NF Energy Saving Corp
Form 10-Q
November 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 Or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended September 30, 2012**

.. 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

(Exact name of registrant as specified in its charter)

Delaware	02-0563302
(State or Other Jurisdiction of	**(I.R.S. Employer**

incorporation or organization) Identification No.)

Room 3106, Block C, 390 Qingnian Avenue, Heping District

Shenyang, P. R. China 110002

(Address of Principal Executive Offices)

(8624) 8563-1159

(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.

x Yes **o** No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x

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

oYes **x** No

As of September 30, 2012, the registrant had 5,326,501 shares of common stock, $0.001 par value, issued and outstanding.

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.

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(UNAUDITED)

NF ENERGY SAVING CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2012 AND DECEMBER 31, 2011

(Currency expressed in United States Dollars ("US$"), except for number of shares)

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,782,610	$ 2,317,456
Restricted cash	1,911,904	1,574,233
Accounts receivable, net	10,648,279	10,617,416
Retention receivable, current	923,133	734,214
Inventories	1,199,863	581,176
Prepayments and other receivables	1,219,698	1,532,283
Total current assets	18,685,487	17,356,778
Construction in progress	12,715,287	12,106,316
Land use rights, net	3,078,625	3,118,482
Plant and equipment, net	10,750,666	11,236,347
TOTAL ASSETS	$ 45,230,065	$ 43,817,923
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$ 2,313,461	$ 2,679,267
Short-term bank borrowings	7,437,639	7,296,570
Notes payable, related party	3,071,519	1,500,000
Amount due to a related party	431,682	431,682
Income tax payable	4,317	93,407
Convertible promissory notes, net	960,000	-
Current portion of obligation under finance lease	-	34,287
Other payables and accrued liabilities	1,378,985	1,304,887
Total current liabilities	15,597,603	13,340,100
Long-term liabilities:		
Convertible promissory notes, net	-	960,000
TOTAL LIABILITIES	15,597,603	14,300,100
Commitments and contingencies		

Stockholders' equity:		
Common stock, $0.001 par value; 50,000,000 shares authorized; 5,326,501 shares issued and outstanding as of September 30, 2012 and December 31, 2011	5,326	5,326
Additional paid-in capital	8,443,563	8,443,563
Statutory reserve	2,203,798	2,203,798
Accumulated other comprehensive income	3,526,012	3,431,354
Retained earnings	15,453,763	15,433,782
Total stockholders' equity	29,632,462	29,517,823
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 45,230,065	$ 43,817,923

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF

OPERATIONS AND COMPREHENSIVE INCOME

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(Currency expressed in United States Dollars ("US$"), except for number of shares)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
REVENUE, NET:				
Product	$ 1,244,143	$ 2,314,623	$ 4,478,879	$ 7,569,291
Services	503,326	279,022	1,769,585	2,526,151
Total operating revenues, net	1,747,469	2,593,645	6,248,464	10,095,442
COST OF REVENUES:				
Cost of products	1,110,899	1,879,605	3,846,328	5,843,314
Cost of services	336,327	216,486	1,171,604	1,832,611
Total cost of revenues	1,447,226	2,096,091	5,017,932	7,675,925
GROSS PROFIT	300,243	497,554	1,230,532	2,419,517
OPERATING EXPENSES:				
Sales and marketing	39,264	27,630	97,122	71,767
General and administrative	162,184	297,401	660,353	1,024,619
Total operating expenses	201,448	325,031	757,475	1,096,386
INCOME FROM OPERATIONS	98,795	172,523	473,057	1,323,131
Other (expense) income:				
Interest income	7,090	4,233	13,763	5,479
Interest expense	(97,720)	(86,515)	(413,438)	(291,624)
Total other expense	(90,630)	(82,282)	(399,675)	(286,145)
INCOME BEFORE INCOME TAXES	8,165	90,241	73,382	1,036,986
Income tax expense	(7,149)	(19,158)	(53,401)	(174,947)
NET INCOME	$ 1,016	$ 71,083	$ 19,981	$ 862,039

Other comprehensive (loss) income:				
– Foreign currency translation (loss) gain	(74,360)	294,321	94,658	961,513
COMPREHENSIVE (LOSS) INCOME	$ (73,344)	$ 365,404	$ 114,639	$ 1,823,552
Net income per share:				
– Basic	$ 0.00	$ 0.01	$ 0.00	$ 0.16
– Diluted	$ 0.00	$ 0.01	$ 0.00	$ 0.16
Weighted average common shares outstanding:				
– Basic	5,326,501	5,326,501	5,326,501	5,326,501
– Diluted	5,454,501	5,454,501	5,454,501	5,454,501

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(Currency expressed in United States Dollars ("US$"))

(Unaudited)

	Nine months ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net income	$ 19,981	$ 862,039
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	583,052	437,732
Interest expenses, non-cash	-	70,271
Change in operating assets and liabilities:		
Accounts and retention receivable	(187,180)	(642,969)
Inventories	(617,646)	4,284
Prepayments and other receivables	317,269	283,090
Accounts payable	2,330,157	(1,592,088)
Income tax payable	(89,452)	(76,787)
Other payables and accrued liabilities	(16,483)	46,110
Net cash provided by (used in) operating activities	2,339,698	(608,318)
Cash flows from investing activities:		
Purchase of plant and equipment	(15,453)	(34,005)
Payments on construction in progress	(486,676)	(2,743,197)
Net cash used in investing activities	(502,129)	(2,777,202)
Cash flows from financing activities:		
Change in restricted cash	(333,468)	-
Advance from a related party	-	77,605
Payments on finance lease	(34,422)	(429,304)
Proceeds from notes payable, related party	1,573,146	1,500,000
Proceeds from short-term bank borrowings	2,157,267	1,537,040
Repayment on short-term bank borrowings	(4,741,246)	-
Net cash (used in) provided by financing activities	(1,378,723)	2,685,341
Effect on exchange rate change on cash and cash equivalents	6,308	27,700

NET CHANGE IN CASH AND CASH EQUIVALENTS	465,154	(672,479)
BEGINNING OF PERIOD	2,317,456	823,717
END OF PERIOD	$ 2,782,610	$ 151,238
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$ 142,853	$ 251,657
Cash paid for interest	$ 385,365	$ 200,579
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Prepayment for construction in progress in lieu of accounts receivable	$ -	$ 7,768,531
Construction in progress transfer to property, plant and equipment	-	84,077
Settlement of accounts payable in lieu of bank demand notes	$ 2,704,091	$ -

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012

(Currency expressed in United States Dollars ("US$"), except for number of shares)

(Unaudited)

	Common stock		Additional	Statutory	Accumulated other comprehensive	Retained	Total stockholders'
	No. of shares	Amount	paid-in capital	reserve	income	earnings	equity
Balance as of January 1, 2012	5,326,501	$ 5,326	$ 8,443,563	$ 2,203,798	$ 3,431,354	$ 15,433,782	$ 29,517,823
Foreign currency translation adjustment	-	-	-	-	94,658	-	94,658
Net income for the period	-	-	-	-	-	19,981	19,981
Balance as of September 30, 2012	5,326,501	$ 5,326	$ 8,443,563	$ 2,203,798	$ 3,526,012	$ 15,453,763	$ 29,632,462

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

(Currency expressed in United States Dollars ("US$"), except for number of shares)

(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 consolidated balance sheet as of December 31, 2011 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, 2012 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2012 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-K for the year ended December 31, 2011.

NOTE - 2 ORGANIZATION AND BUSINESS BACKGROUND

NF Energy Saving Corporation (the "Company" or "NFEC") 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 changed its name to "NF Energy Saving Corporation of America." On August 24, 2009, the Company further changed its name to "NF Energy Saving Corporation."

The Company, through its subsidiaries, mainly engages in the production of heavy industrial components and products such as valves and the provision of technical service and re-engineering projects in the energy saving related industry in the People's Republic of China (the "PRC"). All the customers are located in the PRC.

Description of subsidiaries

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued/ registered share capital	Effective interest held
Liaoning Nengfa Weiye Energy Technology Co. Ltd ("Nengfa Energy")	The PRC, a limited liability company	Production of a variety of industrial valve components which are widely used in water supply and sewage system, coal and gas fields, power generation stations, petroleum and chemical industries in the PRC	US$3,580,880	100%
Liaoning Nengfa Weiye Tei Fa Sales Co., Ltd. ("Sales Company")	The PRC, a limited liability company	Sales and marketing of valves components and products in the PRC	RMB5,000,000	99%

NFEC and its subsidiaries are hereinafter referred to as (the "Company").

