NF Energy Saving Corp
Form 10-Q
November 14, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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x **Quarterly Report Pursuant to Section 13 Or 15(d) of the Securities Exchange Act of 1934 for the Quarterly Period Ended September 30, 2013**

.. **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) 2560-9775

(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. xYes **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). xYes **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) **o**Yes x No

As of October 31, 2013, the registrant had 5,499,147 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 Company'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.

TABLE OF CONTENTS

NF ENERGY SAVING CORPORATION

INDEX TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NF ENERGY SAVING CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

AS OF SEPTEMBER 30, 2013 AND DECEMBER 31, 2012

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

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$1,075,161	$3,071,367
Restricted cash	1,950,775	791,628
Accounts receivable, net	6,060,338	6,657,380
Retention receivable, current	691,110	883,421
Inventories	2,916,770	1,205,560
Prepayments and other receivables	670,733	1,083,726
Total current assets	13,364,887	13,693,082
Non-current assets:		
Deposits on property purchase	2,275,905	2,216,558
Construction in progress	14,559,727	13,263,866
Land use rights, net	3,102,922	3,071,015
Plant and equipment, net	10,165,677	10,587,181
TOTAL ASSETS	$43,469,118	$42,831,702
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable, trade	$1,302,811	$1,380,213
Short-term bank borrowings	7,597,457	6,016,370
Note payable, related party	1,500,000	3,079,139
Amount due to a related party	431,682	431,682
Convertible promissory notes, net	-	960,000
Income tax payable	2,841	-
Other payables and accrued liabilities	827,571	1,150,948
Total current liabilities	11,662,362	13,018,352
TOTAL LIABILITIES	11,662,362	13,018,352
Commitments and contingencies		

Stockholders' equity:		
Common stock, $0.001 par value; 50,000,000 shares authorized; 5,499,147 and 5,326,501 shares issued and outstanding as of September 30, 2013 and December 31, 2012, respectively	5,499	5,326
Additional paid-in capital	9,535,253	8,463,291
Statutory reserve	2,212,951	2,212,951
Accumulated other comprehensive income	4,503,870	3,619,119
Retained earnings	15,549,183	15,512,663
Total stockholders' equity	31,806,756	29,813,350
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$43,469,118	$42,831,702

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, 2013 AND 2012

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

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
REVENUE, NET:				
Product	$981,433	$1,244,143	$3,283,783	$4,478,879
Services	354,513	503,326	826,192	1,769,585
Total operating revenues, net	1,335,946	1,747,469	4,109,975	6,248,464
COST OF REVENUES:				
Cost of products	662,091	1,110,899	2,305,218	3,846,328
Cost of services	251,744	336,327	540,746	1,171,604
Total cost of revenues	913,835	1,447,226	2,845,964	5,017,932
GROSS PROFIT	422,111	300,243	1,264,011	1,230,532
OPERATING EXPENSES:				
Sales and marketing	29,432	39,264	90,637	97,122
General and administrative	126,932	162,184	636,262	660,353
Total operating expenses	156,364	201,448	726,899	757,475
INCOME FROM OPERATIONS	265,747	98,795	537,112	473,057
Other (expense) income:				
Other income	148	-	36,356	-
Interest income	234	7,090	4,782	13,763
Interest expense	(281,811)	(97,720)	(499,043)	(413,438)
Total other expense	(281,429)	(90,630)	(457,905)	(399,675)
(LOSS) INCOME BEFORE INCOME TAXES	(15,682)	8,165	79,207	73,382
Income tax expense	(9,580)	(7,149)	(42,687)	(53,401)
NET (LOSS) INCOME	$(25,262)	$1,016	$36,520	$19,981

Other comprehensive income (loss):				
– Foreign currency translation gain (loss)	202,078	(74,360)	884,751	94,658
COMPREHENSIVE INCOME (LOSS)	$176,816	$(73,344)	$921,271	$114,639
Net (loss) income per share:				
– Basic	$(0.00)	$0.00	$0.01	$0.00
– Diluted	$(0.00)	$0.00	$0.01	$0.00
Weighted average common shares outstanding:				
– Basic	5,470,795	5,326,501	5,436,710	5,326,501
– Diluted	5,470,795	5,454,501	5,436,710	5,454,501

See accompanying notes to condensed consolidated financial statements.

