

PROFIRE ENERGY INC  
Form 10-Q  
August 13, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the Quarterly Period Ended June 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 000-52376

PROFIRE ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

20-0019425  
(I.R.S. Employer  
Identification No.)

321 South 1250 West, Suite 1  
Lindon, Utah  
(Address of principal executive offices)

84042  
(Zip Code)

(801) 796-5127

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer

Edgar Filing: PROFIRE ENERGY INC - Form 10-Q

Non-acceleratedSmaller  
filer  reporting  
(Do not check ifcompany   
a smaller  
reporting  
company)

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

As of August 9, 2013 the registrant had 45,250,000 shares of common stock, par value \$0.001, issued and outstanding.

---

PROFIRE ENERGY, INC.  
FORM 10-Q  
TABLE OF CONTENTS

|  | Page |
|--|------|
| PART I — FINANCIAL INFORMATION   |      |
| Item 1. Financial Statements   | 3    |
| Condensed Consolidated Balance Sheets as of<br>June 30, 2013 (Unaudited) and March 31, 2013  | 3    |
| Condensed Consolidated Statements of Operations and Other<br>Comprehensive Income (Unaudited) for the three month periods<br>ended<br>June 30, 2013 and 2012 | 4    |
| Condensed Consolidated Statements of Cash Flows (Unaudited) for<br>the<br>three month periods ended June 30, 2013 and 2012                                   | 5    |
| Notes to Condensed Consolidated Financial Statements (Unaudited)   | 6    |
| Item 2. Management’s Discussion and Analysis of Financial Condition<br>And Results of Operations   | 10   |
| Item 3. Quantitative and Qualitative Disclosure about Market Risk  | 16   |
| Item 4. Controls and Procedures  | 16   |
| PART II — OTHER INFORMATION  |      |
| Item 1A. Risk Factors  | 18   |
| Item 6. Exhibits   | 18   |
| Signatures   | 19   |

---

## PART I. FINANCIAL INFORMATION

## Item 1 Financial Information

PROFIRE ENERGY, INC. AND SUBSIDIARY  
Condensed Consolidated Balance Sheets

## ASSETS

|  | June 30,<br>2013<br>(Unaudited) | March 31,<br>2013    |
|--|---------------------------------|----------------------|
| <b>CURRENT ASSETS</b>  |                                 |                      |
| Cash and cash equivalents  | \$ 1,791,153                    | \$ 808,772           |
| Accounts receivable, net   | 5,937,473                       | 5,879,165            |
| Inventories  | 4,518,817                       | 3,463,614            |
| Prepaid expenses   | 29,037                          | 1,967                |
| Total Current Assets   | 12,276,480                      | 10,153,518           |
| PROPERTY AND EQUIPMENT, net  | 2,133,758                       | 2,232,355            |
| <b>TOTAL ASSETS</b>  | <b>\$ 14,410,238</b>            | <b>\$ 12,385,873</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                 |                      |
| <b>CURRENT LIABILITIES</b>   |                                 |                      |
| Accounts payable   | \$ 1,288,298                    | \$ 1,499,330         |
| Accrued liabilities  | 249,404                         | 189,489              |
| Deferred income tax liability  | 61,313                          | 72,857               |
| Income taxes payable   | 781,199                         | 161,550              |
| Total Current Liabilities  | 2,380,214                       | 1,923,226            |
| <b>TOTAL LIABILITIES</b>   | <b>2,380,214</b>                | <b>1,923,226</b>     |
| <b>STOCKHOLDERS' EQUITY</b>  |                                 |                      |
| Preferred shares: \$0.001 par value,<br>10,000,000 shares authorized: no shares<br>issued and outstanding                                    | -                               | -                    |
| Common shares: \$0.001 par value,<br>100,000,000 shares authorized: 45,250,000 and<br>45,250,000 shares issued and outstanding, respectively | 45,250                          | 45,250               |
| Additional paid-in capital   | 649,161                         | 585,735              |
| Accumulated other comprehensive income   | 261,433                         | 371,466              |
| Retained earnings  | 11,074,180                      | 9,460,196            |