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

(Currency expressed in United States Dollars ("US$"), except for number of shares)

(Unaudited)

NOTE - 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying condensed consolidated financial statements reflect the application of certain significant accounting policies as described in this note and elsewhere in the accompanying condensed consolidated financial statements and notes.

· 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 periods reported. Actual results may differ from these estimates.

· Basis of consolidation

The condensed consolidated financial statements include the financial statements of NFEC and its subsidiaries. All significant inter-company balances and transactions within the Company have been eliminated upon consolidation.

The accounts of Sales Company are consolidated as a wholly-owned subsidiary from its inception to September 30, 2012, in which the Company holds 99%-majority equity interest and has the ability to exercise significant influence over Sales Company. The consolidation of 1% equity interest of Sales Company is not material to the financial position and results of operations for the periods presented.

· 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.

· Accounts receivable

Accounts receivable are recorded at the invoiced amount and do not bear interest, which are due within contractual payment terms, generally 30 to 90 days from shipment. Credit is extended based on evaluation of a customer's financial condition, the customer credit-worthiness and their payment history. Accounts receivable outstanding longer than the contractual payment terms are considered past due. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. At the end of each period, the Company specifically evaluates individual customer’s financial condition, credit history, and the current economic conditions to monitor the progress of the collection of accounts receivables. The Company will consider the allowance for doubtful accounts for any estimated losses resulting from the inability of its customers to make required payments. For the receivables that are past due or not being paid according to payment terms, the appropriate actions are taken to exhaust all means of collection, including seeking legal resolution in a court of law. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers. As of September 30, 2012 and December 31, 2011, the allowance of doubtful accounts was $7,780 and $7,757, respectively.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

(Currency expressed in United States Dollars ("US$"), except for number of shares)

(Unaudited)

Up to October 20, 2012, the Company has subsequently recovered from approximately 3% of the accounts receivable as of September 30, 2012.

· Retention receivable

Retention receivable is the amount withheld by a customer based upon 5-10% of the contract value, until a product warranty is expired.

· Inventories

Inventories are stated at the lower of cost or market value (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, 2012, the Company did not record an allowance for obsolete inventories, nor have there been any write-offs.

· Construction in progress

Construction in progress is stated at cost, which includes acquisition of land use rights, cost of construction, purchases of plant and equipment and other direct costs attributable to the construction of a new manufacturing facility in Yinzhou District Industrial Park, Tieling City, Liaoning Province, PRC. Construction in progress is not depreciated until such time as the assets are completed and put into operational use. No capitalized interest is incurred during the period of construction.

· Land use rights

All land in the PRC is owned by the PRC government. The government in the PRC, according to the relevant PRC law, may sell the right to use the land for a specified period of time. Thus, the Company’s land purchase in the PRC is considered to be leasehold land and is stated at cost less accumulated amortization and any recognized impairment loss. Amortization is provided over the term of the land use right agreement on a straight-line basis, which is 50 years and will expire in 2059.

Amortization expense for the three months ended September 30, 2012 and 2011 was $16,296 and $16,063, respectively.

Amortization expense for the nine months ended September 30, 2012 and 2011 was $48,918 and $47,575, respectively.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

(Currency expressed in United States Dollars ("US$"), except for number of shares)

(Unaudited)

The estimated amortization expense on the land use right in the next five years and thereafter is as follows:

Year ending September 30:	
2013	$65,156
2014	65,156
2015	65,156
2016	65,156
2017	65,156
Thereafter	2,752,845
Total:	$3,078,625

· Plant and equipment

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:

	Expected useful life	Residual value
Building	30 years	5 %
Plant and machinery	10 – 20 years	5 %
Furniture, fixture and equipment	5 – 8 years	5 %

Expenditure for repairs and maintenance is expensed as incurred. When assets have been 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.

Depreciation expense for the three months ended September 30, 2012 and 2011 was $184,720 and $131,693, respectively.

Depreciation expense for the nine months ended September 30, 2012 and 2011 was $534,134 and $390,157, respectively.

· Impairment of long-lived assets

In accordance with the provisions of ASC Topic 360-10-5, "*Impairment or Disposal of Long-Lived Assets*", all long-lived assets such as plant and equipment held and used by the Company and construction in progress 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 charge for the periods presented.

· Revenue recognition

The Company offers a number of products and service to its customers, which are:

1. Sales of energy saving flow control equipment
2. Provision of energy project management and sub-contracting service
3. Provision of energy-saving reconstruction projects

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

(Currency expressed in United States Dollars ("US$"), except for number of shares)

(Unaudited)

In accordance with the ASC Topic 605, *"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 collectability is reasonably assured.

(a) Sale of products

The Company derives a majority of its revenues from the sale of energy saving flow control equipment. Generally, these products are manufactured and configured to customer requirements. The Company typically produces and builds the energy saving flow control equipment for customers in a period from 1 to 6 months. When the Company completes the production in accordance with the customer's specification, the customer is required to inspect the finished products for quality and product conditions, to its full satisfaction, then the Company makes delivery to the customer.

The Company recognizes revenue from the sale of such finished products upon delivery to the customer, whereas the title and risk of loss are fully transferred to the customers. The Company records its revenues, net of 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. The Company experienced no product returns and recorded no reserve for sales returns for the three and nine months ended September 30, 2012 and 2011.

(b) Service revenue

Service revenue is primarily derived from energy-saving technical services or project management or sub-contracting 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, for a period of service time from 2 to 3 months. Revenue is recognized, net of business taxes when the service is rendered and accepted by the customer.

(c) Project revenue

For the energy-saving reconstruction projects, the Company follows the percentage-of-completion method under ASC Topic 605-35, "*Construction-Type and Production-Type Contracts*", to recognize revenues for energy-saving reconstruction projects that require significant modification or customization or installation for a term of service period exceeding 12 months. Advance payments from customers and amounts billed to clients in excess of revenue recognized are recorded as receipts in advance. For the nine months ended September 30, 2012, the Company did not recognize any project revenue.

(d) Interest income

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

· Comprehensive income

ASC Topic 220, *"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 other comprehensive income, as presented in the accompanying condensed consolidated statement of stockholders' equity, 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.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

(Currency expressed in United States Dollars ("US$"), except for number of shares)

(Unaudited)

· Income taxes

Income taxes are determined in accordance with the provisions of ASC Topic 740, *"Income Taxes*" ("ASC 740"). Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under ASC 740, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts.

For the three and nine months ended September 30, 2012 and 2011, the Company did not have any interest and penalties associated with its tax positions. As of September 30, 2012, the Company did not have any significant unrecognized uncertain tax positions.

The Company conducts the majority of its business 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 foreign tax authority.

· Product warranty

Under the terms of the contracts, the Company offers its customers a free product warranty on a case-by-case basis, depending upon the type of customer, and nature and size of the infrastructure projects. Under such arrangements, a portion of the project contract balance (usually 5% to 10% of contract value) is withheld by a customer from 12 to 24 months, until the product warranty has expired. The Company has not experienced any material returns or claims 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 three and nine months ended September 30, 2012 and 2011.

· Net income per share

The Company calculates net income per share in accordance with ASC Topic 260, *"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.

· 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 statement of operations.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012

(Currency expressed in United States Dollars ("US$"), except for number of shares)

(Unaudited)

The reporting currency of the Company is the United States Dollar ("US$"). The Company's subsidiaries in the PRC maintain their books and records in their local currency, the Renminbi Yuan ("RMB"), which is the 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 ASC Topic 830-30, *"Translation of Financial Statement*", 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.

Translation of amounts from RMB into US$1 has been made at the following exchange rates for the respective period:

	September 30, 2012	September 30, 2011
Period-end RMB:US$1 exchange rate	6.3340	6.4018
Average period RMB:US$1 exchange rate	6.3275	6.5060

· Related parties

Parties, which can be a corporation or individual, are considered to be related if the Company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operational decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

· Segment reporting

ASC Topic 280, "*Segment Reporting*" 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 financial statements. The Company operates in two reportable operating segments in the PRC during the periods presented.

· Fair value of financial instruments

The carrying value of the Company's financial instruments (excluding short-term bank borrowing, notes payable, related party and convertible promissory notes): cash and cash equivalents, accounts and retention receivable, prepayments and other receivables, accounts payable, income tax payable, amount due to a related party, other payables and accrued liabilities approximate at their fair values because of the short-term nature of these financial instruments.

Management believes, based on the current market prices or interest rates for similar debt instruments, the fair value of short-term bank borrowings, notes payable, related party and convertible promissory notes approximate the carrying amount.

