation of America. On March 15, 2007, we changed our name to NF Energy Saving Corporation of America to more accurately reflect our business after a stock exchange transaction with Neng Fa. Our principal place of business is 21-Jia Bei Si Dong Road, Tie Xi Qu, Shenyang, P. R. China 110021. Our telephone number is (8624) 2560-9750.

On November 15, 2006, we executed a Plan of Exchange ("Plan of Exchange"), between and among us, Neng Fa, the shareholders of Neng Fa (the "Neng Fa Shareholders") and Gang Li, our Chairman and Chief Executive Officer ("Mr. Li").

Pursuant to and at the closing of the Plan of Exchange, which occurred on November 30, 2006, we issued the Neng Fa Shareholders 12,000,000 shares of our common stock, or 89.4% of our then outstanding common stock, in exchange for all of the shares of capital stock of Neng Fa owned by the Neng Fa shareholders. Immediately upon the closing, Neng Fa became our 100% owned subsidiary, and we ceased all of our current remaining operations and adopted and implemented the business plan of Neng Fa.

On September 5, 2007, we established a new sales company "Liaoning Nengfa Weiye Tie Fa Sales Co., Ltd" ("Sales Company"), a limited liability corporation organized and existing under the laws of the Peoples' Republic of China. The sales company is a subsidiary 99% owned by Neng Fa. The sales company will market and sell the Company's valve products in China.

On January 31, 2008 to better reflect our energy technology business we changed the name of our 100% own subsidiary "Liaoning Nengfa Weiye Pipe Network Construction and Operation Co. Ltd" to "Liaoning Nengfa Weiye Energy Technology Company Ltd." ("Nengfa Energy"). Nengfa Energy's area of business include research and development, processing, manufacturing, and marketing and distribution of valves, actuating device and pipe fittings; manufacturing, marketing and distribution of energy equipment, wind power equipment and fittings; energy saving technical reconstruction; and energy saving technology consulting services.

Nengfa Energy specializes in energy technology business. We provide energy saving technology consulting, optimization design services, energy saving reconstruction of pipeline networks and contractual energy management services for China's utility, metallurgy, petrochemical, coal, construction, and municipal infrastructure development industries. We are also engaged in the manufacturing and sales of large-diameter low pressure valves. At present, our valve business holds a leading position in China. Our Company has the Det Norske Veritas Management System Certificate that certifies our products conform to the Management System Standard ISO9001:2000. We have been a

member of Chicago Climate Exchange since 2006. In 2007 Nengfa Energy received contracts for three sections of the prominent project “Redirect the water from the Rivers in the South to the North, Middle Section, Jingshi Section Water Supply Engineering Project”.

Our main development directions in the future include the expansion of our capabilities for technology consulting and production of equipment and pipe network for building energy efficient infrastructures for municipalities, providing comprehensive technology solutions for regional energy conservation and emission reduction, and conducting research and development and the manufacturing of equipment and accessories for wind power plants.

FORWARD LOOKING STATEMENTS

Certain statements in this report, including statements of our expectations, intentions, plans and beliefs, including those contained in or implied by "Management's Discussion and Analysis" and the Notes to Consolidated Financial Statements, are "forward-looking statements", within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are subject to certain events, risks and uncertainties that may be outside our control. The words "believe", "expect", "anticipate", "optimistic", "intend", "will", and similar expressions identify forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update or revise any forward-looking statements. These forward-looking statements include statements of management's plans and objectives for our future operations and statements of future economic performance, information regarding our expansion and possible results from expansion, our expected growth, our capital budget and future capital requirements, the availability of funds and our ability to meet future capital needs, the realization of our deferred tax assets, and the assumptions described in this report underlying such forward-looking statements. Actual results and developments could differ materially from those expressed in or implied by such statements due to a number of factors, including, without limitation, those described in the context of such forward-looking statements, our expansion and acquisition strategy, our ability to achieve operating efficiencies, our dependence on network infrastructure, capacity, telecommunications carriers and other suppliers, industry pricing and technology trends, evolving industry standards, domestic and international regulatory matters, general economic and business conditions, the strength and financial resources of our competitors, our ability to find and retain skilled personnel, the political and economic climate in which we conduct operations and the risk factors described from time to time in our other documents and reports filed with the Securities and Exchange Commission (the "Commission"). Additional factors that could cause actual results to differ materially from the forward-looking statements include, but are not limited to: 1) our ability to successfully develop, manufacture and deliver our products on a timely basis and in the prescribed condition; 2) our ability to compete effectively with other companies in the same industry; 3) our ability to raise sufficient capital in order to effectuate our business plan; and 4) our ability to retain our key executives.