Edgar Filing: PROFIRE ENERGY INC - Form 10-Q

|                            |            |            |
|----------------------------|------------|------------|
| Total Stockholders' Equity | 12,030,024 | 10,462,647 |
|----------------------------|------------|------------|

|   |                      |                      |
|---|----------------------|----------------------|
| <b>TOTAL LIABILITIES AND<br/>STOCKHOLDERS' EQUITY</b> | <b>\$ 14,410,238</b> | <b>\$ 12,385,873</b> |
|---|----------------------|----------------------|

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

PROFIRE ENERGY, INC. AND SUBSIDIARY  
Condensed Consolidated Statements of Operations and Other Comprehensive Income (Loss)  
(Unaudited)

|   | For the Three Months Ended<br>June 30, |              |
|---|--|--------------|
|   | 2013                                   | 2012         |
| <b>REVENUES</b>                                 |  |              |
| Sales of goods, net                             | \$ 6,838,961                           | \$ 3,451,507 |
| Sales of services, net                          | 342,619                                | 225,766      |
| Total Revenues                                  | 7,181,580                              | 3,677,273    |
| <b>COST OF SALES</b>                            |  |              |
| Cost of goods sold - product                    | 2,724,480                              | 1,327,716    |
| Cost of goods sold-services                     | 268,197                                | 172,720      |
| Total Cost of Goods Sold                        | 2,992,677                              | 1,500,436    |
| <b>GROSS PROFIT</b>                             | 4,188,903                              | 2,176,837    |
| <b>OPERATING EXPENSES</b>                       |  |              |
| General and administrative expenses             | 839,123                                | 993,880      |
| Research and development                        | 95,930                                 | 39,780       |
| Payroll expenses                                | 835,076                                | 341,853      |
| Depreciation expense                            | 61,328                                 | 46,458       |
| Total Operating Expenses                        | 1,831,457                              | 1,421,971    |
| <b>INCOME FROM OPERATIONS</b>                   | 2,357,446                              | 754,866      |
| <b>OTHER INCOME (EXPENSE)</b>                   |  |              |
| Interest expense                                | (10,467)                               | (1,252)      |
| Rental income                                   | 615                                    | -            |
| Interest income                                 | 801                                    | 69           |
| Total Other Income (Expense)                    | (9,051)                                | (1,183)      |
| <b>NET INCOME BEFORE INCOME TAXES</b>           | 2,348,395                              | 753,683      |
| <b>INCOME TAX EXPENSE</b>                       | 734,411                                | 187,948      |
| <b>NET INCOME</b>                               | \$ 1,613,984                           | \$ 565,735   |
| <b>FOREIGN CURRENCY TRANSLATION GAIN (LOSS)</b> | \$ (110,033)                           | \$ (162,820) |
| <b>TOTAL COMPREHENSIVE INCOME</b>               | \$ 1,503,951                           | \$ 402,915   |
| <b>BASIC EARNINGS PER SHARE</b>                 | \$ 0.04                                | \$ 0.01      |

Edgar Filing: PROFIRE ENERGY INC - Form 10-Q

|  |    |            |    |            |
|--|----|------------|----|------------|
| FULLY DILUTED EARNINGS PER SHARE                               | \$ | 0.04       | \$ | 0.01       |
| BASIC WEIGHTED AVERAGE NUMBER<br>OF SHARES OUTSTANDING         |    | 45,250,000 |    | 45,030,989 |
| FULLY DILUTED WEIGHTED AVERAGE NUMBER<br>OF SHARES OUTSTANDING |    | 45,727,737 |    | 45,128,972 |

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

4

PROFIRE ENERGY, INC. AND SUBSIDIARY  
Condensed Consolidated Statements of Cash Flows  
(unaudited)