The Company also follows the guidance of the ASC Topic 820-10, "*Fair Value Measurements and Disclosures*" ("ASC 820-10"), with respect to financial assets and liabilities that are measured at fair value. ASC 820-10 establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value as follows:

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Level 1 : Inputs are based upon unadjusted quoted prices for identical instruments traded in active markets;

Level 2 : Inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques (e.g. Black-Scholes Option-Pricing model) for which all significant inputs are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs;

Level 3 : Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including option pricing models and discounted cash flow models.

Fair value estimates are made at a specific point in time based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

· Recent accounting pronouncements

The Company has reviewed all recently issued, but not yet effective, accounting pronouncements and does not believe the future adoption of any such pronouncements will have a material impact on its financial condition or the results of its operations.

NOTE - 4 CONSTRUCTION IN PROGRESS

In 2008, the Company received approval from the local government to construct a new manufacturing facility for energy-saving products and equipment in Yingzhou District Industrial Park, Tieling City, Liaoning Province, the PRC. Total estimated construction cost of a new manufacturing facility is approximately $24 million. The first phase of the project was completed and began its operations in December 2011. The remainder of the construction project is expected to be fully completed during 2012.

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NOTE - 5 SHORT-TERM BANK BORROWINGS

Short-term bank borrowings consist of the following:

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Payable to financial institutions in the PRC:		
Demand bank notes:		
Equivalent to RMB20, 000,000, due May 2012, which is collateralized by its restricted cash and guaranteed by a third party. The notes bear the handling fee equal to 0.05% of its face value.	$ -	$ 3,148,466
Equivalent to RMB2, 060,000, due October 2012, which is collateralized by its restricted cash and bears the handling fee equal to 0.05% of its face value.	325,229	-
Equivalent to RMB3, 050,000, due October 2012, which is collateralized by its restricted cash and bears the handling fee equal to 0.05% of its face value.	481,528	-
Equivalent to RMB2, 000,000, due November 2012, which is collateralized by its restricted cash and bears the handling fee equal to 0.05% of its face value.	315,757	-
Equivalent to RMB4, 000,000, due January 2013, which is collateralized by its restricted cash and guaranteed by its vendor and bears the handling fee equal to 0.05% of its face value.	631,512	-
Equivalent to RMB2, 000,000, due February 2013, which is collateralized by its restricted cash and guaranteed by its vendor and bears the handling fee equal to 0.05% of its face value.	315,757	-

Equivalent to RMB4, 000,000, due February 2013, which is collateralized by its restricted cash and guaranteed by its vendor and bears the handling fee equal to 0.05% of its face value.	631,512	-
Short-term bank loans:		
Equivalent to RMB10,000,000 with interest rate at 1.3 times of the Bank of China Benchmark Lending Rate, monthly payable, due February 16, 2012, which is guaranteed by a guarantee company in Shenyang City, the PRC	-	1,574,233
Equivalent to RMB10,000,000 with interest rate at 1.2 times of the Bank of China Benchmark Lending Rate, monthly payable, due March 26, 2013, which is guaranteed by a guarantee company in Shenyang City, the PRC	1,578,782	-
Equivalent to RMB20,000,000 with interest rate at 1.4 times of the Bank of China Benchmark Lending Rate, monthly payable, due December 15, 2012, which is guaranteed by Mr. Gang Li (the Company's CEO) and a guarantee company in Shenyang City, the PRC	3,157,562	2,573,871
Total short-term bank borrowings	$ 7,437,639	$ 7,296,570

The effective Bank of China Benchmark Lending rate was 6.36% and 6.26% per annum for the nine months ended September 30, 2012 and 2011, respectively.

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NOTE - 6 AMOUNT DUE TO A RELATED PARTY

As of September 30, 2012, the amount due to a related party represented temporary advances made by the Company’s major stockholder, Pelaris International Ltd, which is controlled by Ms. Li Hua Wang (the Company’s CFO) and Mr. Gang Li (the Company’s CEO), which was unsecured, interest-free with no fixed repayment term. Imputed interest on this amount is considered insignificant.

NOTE - 7 NOTE PAYABLE, RELATED PARTY

In June 2011, the Company obtained a new short-term loan of $1,500,000 from Pelaris, a related company which is controlled by Ms. Lihua Wang (the Company’s CFO) and Mr. Gang Li (the Company’s CEO), to repay a short-term loan due to a third party. This note is unsecured, carries interest at 2.5% per annum, payable at maturity and due on May 31, 2012. Upon maturity, the note holder agreed to extend the maturity term to May 31, 2013.

In May 2012, the Company obtained another short-term loan of $1,578,782 (equivalent to RMB10, 000,000) from Pelaris, a related company which is controlled by Ms. Lihua Wang (the Company’s CFO) and Mr. Gang Li (the Company’s CEO). This note is unsecured, interest-free, and payable at maturity on November 18, 2012. Imputed interest is considered insignificant. During the period, the Company has prepaid $7,263 (equivalent to RMB46, 000).

NOTE - 8 CONVERTIBLE PROMISSORY NOTES

On February 24, 2010 and March 4, 2010, the Company sold, through a private placement to two accredited investors, convertible promissory notes (the “Notes”) in the aggregate principal amount of $960,000 and warrants (the "Warrants") to purchase 64,000 shares of its common stock, par value $0.001 per share ("Common Stock"). The Company used the net proceeds of approximately $900,000 from the private placement for working capital and general corporate purposes.

The Notes while outstanding had an effective interest at the rate of 6% per annum and, absent an “event of default,” are payable in shares of the Company’s Common Stock. Provided no "event of default" has occurred and is not then continuing, the Notes initially were to convert upon the earlier to occur of (i) the commencement of trading of the Company's Common Stock on a major US stock exchange, or (ii) one year after issuance. Upon conversion, the holders of the Notes shall receive such number of shares of Common Stock equal to the quotient obtained by dividing (a) the then-outstanding principal amount and accrued but unpaid interest on the Notes by (b) the then-current conversion price, which currently is be $7.50 per share. The conversion price is subject to adjustment for stock dividends, splits, combinations and similar events. The Notes while outstanding were secured by a security interest in and lien upon all of the Company’s assets.

On October 4, 2010, the Company entered into a Note Modification Agreement and agreed to amend the terms of the Notes, as follows:

(1) The Notes shall, on the maturity date, automatically convert into that number of shares of Common Stock equal to the quotient obtained by dividing (a) the then outstanding obligations by (b) the conversion price then in effect;

(2) Interest due under the Notes shall not accrue past October 4, 2010;

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(3) The security interest in and lien upon all of the Company's assets is terminated and shall be of no further force or effect.

The Warrants, which were exercisable for shares of Common Stock at an exercise price of $10 per share and were to terminate five years thereafter. The exercise price is subject to adjustment for stock dividends, splits, combinations and similar events. The warrants also contained an exercise price ratchet adjustment in the event the Company issues warrants having an exercise price at less than the exercise price then in effect for the Warrants. The Company has agreed to provide the investors with "piggy-back" registration rights with respect to the shares of Common Stock issuable upon exercise of the Warrants.

The Company engaged an independent appraiser to perform a valuation of the Notes and the Company determined that the Notes should be recorded in accordance with ASC Topic 470-20, "*Debt with conversion and other options*". The Company allocated the proceeds received between the Notes and the warrants on a relative fair value basis. The relative fair values of the Notes and the warrants determine the debt discount attributable to the warrants and are recorded as additional paid-in capital. The resulting discount on the Notes is being amortized over the life of the Notes using the effective interest method.

For the nine months ended September 30, 2011, the Company recognized $70,271 as amortization of debt discount and recorded as interest expense in the statement of operations. As of September 30, 2012, the carrying value of the convertible promissory notes is amounted to $960,000.

On February 24, 2011, the Company and the holders of the Notes mutually agreed to extend the maturity date to February 24, 2012 and the Warrants were fully cancelled. The maturity date of the Notes was subsequently extend to February 24, 2013.

NOTE - 9 OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities consisted of the following:

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
Rent payable	$ 47,363	$ 43,291
Payable to equipment vendors	218,834	130,636
Customer deposits	648,829	381,055
Value added tax payable	11,920	170,055
Provision for contingent liability	200,000	200,000
Accrued operating expenses	244,145	371,979
Other payable	7,894	7,871
	$ 1,378,985	$ 1,304,887

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NOTE - 10 INCOME TAXES

For the nine months ended September 30, 2012 and 2011, the local ("United States of America") and foreign components of income (loss) before income taxes were comprised of the following:

	Nine months ended September 30,	
	2012	2011
Tax jurisdiction from:		
- Local	$ (60,450)	$ (446,144)
- Foreign	133,832	1,483,130
Income before income taxes	$ 73,382	$ 1,036,986

The effective tax rate in the periods presented is the result of the mix of income earned in various tax jurisdictions that apply a broad range of income tax rates. The Company operates in two countries: United States of America and the PRC that are subject to taxes in the jurisdictions in which they operate, as follows:

United States of America

NFEC is incorporated in the State of Delaware and is subject to the tax laws of United States of America.

