ForceField Energy, Inc. (FNRG)

Clean Energy Solutions

Rating: **BUY**

ForceField Energy, Inc.
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FNRG RESEARCH REPORT:

Published January 29, 2015

Near Term Target Price: $8.01

Recent Price: $6.65

- ***Company closes acquisition of ESCO Energy Services, with EBITDA of $1.2 million on $10 million revenues (year ended June 2014).***
- ***Company currently has outstanding bids with a potential of over $100 million.***
- ***Company reports revenues of $1.97 million for quarter ended September 30, 2014, versus approximately $826,000 for the September 2013 quarter.***

COMPANY OVERVIEW AND PRODUCTS:

ForceField Energy Inc. (NasdaqCM: FNRG), ("the company"), is a global company focused on sustainable energy solutions and improved energy efficiency. The company is incorporated in Nevada in 2007 and operates through two business segments: LED ("Light Emitting Diode") lighting and Organic Rankine Cycle ("ORC") technology, or waste heat. The company changed its name from SunSi Energies, Inc. to ForceField Energy, Inc. in February 2013.

The company is a distributor of LED commercial lighting products for several premier LED lighting manufacturers. Through its subsidiaries, American Lighting ("ALD"), which it purchased in April 2014, and ESCO Energy Services ("ESCO"), which the company purchased in October 2014, the company has made customer installations in a number of industries and countries. The ALD acquisition gave the company a presence in LED installations in 20 states, while the ESCO acquisition added a profitable and growing company with EBITDA of $1.2 million (unaudited), on revenues of $10 million for the year-ended June 30, 2014. Through these two subsidiaries, the company has completed lighting installations and retrofitted lighting systems and energy efficiency upgrades for companies across a variety of industries. The company's customers include Fortune 500 companies, small and medium sized business, governmental agencies, and utilities. The company's ALD subsidiary has completed installations for over 20,000 customers, including: Baskin Robbins; Burger King; CBS; IHOP; LG Electronics; Lowe's; Pacific Gas & Electric; Qualcomm Stadium; The City of San Diego; Toys R' Us; Wal-Mart; and Whirlpool.

The company entered the LED lighting industry in 2012, when it signed an exclusive agreement with Shanghai Lightsky Optoelectronics Technology Company, Ltd. ("Lightsky"). Lightsky is a Shanghai based manufacturer and marketer of LED lighting products and systems. The company has also been granted exclusive distribution rights for Lightsky products in Canada, the Caribbean and Central America,

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portions of Europe, Latin America, and Mexico. The company is focused on the market for multi-location commercial lighting installations, with an emphasis on industrial, institutional, and government segments. The company retro-fits existing customer facilities to provide customers with financing and the quick payback of using LED lighting due to: lower energy usage; lower heat generation (LED bulbs generate 90% less heat than incandescent bulbs resulting in lower air conditioning costs); and reduced maintenance costs, due to less frequent replacement of light bulbs. The company's solutions provide customers with a quick payback and high return on investment, generating 50% to 85% energy savings and a payback of two years or less on customer installations in airports, building facades, casinos, corporate campuses, offices, outdoor LED displays, parking garages, parking lots, warehouses, and other 24/7 lighting applications.

The company licenses modular heat recovery systems that convert waste heat into clean energy. The company has acquired a 50.3% share of TransPacific Entergy ("TPE") and has a distribution agreement to provide TPE's modular ORC units to industrial customers. The TPE solution uses a proprietary blend of refrigerants to capture heat energy from heat sources such as biomass processes, geothermal sources, and industrial flue gases, to convert heat into electrical energy. The advantage to using the TPE solution from the environmentally friendly nature of the refrigerants used (they are non-flammable, as well as non-toxic); and the range of temperatures at which the TPC units can operate (from 75° F to 1000° F).

The company's competitive strategy is to bid on numerous large projects in order to secure large corporate customers with portfolios of large properties, often measuring millions of square feet of space. The company has made, and is making, bid proposals for LED projects in Europe, Latin America, and the United States. The company is targeting large indoor spaces using high intensity lighting, multi-location retailers, and warehouse operations. The goal is to excel at selling to larger corporate and institutional prospects; especially those that have committed to "going green" and are conscious of project ROI and related efficiency and design improvements offered by LED lighting alternatives. The company's geographical focus is on Latin America and other parts of the world where the cost of per kilowatt hour of energy is especially high, and where the opportunity to generate significant savings by changing to LED lighting solutions is the most compelling.

As part of the company's LED marketing efforts, the company offers non-recourse third party financing to potential customers. The company entered multi-million dollar agreements with two of the ten largest U.S. banks in March 2013 to provide such financing to customers. The company has had discussions with Latin American banks and other entities to provide similar types of financing to customers, as well as financing the company directly for LED contracts that it is able to obtain. Currently, the company has provided all funding for the financing of customer's LED projects.