|  | For the Three Months Ended<br>June 30, |              |
|--|--|--------------|
|  | 2013                                   | 2012         |
| <b>OPERATING ACTIVITIES</b>  |  |              |
| Net Income   | \$ 1,613,984                           | \$ 565,735   |
| Adjustments to reconcile net income to<br>net cash provided by operating activities: |  |              |
| Depreciation expense   | 81,771                                 | 52,143       |
| Common stock issued for services   | -                                      | 90,000       |
| Bad debt expense   | -                                      | 9,951        |
| Stock options issued for services  | 63,427                                 | 20,133       |
| Changes in operating assets and liabilities:   |  |              |
| Changes in accounts receivable   | (170,636)                              | 472,239      |
| Changes in inventories   | (1,110,448)                            | (207,320)    |
| Changes in prepaid expenses  | (27,070)                               | (33,659)     |
| Changes in accounts payable and<br>accrued liabilities                               | (104,699)                              | (80,160)     |
| Changes in income taxes payable  | 612,273                                | 26,565       |
| Net Cash Provided by Operating<br>Activities   | 958,602                                | 915,627      |
| <b>INVESTING ACTIVITIES</b>  |  |              |
| Purchase of fixed assets   | (33,150)                               | (150,999)    |
| Net Cash Used in Investing Activities  | (33,150)                               | (150,999)    |
| <b>FINANCING ACTIVITIES</b>  |  |              |
| Effect of exchange rate changes on cash  | 56,929                                 | 50,806       |
| NET INCREASE IN CASH   | 982,381                                | 815,434      |
| CASH AT BEGINNING OF PERIOD  | 808,772                                | 1,914,877    |
| CASH AT END OF PERIOD  | \$ 1,791,153                           | \$ 2,730,311 |
| <b>SUPPLEMENTAL DISCLOSURES OF<br/>CASH FLOW INFORMATION</b>                         |  |              |
| <b>CASH PAID FOR:</b>  |  |              |
| Interest   | \$ 10,467                              | \$ 1,252     |



|              |    |         |    |         |
|--------------|----|---------|----|---------|
| Income taxes | \$ | 114,762 | \$ | 171,025 |
|--------------|----|---------|----|---------|

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

PROFIRE ENERGY, INC. AND SUBSIDIARY  
Notes to the Condensed Consolidated Financial Statements  
June 30, 2013 and March 31, 2013

NOTE 1 – CONDENSED FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows at June 30, 2013 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's March 31, 2013 audited financial statements. The results of operations for the periods ended June 30, 2013 and 2012 are not necessarily indicative of the operating results for the full years.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Reclassification

Certain balances in previously issued financial statements have been reclassified to be consistent with the current period presentation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash and all debt securities with an original maturity of 90 days or less. As of June 30, 2013 and March 31, 2013, bank balances included \$1,791,153 and \$808,772, respectively, held by the Company's banks guaranteed by the Province of Alberta, Canada and the FDIC.

Accounts Receivable

Receivables from the sale of goods and services are stated at net realizable value. This value includes an appropriate allowance for estimated uncollectible accounts. The allowance is calculated based on past collectability and customer relationships. The Company recorded an allowance for doubtful accounts of \$125,404 and \$133,974 as of June 30, 2013 and March 31, 2013, respectively.

Inventory

In accordance with ASC 330, the Company's inventory is valued at the lower of cost (the purchase price, including additional fees) or market based on using the entire value of inventory. Inventories are determined based on the average cost basis. As of June 30, 2013 and March 31, 2013 inventory consisted of the following:



PROFIRE ENERGY, INC. AND SUBSIDIARY  
Notes to the Condensed Consolidated Financial Statements  
June 30, 2013 and March 31, 2013

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

|                          | June 30,<br>2013 | March 31,<br>2013 |
|--------------------------|------------------|-------------------|
| Raw materials            | \$ -             | \$ -              |
| Finished goods           | 4,606,725        | 3,553,140         |
| Work in process          | -                | -                 |
| Subtotal                 | 4,606,725        | 3,553,140         |
| Reserve for obsolescence | (87,908)         | (89,526)          |
| Total                    | \$ 4,518,817     | 3,463,614         |

## Revenue Recognition

The Company records sales when a firm sales agreement is in place, delivery has occurred or services have been rendered, and collectability of the fixed or determinable sales price is reasonably assured. If customer acceptance of products is not assured, the Company records sales only upon formal customer acceptance.

## Income Taxes

The Company is subject to US and Canadian income taxes, respectively, on its US and Canadian income with a credit provided for foreign taxes paid. The combined effective rates of income tax expense (benefit) in the US and Canada are, respectively, 35% and 28% for the three months ended June 30, 2013 and 2012, respectively.

