

PROFIRE ENERGY INC
Form 10-Q
November 12, 2014

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 September 30, 2014

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 001-36378

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):

Edgar Filing: PROFIRE ENERGY INC - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting
company

(Do not check if 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 November 6, 2014 the registrant had 52,807,084 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 September 30, 2014 (Unaudited) and March 31, 2014	3
Condensed Consolidated Statements of Operations and Other Comprehensive Income (Unaudited) for the three and six month periods ended September 30, 2014 and 2013	4
Condensed Consolidated Statements of Cash Flows (Unaudited) for the six 5 month periods ended September 30, 2014 and 2013	5
Notes to Condensed Consolidated Financial Statements (Unaudited)	6
Item 2. Management’s Discussion and Analysis of Financial Condition And Results of Operations	12
Item 3. Quantitative and Qualitative Disclosure about Market Risk	20
Item 4. Controls and Procedures	20
PART II — OTHER INFORMATION	
Item 1. Legal Proceedings	21
Item 1A. Risk Factors	21
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 6. Exhibits	24
Signatures	25

PART I. FINANCIAL INFORMATION

Item 1 Financial Information

PROFIRE ENERGY, INC. AND SUBSIDIARY

Condensed Consolidated Balance Sheets

ASSETS

	September 30, 2014 (Unaudited)	March 31, 2014
CURRENT ASSETS		
Cash and cash equivalents	\$18,671,824	\$4,456,674
Accounts receivable, net	14,834,952	8,873,471
Inventories	8,214,485	6,579,858
Deferred tax asset	341,770	420,978
Prepaid expenses	232,894	32,263
Total Current Assets	42,295,925	20,363,244
PROPERTY AND EQUIPMENT, net	7,858,497	4,385,881
TOTAL ASSETS	\$50,154,422	\$24,749,125
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$3,574,333	\$1,461,138
Accrued liabilities	410,272	193,727
Deferred income tax liability	107,857	107,857
Income taxes payable	3,053,983	1,605,133
Total Current Liabilities	7,146,445	3,367,855
TOTAL LIABILITIES	\$7,146,445	\$3,367,855
STOCKHOLDERS' EQUITY		
Preferred shares: \$0.001 par value, 10,000,000 shares authorized: no shares issued and outstanding	-	-
Common shares: \$0.001 par value, 100,000,000 shares authorized: 52,650,084 and 47,836,543 shares issued and outstanding, respectively	52,650	47,836
Additional paid-in capital	23,978,644	6,496,980
Accumulated other comprehensive income	(389,729)	(231,051)
Retained earnings	19,366,412	15,067,505

Total Stockholders' Equity	43,007,977	21,381,270
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$50,154,422	\$24,749,125

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

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

	For the Three Months Ended September 30,		For the Six Months Ended September 30,	
	2014	2013	2014	2013
REVENUES				
Sales of goods, net	\$14,628,718	\$8,940,062	\$26,945,230	\$15,779,023
Sales of services, net	1,092,214	402,394	1,920,536	745,013
Total Revenues	15,720,932	9,342,456	28,865,766	16,524,036
COST OF SALES				
Cost of goods sold-product	6,469,992	3,550,640	11,537,619	6,275,120
Cost of goods sold-services	701,497	232,250	1,341,604	500,447
Total Cost of Goods Sold	7,171,489	3,782,890	12,879,223	6,775,567
GROSS PROFIT	8,549,443	5,559,566	15,986,543	9,748,469
OPERATING EXPENSES				
General and administrative expenses	2,866,401	1,259,192	5,275,470	2,098,315
Research and development	538,793	155,089	810,020	251,019
Payroll expenses	1,767,730	930,993	3,033,429	1,766,069
Depreciation expense	122,928	65,597	247,643	126,925
Total Operating Expenses	5,295,852	2,410,871	9,366,562	4,242,328
INCOME FROM OPERATIONS	3,253,591	3,148,695	6,619,981	5,506,141
OTHER INCOME (EXPENSE)				
Interest expense	-	(100)	-	(10,567)
Gain on disposal of fixed assets	-	1,617	-	1,617
Other income (expense)	(257)	1,575	2,864	2,190
Interest income	7,543	7,565	7,780	8,366
Total Other Income (Expense)	7,286	10,657	10,644	1,606
NET INCOME BEFORE INCOME TAXES	3,260,877	3,159,352	6,630,625	5,507,747
INCOME TAX EXPENSE	1,182,676	1,109,803	2,331,718	1,844,214
NET INCOME	\$2,078,201	\$2,049,549	\$4,298,907	\$3,663,533
FOREIGN CURRENCY TRANSLATION GAIN (LOSS)	\$(455,114)	\$(90,191)	\$(158,678)	\$(200,224)
TOTAL COMPREHENSIVE INCOME	\$1,623,087	\$1,959,358	\$4,140,229	\$3,463,309

Edgar Filing: PROFIRE ENERGY INC - Form 10-Q

BASIC EARNINGS PER SHARE	\$0.04	\$0.05	\$0.09	\$0.08
FULLY DILUTED EARNINGS PER SHARE	\$0.04	\$0.04	\$0.08	\$0.08
BASIC WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	52,482,823	45,289,301	50,222,367	45,274,863
FULLY DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	53,126,287	45,905,364	50,865,831	45,905,364