Target customers are hospitals, utility companies, companies with warehousing operations or large indoor spaces that use high intensity lighting, and new construction projects. In some instances, the company installs LED Streetlight and LED High Bay Lighting products, as well as less industrial LED

products in potential high-value customer's locations to enable customers to evaluate the efficacy and energy-savings of LED products. The company has made a number such installations for Costa Rican utilities; various large manufacturing, packaging, and warehousing companies; hospitals; and a variety of other companies with large facilities or multiple-locations, to allow these potential customers to evaluate the benefits of LED products.

MARKET AND COMPETITION:

The company competes in a large and growing industry as the desire for greater energy efficiency drives customer demand for both LED lighting solutions, and less expensive sources of electrical energy. Demand for the company's products is being driven by energy efficiency, reduced environmental impact, and energy independence trends. These trends are supported by business communities, political, and social interests. Worldwide, this interest has led to an industry growing at over 40% annual growth rate due to demand for lower electrical power consumption and longer lives form LED lamps, as well as government regulation leading to the phase out of less efficient incandescent light bulbs.

Light Emitting Diodes are semiconductors that convert electricity into light, a technology that has been in existence for over fifty years and became commercially viable recently with advances in LED performance and lower costs. Light Emitting Diodes have numerous features that separate them from traditional incandescent bulbs and other forms of lighting. These features include: durability (work in outdoor environments and cold temperatures); providing instant lighting (do not require a warm-up period to reach full brightness); low profile and direct lighting (LEDs are compact and don't require reflectors to point the light where it's needed, and can be used in various lighting fixtures including recessed lighting and under cabinets); long lasting (LEDs have an estimated lifetime of 35,000 to 50,000 hours versus 1,000 hours for typical incandescent bulbs); rapid cycling (life and performance aren't affected by frequent "on/off" cycles); and higher initial costs than CFLs (compact fluorescent light) and incandescent bulbs.

Light Emitting Diodes eliminate dangerous chemicals and minerals and reduce energy consumption significantly. The customer payback for an LED replacement installation in a commercial setting is currently in the range of 18 to 36 months. Development is underway to reduce the payback time further to 6 to 24 months. A cost comparison of LED lighting solutions versus three existing lighting technologies can be seen in the chart on the next page.[1]

Cost Comparison				
	Incandescent	Halogen	Fluorescent	BL Series LED
Electricity usage	60 W	42 W	13 W	10 W
Lumens	860	570	660	750
Lumens/Watt	14.3	13.6	50.8	75
Color Temperature Kelvin	2700	3100	2700	4000
CRI	100	100	82	75
Lifespan (hours)	2,000	3,500	8,000	40,000
Energy cost over 10 years – @15cents/kWhr	$197.10	$137.97	$42.71	$32.85
Comparison based on 6 hours use per day (21,900 hours over 10 yrs)				

The LED products that the company provides offer energy efficiency savings of up to 70% versus traditional lighting solutions, and over 50,000 hour rated operating lives. Lightsky products provide customers with proprietary circuitry, mechanical thermal management, optics, electronics and controllers to create commercial grade lighting fixtures exceeding current performance of other products in the LED industry.

The LED industry is rapidly growing and has the potential to essentially replace the incandescent light bulb market. According to the January 2015 edition of “LED Lighting: Market Shares, Strategies, and Forecasts, Worldwide, 2015 to 2020” by Research and Markets, the market for LED lighting is expected to reach $63.1 billion by the year 2020. According to this report, next generation lighting “achieves a complete replacement of incandescent filament bulbs with LED lighting that is more energy efficient, longer lasting and has a significantly lower cost of operation”. Customers are looking for a broad product portfolio, and having “a differentiated product design approach, proprietary technology and deep understanding of lighting applications aids in the ability to compete in LED lighting markets”.

The LED lighting market is expected to grow at a 45% annual growth rate through 2019, from $4.8 billion in 2012, to $42 billion in 2019. The company anticipates that the customer payback period from using LED lighting will continue to fall as diode efficiency improves and the cost of energy continues to increase over time. The company expects increasing incentives will be made available from local, state, and federal government programs, and that the company will improve product efficiencies through additional proprietary advances.

Industry growth is being driven by measures that governments worldwide are taking in order to phase out incandescent light bulbs, and replacing them with more energy-efficient lighting alternatives. Government actions have included regulations to effectively ban the manufacture, importation, or sale of current incandescent light bulbs for general lighting, and only allowing sale of future versions of incandescent bulbs if they are sufficiently energy efficient. Two governments that were early to phase-out incandescent bulbs were Brazil and Venezuela, who began phase-outs in 2005. Australia, the

European Union and Switzerland began their incandescent phase-outs in 2009. Argentina and Russia began phase-outs in 2012; and Canada, Malaysia, Mexico, South Korea, and the United States were scheduled to begin incandescent bulb phase-outs in 2014.