## Basic Earnings Per Share

The computation of basic earnings per share of common stock is based on the weighted average number of shares outstanding during the periods presented. The computation of fully diluted earnings per share includes common stock equivalents outstanding at the balance sheet date. The Company had 477,737 and 255,250 stock options included in the fully diluted earnings per share as of June 30, 2013 and 2012, respectively. The Company uses the treasury stock method to calculate the dilutive effects of stock options and warrants.

|   | For the Three Months Ended<br>June 30, |            |      |            |
|---|--|------------|------|------------|
|   | 2013                                   |            | 2012 |            |
| Net income applicable to common shareholders      | S                                      | 1,613,984  | S    | 565,735    |
| Weighted average shares outstanding               |  | 45,250,000 |      | 45,030,989 |
| Weighted average fully diluted shares outstanding |  | 45,727,737 |      | 45,128,972 |
| Basic earnings per share                          | S                                      | 0.04       | S    | 0.01       |
| Fully diluted earnings per share                  | S                                      | 0.04       | S    | 0.01       |

## Foreign Currency and Comprehensive Income

The Company's functional currencies are the United States dollar (USD) and the Canadian dollar (CAD), the reporting currency is USD. All transactions initiated in other currencies are translated into the reporting currency in accordance with ASC830-20, "Foreign Currency Matters – Foreign Currency Transactions". The period-end exchange rates of 0.950616 and 0.982898 were used to convert the Company's June 30, 2013 and March 31, 2013 balance sheets, respectively, and the statements of operations used weighted average rates of 0.976926 and 0.9901 for the three

months ended June 30, 2013 and 2012, respectively. All amounts in the financial statements and footnotes are presumed to be stated in USD, unless otherwise identified. Foreign currency translation gains or losses as a result of fluctuations in the exchange rates are reflected in the Statement of Operations and Other Comprehensive Income.

7

---

PROFIRE ENERGY, INC. AND SUBSIDIARY  
 Notes to the Condensed Consolidated Financial Statements  
 June 30, 2013 and March 31, 2013

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

The Company has evaluated recent accounting pronouncements and their adoption has not had or is not expected to have a material impact on the Company’s financial position, or statements.

Stock-Based Compensation

The Company follows the provisions of ASC 718, “Share-Based Payment.” which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The Company uses the Black-Scholes pricing model for determining the fair value of stock based compensation.

NOTE 3 – FAIR VALUE MEASUREMENT

The Company measures its cash equivalents and marketable securities at fair value. Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. A three-tier fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

- Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Include inputs that 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 for which all significant inputs are observable in the market or can be derived from observable market data. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, foreign exchange rates, and credit ratings.
- Level 3 - Unobservable inputs that are supported by little or no market activities.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company classifies its cash equivalents and marketable securities within Level 1. This is because it values its cash equivalents and marketable securities using quoted market prices.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

| Description | Fair Value Measurement at Reporting Date Using |  |   |  |
|-------------|--|--|---|--|
|             | As of June 30,<br>2013                         | Quoted Prices in<br>Active Markets<br>for Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|             |  |  |   |  |

Edgar Filing: PROFIRE ENERGY INC - Form 10-Q

Assets

|                  |    |           |    |           |    |   |    |   |
|------------------|----|-----------|----|-----------|----|---|----|---|
| Cash Equivalents | \$ | 1,791,153 | \$ | 1,791,153 | \$ | - | \$ | - |
|------------------|----|-----------|----|-----------|----|---|----|---|

8

---

PROFIRE ENERGY, INC. AND SUBSIDIARY  
 Notes to the Condensed Consolidated Financial Statements  
 June 30, 2013 and March 31, 2013

NOTE 4 – SEGMENT INFORMATION

The Company operates in the United States and Canada. Segment information for these geographic areas is as follows:

|                    | For the Three Months Ended<br>June 30, |           |      |           |
|--------------------|--|-----------|------|-----------|
|                    | 2013                                   |           | 2012 |           |
| Sales              |  |           |      |           |
| Canada             | \$                                     | 2,798,362 | \$   | 2,935,422 |
| United States      |  | 4,383,218 |      | 741,851   |
| Total              | \$                                     | 7,181,580 | \$   | 3,677,273 |
| Long-lived assests |  |           |      |           |
| Canada             | \$                                     | 1,488,622 | \$   | 1,583,613 |
| United States      |  | 645,136   |      | 454,724   |
| Total              | \$                                     | 2,133,758 | \$   | 2,038,337 |

NOTE 5 – SUBSEQUENT EVENTS

In accordance with ASC 855, the Company’s management has evaluated the subsequent events through the date the financial statements were issued and has found no subsequent events to report.