CRITICAL ACCOUNTING POLICIES

An appreciation of our critical accounting policies is necessary to understand our financial results. These policies may require management to make difficult and subjective judgments regarding uncertainties, and as a result, such estimates may significantly impact our financial results. The precision of these estimates and the likelihood of future changes depend on a number of underlying variables and a range of possible outcomes. We applied our critical accounting policies and estimation methods consistently in all periods presented.

Revenue recognition

In accordance with the SEC's Staff Accounting Bulletin No. 104, *Revenue Recognition*, the Company recognizes revenue when persuasive evidence of an arrangement exists, transfer of title has occurred or services have been rendered, the selling price is fixed or determinable and collectibility is reasonably assured.

(a) Sale of products

The Company derives revenues from the sale of self-manufactured products and provision of engineering services. The Company recognizes its revenues net of related business taxes and value added taxes ("VAT"). The Company is subject to VAT which is levied on the majority of the products at the rate of 17% on the invoiced value of sales. Output VAT is borne by customers in addition to the invoiced value of sales and input VAT is borne by the Company in addition to the invoiced value of purchases to the extent not refunded for export sales.

The Company recognizes revenue from the sale of products upon delivery to the customers and the transfer of title and risk of loss. The Company experienced no product returns and has recorded no reserve for sales returns for the nine months ended September 30, 2008.

(b) Service revenue

Service revenue is primarily derived from energy-saving technical services that are not an element of an arrangement for the sale of products. These services are generally billed on a time-cost plus basis. Revenue is recognized when service is rendered and accepted by the customers.

(c) Project revenue

The Company applies the percentage-of-completion method under SOP 81-1 "*Accounting for Performance of Construction-Type and Production-Type Contracts*", to recognize revenues for energy-saving re-engineering projects that require significant modification or customization or installation subject to the customers. The Company records a provision in those instances in which the Company believes a contract will probably generate a net loss and the Company can reasonably estimate this loss. If the Company cannot reasonably estimate the loss, the Company limits the amount of revenue that the Company recognizes to the costs the Company has incurred, until the Company can estimate the total loss. Advance payments from customers and amounts billed to clients in excess of revenue recognized are recorded as receipt in advance.

(d) Interest income

Interest income is recognized on a time apportionment basis, taking into account the principal amounts outstanding and the interest rates applicable.

Accounts receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and determined based on managements' assessment of known requirements, aging of receivables, payment history, the customer's current credit worthiness and the economic environment. As of September 30, 2008, the Company has determined that no allowance for doubtful accounts is necessary.

Inventories

Inventories are stated at the lower of cost or market (net realizable value), cost being determined on a weighted average method. Costs include material, labor and manufacturing overhead costs. The Company quarterly reviews historical sales activity to determine excess, slow moving items and potentially obsolete items and also evaluates the impact of any anticipated changes in future demand. The Company provides inventory allowances based on excess and obsolete inventories determined principally by customer demand. As of September 30, 2008, the Company did not

record an allowance for obsolete inventories, nor have there been any write-offs.

26

Plant and equipment, net

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on the straight-line basis over the following expected useful lives from the date on which they become fully operational and after taking into account their estimated residual values:

	Depreciable life	Residual value
Plant and machinery	3 - 20 years	5%
Furniture, fixture and equipment	5 - 8 years	5%

Expenditure for repairs and maintenance is expensed as incurred. When assets are retired or sold, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the results of operations.

Income Taxes

The Company accounts for income tax using SFAS No. 109 “*Accounting for Income Taxes*”, which requires the asset and liability approach for financial accounting and reporting for income taxes. Under this approach, deferred income taxes are provided for the estimated future tax effects attributable to temporary differences between financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from loss carry-forwards and provisions, if any. Deferred tax assets and liabilities are measured using the enacted tax rates expected in the years of recovery or reversal and the effect from a change in tax rates is recognized in the statements of operations and comprehensive income in the period of enactment. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.