Demand for the company's waste heat products is driven by foreign, federal, state, and local government regulations and policies for the electric utility industry, as well as policies being promulgated by electric utilities themselves. Such policies and regulations often relate to electricity pricing and the technical interconnection of customer-owned electricity generation facilities. Such regulations are being modified and are likely to continue to be modified in the future in the United States and other countries. These policies and regulations could result in a significant reduction in potential customer purchases of, or investment in, research and development of alternative energy sources, including waste heat energy.

Many of the company's competitors are well-established corporations that have substantially greater financial, managerial, technical, marketing, personnel and other resources than the company. LED Display Screen Competitors include: Shenzhen EASTAR Electronic Co., Ltd (CreateLED Electronics) in ShenZhen, China; Shenzhen Chip Optech Co., Ltd., also in Shenzhen China; Mitsubishi Electric (Diamond Vision LED displays); Impact Video (ProStar and Smartvision LED displays); and Panasonic (Astrovision LED displays). The company's primary competitors for LED products include:

Cree, Inc.; Revolution Lighting; Nichia Corporation (Nichia); OSRAM Semiconductor GmbH (OSRAM); Koninklijke Philips Electronics N.V. (Philips); and Samsung LED Company (Samsung); as well as numerous other small- and medium-sized companies operating in the LED industry.

MANAGEMENT TEAM:

David Natan, President, Chief Executive Officer, Member of the Board of Directors – Mr. Natan has served as Chief Financial Officer for five U.S. public companies, and was appointed ForceField Energy's Chief Executive Officer in December 2010. Mr. Natan retains extensive knowledge of unique public company operations and management, and has direct experience with the AMEX and Nasdaq trading platforms.

Jason Williams, Chief Financial Officer - Prior to joining ForceField Energy, Mr. Williams was President of WM Consulting LLC, a business advisory firm. Mr. Williams has significant financial and operational experience with publicly traded companies, most recently with Protective Products of America, Inc., where he served as Vice President and Chief Financial Officer. As Corporate Controller and Director of Reporting & Analysis at PharmaNet Development Group, Inc., a Nasdaq–listed company, he was an integral part of the management team that facilitated a tenfold increase in revenues and a market capitalization rise from $150 million to $800 million during a three year period. His early career experience includes positions of increasing responsibility at Patagon.com, Inc., vFinance, Inc. and BISYS Regulatory Services. He holds a Bachelor of Science from Florida Atlantic University.

RECENT DEVELOPMENTS:

On Friday, January 2, 2015, the company filed a Form 8-K with the SEC for ESCO, that included the audited balance sheets, statements of operations, changes in shareholder's equity, and cash flows for the years ended December 31, 2013 and 2012, as well as the related notes to the financial statements and independent auditor's report. The company's filing also included the unaudited balance sheets, as of September 30, 2014, and unaudited statements of operations and cash flows for the nine months ended September 30, 2014, and September 30, 2013. The company's unaudited pro forma consolidated balance sheet, statements of operations, and comprehensive income for the nine months ended September 30, 2014, and the year ended December 31, 2013 were included in the filing.

On Monday, December 8, 2014, the company announced that it had signed an exclusive licensing agreement for advanced LED lighting management technology, and had expanded its relationship with Noveda Technologies, Inc. Under this exclusive licensing agreement, the company will retain exclusive rights for the use of Noveda's IntelliNET™ Luminaire Management System ("LMS"), to provide customers a 360° view of consumption patterns including energy consumption, financial savings, and carbon reduction in real-time. This cloud-based, real-time solution allows customers to uncover the source of energy waste, and gauge the impact of taking actions to eliminate waste. The five-year renewable agreement covers Canada, Mexico, and the United States.

On Wednesday, November 19, 2014, the company filed Form 10-K with the SEC for the three month period ended September 30, 2014. For the period, the company reported revenues of approximately $1.97 million, up approximately 138% versus $825,784 for the three months ended September 30, 2013. The company reported gross margins of $561,387, or 28.6% of revenues compared to gross margins of $255,902, 31% of revenues, for the September 30, 2013 quarter.

On Friday, November 14, 2014, the company reported that it had expanded its geographic reach to over 20 states in the U.S. as a result of the acquisition of its American Lighting, and ESCO Energy Services ("ESCO") subsidiaries. The company also announced the signing, in the prior 30-day period, of contracts with an aggregate estimated revenue potential in excess of $2.5 million to be completed in the next 12 months. The contracts include large and regional companies in the hospitality, retail, healthcare, and real estate market segments, as well as local and regional municipalities and public education facilities. With its two subsidiaries, the company has completed projects in 21 states and Puerto Rico in the past two years, and is undertaking additional sales and marketing initiatives to further expand its national footprint.