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

This discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the three month periods ended June 30, 2013 and 2012. For a complete understanding, this Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Financial Statements and Notes to the Financial Statements contained in this quarterly report on Form 10-Q and our annual report on Form 10-K for the year ended March 31, 2013.

### Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, (the "Securities Act") and Section 21E of the Securities and Exchange Act of 1934, as amended (the "Exchange Act") that are based on management's beliefs and assumptions and on information currently available to management. For this purpose any statement contained in this report that is that is not a statement of historical fact may be deemed to be forward-looking, including, but not limited to, statements relating to our future actions, intentions, plans, strategies, objective, results of operations, cash flows and the adequacy of or need to seek additional capital resources and liquidity. Without limiting the foregoing, words such as "may", "should", "expect", "project", "plan", "anticipate", "believe", "estimate", "intend", "budget", "forecast", "predict", "potential", "continue", "should", "could" comparable terminology or the negative of such terms are intended to identify forward-looking statements. These statements by their nature involve known and unknown risks and uncertainties and other factors that may cause actual results and outcomes to differ materially depending on a variety of factors, many of which are not within our control. Such factors include, but are not limited to, economic conditions generally and in the industry in which we and our customers participate; competition within our industry; legislative requirements or changes which could render our services less competitive or obsolete; our failure to successfully develop new services and/or products or to anticipate current or prospective customers' needs; price increases or employee limitations; and delays, reductions, or cancellations of contracts we have previously entered into, sufficiency of working capital, capital resources and liquidity and other factors detailed herein and in our other filings with the United States Securities and Exchange Commission (the "SEC" or "Commission"). Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated.

Forward-looking statements are predictions and not guarantees of future performance or events. Forward-looking statements are based on current industry, financial and economic information, which we have assessed but which by its nature is dynamic and subject to rapid and possibly abrupt changes. Our actual results could differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business. We hereby qualify all our forward-looking statements by these cautionary statements.

These forward-looking statements speak only as of their dates and should not be unduly relied upon. We undertake no obligation to amend this report or revise publicly these forward-looking statements (other than pursuant to reporting obligations imposed on registrants pursuant to the Exchange Act) to reflect subsequent events or circumstances, whether as the result of new information, future events or otherwise.

Throughout this report, unless otherwise indicated by the context, references herein to the “Company”, “we”, “our” or “us” and similar language means Profire Energy, Inc., a Nevada corporation, and its corporate subsidiaries and predecessors.

The following discussion should be read in conjunction with our financial statements and the related notes contained elsewhere in this report and in our other filings with the Securities and Exchange Commission.

## Overview

We manufacture, install and service oilfield combustion management technologies and related products (e.g. fuel train components, secondary airplates, etc.) Our products and services aid oil and natural gas producers in the safe and efficient transportation, refinement and production of oil and natural gas. Our primary products are burner management systems.

In the oil and natural gas industry there are numerous demands for heat generation and control. Oilfield vessels of all kinds, including line-heaters, dehydrators, separators, treaters, amine reboilers, free-water knockout systems, etc. require sources of heat to satisfy their various functions, which is provided by a burner flame inside the vessel. This burner flame is integral to the proper function of the oilfield vessel because these vessels use the flame’s heat to help separate, store, transport and purify oil and gas (or even water). The viscosity of the oil and gas is critical to a number of oilfield processes, and is directly affected by the heat provided by the burner flame inside the vessel.

Our products help monitor and manage this burner flame, reducing the need for employee interaction with the burner (e.g. for re-ignition or temperature monitoring), which results in greater operational efficiencies, increased safety, and improved compliance for the oil or gas producer. We believe there is a growing trend in the industry toward automation, including a demand for automation of burner management. In addition to this demand, there is also a need for skilled combustion technicians. Profire also trains and dispatches combustion technicians to address this industry need in Canada. When we believe there is adequate demand for such services in the U.S. and skilled technicians have been trained, we may also begin to market combustion services through our U.S. offices.