F-3

NF ENERGY SAVING CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

(Currency expressed in United States Dollars (“US$”))

(Unaudited)

	Nine months ended September 30, 2013	2012 (Restated)
Cash flows from operating activities:		
Net income	$36,520	$19,981
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	621,797	583,052
Imputed interest expenses, non-cash	16,699	-
Share issued for services rendered	60,600	-
Gain on disposal of plant and equipment	(34,548)	-
Change in operating assets and liabilities:		
Accounts and retention receivable	983,163	(187,180)
Inventories	(1,660,009)	(617,646)
Prepayments and other receivables	397,744	317,269
Accounts payable	(113,068)	(373,934)
Income tax payable	41,190	(89,452)
Other payables and accrued liabilities	(273,139)	(16,483)
Net cash provided by (used in) operating activities	76,949	(364,393)
Cash flows from investing activities:		
Purchase of plant and equipment	(1,137)	(15,453)
Proceeds from disposal of plant and equipment	157,581	-
Payments on construction in progress	(963,835)	(486,676)
Net cash used in investing activities	(807,391)	(502,129)
Cash flows from financing activities:		
Change in restricted cash	(1,125,127)	(333,468)
Payments on finance lease	-	(34,422)
Proceeds of note payable from a related party	-	1,573,146
Repayment on note payable to a related party	(1,603,145)	-
Proceeds from short-term bank borrowings	7,109,999	2,157,267
Repayment on short-term bank borrowings	(5,706,001)	(2,037,155)
	(1,324,274)	1,325,368

Net cash (used in) provided by financing activities		
Effect on exchange rate change on cash and cash equivalents	58,510	6,308
NET CHANGE IN CASH AND CASH EQUIVALENTS	(1,996,206)	456,154
BEGINNING OF PERIOD	3,071,367	2,317,456
END OF PERIOD	$1,075,161	$2,782,610
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for income taxes	$1,585	$142,853
Cash paid for interest	$450,468	$385,365
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Settlement of convertible promissory notes and interest	$994,836	$-

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, 2013

(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, 2013	5,326,501	$ 5,326	$ 8,463,291	$ 2,212,951	$ 3,619,119	$ 15,512,663	$ 29,813,350
Imputed interest for note payable, related party	-	-	16,699	-	-	-	16,699
Conversion of convertible promissory notes and interest	132,646	133	994,703	-	-	-	994,836
Share issued for services rendered	40,000	40	60,560	-	-	-	60,600
Foreign currency translation adjustment	-	-	-	-	884,751	-	884,751
Net income for the period	-	-	-	-	-	36,520	36,520
Balance as of September 30, 2013	5,499,147	$ 5,499	$ 9,535,253	$ 2,212,951	$ 4,503,870	$ 15,549,183	$ 31,806,756

See accompanying notes to condensed consolidated financial statements.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

(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, 2012 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, 2013 are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2013 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, 2012.

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"), which was commenced the deregistration process in August 2013	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 NINE MONTHS ENDED SEPTEMBER 30, 2013

(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, 2013, 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.

- 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. Each quarter 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. As of September 30, 2013, the Company did not record an allowance for obsolete inventories, nor have there been any write-offs.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

· Construction in progress

Construction in progress is stated at historical 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, the 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, 2013 and 2012 was $16,724 and $16,296, respectively.

Amortization expense for the nine months ended September 30, 2013 and 2012 was $49,751 and $48,918, respectively.

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

Year ending September 30:	
2014	$67,090
2015	67,090
2016	67,090
2017	67,090
2018	67,090
Thereafter	2,767,472
Total:	$3,102,922

· 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 %

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

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

Depreciation expense for the three months ended September 30, 2013 and 2012 was $191,353 and $184,720, respectively.

Depreciation expense for the nine months ended September 30, 2013 and 2012 was $572,046 and $534,134, respectively.

· Impairment of long-lived assets

In accordance with the provisions of ASC Topic 360, "*Impairment or Disposal of Long-Lived Assets* ", all long-lived assets such as property, plant and equipment held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is evaluated by a comparison of the carrying amount of an asset to its estimated future undiscounted cash flows expected to be generated by the asset. 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 three months ended September 30, 2013.

· 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 services
3. Provision of energy-saving reconstruction projects

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, 2013 and 2012.

(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.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

(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 receipt in advance. For the three and nine months ended September 30, 2013, 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.

· 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, 2013 and 2012, the Company did not have any interest and penalties associated with tax positions. As of September 30, 2013, the Company did not have any significant unrecognized uncertain tax positions.

The Company conducts the majority of its 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 with a free product warranty on a case-by-case basis, depending upon the type of customers, 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 months ended September 30, 2013 and 2012.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

· 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.

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, 2013	September 30, 2012
Period-end RMB:US$1 exchange rate	6.1514	6.3340
Average period RMB:US$1 exchange rate	6.2215	6.3275

· 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.

· Stock based compensation

The Company accounts for employee and non-employee stock awards under ASC 718, whereby equity instruments issued to employees for services are recorded based on the fair value of the instrument issued and those issued to non-employees are recorded based on the fair value of the consideration received or the fair value of the equity instrument, whichever is more reliably measurable.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

· Fair value of financial instruments

The carrying value of the Company’s financial instruments (excluding short-term bank borrowing and note payable): 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 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, note payable 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:

- *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; and
- *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 may be expected to cause a material impact on its financial condition or the results of its operations.