As of September 30, 2012, the operation in the United States of America incurred $2,721,160 of cumulative net operating losses which can be carried forward to offset future taxable income. The net operating loss carryforwards begin to expire in 2032, if unutilized. The Company has provided for a full valuation allowance against the deferred tax assets of $925,194 on the expected future tax benefits from the net operating loss carryforwards as management believes it is more likely than not that these assets will not be realized in the future.

PRC

The Company's subsidiaries operating in the PRC are subject to the Corporate Income Tax Law of the People's Republic of China at a unified income tax rate of 25%. The reconciliation of income tax rate to the effective income tax rate for the nine months ended September 30, 2012 and 2011 is as follows:

	Nine months ended September 30,	
	2012	2011
Income before income taxes from PRC operation	$ 133,832	$ 1,483,130
Statutory income tax rate	25 %	25 %
Income tax expense at statutory rate	33,458	370,783
Effect from non-taxable items	-	(5,138)
Effect from non-deductible items	19,943	2,975
Effect from tax holiday	-	(184,271)
Tax adjustments	-	(9,402)
Income tax expense	$ 53,401	$ 174,947

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NOTE - 11 WARRANTS

There were no changes in the warrants during the nine months ended September 30, 2012.

	Warrants outstanding			
	Number of warrants	Exercise price range per share	Weighted average exercise price per share	Weighted average grant-date fair value per share
Balance as of January 1, 2012	23,334	$ 4.50	$ 4.50	$ 7.93
Warrants granted	-	-	-	-
Warrants cancelled	-	-	-	-
Warrants exercised	-	-	-	-
Balance as of September 30, 2012	23,334	$ 4.50	$ 4.50	$ 7.93

The Company measured the fair value of warrants on the grant date, using the Black-Scholes option-pricing model with the following assumptions:

Expected life (in years)	5	
Volatility	340.61%- 456.53	%
Risk free interest rate	2.28% - 2.89	%
Dividend yield	0	%

NOTE - 12 SEGMENT INFORMATION

· Segment reporting

The Company’s business units have been aggregated into two reportable segments, as defined by ASC Topic 280:

- Heavy manufacturing business – production of valves components and the provision of valve improvement and engineering services;

- Energy-saving related business – production of wind-energy equipment, provision of energy-saving related re-engineering and technical services and long-term construction project.

The Company operates these business 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 three and nine months ended September 30, 2012 and 2011. 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, 2012 and 2011:

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	Three months ended September 30, 2012		
	Valves manufacturing business	Energy-saving related business	Total
Operating revenues, net:			
- Products	$ 1,244,143	$ -	$ 1,244,143
- Services	503,326	-	503,326
Total operating revenues	1,747,469	-	1,747,469
Cost of revenues	(1,447,226)	-	(1,447,226)
Gross profit	300,243	-	300,243
Depreciation and amortization	201,016	-	201,016
Total assets	45,230,065	-	45,230,065
Expenditure for long-lived assets	$ 28,219	$ -	$ 28,219

	Nine months ended September 30, 2012		
	Valves manufacturing business	Energy-saving related business	Total
Operating revenues, net:			
- Products	$ 4,478,879	$ -	$ 4,478,879
- Services	1,769,585	-	1,769,585
Total operating revenues	6,248,464	-	6,248,464
Cost of revenues	(5,017,932)	-	(5,017,932)
Gross profit	$ 1,230,532	$ -	$ 1,230,532
Depreciation and amortization	583,052	-	583,052
Total assets	45,230,065	-	45,230,065
Expenditure for long-lived assets	$ 502,129	$ -	$ 502,129

	Three months ended September 30, 2011		
	Heavy manufacturing business	Energy-saving related business	Total

Operating revenues, net:			
- Products	$ 2,314,623	$ -	$ 2,314,623
- Services	279,022	-	279,022
Total operating revenues	2,593,645	-	2,593,645
Cost of revenues	(2,096,091)	-	(2,096,091)
Gross profit	$ 497,554	$ -	$ 497,554
Depreciation and amortization	147,756	-	147,756
Total assets	37,094,290	-	37,094,290
Expenditure for long-lived assets	$ 210,956	$ -	$ 210,956

	Nine months ended September 30, 2011		
	Heavy manufacturing business	Energy-saving related business	Total
Operating revenues, net:			
- Products	$ 7,569,291	$ -	$ 7,569,291
- Services	2,526,151	-	2,526,151
Total operating revenues	10,095,442	-	10,095,442
Cost of revenues	(7,675,925)	-	(7,675,925)
Gross profit	$ 2,419,517	$ -	$ 2,419,517
Depreciation and amortization	437,732	-	437,732
Total assets	37,094,290	-	37,094,290
Expenditure for long-lived assets	$ 2,777,202	$ -	$ 2,777,202

All long-lived assets are located in the PRC.

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NOTE - 13 CONCENTRATIONS OF RISK

The Company is exposed to the following concentrations of risk:

(a) Major customers

For the three and nine months ended September 30, 2012 and 2011, the customers who accounted for 10% or more of the Company's revenues and its outstanding accounts receivable balances as at period-end dates, are presented as follows:

	Three months ended September 30, 2012			September 30, 2012
Customers	Revenues	Percentage of revenues		Accounts and retention receivable
Customer A	$ 868,843	50 %		$ 2,242,469
Customer B	262,977	15 %		7,339,665
Customer C	217,091	12 %		-
Total:	$ 1,348,911	77 %	Total:	$ 9,582,134

	Nine months ended September 30, 2012		September 30, 2012
Customers	Revenues	Percentage of revenues	Accounts and retention receivable
Customer A	$ 2,121,242	34 %	$ 2,242,469
Customer B	2,011,818	32 %	7,339,665

Total:	$	4,133,060	66	%	Total:	$ 9,582,134

	Three months ended September 30, 2011					September 30, 2011
Customers	Revenues		Percentage of revenues			Accounts receivable
Customer B	$	668,964	26	%		$ 6,809,762
Customer A		1,203,365	46	%		-
Total:	$	1,872,329	72	%	Total:	$ 6,809,762

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	Nine months ended September 30, 2011				September 30, 2011
Customers	Revenues	Percentage of revenues			Accounts receivable
Customer B	$ 3,747,422	37	%		$ 6,809,762
Customer A	3,161,474	31	%		-
Customer D	1,319,369	13	%		-
Total:	$ 8,228,265	81	%	Total:	$ 6,809,762

All customers are located in the PRC.

(b) Major vendors

For the three and nine months ended September 30, 2012, the vendors who accounted for 10% or more of the Company's purchases and its outstanding accounts payable balances as at period-end dates, are presented as follows:

	Three months ended September 30, 2012				September 30, 2012
Vendors	Purchases	Percentage of purchases			Accounts payable
Vendor A	$ 841,161	58	%		$ 309,281
Vendor B	279,928	19	%		46,198
Total:	$ 1,121,089	77	%	Total:	$ 355,479

	Nine months ended September 30, 2012	September 30, 2012
Vendors	Purchases	

			Percentage of purchases			Accounts payable
Vendor B	$	1,496,004	32	%		$ 46,198
Vendor A		841,161	18	%		309,281
Vendor C		622,564	13	%		378,736
Total:	$	2,959,729	63	%	Total:	$ 734,215

For the three months ended September 30, 2011, one vendor represented 52% of the Company's purchases amounting to $1,200,716, with $581,053 of accounts payable due as at September 30, 2011.

For the nine months ended September 30, 2011, one vendor represented 55% of the Company's purchase amounting to $4,249,739, with $581,053 of accounts payable due as at September 30, 2011.

All vendors are located in the PRC.

(c) Credit risk

Financial instruments that are potentially subject to credit risk consist principally of trade receivables. The Company believes the concentration of credit risk in its trade receivables is substantially mitigated by its ongoing credit evaluation process and relatively short collection terms. The Company does not generally require collateral from customers. The Company evaluates the need for an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

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(d) Interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest-rate risk arises from borrowing under notes payable, finance lease and short-term bank borrowings. The Company manages interest rate risk by varying the issuance and maturity dates of its variable rate debt, limiting the amount of variable rate debt, and continually monitoring the effects of market changes in interest rates.