## Results of Operations

Comparison of the three months ended June 30, 2013 and 2012

### Total Revenues

Total revenues during the quarter ended June 30, 2013 increased \$3,504,307, or 95%, compared to the quarter ended June 30, 2012. This increase was principally attributable to increased sales of goods, net.

### Sales of Goods, Net

We realized an increase of \$3,387,454, or 98%, in sales of goods, net during the first fiscal quarter 2014 compared to the same fiscal quarter 2013. This increase was primarily due to improved sales execution, expansion of sales territories, and improved management of the sales team. We expect that our quarterly revenues will continue to grow year-over-year but at rates more closely approximating our historical revenue growth rates, as our sales team continues to execute on its sales strategy.

### Sales of Services, Net

During the three months ended June 30, 2013 we realized an increase of \$116,853, or 52%, in sales of services, net. We are beginning to experience increasing service revenues as a result of our expansion in the U.S. We anticipate service revenues in our Utah and Texas offices will continue to expand in upcoming quarters. As the sales team proactively looks for equipment sales the opportunity to discuss services related sales also increases.

### Total Cost of Goods Sold

As a percentage of total revenues, total cost of goods increased slightly to 42% during the first fiscal quarter 2014, compared to 41% during the first fiscal quarter 2013.

### Cost of Goods Sold-Products

During the quarter ended June 30, 2013 cost of goods sold-products increased \$1,396,764, or 105%, compared to the quarter ended June 30, 2012 as a result of increased sales. However, as a percentage of revenues from product sales, cost of goods sold-products was almost unchanged, increasing from 38.5% to 39.8%. We anticipate that, as a percentage of revenues from product sales, future cost of goods sold-product will continue to approximate historical levels, or about 40%.

### Cost of Goods Sold-Services

Cost of goods sold-services increased \$95,477, or 55%, during the quarter ended June 30, 2013 compared to the comparable prior-year quarter. As a percentage of service revenues, cost of goods sold-service increased from 77% to 78%. This increase was attributable, in part, to increased use of subcontractors to provide services to our customers.

### Gross Profit

Because the percentage increase in total revenue was slightly surpassed by the increase in cost of goods sold, gross profit decreased by 1% to 58% of total revenues during the quarter ended June 30, 2013.

### Total Operating Expenses

Our total operating expenses increased \$409,486, or 29%, during the three months ended June 30, 2013 compared to the three months ended June 30, 2012. As a percentage of total revenues, total operating expenses decreased from 39% to 26%. This decrease was largely due to economies of scale, as the Company has placed an emphasis on increased operational leverage.

### General and Administrative Expenses

During the three months ended June 30, 2013 general and administrative expenses decreased by \$154,757, or 16%. As a percentage of total revenues, general and administrative expenses decreased from 27% to 12%. This decrease was due to various factors including the reallocation of certain expenses as discussed in Payroll Expenses and negotiations which resulted in lower royalties paid during the quarter.

### Research and Development

During the quarter ended June 30, 2013 research and developments expenses were \$95,930 compared to \$39,780 during the quarter ended June 30, 2012. This increase was due to our use of subcontractors in creating new products and improvements to existing products.

### Payroll Expenses

We experienced a \$493,223, or 144% increase in payroll expenses in the first fiscal quarter 2014. This increase was primarily the result of increased hiring, particularly in our Utah and Texas offices during the past fiscal year, as well as reallocation of some expenses to the payroll expense account. As a percentage of total revenues, payroll increased from 9% to 12%. We anticipate that, as a percentage of total revenues, payroll expense will remain at around 12%.

### Depreciation Expense

Depreciation expense increased \$14,870, or 32%, during the quarter ended June 30, 2013 compared to the quarter ended June 30, 2012. This increase in depreciation expense is primarily due to number of fixed assets we purchased in the last fiscal year, which result in a higher ongoing depreciation expense. As a percentage of total revenues, however, depreciation decreased from 1.3% to 0.9%.

#### Total Other Income (Expense)

During the three months ended June 30, 2013 we realized total other expense of \$9,051 compared to total other expense of \$1,183 for the three months ended June 30, 2012. During the quarters ended June 30, 2013, we realized interest expense of \$10,467, interest income of \$801 and rental income of \$615. By comparison, during the quarter ended June 30, 2012, we realized interest expense of \$1,252 and interest income of \$69.