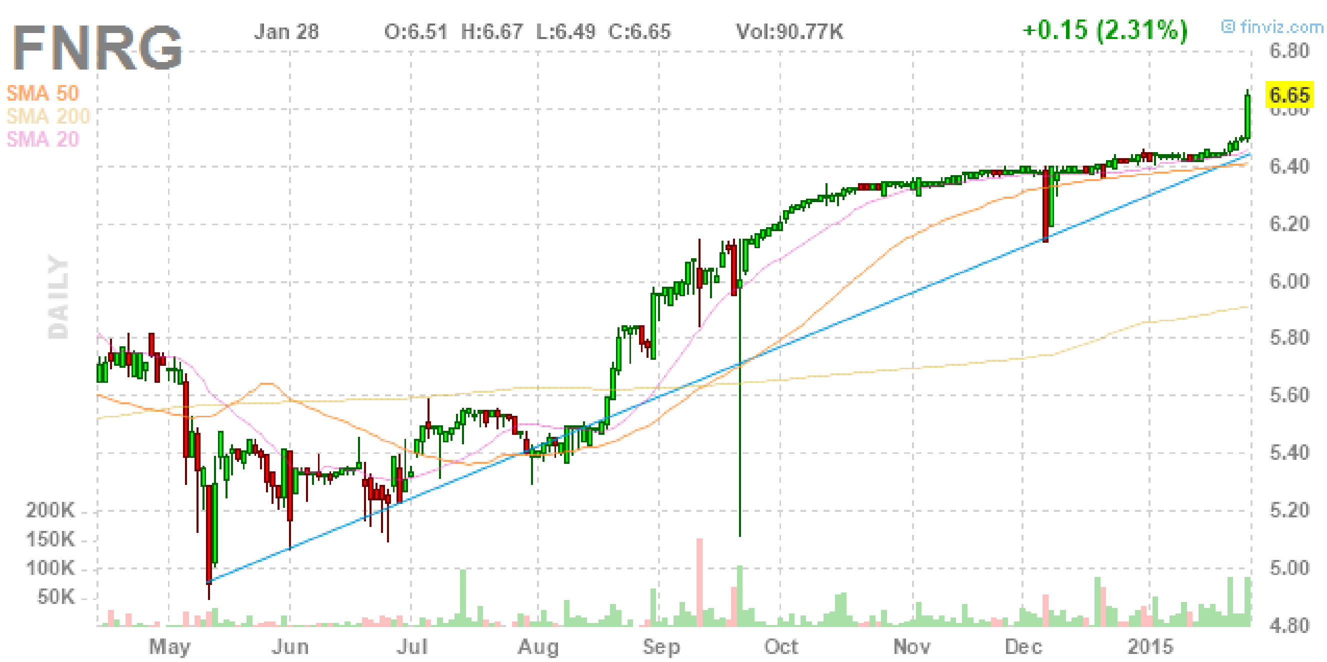
On Wednesday, November 5, 2014, the company announced that its ESCO Energy Services subsidiary was selected by the Connecticut Conference of Municipalities, along with two other companies, to implement the *Street Light LED Conversion Program.* Under the five-year service agreement, the company will work with CCM's 153 member-communities to implement the solution on a state wide basis. With full participation, the estimated value of the contract is $75 to $90 million; ESCO is in active discussions with five communities to immediately implement conversions to LED streetlights. Based upon the initial scope of work, the company estimates that these conversions will generate approximately $5 million in revenues. The company believes that it could realize a total of $25 to $30 million over the duration of the agreement.

OUTLOOK:

The company is focused on the large and swiftly growing market for sustainable and energy efficient energy generation and lighting markets. The company has been acquisitive, conducting over 25 transactions since its founding. Currently, the company has over $100 million in bids currently outstanding.