(e) 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 it to substantial market risk.

(f) Economic and political risks

The Company's operations are conducted in the PRC. Accordingly, the Company's business, financial condition and results of operations may be influenced by the political, economic and legal environment in the PRC, and by the general state of the PRC economy.

The Company's operations in the PRC are subject to special considerations and significant risks not typically associated with companies in North America and Western Europe. These include risks associated with, among others, the political, economic and legal environment and foreign currency exchange. The Company's results may be adversely affected by changes in the political and social conditions in the PRC, and by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion, remittances abroad, and rates and methods of taxation.

NOTE - 14 COMMITMENTS AND CONTINGENCIES

(a) Capital commitments

As of September 30, 2012, the Company is committed to the future contingent payments of approximately $0.7 million on the purchase of new plant and equipment and third party contractors relating to its construction project in the next twelve months.

(b) Legal proceedings

Robert E. Dawley v. NF Energy Corp. of America, M.D. Fla. Case no. 6:10-cv-0115-Orl-22DAB. Robert Dawley ("Dawley") commenced this action in the United States District Court for the Middle District of Florida against the Company, Mr. Gang Li and the Company's litigation counsel on October 1, 2010. The allegations in this action are identical to those that Dawley raised in a prior proceeding in which the United States Court of Appeals for the Eleventh Circuit entered judgment against him and in favor of the Company.

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The District Court, upon motion by the defendants, has dismissed six of Dawley's ten claims with prejudice on the grounds that they are precluded by the Eleventh Circuit's prior judgment. Dawley has attempted to appeal the District Court's dismissal to the Eleventh Circuit. (Dawley v NF Energy Saving Corp. of America, U.S.C.A. 11th Cir. Appeal no. 11-10201-F.) However, that Court has questioned whether it has jurisdiction over the matter in light of the continued pendency of four of Dawley's claims before the District Court.

Dawley has filed an Amended Complaint in the District Court in an effort to address the deficiencies noted by it with respect to his four remaining claims. Defendants have moved to dismiss the Amended Complaint on the grounds that it still fails to allege facts sufficient to state a claim. Whether or not the District Court agrees, the Company intends to contest Dawley's claims on several grounds, including that he has failed to identify any basis for liability or damages.

As of October 19, 2012, The Eleventh Circuit Court of Appeals affirmed the District Court's dismissal of Dawley's claims.

As of September 30, 2012, the Company accrued $200,000 for this contingent liability and the Company's directors, Mr. Gang Li and Ms. Lihua Wang have personally agreed to guarantee all contingent liabilities and costs to be incurred in connection with this litigation claim. At this point, the Company does not believe that the judgment would have a material impact on, or result in significant contingencies to, the Company.

NOTE - 15 SUBSEQUENT EVENTS

The Company evaluated subsequent events through the date the financial statements were issued and filed with this Form 10-Q. There were no subsequent events that required recognition or disclosure.

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

As used herein the terms "we", "us", "our," the "Registrant," "NFEC" and the "Company" means, NF Energy Saving Corporation, a Delaware corporation, formerly known as NF Energy Saving Corporation of America, Diagnostic Corporation of America, Global Broadcast Group, Inc., and Galli Process, Inc. These terms also refer to our subsidiary corporations, Liaoning Nengfa Weiye Energy Technology Corporation Ltd. ("Nengfa Energy"), formerly known as Liaoning Nengfa Weiye Pipe Network Construction and Operation Co. Ltd. ("Neng Fa"), a corporation organized and existing under the laws of the Peoples' Republic of China, which was acquired in November 2006, and 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, which was established in September 2007.

NF Energy Saving Corporation 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 February 7, 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 12, 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, and on August 24, 2009, the Company further changed its name to NF Energy Saving Corporation, in both instances to more accurately reflect our business after a stock exchange transaction with Neng Fa. Our principal place of business is Room 3106, Tower C, 390 Qingnian Avenue, Heping District, Shenyang, P. R. China 110015. Our telephone number is (8624) 8563-1159.

On November 15, 2006, we executed a Plan of Exchange ("Plan of Exchange"), among the Company, 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 to 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 the Company ceased all of its other operations and adopted and implemented the business plan of Neng Fa.

Nengfa Energy's area of business includes research and development, processing, manufacturing, marketing and distribution of energy saving flow control equipment; manufacturing, marketing and distribution of energy equipment, wind power equipment and fittings; energy saving technical reconstruction; and energy saving technology consulting services, providing comprehensive solutions for energy-saving emission reduction. The Sales Company, which is a subsidiary of Nengfa Energy, is 99% owned by Nengfa Energy. The Sales Company engages in the sales and marketing of flow control equipment and products in the PRC.

On August 26, 2009, the Company completed a 3 for 1 reverse stock split. The total number of then outstanding shares of common stock changed from 39,872,704 pre-split to 13,291,387 post-split.

On September 15, 2010, the Company completed a 2.5 for 1 reverse share split of its common stock, the total number of outstanding shares of common stock changed from 13,315,486 pre-split to 5,326,501 post-split.

On October 4, 2010 our common stock commenced trading on the Nasdaq Global Market. On March 7, 2012, upon approval by Nasdaq, our common stock transferred from the Nasdaq Global Market to the Nasdaq Capital Market, Our common stock trades on the Nasdaq Stock Market under the ticker symbol “NFEC”.

Nengfa Energy is dedicated to energy efficiency enhancement in two fields: (1) manufacturing large diameter energy efficient intelligent flow control systems for thermal and nuclear power generation plants, major national and regional water supply projects and municipal water, gas and heat supply pipeline networks; and (2) energy saving technology consulting, optimization design services, energy saving reconstruction of pipeline networks and contractual energy management services for China's electric power, petrochemical, coal, metallurgy, construction, and municipal infrastructure industries.

Nengfa Energy has received many awards and honors from China's regulators, professional associations and renowned international organizations, including the ISO 9001:20000 certification from Det Norske Veritas Management System, the Liaoning Provincial Government's Award of Innovative Enterprise with Best Investment Return Potentials, the Special Industrial Contribution Award of the ESCO Committee of China Energy Conservation Association, and the Grade A Tax Payer Enterprise Award by the Liaoning State Local Tax Administration.

Nengfa Energy enjoys a reputation as a leader and dedicated energy saving company in China for over 15 years. Its professional capacity as a provider of energy services is officially certified by China's National Development and Reform Commission (NDRC). It has been a corporate member on the Board of the ESCO Committee of China Energy Conservation Association and a founding member of China Standardization and Technical Consortium for Energy Conservation and Emission Reduction.

As a certified energy service provider, Nengfa Energy is entitled to various tax breaks and energy saving awards created by Chinese governments at national, provincial and local levels. The major tax incentive by the central government includes two-year corporate income tax exemption plus a three-year reduction of corporation income tax for all energy performance based, profit sharing energy service projects. The government policy also incentivizes Nengfa Energy's clients with tax refunds on goods and properties of the energy saving projects when Nengfa Energy transfers to them at the end of energy service contracts.

The current principal development focus of Nengfa Energy is to complete the on-going construction project of the new manufacturing facility which will triple the company's capacity to produce large intelligent flow control systems and to provide our company with more advanced technology to supply high quality energy efficient and safety reliant products for high end markets such as nuclear power plants and super critical power generation plants.

Our corporate goal is to maintain our established position as a leading provider of energy efficiency flow control systems, a cutting edge innovator with clean energy and energy efficiency technologies, and a total energy efficiency solution and service provider dedicated to maximum returns to our investors, partners, clients and the environment.

Our products and services include the manufacturing and sales of energy-saving flow control equipment, energy saving technology consulting, optimization design services, energy saving reconstruction of pipeline networks and contractual energy management services for China's electric power, water power, petrochemical, coal, metallurgy, construction, and municipal infrastructure development industries.

Examples of contracts entered into by the Company or its subsidiaries are:

- In 2007, Nengfa Energy received contracts for our products and services to be used in three sections of the Middle Section-Jingshi Section of the national project to redirect the water from China's southern rivers to the north of the country. This phase of the project was completed and passed inspection in 2008.
- In 2008, the Company received flow control equipment contracts from seven cities in Liaoning Province for their water supply systems.
- In 2009, the Company was awarded several flow control equipment supply contracts, including one for the Xijiang diversion project of Guandong Province, and one for Phase 1 of Guangdong Yuedian Huilai Power Plant.