#### Net Income Before Income Taxes

The 95% increase we realized in total revenues, the 99% increase in total cost of goods sold and the 29% increase in total operating expenses combined to result in an increase in net income before income taxes during the quarter ended June 30, 2013 to \$2,348,395 compared to net income before income taxes of \$753,683 during the quarter ended June 30, 2012. As a percentage of total revenues, net income before income taxes represented 33% of total revenues, compared to 21% during the prior year comparable quarter.

#### Income Tax Expense

We recognized income tax expense of \$734,411 during the three months ended June 30, 2013 compared to \$187,948 during the three months ended June 30, 2012 as a result of the significant increase in total revenues. We anticipate our income tax obligations will typically follow a similar trend as our net income or loss before income taxes.

#### Foreign Currency Translation Gain (Loss)

Our consolidated financial statements are presented in U.S. dollars. Our functional currencies are the United States dollar and the Canadian dollar. Transactions initiated in other currencies translated to U.S. dollars using year-end exchange rates for the balance sheet and weighted average exchange rates for the statements of operations. Equity transactions were translated using historical rates. Foreign currency translation gains or losses as a result of fluctuations in the exchange rates are reflected in the Statement of Operations and Other Comprehensive Income (Loss).

Therefore, the translation adjustment in our consolidated financial statements represents the translation differences from translation of our financial statements. As a result, the translation adjustment is commonly, but not always, positive if the average exchange rates are lower than exchange rates on the date of the financial statements and negative if the average exchange rates are higher than exchange rates on the date of the financial statements.

During the quarter ended June 30, 2013 we recognized a foreign currency translation loss of \$110,033. By comparison, during the quarter ended June 30, 2012 we recognized a foreign currency translation loss of \$162,820. The losses were the result of the weakening of the U.S. dollar against the Canadian dollar.

## Total Comprehensive Income

For the foregoing reasons, we realized a total comprehensive income of \$1,503,951 during the quarter ended June 30, 2013 compared to total comprehensive income of \$402,915 during the quarter ended June 30, 2012.

## Liquidity and Capital Resources

We have not required any financing during the past two fiscal years.

As of June 30, 2013 we had total current assets of \$12,276,480 and total assets of \$14,410,238 including cash and cash equivalents of \$1,791,153. At June 30, 2013 total liabilities were \$2,380,214, all of which were current liabilities.

During the three months ended June 30, 2013 cash was primarily used to fund operations. See below for additional discussion and analysis of cash flow.

|   | Three months ended<br>June 30, 2013 | Three months ended<br>June 30, 2012 |
|---|-------------------------------------|-------------------------------------|
| Net cash provided by operating activities | \$ 958,602                          | \$ 915,627                          |
| Net cash used in investing activities     | (33,150)                            | (150,999)                           |
| Net cash provided by financing activities | -                                   | -                                   |
| Effect of exchange rate changes on cash   | 56,929                              | 50,806                              |
| Net increase in cash                      | \$ 982,381                          | \$ 815,434                          |

Net cash provided by our operating activities was \$958,602. As discussed above, during the three ended June 30, 2013 we realized an increase in net income which also resulted in an increase in cash. This increase was partially offset by decreases in cash resulting from a 30% increase in inventory and a 1% increase in accounts receivable. Inventory grew during the three months ended June 30, 2013 based on our forecasts for product demand in the next few quarters. This may ebb and flow from quarter to quarter as we forecast future demand. Accounts receivable were higher due to our increased sales in the most recent quarter combined with increased efforts to collect accounts receivable. If needed we believe our accounts receivable could be factored to provide cash flow, but to date this has not been necessary.

During the three months ended June 30, 2013 net cash used in investing activities was \$117,849 lower compared to the three months ended June 30, 2012. This reduction in cash used in investing activities is largely attributable to the acquisitions of additional space at our facilities in Spruce Grove, Alberta, Canada and Lindon, Utah, USA during the three months ended June 30, 2012. During the three-month period ended June 30, 2013 cash used in investing activities was largely used to fund our warehouse needs. .

As a result of the significant increase in cash provided from operations, the reduction in net cash used in investing activities and the weakening of the U.S. dollar, we realized a \$982,381 net increase in cash during the first three months of fiscal 2014 compared to an \$815,434 net increase during the first three months of fiscal 2013.