Effective January 1, 2007, the Company also adopts the provisions of the Financial Accounting Standards Interpretation No. 48, “*Accounting for Uncertainty in Income Taxes*” (“FIN 48”). FIN 48 prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. In connection with the adoption of FIN No. 48, the Company has analyzed the filing positions in all of the jurisdictions where the Company is required to file income tax returns, as well as all open tax years in these jurisdictions. The Company also follows the policy of recognizing interest and penalties, if any, related to unrecognized tax positions as income tax expense. The Company did not have any unrecognized tax position and there was no effect on the financial condition or results of operations for the period ended September- 30, 2008.

The Company conducts its major businesses in the PRC and is subject to tax in this jurisdiction. As a result of its business activities, the Company files tax returns that are subject to examination by the local and foreign tax authority.

RESULTS OF OPERATIONS FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

The following discussion should be read in conjunction with the financial statements included in this report and is qualified in its entirety by the foregoing.

REVENUES

Total revenues were \$4,601,826 and \$11,763,310 for the three and nine months ended September 30, 2008, respectively, as compared to \$2,031,016 and \$7,062,399 for the corresponding periods in 2007. Total revenues

increased by \$2,570,810 and \$4,700,911, a 127% and 67% increase, for the three and nine months ended September 30, 2008, as compared to total revenues for the three and nine months ended September 30, 2007.

Edgar Filing: NF Energy Saving CORP of America - Form 10-Q

	Three Months Ended September 30 2008		Three Months Ended September 30 2007		Change	
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	% change
REVENUE, NET						
Products	\$ 3,557,112	77.30%	\$ 1,383,252	68.11%	\$ 2,173,860	157%
Service	939,406	20.41%	211,915	10.43%	727,491	343%
Projects	105,308	2.29%	435,849	21.46%	-330,541	-76%
Total Operating Revenues	\$ 4,601,826	100%	\$ 2,031,016	100%	\$ 2,570,810	127%

	Nine Months Ended September 30 2008		Nine Months Ended September 30 2007		Change	
	Amount	% of Total Revenues	Amount	% of Total Revenues	Amount	% change
REVENUE, NET						
Products	\$ 8,836,478	75.12%	\$ 5,328,588	75.45%	\$ 3,507,890	66%
Service	2,108,342	17.92%	1,297,962	18.38%	810,380	62%
Projects	818,490	6.96%	435,849	6.17%	382,641	88%
Total Operating Revenues	\$ 11,763,310	100%	\$ 7,062,399	100%	\$ 4,700,911	67%

Product Revenues

Product revenues are derived principally from the sale of self-manufactured products and provision of engineering services. Product revenues were \$3,557,112 and \$8,836,478, or 77.30% and 75.12% of total revenues for the three and nine months ended September 30, 2008, as compared to \$1,383,252 and \$5,328,588, or 68.11% and 75.45% of total revenues for both the corresponding periods in 2007. Product revenues increased by \$2,173,860, a 157% increase, to \$3,557,112 for the three months ended September 30, 2008 and increased by \$3,507,890, a 66% increase, to \$8,836,478 for the nine months ended September 30, 2008 as compared to the corresponding three and nine month periods in 2007.

Service Revenues

Service revenues are derived principally from energy-saving technical services that are not an element of an arrangement for the sale of products. These services are generally billed on a time-cost plus basis. Service revenues were \$939,406 and \$2,108,342, or 20.41% and 17.92% of total revenues for the three and nine months ended September 30, 2008, as compared to \$ 211,915 and \$1,297,962, or 10.43% and 18.38% of total revenues for both the corresponding periods in 2007. Service revenues increased by \$727,491, a 343% increase, to \$939,406 for the three months ended September 30, 2008 and increased by \$810,380 a 62% increase, to \$2,108,342 for the nine months ended September 30, 2008 as compared to the corresponding three and nine month periods in 2007.

Project Revenues

Project revenues are derived principally from for energy-saving re-engineering projects that require significant modification or customization or installation subject to the customers. The Company applies the percentage-of-completion method to recognize project revenues. This is a newly created business line in 2007. Project revenues were \$105,308 and \$818,490, or 2.29% and 6.96% of total revenues for the three and nine months ended September 30, 2008, as compared to \$435,849 and \$435,849, or 21.46% and 6.17% of total revenues for both the corresponding periods in 2007. Project revenues decreased by \$330,541, a 76% decrease, to \$105,308 for the three

months ended September 30, 2008 and increased by \$382,641, a 88% increase, to \$818,490 for the nine months ended September 30, 2008 as compared to the corresponding three and nine month periods in 2007. With the Company's new emphasis on managing comprehensive energy saving and emission reduction projects for municipalities and large industrial enterprises, we expect the project revenues will continue to increase in 2008.