- In 2010, the Company received contracts for our products and services to be used in over 50 companies, including Chongqing Water Turbine Company, Chongqing Fangneng Electricity Power Company, Zhejiang Zheneng Jiahua Electricity Power Co. Ltd, and Shaoxing Binhai Thermal Power Company, and a project contract with Fuxin County in Inner Mongolian.
- In 2011, the Company received contracts from Beijing South to North Water Diversion Operation and Management Center, Jiangsu Changshu Power Generation Co. Ltd., Indian RODA Supercritical Power Station, Indian KAWAI Supercritical Power Station, Zhejiang ZhenNeng Zhong Mei Zhoushan Coal Industry and Electricity Power Co. Ltd., Shenzhen QinglinJing Water Diversion Project, Chongqing Yunneng Power Generation Co. Ltd., and Shenyang Mining Machinery Co. Ltd.
- In 2012, the Company received contracts from Beijing South to North Water Diversion Operation and Management Center, Shanxi Kegong Longsheng technology Ltd, Huaihu Coal Ltd, Chongqing Water-Turbine Ltd, Shenergy Company Limited, Shanghai Qingcaosha City-Environment Project (South Branch Project), Luanhe Power station of China Guodian Corporation ,Qiangui power Ltd , Guizhou Province, Guihang Nenghuan refrigeration engineering Ltd., Shanghai City.

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 of Financial Condition and Results of Operations" 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, industry pricing and technology trends, evolving industry standards, 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 compliance with our contract terms; 2) our ability to compete effectively with other companies in our industry segments; 3) our ability to raise capital or generate sufficient working capital in order to effectuate our business plan; 4) our ability to retain our key executives; and 5) our ability to win and perform significant construction and infrastructure projects.

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.

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Revenue Recognition

In accordance with the ASC Topic 605, "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 collectability is reasonably assured.

The Company's revenue is principally derived from three primary sources: Sales of energy saving flow control equipment, provision of energy project management and sub-contracting services, and provision of energy-saving reconstruction projects.

(a) Sale of products

The Company derives a majority of its revenues from the sale of energy saving flow control equipment. Generally, the energy saving flow control equipment is manufactured and configured to customer requirements. The Company typically produces the energy saving flow control equipment for customers over a period from one to six months. When the Company completes production in accordance with the customer's specification, the customer is required to inspect the finished products at the Company's plant to approve quality and conformity and make final acceptance. Once the product is accepted by the customer, the Company undertakes delivery to the customer, usually within a month.

The Company recognizes revenue from the sale of such finished products upon delivery to the customers, when the title and risk of loss are fully transferred to the customers. The Company records its revenues, net of value added taxes ("VAT"). The VAT rate is 17%.

(b) Service revenue

Service revenue is derived from energy-saving technical services, project management or sub-contracting services. These services are generally billed on a time-cost plus basis, for the period of service provided, which is generally from two to nine months. Revenue is recognized when the service is rendered and accepted by the customer.

(c) Project revenue

For energy-saving reconstruction projects, the Company follows the percentage-of-completion method under ASC Subtopic 605-35, "*Construction-Type and Production-Type Contracts*" to recognize revenues for energy-saving reconstruction projects that require significant modification or customization or installation for a term of service period exceeding 12 months.

(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, do not bear interest and are due within the contractual payment terms, generally 30 to 90 days from shipment. Credit is extended based on evaluation of a customer's financial condition, the customer's credit-worthiness and their payment history. Accounts receivable outstanding longer than the contractual payment terms are considered past due. Past due balances over 90 days and over a specified amount are reviewed individually for collectability. At the end of each period, the Company specifically evaluates each individual customer's financial condition, credit history, and the current economic conditions to monitor the progress of the collection of accounts receivable. The Company will consider an allowance for doubtful accounts for any estimated losses resulting from the inability of its customers to make required payments. For the receivables that are past due or not being paid according to payment terms, the appropriate actions are taken to exhaust all means of collection, including seeking legal resolution in a court of law. Account balances are charged off against the allowance after all means of collection has been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

For most of our contracts, our customers are generally large or stated-owned construction contractors or developers mainly engaged in government-sponsored infrastructure projects such as large hydraulic/aqua-engineering projects, power plants and urban sewage network projects in the PRC. Usually, these infrastructure projects are undertaken in a number of phases over a certain period of time. Our flow control equipment components are generally considered as major or significant components in the development phase of these infrastructure projects. As is standard in our industry practice, we are paid by these contractors and/or developers after they are paid by the local government or state-owned enterprises after the full inspection of each milestone during each construction phrase. Given that the construction of these infrastructure projects are very large and complex, and require a high level of quality at completion, the inspection process may take a considerable amount of time. Therefore, we may not collect the accounts receivable in a timely manner or only after a period longer than our agreed payment terms.

We have a high level of assurance on the recoverability of these accounts receivable, based on our ongoing assessment of customers' credit-worthiness and their payment history. These customers are usually large state-owned corporations with good credit ratings. At the end of each period, we specifically evaluate the structure and collectability of accounts receivable and for receivables that are past due or not being paid according to the payment terms, we take appropriate action to exhaust all means of collection, including seeking legal resolution in a court of law. For customers with large amounts of accounts receivable, we may take other steps, such as limiting sales and changing payment terms and requesting forms of security. We will consider an adjustment to the allowance for doubtful accounts for any estimated losses resulting from the inability of our customers to make required payments.

Account balances are charged off against the allowance for doubtful accounts after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance sheet credit exposure related to its customers.

Product Warranties

Under the terms of the contracts, the Company offers a free 12 to 24 months of product warranty on a case-by–case basis, depending upon the type of customer, and the nature and size of the infrastructure project. Under such arrangements, a portion of the project contract balance (usually 5-10% of contract value) is withheld by a customer from 12 to 24 months, until the product warranty has expired. The Company has not experienced any material returns under this warranty provision.

Inventories

Inventories are stated at the lower of cost or market (net realizable value), with the cost being determined on a weighted average method. Costs include material, labor and manufacturing overhead costs. Quarterly, the Company 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.

Plant and Equipment

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:

	Expected useful life	Residual value
Building	30 years	5 %
Plant and machinery	10 - 20 years	5 %
Furniture, fixture and equipment	5 - 8 years	5 %

Expenditure for repairs and maintenance is expensed as incurred. When assets have been 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.

Land Use Rights

All land in the PRC is owned by the PRC government. The government in the PRC, according to the relevant PRC law, may sell the right to use the land for a specified period of time. Thus, the Company's land purchase in the PRC is considered to be leasehold land and is stated at cost less accumulated amortization and any recognized impairment loss. Amortization is provided over the term of the land use right agreement on a straight-line basis, which is 50 years and will expire in 2059.

Income Taxes

Income taxes are determined in accordance with the provisions of ASC Topic 740, *"Income Taxes*" ("ASC 740"). Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present, and discloses in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under ASC 740, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts.

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 the local currency of the PRC, the Renminbi ("RMB"), which is 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 ASC Topic 830-30, "*Translation of Financial Statement*", 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.

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

	September 30, 2012	September 30, 2011
Period-end RMB:US$1 exchange rate	6.3340	6.4018
Average period RMB:US$1 exchange rate	6.3275	6.5060

RESULTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

A 2012 government report from the office of the Chinese Premier, Wen Jiabao stated that: "We made progress in conserving energy, reducing emissions, and protecting the ecological environment. We adopted and implemented the Comprehensive Work Plan for Conserving Energy and Reducing Emissions and the Work Plan for Controlling Greenhouse Gas Emissions for the Twelfth Five-Year Plan period, and the Guidelines on Strengthening Key Environmental Protection Tasks. The installed power capacity using clean energy reached 290 million KW, an increase of 33.56 million KW over the previous year. We strengthened the development of major energy conservation and environmental protection projects. We increased daily sewage treatment capacity by 11 million tons in urban areas, and installed desulphurization systems on all new coal-fired power-generating units with a total capacity of over 50 million KW. We tightened controls over industries that are energy intensive, have high emissions or possess excess production capacity, and closed down outdated production facilities whose production capacity amounted to 150 million tons of cement, 31.22 million tons of iron, and 19.25 million tons of coke." We believe this indicates that in 2012 and thereafter low carbon initiatives"…will become a new impetus and engine for economic development, and it will become a new weathervane for construction of leading industrial systems and consumption patterns. "

On April 6, 2010, the State Council of China approved the "Opinion on Accelerating the Implementation of Energy Management Contract to Promote the Development of Energy Service Industry," ("the Opinion") which was proposed by the National Development and Reform Commission, the Ministry of Finance, People's Bank of China and the State Taxation Administration. A series of new tax benefits will stimulate China's domestic energy conservation projects and services development. NF Energy will further develop its energy conservation projects by using "Energy Management Contract" ("EMC") and "Energy Performance Contract" models.