NOTE - 4 INVENTORIES

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Raw material	$1,064,684	$576,988
Finished goods	1,852,086	628,572
	$2,916,770	$1,205,560

F-12

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

NOTE - 5 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 construction project was completed and began its operations in December 2011. The cost of construction was transferred to property, plant and equipment and its depreciation expense began to be recorded in 2012. The second phase of construction project was structurally completed in 2012. As of September 30, 2013, the majority of equipment has been installed and started for trial testing. The Company expects the plant to be fully-operational by the end of this fiscal year upon the approval of fire security by the local authority.

NOTE - 6 SHORT-TERM BANK BORROWINGS

Short-term bank borrowings consist of the following:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Payable to financial institutions in the PRC:		
Demand bank notes:		
Equivalent to RMB18,735,000, due December 2013, which is collateralized by its restricted cash and guaranteed by a third party. The notes bear the handling fee equal to	$ 3,045,648	$ -

0.05% of its face value.		
Equivalent to RMB4, 000,000, due January 2013, 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.	-	633,302
Equivalent to RMB2, 000,000, due February 2013, 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	-	316,651
Equivalent to RMB4, 000,000, due February 2013, 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	-	633,302
Short-term bank loans:		
Equivalent to RMB10,000,000 with interest rate at 1.2 times of the Bank of China Benchmark Lending Rate, monthly payable, due April 2014, which is guaranteed by a guarantee company in Shenyang City, the PRC	1,625,646	-
Equivalent to RMB18,000,000 with interest rate at 1.2 times of the Bank of China Benchmark Lending Rate, monthly payable, due May 2014, which is guaranteed by Mr. Gang Li (the Company's CEO) and a guarantee company in Shenyang City, the PRC	2,926,163	-
Equivalent to RMB7,500,000 with interest rate at 1.2 times of the Bank of China Benchmark Lending Rate, monthly payable, due September 2013, which is guaranteed by a guarantee company in Shenyang City, the PRC	-	1,187,441
Equivalent to RMB2,500,000 with interest rate at 1.2 times of the Bank of China Benchmark Lending Rate, monthly payable, due September 2013, which is guaranteed by a guarantee company in Shenyang City, the PRC	-	395,814
Equivalent to RMB18,000,000 with interest rate at 1.3 times of the Bank of China Benchmark Lending Rate, monthly payable, due December 2013, which is guaranteed by Mr. Gang Li (the Company's CEO) and a guarantee company in Shenyang City, the PRC	-	2,849,860
Total short-term bank borrowings	$7,597,457	$6,016,370

The effective Bank of China Benchmark Lending rate is 6% and 6.53% per annum for the nine months ended September 30, 2013 and 2012.

Demand bank notes are issued by the banks to the Company's suppliers, to which the banks undertake to guarantee the Company's settlement of these amounts at maturity. The Company's suppliers will receive payments from the banks upon maturity of these notes and the Company is obliged to repay the face value of these notes to the banks at their respective due dates. These notes are interest-free and repayable within 180 days from the date of issuance. The Company is required to maintain a cash deposit with the banks equal to 50% of the notes' issued amount and pay a handling fee.

F-13

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

NOTE - 7 AMOUNT DUE TO A RELATED PARTY

As of September 30, 2013, the amount due to a related party represented temporary advances made by the Company's major stockholder, Pelaria 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 - 8 NOTE PAYABLE, RELATED PARTY

Notes payable consist of the following:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Note due to related party A	$1,500,000	$1,500,000
Note due to related party B	-	1,579,139
	$1,500,000	$3,079,139

These related parties are controlled by Ms. Lihua Wang (the Company's CFO) and Mr. Gang Li (the Company's CEO).

The note due to related party A is unsecured, carries interest at 2.5% per annum, which will be fully repaid upon maturity.

The note due to related party B is unsecured, interest-free and expected to be paid in May 2014. For the nine months ended September 30, 2013, imputed interest of $16,699 was recorded in additional paid-in capital.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

NOTE - 9 OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities consisted of the following:

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Payable to equipment vendors	$ 219,914	$247,384
Customer deposits	133,509	316,732
Value added tax payable	7,372	117,360
Provision for contingent liability	200,000	200,000
Accrued operating expenses	194,908	193,177
Other payable	71,868	76,295
	$ 827,571	$1,150,948

NOTE - 10 INCOME TAXES

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

As of September 30, 2013, the operations in the United States of America incurred $2,789,108 of cumulative net operating losses which can be carried forward to offset future taxable income. The net operating loss carryforwards begin to expire in 2033, if unutilized. The Company has provided for a full valuation allowance against the deferred tax assets of $948,297 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.