COSTS AND EXPENSES***Cost of Revenues***

Cost of product revenues consists primarily of material costs, direct labor, depreciation and manufacturing overheads, which are directly attributable to the manufacture of products and the rendering of services. Total cost of revenues was \$3,365,584 and \$8,518,889 for the three and nine months ended September 30, 2008, respectively, as compared to \$1,305,462 and \$4,607,913 for the corresponding three and nine month periods in 2007. The total cost of revenues increased by \$2,060,122 (158%) and \$3,910,976 (85%) for the three and nine months ended September 30, 2008, as compared to total cost of revenues for the corresponding three and nine months periods in 2007. The increase in total cost of revenues was due partly to increased supporting costs for increasing sales and partly induced by the inflation in PRC.

	Three Months Ended September 30 2008		Three Months Ended September 30 2007		Change	
	Amount	% of Total Cost of Revenues	Amount	% of Total Cost of Revenues	Amount	% change
<u>COST OF REVENUES</u>						
Cost of Products	\$ 2,639,688	78.43%	\$ 881,432	67.52%	\$ 1,758,256	199%
Cost of Service	711,781	21.15%	93,152	7.14%	618,629	664%
Cost of Projects	14,115	0.42%	330,878	25.35%	-316,763	-96%
Total Cost of Revenues	\$ 3,365,584	100.00%	\$ 1,305,462	100.00%	\$ 2,060,122	158%

	Nine Months Ended September 30 2008		Nine Months Ended September 30 2007		Change	
	Amount	% of Total Cost of Revenues	Amount	% of Total Cost of Revenues	Amount	% change
<u>COST OF REVENUES</u>						
Cost of Products	\$ 6,391,906	75.03%	\$ 3,889,149	84.40%	\$ 2,502,757	64%
Cost of Service	1,517,172	17.81%	387,886	8.42%	1,129,286	291%
Cost of Projects	609,811	7.16%	330,878	7.18%	278,933	84%
Total Cost of Revenues	\$ 8,518,889	100.00%	\$ 4,607,913	100.00%	\$ 3,910,976	85%

The overall gross profit for the Company was \$1,236,242 and \$3,244,421, or 26.86% and 27.58% for the three and nine months ended September 30, 2008 respectively. Profit margin increased by \$510,688 to \$1,236,242, but the gross margin ratio decreased 8.86% to 26.86%, for the three months ended September 30, 2008 and increased by \$789,935 to \$3,244,421, but the gross margin ratio decreased 7.17% to 27.58%, for the nine months ended September 30, 2008 as compared to the corresponding three and nine month periods in 2007.

Edgar Filing: NF Energy Saving CORP of America - Form 10-Q

	Three Months Ended September 30 2008							
	Products	%	Service	%	Projects	%	Total	%
Revenues	\$ 3,557,112	100.00%	\$ 939,406	100.00%	\$ 105,308	100.00%	\$ 4,601,826	100.00%
Cost of Revenues	\$ 2,639,688	74.21%	711,781	75.77%	14,115	13.40%	3,365,584	73.14%
Gross Margin	\$ 917,424	25.79%	\$ 227,625	24.23%	\$ 91,193	86.60%	\$ 1,236,242	26.86%

	Three Months Ended September 30 2007							
	Products	%	Service	%	Projects	%	Total	%
Revenues	\$ 1,383,252	100.00%	\$ 211,915	100.00%	\$ 435,849	100.00%	\$ 2,031,016	100.00%
Cost of Revenues	881,432	63.72%	93,152	43.96%	330,878	75.92%	1,305,462	64.28%
Gross Margin	\$ 501,820	36.28%	\$ 118,763	56.04%	\$ 104,971	24.08%	\$ 725,554	35.72%

	Nine Months Ended September 30 2008							
	Products	%	Service	%	Projects	%	Total	%
Revenues	\$ 8,836,478	100.00%	\$ 2,108,342	100.00%	\$ 818,490	100.00%	\$ 11,763,310	100.00%
Cost of Revenues	6,391,906	72.34%	1,517,172	71.96%	609,811	74.50%	8,518,889	72.42%
Gross Margin	\$ 2,444,572	27.66%	\$ 591,170	28.04%	\$ 208,679	25.50%	\$ 3,244,421	27.58%