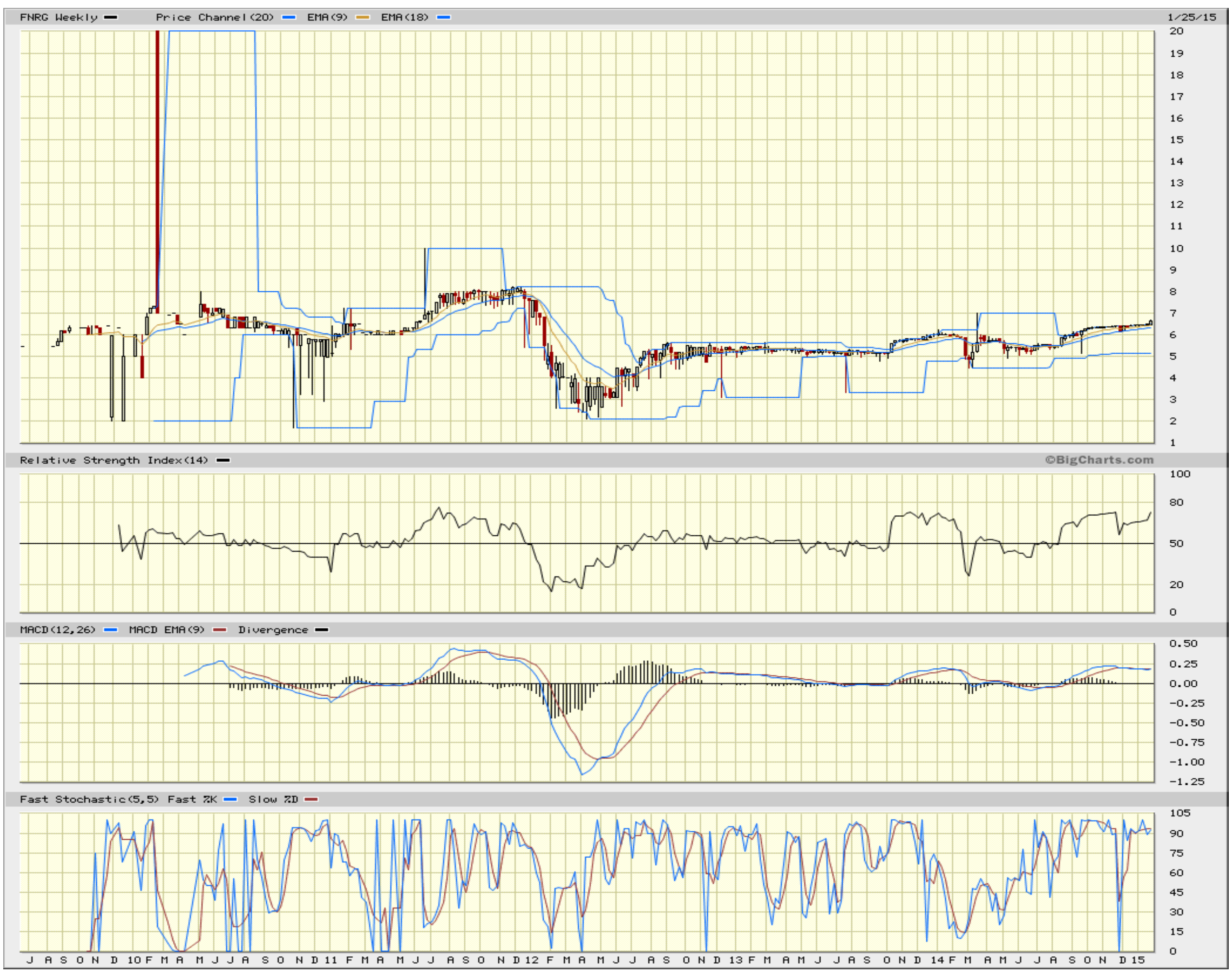
RECENT PRICE ACTION:

Beginning in mid-August 2014, the company's stock began trading higher, after it filed a Form 8-K with the SEC concerning its stock purchase agreement of ALD on August 14, 2014. The company's stock continued this rise, driven by a series of events, including earnings for the June 20, 2014 quarter, the acquisition of ESCO Energy Services Corporation, and several licensing agreements. This move from mid-August carried the stock from approximately $5.50 per share to a new level between approximately $6.40 and $6.50 by year-end 2014. On Wednesday, January 28, 2015, the company's stock closed at $6.65, on volume of 90,771 shares, as compared to the stock's three-month average of 26,121 shares. A chart illustrating price action in the company's stock can be seen below.[2]



VALUATION:

To arrive at a valuation for the company, I used a comparison group of companies that can be broadly described as focusing on “alternative energy”. Potential investors should be aware that this is not an exhaustive list of all companies with this focus, and that current and projected financial information on these companies is difficult to obtain. As a result, valuation based only on fundamental factors is useful for directional purposes only. I calculated a projected Price-To-Sales Ratio (Share Price/Revenues per Share) for the company of 2.25x, which is a premium to the average Price-To-Sales ratio for the comparison group. This resulted in a price target of approximately $8.00 per share for the company, based upon my estimate of the company’s 2016 revenues. Achieving my price target would bring it to levels where the stock traded in late 2011 and early 2012, as shown on the chart below.[3] From a technical perspective, the next major resistance level for the company’s stock is approximately $7.00 per share. The comparison group and results of my valuation comparison can be seen on page 9 of this report.



Company Name	Ticker Symbol	Current Price (01/28/15)[1]	Shares Outstanding (Millions)[1]	Projected Calendar 2016 Revenues (Millions)[2]	Revenue/Share	Price/Sales Ratio
Acuity Brands, Inc.	AYI	$151.68	43.00	$3,132.50	$72.85	2.08
Advanced Photonix, Inc.	API	$0.33	37.38	$43.95	$1.18	0.28
Ascent Solar Technologies, Inc.	ASTI	$0.61	15.36	$17.70	$1.15	0.53
Cree, Inc.	CREE	$35.83	110.72	$2,025.00	$18.29	1.96
Energy Focus, Inc.	EFOI	$4.53	9.42	$39.98	$4.24	1.07
Koninklijke Philips N.V.	PHG	$28.01	923.93	$26,120.00	$28.27	0.99
Orion Energy Systems, Inc.	OESX	$4.87	21.87	$109.80	$5.02	0.97
Revolution Lighting Technologies, Inc.	RVLT	$1.14	83.46	$195.00	$2.34	0.49
Average P/S Ratio:						**1.05**
Target P/S Ratio for ForceField Energy, Inc.:						**2.25**
ForceField Energy, Inc.	**FNRG**	**$6.65**	**18.11**	**$64.50**	**$3.56**	**1.87**
Target Price:						**$8.01**