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, 2013 and 2012 is as follows:

	Nine months ended September 30,	
	2013	2012
Income before income taxes from PRC operation	$179,785	$133,832
Statutory income tax rate	25 %	25 %
Income tax expense at statutory rate	44,946	33,458
Effect from non-deductible items	36,122	19,943
Tax adjustments	(38,381)	-
Income tax expense	$42,687	$53,401

NOTE - 11 STOCKHOLDERS' EQUITY

On February 24, 2013, the Company issued 132,646 shares of its common stock to certain Note holders at a price of $7.50 per share to fully convert the promissory notes and related interest with an aggregate amount of $994,836.

During the period ended September 30, 2013, the Company granted and issued 40,000 shares of its common stock to a consultant for investor relation services to be rendered at the current average market value of $1.52 per share.

As of September 30, 2013, the Company had a total of 5,499,147 shares of its common stock issued and outstanding.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

NOTE - 12 WARRANTS

No warrants were issued or exercised during the nine months ended September 30, 2013.

	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, 2013	23,334	$ 4.50	$ 4.50	$ 7.93
Warrants granted	-	-	-	-
Warrants cancelled	-	-	-	-
Warrants exercised	-	-	-	-
Balance as of September 30, 2013	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 - 13 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, 2013 and 2012. 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, 2013 and 2012:

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

	Three months ended September 30, 2013		
	Heavy manufacturing business	Energy-saving related business	Total
Operating revenues, net:			
- Products	$981,433	$ -	$981,433
- Services	354,513	-	354,513
Total operating revenues	1,335,946	-	1,335,946
Cost of revenues	(913,835)	-	(913,835)
Gross profit	422,111	-	422,111
Depreciation and amortization	208,077	-	208,077
Total assets	43,469,118	-	43,469,118
Expenditure for long-lived assets	$22,912	$ -	$22,912

	Nine months ended September 30, 2013		
	Heavy manufacturing business	Energy-saving related business	Total
Operating revenues, net:			
- Products	$3,283,783	$ -	$3,283,783
- Services	826,192	-	826,192
Total operating revenues	4,109,975	-	4,109,975
Cost of revenues	(2,845,964)	-	(2,845,964)
Gross profit	1,264,011	-	1,264,011
Depreciation and amortization	621,797	-	621,797
Total assets	43,469,118	-	43,469,118
Expenditure for long-lived assets	$964,972	$ -	$964,972

	Three months ended September 30, 2012		
	Heavy manufacturing	Energy-saving	Total

	business	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		
	Heavy 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

All long-lived assets are located in the PRC.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

NOTE - 14 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, 2013 and 2012, 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, 2013				September 30, 2013
Customers	Revenues	Percentage of revenues			Accounts and retention receivable
Customer A	$961,394	72	%		$4,450,011
Customer G	153,177	11	%		-
Total:	$1,114,571	83	%	Total:	$4,450,011

	Nine months ended September 30, 2013	September 30, 2013
Customers	Revenues	

		Percentage of revenues		Accounts and retention receivable
Customer A	$3,064,507	75	%	$4,450,011

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

Customers		Nine months ended September 30, 2012 Revenues	Percentage of revenues			September 30, 2012 Accounts and retention receivable
Customer B		$2,121,242	34	%		$2,242,469
Customer A		2,011,818	32	%		7,339,665
	Total:	$4,133,060	66	%	Total:	$9,582,134

All customers are located in the PRC.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

(b) Major vendors

For the three and nine months ended September 30, 2013 and 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, 2013			September 30, 2013
Vendors	Purchases	Percentage of purchases		Accounts payable
Vendor F	$228,285	17	%	$ 116
Vendor A	162,896	12	%	4,228
Vendor G	149,247	11	%	618
Total:	$540,428	40	% Total:	$ 4,962

	Nine months ended September 30, 2013			September 30, 2013
Vendors	Purchases	Percentage of purchases		Accounts payable
Vendor A	$605,708	17	%	$4,228
Vendor E	354,746	10	%	116,965
Total:	$960,454	27	% Total:	$121,193

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

Vendors		Nine months ended September 30, 2012 Purchases	Percentage of purchases			September 30, 2012 Accounts payable
Vendor A		$1,496,004	32	%		$46,198
Vendor B		841,161	18	%		309,281
Vendor C		622,564	13	%		378,736
	Total:	$2,959,729	63	%	Total:	$734,215

All vendors are located in the PRC.

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

(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.

(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 and bank borrowings. The Company manages interest rate risk by varying the issuance and maturity dates variable rate debt, limiting the amount of variable rate debt, and continually monitoring the effects of market changes in interest rates. As of September 30, 2013, borrowings under related party notes were at fixed rates and short-term bank borrowings were at variable 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 - 15 COMMITMENTS AND CONTINGENCIES

(a) Unused credit facility

For the nine months ended September 30, 2013, the Company obtained a credit facility of bank demand notes with the maximum limit of $3.9 million (equal to RMB24 million), for a term of 6 months, expiring on December 13, 2013 which are collateralized by the Company’s restricted cash of $1.95 million (equal to RMB12 million) and guaranteed by a third party. As of September 30, 2013, the unused credit facility amounted to $0.86 million (equal to RMB5.26 million).