We believe that the stimulation plan of expanding environmental infrastructure that the Chinese government implements should provide the Company with a significant opportunity to provide energy saving services to the government supported infrastructure and industrial companies' energy saving infrastructure. In October 2010, the Company was recommended as one of the first batch of "Energy Saving Service Companies" by the Chinese National Development and Reform Commission, and consequently, we believe that we will benefit from the government's new tax deduction policy to energy saving service companies.

In 2011, the Twelfth Five Year Plan was launched in China with seven strategic emerging industries' being promoted, including new energy and renewable energy. The production of electric power development continues to increase in major river valleys, and it is anticipated that the total installed capacity will reach 1.4 billion kilowatts by 2015. Hydropower to be installed will reach between 280 and 290 million KW; nuclear power to be installed will reach between 40 and 50 million KW; wind power installed will reach between 90 and 100 million KW; it is anticipated that the total output will reach between 1.6 and 1.8 billion KW, hydropower and nuclear power to be installed will reach 70 – 80 million KW and 100 -150 million KW respectively. Conventional thermal power will be maintained at current levels, which can also generate new opportunities for us.

Looking forward 10 years, the fixed asset investment in hydro development is expected to be 4 trillion RMB, which is a 400 billion RMB annual investment on average. The investment in such field was 180 billion RMB in 2009. The annual growth is estimated to 122%. Investment in hydro power is expected to be between 800 and 900 billion RMB for the next 5 years; the investment on re-installed incremental capacity in the Twelfth Five Year Plan is estimated to triple the actual investment achieved in the Eleventh Five Year Plan.

As a result of the Twelfth Five-Year Plan, we believe ecological environmental protection will bring about high demand and supply in the market. Many aspects will be developed continuously, such as desulfurization, denigration, industrial sewage and water supply and sewerage works of the city

Therefore, the Company believes that it has strong market opportunities not only in terms of the intelligent flow control equipment and energy efficient flow control equipment it supplies to power plants, hydropower plants and water transportation projects, but also in terms of energy conservation services and energy saving projects by using the EPC model. The Company already has experience in energy project management in China. The Company is currently following up and bidding on some significant projects that could result in more opportunities in the market, including the South to North Water Diversion Project (middle),East to West diversion Project (western of Liaoning Province),Yellow River diversion into the Shanxi Province Project, and Songhua River diversion Project. Going forward, the Company plans to further develop its business model and regularly seek projects to develop comprehensive energy conservation and emission reduction solutions for energy saving reconstruction of steam heat energy system projects, industrial waste heat utilization, industrial boiler and furnace retrofitting and reconstruction, biomass utilization and other energy conservation fields.

REVENUES

Total revenues were $1,747,469 and $6,248,464 for the three and nine months ended September 30, 2012, respectively, as compared to $2,593,645 and $10,095,442 for the corresponding period in 2011. Total revenues decreased by $846,176 and $3,846,978, a 32.62% and 38.11% decrease for the three and nine months ended September 30, 2012, respectively, as compared to total revenues for the three and nine months ended September 30, 2011.

Product Revenues

Product revenues are derived principally from the sale of self-manufactured products relating to energy- saving flow control equipment. Product revenues were $1,244,143 and $4,478,879, or 71.20% and 71.68% of total revenues, for the three and nine months ended September 30, 2012, respectively, as compared to $2,314,623 and $7,569,291, or 89.24% and 74.98% of total revenues, for the corresponding period in 2011, respectively. Product revenues decreased by $1,070,480, a 46.25% decrease over the three months ended September 30, 2011 and decreased by $3,090,412, or 40.82% decrease over the nine months ended September 30, 2011. The primary reason for this decrease was the move to our new manufacturing facility and the fact that the new facility is not yet fully operational. However, when the construction of the new facility is completely finished, we expect revenues to increase in the first six months next year as compared to the last six months of this year.

Service Revenues

Service revenues are derived principally from energy-saving technical services and product collaboration processing services. The energy-saving technical services include providing energy saving auditing, conservation plans, and/or related service reports. The product re-processing services are generally billed on a time-cost plus basis. Revenue is recognized, net of business taxes when service is rendered and accepted by the customers. Service revenues were $503,326 and $1,769,585, or 28.8% and 28.32% of total revenues, for the three and nine months ended September 30, 2012, respectively, as compared to $279,022 and $2,526,151, or 10.76% and 25.02% of total revenues, for the corresponding period in 2011, respectively. Service revenues increased by $224,304 and decreased by $756,566 for the three months and nine months ended September 30, 2012, respectively, or 80.39% increase and 29.95% decrease over the same period in 2011. The reason is same with the reason of the product revenues.

Project Revenues

Project revenues are derived principally from energy-saving, re-engineering projects that require significant modification, customization and installation. The Company applies the percentage-of-completion method to recognize project revenues. There was no project revenue for the three and nine months ended September 30, 2012.

COSTS AND EXPENSES

Cost of Revenues

Cost of revenues consists primarily of material costs, direct labor, depreciation and manufacturing overhead, which are directly attributable to the manufacturing of products and the rendering of services. Total cost of revenues was $1,447,226 and $5,017,932 for the three and nine months ended September 30, 2012, respectively, as compared to $2,096,091 and $7,675,925 for the corresponding three and nine months in 2011, respectively, a decrease of $648,865 and $2,657,993 or approximately 30.96% and 34.63%. This decrease is due to the decrease of the revenues during the period.

The overall gross profit for the Company was $300,243 and $1,230,532 (17.18% and 19.69% margin) for the three and nine months ended September 30, 2012, respectively, as compared to $497,554 and $2,419,517 (19.18% and 23.97% margin) for the corresponding three and nine months in 2011, respectively, a decrease of $197,311 and $1,188,985, or 39.66% and 49.14%, compared to the corresponding period in 2011.

Cost of Products

Total cost of products was $1,110,899 and $3,846,328 for the three and nine months ended September 30, 2012, respectively, as compared to $1,879,605 and $5,843,314 for the corresponding three and nine months period in 2011, respectively, a decrease of $768,706 and $1,996,986, or approximately 40.90% and 34.18%, respectively. This decrease is primarily due to the decrease of product revenues during the period.

The gross profit for products was $133,244 (10.71% margin) and $632,551 (14.12% margin) for the three and nine months ended September 30, 2012, respectively, as compared to $435,018 (18.79% margin) and $1,725,977 (22.80% margin) for the corresponding three and nine months in 2011, respectively, a decrease of $301,774 (69.37%) and $1,093,426 (63.35%). This decrease is primarily due to the decrease in product revenues.

Cost of Services

The cost of services was $336,327 and $1,171,604 for the three and nine months ended September 30, 2012, respectively, as compared to $216,486 and $1,832,611 for the corresponding three and nine month period in 2011, respectively, an increase of $119,841 and a decrease of $661,007 or approximately increased by 55.35% and decreased by 36.07%.This decrease during the nine months ended September 30, 2012 is primarily due to the decrease in service revenues.

The gross profit for services was $166,999 (33.18% margin) and $597,981 (33.79% margin), for the three and nine months ended September 30, 2012, respectively, as compared to $62,536 (22.41% margin) and $693,540 (27.45% margin) for the corresponding period in 2011, respectively, an increase of $104,463 (or 167%) and a decrease of $95,559 (or 13.78%). This increase for the three months ended September 30, 2012 is primarily due to the increase in service revenues. However, the gross profit for services for the nine months ended September 30, 2012 decreased when compared with the corresponding period in 2011.

Cost of Projects

There was no project revenue for the three and nine months ended September 30, 2012, therefore there was no cost of projects recognized during these periods.

Operating Expenses

Total operating expenses were $201,448 and $757,475 for the three and nine months ended September 30, 2012, respectively, as compared to $325,031 and $1,096,386 for the corresponding three and nine months period in 2011, respectively, a decrease of $123,583and $338,911, or approximately decreased by 38.02% and 30.91%. This decrease is primarily due to the decrease of administrative expenses incurred by NF Company.

Selling and Marketing Expenses

The selling and marketing expenses were $39,264 and $97,122 for the three and nine months ended September 30, 2012, respectively, as compared to $27,630 and $71,767 for the corresponding three and nine months period in 2011, respectively, an increase of $11,634 and $25,355, or 42.10% and 35.33%. This increase is primarily due to the increase of marketing expenses incurred in connection with expanding into new markets.