	Nine Months Ended September 30 2007							
	Products	%	Service	%	Projects	%	Total	%
Revenues	\$ 5,328,588	100.00%	\$ 1,297,962	100.00%	\$ 435,849	100.00%	\$ 7,062,399	100.00%
Cost of Revenues	3,889,149	72.99%	387,886	29.88%	330,878	75.92%	4,607,913	65.25%
Gross Margin	\$ 1,439,439	27.01%	\$ 910,076	70.12%	\$ 104,971	24.08%	\$ 2,454,486	34.75%

Cost of Products

Cost of product revenues was \$2,639,688 and \$6,391,906, or 74.21% and 72.34% of total products revenues, for the three and nine months ended September 30, 2008 respectively as compared to \$881,432 and \$3,889,149, or 63.72% and 72.99% of total product revenues, for the corresponding three and nine month periods in 2007. The cost of product revenues increased by \$1,758,256 to \$2,639,688, an increase of 10.49% from 63.72% to 74.21% of total revenues, for the three months ended September 30, 2008, as compared to the corresponding period in 2007. Cost of product revenues increased by \$2,502,757 to \$6,391,906, a decrease of 0.65% from 72.99% to 72.34% of total revenues, for the nine months ended September 30, 2008, as compared to the corresponding period in 2007.

The gross profit for products was \$917,424 and \$2,444,572, or 25.79% and 27.66% for the three and nine months ended September 30, 2008 respectively as compared to \$501,820 and \$1,439,439, or 36.28% and 27.01% for the corresponding three and nine month periods in 2007. Gross profit increased by \$415,604 to \$917,424, but the gross margin ratio decreased 10.49% from 36.28% to 25.79%, for the three months ended September 30, 2008, as compared to the corresponding period in 2007. Gross profit increased by \$1,005,133 to \$2,444,572, the gross margin ratio increased 0.65% from 27.01% to 27.66%, for the nine months ended September 30, 2008, as compared to the corresponding period in 2007. The increase in gross profit for products is due to increase in sales and better control of costs of products revenues.

Cost of Service

Cost of service revenues was \$711,781 and \$1,517,172, or 75.77% and 71.96% of total service revenues, for the three and nine months ended September 30, 2008 respectively as compared to \$93,152 and \$387,886, or 43.96% and 29.88% of total service revenues, for the corresponding three and nine month periods in 2007. Cost of service revenues increased by \$618,629 to \$711,781, an increase of 31.81% from 43.96% to 75.77% of total service revenues, for the three months ended September 30, 2008, as compared to the corresponding period in 2007. Cost of service revenues increased by \$1,129,286 to \$1,517,172, an increase of 42.08% from 29.88% to 71.96% of total service revenues, for the nine months ended September 30, 2008, as compared to the corresponding period in 2007.

The gross profit for service was \$227,625 and \$591,170, or 24.23% and 28.04% for the three and nine months ended September 30, 2008 respectively as compared to \$118,763 and \$910,076 or 56.04% and 70.12% for the corresponding three and nine month periods in 2007. Gross profit increased by \$108,862 to \$227,625, but the gross margin ratio decreased 31.81% from 56.04% to 24.23% for the three months ended September 30, 2008, as compared to the corresponding period in 2007. Gross profit decreased by \$318,906 to \$591,170, a decrease of 42.08% from 70.12% to 28.04%, for the nine months ended September 30, 2008, as compared to the corresponding period in 2007. The decrease in gross profit for service is due to that the company just started providing energy-saving technical services in 2007 and lower cost of service revenues were reported in 2007.

Cost of Projects

In 2007 the Company began contracting energy-saving re-engineering projects that require significant modification or customization or installation subject to the customers. Cost of projects revenues was \$14,115 and \$609,811, or 13.40% and 74.50% of total project revenues, for the three and nine months ended September 30, 2008 respectively as compared to \$330,878, or 75.92% of total service revenues, for both the corresponding three and nine month periods in 2007. Cost of project revenues decreased by \$316,763 to \$14,115, a decrease of 62.52% from 75.92% to 13.40% of total project revenues, for the three months ended September 30, 2008, as compared to the corresponding period in 2007. Cost of project revenues increased by \$278,933 to \$609,811, a decrease of 1.42% from 75.92% to 74.50% of total project revenues, for the nine months ended September 30, 2008, as compared to the corresponding period in 2007.