NF ENERGY SAVING CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013

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

(Unaudited)

(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.

The District Court, upon motion by the defendants, has dismissed Nine 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.

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

As of September 30, 2013, the Company accrued $200,000 for this contingent liability and the Company's directors, Mr. Gang Li and Ms. Li Hua Wang have personally agreed to guarantee all contingent liabilities and costs to be incurred in connection with this litigation claim.

NOTE - 16 SUBSEQUENT EVENTS

The Company evaluated subsequent events through the date the financial statements were issued and filed with this Form 10-Q.

On October 11, 2013, the Company issued 20,000 shares of its common stock to a consultant for investor relation services to be rendered.

NOTE - 17 RESTATEMENT OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

The Company revised its condensed consolidated statements of cash flows to correct the presentation under ASC Topic 230, after receiving comments from the SEC.

The following tables summarize the impact of the restatements on each affected line of the Company's condensed consolidated statements of cash flows for the nine months ended September 30, 2012:

	Previously **reported**	**Restatement**	Restated
Cash flows from operating activities:			
Accounts payable, trade	2,330,157	(2,704,091)	(373,934)
Net cash provided (used in) by operating activities	2,339,698	(2,704,091)	(364,393)
Cash flows from financing activities:			
Repayment on short-term bank borrowings	(4,741,246)	2,704,091	(2,037,155)
Net cash (used in) provided by financing activities	(1,378,723)	2,704,091	1,325,368
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Settlement of accounts payable in lieu of bank demand notes	$2,704,091	(2,704,091)	$-

F-21

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 and the “Contract-abiding and credit enterprise” Award by the Liaoning State Local administrative bureau for industry and commerce.

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.

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 a 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 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 Zhe Neng Zhong Mei Zhoushan Coal Industry and Electricity Power Co. Ltd., Shenzhen Qinglin Jing Water Diversion Project, Chongqing Yun Neng 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 , Electric Power Construction Corporation (Zambia’s project) , Shandong Province; Lu Electric International Trading corporation, and Shandong Province (Philippines project); Chuangshi Energy Ltd, Beijing; Peiling Water-resource Development Ltd, Chongqing; Iron and Steel Ltd, Maanshan; Oilfield Construction Group Ltd, Daqing ; Harbin Air-condition Ltd; China resources power (haifeng) Ltd.

In 2013, the Company received contracts from Zheneng Zhenhai Gas Thermal power Ltd; Chongqing Water Turbine Factory Ltd; Chongqing Wanliu power Ltd; Dalian Petrochemical Company of Petro of China ; China National Electric Power Engineering Ltd ; Xinyu Iron and Steel Ltd; Shandong Electric Power Corporation; Jiajie Gas-fired Cogeneration Branch of Shanxi New Energy Industry Group; and the Amedyan Power Ltd of State Grid.

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.

6

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) 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 when they have been 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, complex, and require a high quality level 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 its 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 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.

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:

	Sep 30, 2013	Sep 30, 2012
Period-end RMB:US$1 exchange rate	6.1514	6.3340
Average period RMB:US$1 exchange rate	6.2215	6.3275

RESULTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012

REVENUES

Total revenues were $1,335,946 and $4,109,975 for the three and nine months ended September 30, 2013, respectively, as compared to $1,747,469 and $6,248,464 for the corresponding period in 2012. Total revenues decreased by $411,523 and $2,138,489, a decrease of 23.55% and 34.22% for the three and nine months ended September 30, 2013, respectively, as compared to total revenues for the three and nine months ended September 30, 2012. The decrease in total revenue was due to 1) the Company's termination of an export contract sourced from South Korea with a lower profit margin; 2) the Company terminated certain other contracts with the lower profit margins and worse credit due to competitive market in order to improve financial condition of the Company.

Product Revenues

Product revenues are derived principally from the sale of self-manufactured products relating to energy- saving flow control equipment. Product revenues were $981,433 and $3,283,783, or 73.46% and 79.90% of total revenues for the three and nine months ended September 30, 2013, respectively, as compared to $1,244,143 and $4,478,879, or 71.20% and 71.68% of total revenues, for the corresponding period in 2012. Product revenues decreased by $262,710 and $1,195,086, or 21.12% and 26.68% for the three and nine months ended September 30, 2013, respectively, as compared to the same period in 2012. The decrease in product revenues was due to the fluctuation in the market the Company terminated the contracts that the payment scale was less than 20% before delivering to the customers in order to improve financial condition of the Company. Meanwhile, In the case of the contracts with the lower profit margins, the customers were required that the delivery have to be processing via loan.