## Summary of Material Contractual Commitments

The following table lists our significant commitments as of June 30, 2013.

| Contractual Commitments | Total    | Payments Due by Fiscal Year |           |              |                      |
|-------------------------|----------|-----------------------------|-----------|--------------|----------------------|
|                         |          | Less than<br>1 year         | 1-3 years | 3-5<br>years | More than<br>5 years |
| Office Lease            | \$14,625 | \$14,625                    | \$ -      | \$ -         | \$ -                 |
| Total                   | \$14,625 | \$14,625                    | \$ -      | \$ -         | \$ -                 |

## Inflation

We believe that inflation has not had a significant impact on our operations since inception.

## Off-Balance Sheet Arrangements

As of June 30, 2013 we had no off-balance sheet arrangements.

## Item 3. Quantitative and Qualitative Disclosure about Market Risk

As a smaller reporting company, as defined in Rule 12b-2 promulgated under of the Securities Exchange Act of 1934, as amended, and in Item 10(f)(1) of Regulation S-K, we are electing scaled disclosure reporting obligations and therefore are not required to provide this the information requested by this Item.

## Item 4. Controls and Procedures

## Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of the end of the period covered by this quarterly report on Form 10-Q, our disclosure controls and procedures were not effective because there exist material weaknesses affecting our internal control over financial reporting.

The matters involving internal controls and procedures that our management considers to be material weaknesses under COSO and SEC rules are: (1) lack of a functioning audit committee and lack of independent directors on the Company's board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures; (2) inadequate segregation of duties consistent with control objectives; (3) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements; and (4) ineffective controls over period end financial disclosure and reporting processes. The aforementioned potential material weaknesses were identified by our Chief Financial Officer in connection with the preparation of our financial statements for the periods covered in this quarterly report on Form 10-Q, who communicated the matters to our management and board of directors.





Management believes that the material weaknesses set forth in items (2), (3) and (4) above did not have an effect on our financial results. However, the lack of a functioning audit committee and lack of a majority of independent directors on our board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures, can impact our financial statements for the future years.

#### Management's Remediation Initiatives

Although we are unable to meet the standards under COSO because of the limited funds available to a company of our size, we are committed to improving our financial organization. As funds become available, we will undertake to: (1) create a position to segregate duties consistent with control objectives, (2) increase our personnel resources and technical accounting expertise within the accounting function (3) appoint one or more outside directors to our board of directors who shall be appointed to the audit committee of the Company resulting in a fully functioning audit committee who will undertake the oversight in the establishment and monitoring of required internal controls and procedures; and (4) prepare and implement sufficient written policies and checklists which will set forth procedures for accounting and financial reporting with respect to the requirements and application of US GAAP and SEC disclosure requirements.

We will continue to monitor and evaluate the effectiveness of our internal controls and procedures and our internal control over financial reporting on an ongoing basis and are committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow. However, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks.

#### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2013 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

In addition to the other information set forth in this quarterly report on Form 10-Q, you should carefully consider the risks discussed in our annual report on Form 10-K for the year ended March 31, 2013, which risks could materially affect our business, financial condition or future results. These risks are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 6. Exhibits

Exhibits. The following exhibits are included as part of this report:

Exhibit Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)  
31.1

Exhibit Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)  
31.2

Exhibit Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350  
32.1

Exhibit Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350  
32.2

Exhibit XBRL Instance Document  
101.INS

Exhibit XBRL Taxonomy Extension Schema Document  
101.SCH

Exhibit XBRL Taxonomy Extension Calculation Linkbase Document  
101.CAL

Exhibit XBRL Taxonomy Definition Linkbase Document  
101.DEF

Exhibit XBRL Taxonomy Extension Label Linkbase Document  
101.LAB

Exhibit XBRL Taxonomy Extension Presentation Linkbase Document  
101.PRE

SIGNATURES

In accordance with Section 12 of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf, thereunto duly authorized.

PROFIRE ENERGY, INC.

Date: August 13, 2013

By: /s/ Brenton W. Hatch  
Brenton W. Hatch  
Chief Executive Officer

Date: August 13, 2013

By: /s/ Andrew Limpert  
Andrew Limpert  
Chief Financial Officer