The gross profit for projects was \$91,193 and \$208,679, or 86.60% and 25.50% for the three and nine months ended September 30, 2008 respectively as compared to \$104,971 or 24.08% for both the corresponding three and nine month periods in 2007. Gross profit decreased by \$13,778 to \$91,193, but the gross margin ratio increased 62.52% from 24.08% to 86.60% for the three months ended September 30, 2008, as compared to the corresponding period in 2007. Gross profit increased by \$103,708 to \$208,679, an increase of 1.42% from 24.08% to 25.50%, for the nine months ended September 30, 2008, as compared to the corresponding period in 2007.

Operating Expenses

Edgar Filing: NF Energy Saving CORP of America - Form 10-Q

Total operating expenses was \$179,957 and \$585,652, or 3.91% and 4.98% of total revenues, for the three and nine months ended September 30, 2008 respectively as compared to \$149,060 and \$1,132,904, or 3.24% and 16.04% of total revenues, for the corresponding three and nine month periods in 2007. Total operating expenses increased by \$30,897 to \$179,957 for the three months ended September 30, 2008, and decreased by \$547,252 to \$585,652 for the nine months ended September 30, 2008, as compared to the corresponding three and nine month periods in 2007. The decrease for the nine months ended September 30, 2008 from the corresponding period in 2007 primarily consists of a \$510,000 decrease in stock compensation expense that was incurred in 2007 for issuing 1,000,000 shares of restricted common stock for business advisory services to Greentree Financial Group, Inc.

Sales and marketing expenses

On September 5, 2007 the Company established a new subsidiary, Liaoning Nengfa Weiye Tie Fa Sales Co., Ltd. to engage in the sales and marketing of valves products in the PRC. Sales and marketing expenses was \$16,318 and \$78,598, or 0.35% and 0.67% of total revenues, for the three and nine months ended September 30, 2008 respectively as compared to \$9,568 and \$24,277, or 0.47% and 0.34% of total revenues, for the corresponding three and nine month periods in 2007.

Sales and marketing expenses increased by \$6,750 to \$16,318 for the three months ended September 30, 2008, and increased by \$54,321 to \$78,598 for the nine months ended September 30, 2008, as compared to the corresponding three and nine month periods in 2007. The increase for the three months ended September 30, 2008 from the corresponding period in 2007 and the increase for the nine months ended September 30, 2008 from the corresponding period in 2007 are both due to increased sales and marketing activities during these periods. Another reason for the increase in sales and marketing expenses was that in 2007 the sales and marketing expenses were included in general and administrative expenses.

Research and development expenses

The Company incurred research and development expenses to study the possibility of using the Company's existing manufacturing facilities and valve production expertise to produce equipment and accessories for wind power plants. The R&D effort enabled the Company to create a new line of business to tap into a large demand for the equipment needed for new wind power plants that have been planned in PRC.

Research and development expenses was \$10,377 and \$95,963, or 0.23% and 0.82% of total revenues, for the three and nine months ended September 30, 2008 respectively as compared to \$14,014 and \$343,920, 0.69% and 4.87% of total revenues, for the corresponding three and nine month periods in 2007. Research and development expenses decreased by \$3,637 to \$10,377 for the three months ended September 30, 2008, and decreased by \$247,957 to \$95,963 for the nine months ended September 30, 2008, as compared to the corresponding three and nine month periods in 2007. The decrease for the three months ended September 30, 2008 from the corresponding period in 2007 and the decrease for the nine months ended September 30, 2008 from the corresponding period in 2007 are primarily due to intensive research and development activities during 2007 to study the possibility of using the company's existing manufacturing facilities and valve production expertise to produce equipment for wind power plants.

General and administrative expenses

General and administrative expenses was \$153,262 and \$411,091, or 3.33% and 3.49% of total revenues, for the three and nine months ended September 30, 2008 respectively as compared to \$125,478 and \$254,707, or 6.18% and 3.61% of total revenues, for the corresponding three and six month periods in 2007. General and administrative expenses increased by \$27,784 to \$153,262 for the three months ended September 30, 2008, and increased by \$156,384 to \$411,091 for the nine months ended September 30, 2008, as compared to the corresponding three and nine month periods in 2007. The increase for the three months ended September 30, 2008 from the corresponding period in 2007 and the increase for the nine months ended September 30, 2008 from the corresponding period in 2007 were both due to an increase in personnel expenses.