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. Service revenues were $354,513 and $826,192, or 26.54% and 20.10% of total revenues for the three and nine months ended September 30, 2013 respectively, as compared to $503,326 and $1,769,585, or 28.8% and 28.32% of total revenues for the corresponding period in 2012. Service revenues decreased by $148,813 and $943,393, or 29.57% and 53.31% for the three and nine months ended September 30, 2013, respectively, compared to the corresponding period in 2012. The decrease in service revenue was primarily due to the Company's termination of two casting contracts exported to South Korea with the lower profit margins.

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 2013 and 2012. Along with attention given to the Energy conservation and environmental protection industry by the Chinese government, the Company enhanced and expanded sales efforts in certain industrial fields, including electric power, metallurgy, petrochemical, building materials etc. Currently, the Company secured three projects from Shenyang Forging Industry Ltd, including a cement grinding slag & dust collector project and a coal mill dust collector pre-heater bag dust collector retrofitting project.

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 $913,835 and $2,845,964 for the three and nine months ended September 30, 2013, respectively, as compared to $1,447,226 and $5,017,932 for the corresponding three and nine months in 2012, a decrease of $533,391 and $2,171,968 or 36.86% and 43.28%. The reason for the decrease in cost of revenues was primarily due to the decrease in revenue due the period.

The overall gross profit for the Company was $422,111 and $1,264,011 (31.59% and 30.75% margin) for the three and nine months ended September 30, 2013, respectively, as compared to $300,243 and $1,230,532 (17.18% and 19.69% margin) for the corresponding three and nine months in 2012, respectively, an increase of $121,868 and $33,479, or 40.59% and 2.72%, compared to the corresponding period in 2012. The increase of margin was due to the gross profit derived from the sale of large diameter electric butterfly valves, which have a higher profit margin due to their advanced technology.

Cost of Products

Total cost of products was $662,091 and $2,305,218 for the three and nine months ended September 30, 2013, respectively, as compared to $1,110,899 and $3,846,328 for the corresponding period in 2012, a decrease of $448,808 and $1,541,110, or 40.40% and 40.07%. This decrease is primarily due to the decrease of product revenues during the period.

The gross profit for products was $319,342 and $978,565 (32.54% and 29.80% margin) for the three and nine months ended September 30, 2013, respectively, as compared to $133,244 and $632,551 (10.71% and 14.12% margin) for the corresponding three and nine months in 2012, an increase of $186,098 (139.67%) and $346,014, (54.70%).

Cost of Services

The cost of services was $251,744 and $540,746 for the three and nine months ended September 30, 2013, respectively, as compared to $336,327 and $1,171,604 for the corresponding period in 2012, a decrease of $84,583 and $630,858 or approximately 25.15% and 53.85%. This decrease is primarily due to the decrease of service revenues during the period.

The gross profit for services was $102,769 and $285,446 (28.99% and 34.55% margin) for the three and nine months ended September 30, 2013, respectively, as compared to $166,999 and $597,981 (33.18% and 33.79% margin) for the corresponding period in 2012.

Cost of Projects

There was no project revenue for the three and nine months ended September 30, 2013, therefore there was no cost of projects recognized during these periods.

Operating Expenses

Total operating expenses were $156,364 and $726,899 for the three and nine months ended September 30, 2013 respectively, as compared to $201,448 and $757,475 for the corresponding period in 2012, a decrease of $45,084 and $30,576, or22.38% and 4.04%, respectively.

S***elling and Marketing Expenses***

The selling and marketing expenses were $29,432 and $ 90,637 for the three and nine months ended September 30, 2013, respectively, as compared to $39,264 and $97,122 for the corresponding period in 2012, a decrease of $9,832 and $6,485, or 25.04% and 6.68%, respectively. This decrease is primarily due to the decrease in labor costs of certain marketing employees.

General and Administrative Expenses

General and administrative expenses were $126,932 and $636,262 for the three and nine months ended September 30, 2013, respectively, as compared to $162,184 and $660,353 for the corresponding period in 2012, a decrease of $35,252 and $24,091, or 21.74% and 3.65%, respectively.

Income from operations

As a result of the factors mentioned above, income from operations was $265,747 and $537,112 for the three and nine months ended September 30, 2013, respectively, as compared to $98,795 and $473,057 for the corresponding three and nine months period in 2012, an increase of $166,952 and $64,055, or 168.99% and 13.54%. This increase is primarily due to the increase of gross profit and decrease of operating expenses.

Other (Expenses) Income

Other expense for the three and nine months ended September 30, 2013 was $281,429 and $457,905, respectively, as compared to $90,630 and $399,675 for the corresponding period in 2012, an increase of $190,799 and $58,230, or 210.53% and 14.57%. This increase is primarily due to the increase in interest expense.

As a result, the (loss) income before income taxes was ($15,682) and $79,207 for the three and nine months ended September 30, 2013, respectively, as compared to net income of $8,165 and $73,382 for the corresponding three and nine months period in 2012, a decrease of $23,847 and an increase of $5,825, respectively.