[1]Data from finance.yahoo.com
[2]Analyst's Estimates of Projected 12 Month Revenues for the period ended December 31, 2015

BOTTOM LINE:

As with an investment in many smaller companies that are relatively thinly traded, an investment in the shares of ForceField Energy, Inc. is potentially a "high risk, high reward" situation. The company has changed its business model significantly, shedding some business lines to focus on LED lighting solutions and energy generation from waste heat. The company has been acquisitive in the past, and is likely to be acquisitive in the future, and its future success is dependent upon its ability to integrate recent acquisitions and continue to execute on its "revised" business model.

The company's share price is likely to remain highly volatile and will react to news releases, such as additional contract wins, future acquisitions, and earnings for the final quarter of 2014. With the company's potential for significant contract "wins", and market demand for LED lighting solutions, I believe that the potential rewards outweigh the foreseeable risks, and initiate coverage with a Buy recommendation.

APPENDIX:

The following unaudited Consolidated Balance Sheets for the three months ended September 30, 2014; unaudited Consolidated Statements of Operations and Comprehensive Loss for the three months and nine months ended September 30, 2014; and unaudited Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2014, should be read in conjunction with the company's unaudited financial statements and notes contained in the company's Form 10Q for the period ended September 30, 2014.[4]

FORCEFIELD ENERGY INC.
Consolidated Balance Sheets

	Successor September 30, 2014 (Unaudited)	Predecessor December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 511,156	$ 339,011
Accounts receivable, net	2,202,461	2,955,758
Inventory, net	627,914	212,789
Prepaid expenses and other current assets	624,847	73,611
Deferred tax assets, net	13,804	91,654
Total current assets	3,980,182	3,672,823
Accounts receivable, net -- noncurrent	—	4,921
Property and equipment, net	34,637	11,636
Goodwill	3,860,054	—
Intangible assets, net	3,483,825	—
Deferred tax assets, net – noncurrent	—	766,137
Other assets	110,964	—
Total assets	11,469,662	4,455,517
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	1,026,316	713,824
Accrued liabilities	617,666	281,013
Loans payable	130,000	—
Convertible debentures, net — current	100,000	—
Purchase consideration payable — working capital adjustment	240,684	—
Senior, secured promissory notes, net of discount	979,594	—
Related party payable	—	—
Income taxes payable	28,887	9,018
Total current liabilities	3,123,147	1,003,855
Convertible debentures, net of loan discounts	2,501,557	—
Earnout liability	1,186,000	—
Mandatorily redeemable preferred stock	—	1,209,891
Deferred tax liabilities, net — noncurrent	377,334	—
Other noncurrent liabilities	45,355	—
Total liabilities	7,233,393	2,213,746
Commitments and contingencies	—	—
Equity:		
ForceField Energy Inc. stockholders' equity:		
Preferred stock, $0.001 par value. 12,500,000 shares authorized; zero shares issued and outstanding	—	—
Common stock, Class A, $0.001 par value. 1,500,000 shares authorized; 949,373 shares issued and outstanding as of December 31, 2013	—	949
Common stock, Class B, $0.001 par value. 500,000 shares authorized; 303,030 shares issued and outstanding as of December 31, 2013	—	303
Common stock, $0.001 par value. 37,500,000 shares authorized; 18,012,790 shares issued and 16,550,693 outstanding as of September 30, 2014	18,013	—
Common stock held in treasury, at cost, 1,462,097 shares held at September 30, 2014	(1,166,071)	—
Additional paid-in capital	21,545,551	791,837
Accumulated earnings (deficit)	(16,230,032)	1,448,682
Accumulated other comprehensive income	17,532	—
Total ForceField Energy Inc. stockholders' equity	4,185,393	2,241,771
Noncontrolling interests	50,876	—
Total equity	4,236,269	2,241,771
Total liabilities and equity	$ 11,469,662	$ 4,455,517

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FORCEFIELD ENERGY INC.
Consolidated Statements of Operations and Comprehensive Loss (Unaudited)