Income from Operations

As a result of the foregoing, for the three and nine months ended September 30, 2008, income from operations was \$1,056,285 and \$2,658,769, 22.95% and 22.60% of total revenues, as compared to \$576,494 and \$1,321,582, 28.38% and 18.71% of total revenues, for the three and nine months ended September 30, 2007. Our income from operations increased by \$479,791 to \$1,056,285, for the three months ended September 30, 2008, and increased by \$1,337,187 to \$2,658,769, for the nine months ended September 30, 2008, as compared to the corresponding three and nine month periods in 2007.

Income Tax Expenses

For the three and nine months ended September 30, 2008, income tax expense was \$167 and \$472, as compared to \$0 and \$0 for the three and nine months ended September 30, 2007. The Company is enjoying the tax holiday in PRC due to NFES's foreign company status. During 2007, the Tieling city local government tax bureau in the PRC approved Nengfa Energy as a foreign investment enterprise. Hence, retroactively effective from January 1, 2007, Nengfa Energy is entitled to a two-year exemption from corporate income tax and a reduced corporate income tax rate of 15% for the following three years.

As of September 30, 2008, the operation in the United States of America has incurred \$664,569 of cumulative net operating losses which can be carried forward to offset future taxable income. The net operating loss carryforwards begin to expire in 2029, if unutilized. The Company has provided for a full valuation allowance against the deferred tax assets of \$232,599 on the expected future tax benefits from the net operating loss carryforwards as the management believes it is more likely than not that these assets will not be realized in the future.

Net Income

As a result of the foregoing, we had net income of \$1,065,096 and \$2,676,207, 23.15% and 22.75% of total revenues, for the three and nine months ended September 30, 2008, as compared to net income of \$577,917 and \$1,334,866, 28.45% and 18.90% of total revenues, for the three and nine months ended September 30, 2007. Our net income increased by \$487,179 (84.3%) to \$1,065,096 for the three months ended September 30, 2008, and increased by \$1,341,341 (100.49%) to \$2,676,207 for the nine months ended September 30, 2008, as compared to the corresponding three and nine month periods in 2007.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the nine months ended September 30, 2008, net cash used for operating activities was \$759,721. This was primarily attributable to our net income of \$2,676,207, adjusted by non-cash items of depreciation \$238,702, and a decrease in working capital of \$3,674,630. The decrease in working capital in the first nine months of 2008 were due primarily to the increase in accounts receivable by \$3,804,182, inventories by \$609,412, prepayments and other receivables by \$306,187, and the decrease in other payables and accrued liabilities by \$156,442, partially offset by an increase in accounts payable by \$849,318, customer deposits by \$343,490, income tax payable by \$167 and value added tax payables by \$8,618 in this period.

The large increase in accounts receivable of \$3,804,182, more than double the accounts receivables balances at December 31, 2007, is mainly due to the sales growth during the period. The increase in inventories of \$609,412 reflects a higher inventory level the company maintains for the current sales level. The reason for the large increase in the prepayments and other receivables of \$306,187, a 57.40% increase over the prepayments and other receivables balance of \$605,989 at December 31, 2007 is that the Company expects the cost of the raw-material will increase in

the coming year. In order to hedge the increase in raw material costs, the company has signed more purchase contracts in advance with the suppliers and hence increasing the prepayments. The increase in accounts payable of \$849,318 corresponds to sales growth during the period. The increase in customer deposits of \$343,490 is also due to the increase in sales. An increase of \$8,618 in value added tax payable is due to increased value added tax payable this period. The decrease of \$156,422 in other payables and accrued liabilities are due to the decrease in welfare payable, payables to equipment vendors and other accrued expenses.

For the nine months ended September 30, 2007, net cash used for operating activities was \$968,301. This was primarily attributable to a net income of \$1,334,866, adjusted by non-cash items of depreciation \$190,161, gain on disposal of plant and equipment of \$7,640, a non-cash expense for shares issued for service rendered \$510,000, and a decrease in working capital of \$2,995,688. The decrease in working capital in the first nine months of 2007 were due primarily to the increase in accounts receivable by \$1,004,058, prepayments and other receivables by 1,878,371 and a decrease in income tax payable by \$392,183, and other payables and accrued liabilities by \$23,392, partially offset by the decrease in inventories by \$213,836, an increase in accounts payable by \$16,063, customer deposits by \$67,294, and value added tax payable by \$5,123 in this period.

Investing activities

For the nine months ended September 30, 2008, net cash used in investing activities was \$738,043, and was primarily attributable to the purchase of plant and equipment. For the nine months ended September 30, 2007, net cash used in investing activities was \$87,101 attributable to the purchase of plant and equipment of \$166,605, partially offset by the proceeds from disposal of plant and equipment \$79,504.