Income Tax Expense

For the three and nine months ended September 30, 2013, income tax expense was $9,580 and $42,687, respectively, as compared to $7,149 and $53,401 for the same period in 2012, an increase of $2,431 and a decrease of $10,714, or 34.01% and 20.06%,respectively.

As of September 30, 2013, the Company's operations in the United States of America have resulted in $2,789,108 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 2033, if not utilized. The Company has provided for a valuation allowance against the deferred tax assets of $948,297 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 (Loss) Income

As a result of the factors mentioned above, net (loss) income for the three and nine months ended September 30, 2013 was ($25,262) and $36,520, respectively, as compared to the net income of $1,016 and $19,981 for the corresponding period in 2012, an decrease of $26,278 and an increase of $16,539, or 2586.42% and 82.77% ,respectively. The reason for the net loss for the three months ended September 30, 2013 was primarily due to a $190,799 increase in other expenses from the prior period. This increase in net income of nine months was primarily due to the increase of gross profit.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

For the nine months ended September 30, 2013, net cash provided by operating activities was $76,949. This was attributable primarily to net income of $36,520, adjusted by non-cash items of depreciation and amortization of $621,797 **,** imputed interest expenses of $16,699, shares issued for services rendered of $60,660 , gain on disposal of plant and equipment of $34,548, an decrease in accounts and retention receivable by $983,163, an increase in inventories by $1,660,009, a decrease in prepayment and other receivable by $397,744, a decrease in the accounts payable by $113,068, an increase in income tax payable of $41,190, and a decrease in other payables and accrued liabilities by $273,139.

We have followed ASC 230-10-45-28 and choose to provide information about major classes of cash flow items by the indirect method. In the statement of cash flows, we have reported the same amount for net cash flow from operating activities indirectly by adjusting net income to reconcile it to net cash flow from operating activities. The reconciliation has separately reported all major classes of reconciling items, for example, changes during the period in accounts receivables pertaining to operating activities, in inventory, and in payables pertaining to operating activities.

As of September 30, 2013, the increase of inventories was primarily derived from the market fluctuation and delay in construction of some projects such that the product could not be delivered to the customers. It is anticipated that the inventories will be delivered at the end of this year, 2013.

As of September 30, 2013, accounts and retention receivable was $6,767,031, 78% of which is product revenue accounts receivable, and 22% of which is service revenue accounts receivable.

The Company is highly aware the risk of default, and as a result, we actively monitor accounts receivable with aging above 1 year and those account for about 35% of the total accounts receivable, thus reducing the Company's 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 and retention receivable aging was as follows:

Items	Total	1-90 days	91-180 days	181-365 days	Above 365 days
Product	5,322,371	1,191,494	1,603,414	1,358,460	1,159,003
Service	1,466,836	81,604	13,330	135,608	1,236,294
Total	6,789,207	1,273,098	1,626,744	1,494,068	2,395,297
Less: allowance for doubtful accounts	(37,759)	-	-	-	(37,759)
Accounts and retention receivable, net	6,751,448	1,273,098	1,626,744	1,494,068	2,358,538

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 actions to exhaust all means of collection, including seeking legal resolution in a court of law, for our collection efforts. Meanwhile, the Company also adopted strict sales polices according to the signed contracts. The Company evaluated the existing customers and potential customers; as well as reducing their credit in the sales and raising the quality of contracts and controls on the doubtful accounts.

15

We anticipate that the accounts receivable of five customers with aging above 365 days at September 30, 2013 will be collected at the end of November and at the end of December, respectively. The Collecting time indicated below:

Customer	AR with aging above 365 days	To be collected amount by November 2013	To be collected amount by December 2013
Customer "A"	866,039	519,623	346,416
Customer "B"	140,429	140,429	-
Customer "C"	501,169	422,668	-
Customer "D"	230,052	-	230,025
Customer "E"	139,470	-	139,429
Total	1,877,132	1,082,720	715,870

In the case of customer A and customer C, the Company will assign a specific person who will follow up the collection of accounts receivable based on the development of the project in the spot. The Company will collect accounts receivable from customer B according to the terms mutually agreed to in November, 2013. As for the remaining customers, customers D and E, the Company will take appropriate actions to exhaust all means of collection, including seeking legal resolution in a court of law, for our collect efforts.

According to the plan of collection in the accounts receivable, the Company enhanced the collection in the accounts receivable and adopted strong measures in collection of accounts receivable. The Company engaged a lawyer with the relevant experience to enhance collection efforts.

We offer a free 12 to 24 months of product warranty on a case-by-case basis, depending upon the type of customers, 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.

Investing activities

For the nine months ended September 30 2013, net cash used in investing activities was $807,391 which was primarily used in the remaining of construction of Phase II in the 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 Yinzhou District Industrial Park, Tieling City, Liaoning Province, the PRC.