	Successor Three Months Ended September 30, 2014	Predecessor Three Months Ended September 30, 2013
Sales	$ 1,965,705	$ 825,784
Cost of goods sold	1,404,318	569,882
Gross margin	561,387	255,902
Operating expenses:		
Depreciation and amortization	206,501	2,559
Selling and marketing	222,633	96,021
General and administrative	1,016,012	352,647
Professional fees	235,109	4,000
Total operating expenses	1,680,255	455,227
Loss from operations	(1,118,868)	(199,325)
Other income (expense):		
Interest expense, net	(115,685)	1,130
Total other income (expense)	(115,685)	1,130
Loss before income taxes	(1,234,553)	(198,195)
Provision for income taxes (benefit)	(4,571)	(120,578)
Net loss	(1,229,982)	(77,617)
Less: Accretion of preferred stock	—	23,258
Less: Net loss attributable to noncontrolling interests	(30,517)	—
Net loss attributable to ForceField Energy Inc. common stockholders	$ (1,199,465)	$ (100,875)
Basic and diluted loss per share attributable to ForceField Energy Inc. common stockholders	$ (0.07)	$ (0.08)
Weighted-average number of common shares outstanding:		
Basic and diluted	16,255,493	1,252,403
Comprehensive loss:		
Net loss	$ (1,229,982)	$ (77,617)
Foreign currency translation adjustment	5,484	—
Comprehensive loss	(1,224,498)	(77,617)
Comprehensive loss attributable to noncontrolling interests	(30,517)	—
Comprehensive loss attributable to ForceField Energy Inc. common stockholders	$ (1,193,981)	$ (77,617)

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FORCEFIELD ENERGY INC.
Consolidated Statements of Operations and Comprehensive Loss
(Unaudited)

	Successor	Predecessor	
	Period from April 26 through September 30 2014	Period from January 1 through April 25 2014	Nine Months Ended September 30, 2013
Sales	$ 2,958,646	$ 1,604,369	$ 3,925,587
Cost of goods sold	2,127,766	1,130,248	2,284,216
Gross margin	830,880	474,121	1,641,371
Operating expenses:			
Depreciation and amortization	252,656	3,334	7,637
Selling and marketing	342,734	193,148	376,849
General and administrative	1,663,557	486,970	1,092,834
Professional fees	548,341	37,317	23,865
Total operating expenses	2,807,288	720,769	1,501,185
Income (loss) from operations	(1,976,408)	(246,648)	140,186
Other income (expense):			
Interest expense, net	(177,060)	2,182	3,456
Total other income (expense)	(177,060)	2,182	3,456
Income (loss) before income taxes	(2,153,468)	(244,466)	143,642
Provision for income taxes (benefit)	(4,571)	800	13,556
Net income (loss)	(2,148,897)	(245,266)	130,086
Less: Accretion of preferred stock	—	31,054	115,713
Less: Net loss attributable to noncontrolling interests	(47,136)	—	—
Net income (loss) attributable to ForceField Energy Inc. common stockholders	$ (2,101,761)	$ (276,320)	$ 14,373
Basic and diluted earnings (loss) per share attributable to ForceField Energy Inc. common stockholders	$ (0.13)	$ (0.22)	$ 0.01
Weighted-average number of common shares outstanding:			
Basic and diluted	16,201,792	1,252,403	1,252,403
Comprehensive loss:			
Net income (loss)	$ (2,148,897)	$ (245,266)	$ 130,086
Foreign currency translation adjustment	(2,366)	—	—
Comprehensive income (loss)	(2,151,263)	(245,266)	130,086
Comprehensive loss attributable to noncontrolling interests	(47,136)	—	—
Comprehensive income (loss) attributable to ForceField Energy Inc. common stockholders	$ (2,104,127)	$ (245,266)	$ 130,086

FORCEFIELD ENERGY INC.
Consolidated Statements of Cash Flows (Unaudited)