Financing activities

For the nine months ended September 30, 2008, net cash provided by financing activities was \$2,000,000 attributable to the issuance of common stock to two investors from a convertible note. For the nine months ended September 30, 2007, net cash provided by financing activities was \$870,000 attributable to the issuance of common stock.

During January 2008, the company borrowed an aggregate of \$2,000,000 from two independent investors. The loans were made on a demand, interest free basis, on the condition that the principal would be converted into common equity. The parties have completed negotiations of a Securities Purchase Agreement, dated April 28, 2008, for the issuance of an aggregate of 6,645,376 shares of common stock, at an equivalent per share price of \$0.30, of "restricted stock", without registration rights, on conversion of the loans. The investors are South World Ltd. and Oriental United Resources Ltd., each a company established under the laws of the British Virgin Islands (together the "Investors"), each of which Investor acquired one half of the above securities, or 3,322,688 shares. As a result of the issuance of the shares, each of the investors owns 8.33% of the issued and outstanding common stock of the Company. The proceeds of the loans have been used and will continue to be used for working capital.

We anticipate we will need additional working capital in 2008 and in the future to fund our company's new business plans and to help establish our company to be a leader in equipment manufacturing for wind power plants and in comprehensive energy saving infrastructure projects for municipalities while keeping our current leading position in valve production. We may decide to pursue additional investments or debt financing to obtain additional cash resources to fund our company's new business and other future developments.

IMPACT OF RECENTLY ISSUED NEW ACCOUNTING STANDARDS

We do not expect adoption of recently issued accounting pronouncements to have a significant impact on our results of operations, financial position or cash flow.

EFFECTS OF INFLATION

We believe that the rate of inflation over the past few years has not had a significant impact on our results of operations. At present we are able to increase our prices due to the rising prices of raw materials.

The reporting currency of the Company is US\$, to date the majority of the revenues and costs are denominated in RMB and a significant portion of the assets and liabilities are denominated in RMB. As a result, the Company is exposed to foreign exchange risk as its revenues and results of operations may be affected by fluctuations in the exchange rate between US\$ and RMB. If RMB depreciates against US\$, the value of RMB revenues and assets as expressed in US\$ financial statements will decline. The Company does not hold any derivative or other financial instruments that expose to substantial market risk.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 4T. Controls and Procedures.

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 (“Exchange Act”) is recorded, processed, summarized and reported within the specified time periods. The Company’s Chief Executive Officer and its Chief Financial Officer (collectively, the “Certifying Officers”) are responsible for maintaining disclosure controls and procedures for the Company. The controls and procedures established by the Company are designed to provide reasonable assurance that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in the Commission’s rules and forms.

As of the end of the period covered by this report, the Certifying Officers evaluated the effectiveness of the Company’s disclosure controls and procedures. Based on the evaluation, the Certifying Officers concluded that the Company’s disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including the Certifying Officers, as appropriate to allow timely decisions regarding required disclosure.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The trial for a civil complaint *Robert Dawley vs NF Energy Saving Corp. of America, et al.* which was filed in the United States District Court, Middle District of Florida, Orlando, Civil No. 6:07-cv-872-Orl-19DAB was held in the United States District Court, Middle District of Florida, Orlando on October 16, 2008. The Company is waiting for the court rulings from the District Court judge. At this point, the Company does not believe that the lawsuit would have a material impact on the Company.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On April 30, 2008, the Company filed an 8-K report under Item 1.01 Entry into a Material Definitive Agreement and Item 3.02, Unregistered Sales of Equity Securities reporting that On April 28, 2008, the Company entered into a Securities Purchase Agreement with two independent investors to consummate a private placement of 6,645,376

shares of restricted common stock for an aggregate purchase price of \$2,000,000 at an equivalent price of \$0.30 per share.

Item 3. Defaults Upon Senior Securities.

None.

35

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits required by Item 601 of Regulation S-K are listed in the Index to Exhibits Beginning on page 37 of this Form 10-Q, which is incorporated herein by reference.

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, there unto duly authorized.

NF Energy Saving Corporation of America
(Registrant)

Date: November 10, 2008

By: /s/ Gang Li

Gang Li
Chairman, Chief Executive Officer and President

INDEX TO EXHIBITS

Exhibit No.	Description
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002

37