General and Administrative Expenses

General and administrative expenses were $162,184 and $660,353 for the three and nine months ended September 30, 2012, respectively, as compared to $297,401 and $1,024,619 for the corresponding three and nine months period in 2011, respectively, a decrease of $135,217 and $364,266 or approximately 45.47% and 35.55%. The decrease of general and administrative expenses is due to the decrease of administrative expenses incurred by NF Company involving lower counsel fees and payments to the independent directors.

INCOME FROM OPERATIONS

Income from operations was $98,795 and $473,057, for the three and nine months ended September 30, 2012, respectively, as compared to $172,523 and $1,323,131 for the corresponding three and nine months period in 2011, respectively, a decrease of $73,728 and $850,074or approximately 42.74% and 64.25%.The decrease is primarily due to the decrease of total revenues.

Other Net Expense

Other expense for the three and nine months ended September 30, 2012 was $90,630 and $399,675, respectively, as compared to $82,282 and $286,145 for the corresponding three and nine months period in 2011, respectively, an increase of $8,348 and $113,530, or approximately 10.15% and 39.68%. This is primarily due to the increase in interest expense. As a result, income before taxes was $8,165 and $73,382 for the three and nine months ended September 30, 2012, respectively, compared to $90,241 and $1,036,986 for the corresponding period in 2011, respectively, a decrease of $82,076 and $963,604 or approximately 90.95% and 92.92%.

Income Tax Expense

For the three and nine months ended September 30, 2012, income tax expense was $7,149 and $53,401, respectively, as compared to $19,158 and $174,947 for the same period in 2011, respectively, a decrease of $12,009 and $121,546, or 62.68% and 69.48%. This decrease was due to the decrease in income before income tax.

As of September 30, 2012, the Company’s operations in the United States of America have resulted in $2,721,160 of cumulative net operating losses, which can be carried forward to offset future taxable income. The net operating loss carry forward will begin to expire in 2032, if not utilized. The Company has provided for a valuation allowance against the deferred tax assets of $925,194 on the expected future tax benefits from the net operating loss carry forward as management believes it is more likely than not that these assets will not be realized in the future.

NET INCOME

Net income for the three and nine months ended September 30, 2012 was $1,016 and $19,981, respectively, as compared to $71,083 and $862,039 for the corresponding three and nine months period in 2011, respectively, a decrease of $70,067 and $842,058 or approximately 98.57% and 97.68%. This decrease is primarily due to the decrease of the revenues of our products and services.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the nine months ended September 30, 2012, net cash provided by operating activities was $2,339,698. This was attributable primarily to net income of $19,981 adjusted by non-cash items of depreciation and amortization of $583,052, an increase in accounts and retention receivable by $ 187,180, an increase in inventories by $617,646, a decrease in prepayment and other receivable by $317,269, an increase in the accounts payable by $2,330,157, a decrease in income tax payable of $89,152, and a decrease in other payables and accrued liabilities by $16,483.

As of September 30, 2012, accounts receivable was $10,648,279, 95% of which is product revenue accounts receivable, and 5% of which is service revenue accounts receivable.

The Company is highly aware of the risk of default, and as a result, we actively monitor accounts receivable with aging above 1 year and those accounting for about 17% of the total accounts receivable, thus there is no significant credit risk. The Company will consider an allowance for doubtful accounts for any estimated losses resulting from the inability of its customers to make required payments. The Company's accounts receivable aging was as follows:

Items	Total	1-90 days	91-180 days	181-365 days	over 365 days
Product	10,160,104	1,250,901	1,865,940	5,653,620	1,389,643
Service	495,955	384,125	51,068	15,788	44,974
Total	10,656,059	1,635,026	1,917,008	5,669,408	1,434,617
Less: allowance for doubtful accounts	(7,780)	-	-	-	(7,780)
Accounts receivable, net	10,648,279	1,635,026	1,917,008	5,669,408	1,426,837

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Most of our customers make payments in accordance with the agreed payment terms in a timely manner. In rare cases, we may offer extended payment terms to certain customers for equipment sales. These customers are usually large state-owned corporations with good credit ratings. At the end of each period, we evaluate the structure and collectability of accounts receivable and for those receivables that are past due or not being paid according to the payment terms. We take appropriate action to exhaust all means of collection, including seeking legal resolution in a court of law, for our collection efforts.

We offer a free 12 to 24 months of product warranty on a case-by-case basis, depending upon the type of customer, and nature and size of the infrastructure projects. Under such arrangements, a portion of the project contract balance (usually 5-10% of contract value) is withheld by a customer from 12 to 24 months, until the product warranty has expired.

The reason for the increase in accounts payable of $2,330,157 is due to the increase of material supplies from the vendors. The income tax payable decreased $89,152 which is due to the decrease in revenues. The decrease of $16,483 in other payables and accrued liabilities was due to the decrease of value added tax.

Investing activities

For the nine months ended September 30, 2012, net cash used in investing activities was $502,129, which was primarily used in construction of our new manufacturing facility.

In 2008, the Company was approved by the local government to construct a new manufacturing facility for energy-saving products and equipment in Yingzhou District Industrial Park, Tieling City, Liaoning Province, PRC which covers an area of 81,561 sq.m. Total estimated construction cost of the new manufacturing facility is approximately $24 million. Phase I of the project was completed and began its operations in December 2011. Phase II of the project will be fully completed by the end of 2012.

Financing activities

For the nine months ended September 30, 2012, net cash used in financing activities was $1,378,723.

During the nine months ended September 30, 2012, the Company obtained a short-term loan of $1,573,146 from a related party, bank notes and short-term loans of $2,157,267 from the banks in the PRC, while the Company repaid the short term-bank borrowing of $1,580,415 and the bank demand notes of $3,160,831, respectively, upon maturity.

The Company subsequently repaid the bank borrowings of approximately $810,000 (Equivalent to RMB 5,110,000) upon maturity in October 2012.

INFLATION

We believe that the relatively moderate rate of inflation over the past few years has not had a significant impact on our results of operations.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any material off-balance sheet arrangements.

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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not Applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our chief executive officer and chief financial officer evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2011. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of September 30, 2011, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective.

Changes in Internal Controls

No change in our internal control over financial reporting occurred during the quarter covered by this report that has materially affected, or is reasonably likely to affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Robert E. Dawley v. NF Energy Corp. of America, M.D. Fla. Case no. 6:10-cv-0115-Orl-22DAB. Robert Dawley ("Dawley") commenced this action in the United States District Court for the Middle District of Florida against the Company, Mr. Gang Li and the Company's litigation counsel on October 1, 2010. The allegations in this action are identical to those that Dawley raised in a prior proceeding in which the United States Court of Appeals for the Eleventh Circuit entered judgment against him and in favor of the Company.

The District Court, upon motion by the defendants, has dismissed six of Dawley's ten claims with prejudice on the grounds that they are precluded by the Eleventh Circuit's prior judgment. Dawley has attempted to appeal the District Court's dismissal to the Eleventh Circuit. (Dawley v NF Energy Saving Corp. of America, U.S.C.A. 11th Cir. Appeal no. 11-10201-F.) However, that Court has questioned whether it has jurisdiction over the matter in light of the continued pendency of four of Dawley's claims before the District Court.

Dawley has filed an Amended Complaint in the District Court in an effort to address the deficiencies noted by it with respect to his four remaining claims. Defendants have moved to dismiss the Amended Complaint on the grounds that it still fails to allege facts sufficient to state a claim. Whether or not the District Court agrees, the Company intends to contest Dawley's claims on several grounds, including that he has failed to identify any basis for liability or damages.

As of October 19, 2012, The Eleventh Circuit Court of Appeals affirmed the District Court's dismissal of Dawley's claims.

As of September 30, 2012, the Company accrued $200,000 for this contingent liability and the Company's directors, Mr. Gang Li and Ms. Lihua Wang have personally agreed to guarantee all contingent liabilities and costs to be incurred in connection with this litigation claim. At this point, the Company does not believe that the judgment would have a material impact on, or result in significant contingencies to, the Company.

Item 1A. Risk Factors

Not Applicable

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

Not Applicable.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

The list of Exhibits , required by Item 601 of Regulation S-K to be filed as a part of this Form 10-Q are set forth on the Exhibit Index immediately preceding such Exhibits and is incorporated herein by this 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 (Registrant)
Date: November 13, 2012	By: /s/ Gang Li Gang Li Chairman, Chief Executive Officer and President
Date: November 13, 2012	By: /s/ Lihua Wang Lihua Wang Chief Financial Officer (Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

Exhibit No.	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14 of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002