It covers an area of 81,561 sq. m acres. Phase I of the project was structurally completed and began its operations in December 2011. Phase II of the project was structurally completed in December 2012, but is not yet fully operational. Our invested project based upon product casting equipment has not been completed due to market conditions and was thus postponed. The cost of construction was transferred to property, plant and equipment and its depreciation expense began to be recorded in 2012. The second phase of construction project was structurally completed in 2012. As of September 30, 2013, the installation of the smelting equipment was 60% complete, hoisting equipment was fully installed and the cleaning equipment was proceeding in installation. The Company expects the facility to be fully operational by the end of this fiscal year upon the approval of fire security by the local authority.

Financing activities

For the nine months ended September 30, 2013, the net financing cash outflow was $1,324,274 which was due the proceeds of short-term bank borrowings of $7,109,999 and increase of restricted cash of $1,125,127, the repayment on short-term bank borrowings of $5,706,001 and repayment of notes payable to related party of $1,603,145.

In April 2013, the Company obtained a short-term bank borrowing of $1,625,646 (Equivalent to RMB 10,000,000), from a commercial bank in China, Bank of Pufa, due April 8, 2014, with interest rate at 1.2 times of the Bank of China Benchmark Lending Rate, payable quarterly, which is guaranteed by a guarantee company in Shenyang City, the PRC.

In May 2012, the Company obtained another short-term bank borrowing of $2,926,163 (Equivalent to RMB 18,000,000), from a commercial bank in China, Bank of Pufa, due May 28, 2014, with interest rate at 1.2 times of the Bank of China Benchmark Lending Rate, monthly payable, which is guaranteed by a guarantee company in Shenyang City, the PRC.

In June 2013, the Company obtained a bank note of $3,901,550 (Equivalent to RMB 24,000,000) from Pufa Bank, due December 2013, which is collateralized by restricted cash of RMB12, 000,000. The bank note was issued to settle the accounts payable and there was no cash proceeds for the bank note.

The Company repaid three short-term bank borrowings prior to maturity date, which were derived from a commercial bank in China, Merchant Bank, $395,814 (Equivalent to RMB 2,500,000), due June 2013 and $1,187,441 (Equivalent to RMB7,500,000) , due September 2013 and another which was derived from Jilin Bank, due December 2013 , $2,849,860 (Equivalent to 18,000,000), respectively after obtaining a bank facility that came from another commercial bank in China, Bank of Pufa, in order to integrate credit resources and saving credit cost.

In June 2012, the Company obtained a short-term loan of $1,500,000 from 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, carries interest at 2.5% per annum, payable at maturity and originally due on May 31, 2012. Upon maturity, the note holder agreed to extend the maturity term to May 31, 2014.

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.

17

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

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures; as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), under the supervision of and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation and the identification of a material weakness in internal control over financial reporting described below, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures, subject to limitations as noted below, as of September 30, 2013 were not effective.

Internal control over financial reporting is defined in Rule 13a-15(f) under the Exchange Act as a process designed by, or under the supervision of, the company's principal executive officer and principal financial officer and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

l Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

l Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with management authorization; and l Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

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

Due to the Company’s limited resources, the Company does not have accounting personnel with extensive experience in maintaining books and records and preparing financial statements in accordance with US GAAP which could lead to untimely identification and resolution of accounting matters inherent in the Company’s financial transactions in accordance with US GAAP. This material weakness was identified by our Chief Executive Officer and Chief Financial Officer and our plans for remediation continue to be as described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, which was filed with the SEC on March 29, 2013.

Changes in Internal Control over Financial Reporting

Subject to the foregoing disclosure, there were no changes in our internal control over financial reporting during the nine months ended September 30, 2013 that materially affected, or are reasonably likely to materially 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.

19

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

As of September 30, 2013, there is no any update regarding this case and 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.

In August 9, 2013, the Company signed an IR SERVICE PROVIDER AGREEMENT with Chinese Investors.com , an Indiana Corporation (OTCQB:CIIX) under which this company will provide IR services for the Company for three months. As a result, the Company issued 60,000 shares which was issued by 20,000 shares in August , September and October, respectively. (Rule 144 restricted shares) for service rendered,

In October 8, 2013, the Company signed the service agreement with Real Miracle Limited for six months, the main service including 1) to assist with the Company in the development in the future so that raising the long-term potential increase;2) to assist with the Company for business cooperation or strategic partnership oversea; 3)to recommend the investors for financing. the Company issued 100,000 shares (Rule144 restricted shares) for service rendered.

These securities were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933 for transactions not involving a public offering.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

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 14, 2013 By: /s/ Gang Li
Gang Li
Chairman, Chief Executive Officer and President

Date: November 14, 2013 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-14o f 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 oft he 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