	Successor	Predecessor	
	Period from April 28 through September 30 2014	Period from January 1 through April 25 2014	Nine Months ended September 30, 2013
Cash flows from operating activities of continuing operations:			
Net income (loss)	$ (2,148,897)	$ (245,266)	$ 130,086
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	252,656	3,334	7,637
Amortization of debt discount	59,171	—	—
Provision for recovery of doubtful accounts	3,774	(32,967)	(125,845)
Common stock issued for acquisition costs	109,600	—	—
Common stock issued in exchange for services	84,267	—	—
Changes in operating assets and liabilities:			
Accounts receivable	(110,863)	1,285,233	3,899,707
Inventory	(225,989)	9,307	59,241
Prepaid expenses and other current assets	(21,713)	(51,216)	(28,252)
Other assets	(10,254)	—	—
Accounts payable	323,654	(487,915)	(671,899)
Accrued liabilities	255,721	(120,270)	(539,907)
Income taxes payable and other noncurrent liabilities	(4,438)	(5,571)	—
Net cash provided by (used in) operating activities	(1,433,311)	354,669	2,730,768
Cash flows from investing activities:			
Cash consideration for acquisition of business, net of cash acquired	(3,180,932)	—	—
Notes receivable	(150,000)	—	—
Purchase of fixed assets	(5,577)	(2,768)	(4,845)
Net cash used in investing activities	(3,336,509)	(2,768)	(4,845)
Cash flows from financing activities:			
Proceeds from issuance of common stock, net of issuance costs	1,324,750	—	—
Proceeds from the exercise of common stock purchase warrants, net of issuance costs	315,000	—	—
Proceeds from the issuance of convertible debentures	500,000	—	—
Proceeds from loans payable	130,000	—	—
Proceeds from related party loans payable	75,000	—	—
Dividend and redemption payments on preferred stock	—	(283,000)	(2,050,000)
Net cash provided by (used in) financing activities	2,344,750	(283,000)	(2,050,000)
Effect of exchange rates on cash and cash equivalents	(1,537)	—	—
Net increase (decrease) in cash and cash equivalents	(2,426,607)	68,901	675,923
Cash and cash equivalents at beginning of period	2,937,763	339,011	216,729
Cash and cash equivalents at end of period	$ 511,156	$ 407,912	$ 892,652
Supplemental disclosure of cash flow information:			
Cash paid for interest	$ 114,819	$ —	$ 150
Cash paid for income taxes	$ 4,716	$ —	$ 351,069
Supplemental disclosure of non-cash investing and financing activities:			
Common stock issued related to acquisition of business	$ 1,647,420	$ —	$ —
Common stock issued with letter of intent to acquire a business	$ 137,000	$ —	$ —
Common stock issued to reduce loans payable and other accrued liabilities	$ 206,250	$ —	$ —
Debt issued related to acquisition of business	$ 1,000,000	$ —	$ —
Working capital adjustment payable related to acquisition of business	$ 1,329,528	$ —	$ —
Contingent purchase consideration	$ 1,186,000	$ —	$ —
Discount for beneficial conversion features on convertible debentures	$ 12,500	$ —	$ —
Discount for fair value adjustment on promissory notes	$ 34,981	$ —	$ —
Accretion of preferred stock	$ —	$ 31,504	$ 115,713

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RISK FACTORS:

An investment in the common stock of the company is subject to a number of risks. The information below contains excerpts of some of the risk factors included in the company's Form 10-K for the fiscal year ended December 31, 2013, and should be considered by all investors.[5] Investors should carefully consider the risk factors set out below and consider all other information contained herein, and in the company's SEC filings, before making an investment decision. We assume no obligation to update or revise any such forward-looking statements to reflect events or circumstances that occur after such statements are made. A more complete list of risk factors for the company can be found beginning on page 12 of its Form 10-K filing, dated December 31, 2013, which is available on the SEC's Edgar website:

http://www.sec.gov/Archives/edgar/data/1407268/000135448814001893/fnrg_10k.htm.

- ***The company faces significant challenges managing its growth as the market adopts LEDs for general lighting.***
- ***If the company is unable to effectively develop, manage and expand its distribution channels for its products, the company's operating results may suffer.***
- ***The markets in which the company operates are highly competitive and have evolving technical requirements.***
- ***The company will operate in an industry that is subject to significant fluctuation in supply and demand that affects its LED revenue and profitability.***
- ***The adoption of, or changes in, government and/or industry policies, standards or regulations relating to the efficiency, performance or other aspects of LED lighting or changes in government and/or industry policies, standards or regulations that discourage the use of certain traditional lighting technologies, could impact the demand for the company's LED products.***
- ***TransPacific's Organic Rankine Cycles systems may not achieve broad market acceptance, which would prevent the company from increasing its revenue and market share.***
- ***The Organic Rankine Cycle industry is highly competitive and the company expects to face increased competition as new and existing competitors introduce Organic Rankine Cycle products, which could negatively impact the company's results of operations and market share.***
- ***A drop in the retail price of electricity derived from the utility grid or from alternative energy sources may harm the company's business, financial condition and results of operations.***

- ***The company depends upon one outside contract manufacturer. The company's operations could be disrupted if it encounters problems with this contract manufacturer.***
- ***As a result of recent divestitures, the company may encounter difficulties restructuring operations that could result in financial results that are different than expected.***

- ***The company may authorize and issue shares of new classes that could be superior to or adversely affect you as a holder of its common stock.***
- ***The company's shares will be subordinate to all of its debts and liabilities, which increase the risk that you could lose your entire investment.***

SOURCES:

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[1] http://www.forcefieldenergy.com/led/why.html.
[2] http://finviz.com/quote.ashx?t=FNRG.
[3] http://bigcharts.marketwatch.com/advchart/frames/frames.asp?symb=FNRG&insttype=Stock&time=13&freq=2
[4] http://www.sec.gov/Archives/edgar/data/1407268/000135448814005929/fnrg_10q.htm.
[5] http://www.sec.gov/Archives/edgar/data/1407268/000135448814001893/fnrg_10k.htm.

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http://www.sec.gov/cgi-bin/browse-edgar?company=forcefield+energy&owner=exclude&action=getcompany
http://scr.zacks.com.
http://seekingalpha.com/symbol/FNRG.

Disclosure: I, Charles I. Reed, CFA have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I have no business relationship with any company whose stock is mentioned in the article.

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