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

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

	For the Six Months Ended September 30,	
	2014	2013
OPERATING ACTIVITIES		
Net Income	\$4,298,907	\$3,663,533
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	247,643	168,020
Gain on disposal of fixed assets	-	(1,617)
Common stock issued for services	168,004	28,350
Stock options issued for services	712,820	180,944
Unrealized foreign exchange gain	(128,429)	-
Changes in operating assets and liabilities:		
Changes in accounts receivable	(5,961,481)	(2,776,585)
Changes in inventories	(1,634,627)	(2,723,568)
Changes in prepaid expenses	(200,631)	(60,376)
Changes in deferred tax asset/liability	79,208	-
Changes in accounts payable and accrued liabilities	2,329,740	897,043
Changes in income taxes payable	1,448,850	870,119
Net Cash Provided by Operating Activities	1,360,004	245,863
INVESTING ACTIVITIES		
Proceeds from disposal of equipment	-	33,910
Purchase of fixed assets	(3,720,259)	(389,365)
Net Cash Used in Investing Activities	(3,720,259)	(355,455)
FINANCING ACTIVITIES		
Stock issued for cash	18,000,000	-
Stock offering costs	(1,529,057)	-
Stock issued in exercise of stock options	134,711	48,000
Net Cash Used in Financing Activities	16,605,654	48,000
Effect of exchange rate changes on cash	(30,249)	(144,925)
NET INCREASE (DECREASE) IN CASH	14,215,150	(206,517)
CASH AT BEGINNING OF PERIOD	4,456,674	808,772
CASH AT END OF PERIOD	\$18,671,824	\$602,255
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID FOR:		

Edgar Filing: PROFIRE ENERGY INC - Form 10-Q

Interest	\$-	\$100
Income taxes	\$-	\$302,300
NON CASH INVESTING AND FINANCING ACTIVITIES:		
None	\$-	\$-

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
September 30, 2014 and March 31, 2014

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 September 30, 2014 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, 2014 audited financial statements. The results of operations for the periods ended September 30, 2014 and 2013 are not necessarily indicative of the operating results for the full years.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

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 September 30, 2014 and March 31, 2014, bank balances included \$18,671,824 and \$4,456,674, respectively, held by the Company's banks. As of March 31, 2014 \$3,242,159 was guaranteed by the Province of Alberta, Canada and \$250,000 was guaranteed by the FDIC. As of September 30, 2014 \$2,725,096 USD, was guaranteed by the Province of Alberta, Canada and \$250,000 USD guaranteed by 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 \$121,705 and \$122,390 as of September 30, 2014 and March 31, 2014, 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 September 30, 2014 and March 31, 2014 inventory consisted of the following:

PROFIRE ENERGY, INC. AND SUBSIDIARY
Notes to the Condensed Consolidated Financial Statements
September 30, 2014 and March 31, 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

	September 30, 2014	March 31, 2014
Raw materials	\$ -	\$ -
Finished goods	8,404,244	6,665,489
Work in process	-	-
Subtotal	8,404,244	6,665,489
Reserve for Obsolescence	(189,759)	(85,631)
Total	\$ 8,214,485	\$ 6,579,858

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 six months ended September 30, 2014 and 2013, 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 1,037,315 and 630,500 stock options included in the fully diluted earnings per share as of September 30, 2014 and 2013, respectively. The Company uses the treasury stock method to calculate the dilutive effects of stock options and warrants.

	For the Six Months Ended September 30,	
	2014	2013
Net income applicable to common shareholders	\$ 4,298,907	\$ 3,663,533
Weighted average shares outstanding	50,222,367	45,274,863
Weighted average fully diluted shares outstanding	50,865,831	45,905,364
Basic earnings per share	\$ 0.09	\$ 0.08
Fully diluted earnings per share	\$ 0.08	\$ 0.08

PROFIRE ENERGY, INC. AND SUBSIDIARY
Notes to the Condensed Consolidated Financial Statements
September 30, 2014 and March 31, 2014

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency and Comprehensive Income

The Company's functional currencies are the United States dollar ("USD") and the Canadian dollar ("CAD"), and its 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 CAD to USD of 0.892262 and 0.905186 were used to convert the Company's September 30, 2014 and March 31, 2014 balance sheets, respectively, and the statements of operations used weighted average rates of CAD to USD 0.918383 and 0.970557 for the six months ended September 30, 2014 and 2013, 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.

Recent Accounting Pronouncements

The Company has evaluated recent accounting pronouncements and their adoption has not had and 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 – SEGMENT INFORMATION

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

Sales	For the Six Months Ended September 30,	
	2014	2013
Canada	\$ 9,533,064	\$ 7,204,313
United States	19,332,702	9,319,723
Total	\$ 28,865,766	\$ 16,524,036

Long-lived assets	September 30,	March 31,
	2014	2014
Canada	\$ 1,347,366	\$ 1,392,577
United States	6,511,131	2,993,304
Total	\$ 7,858,497	\$ 4,385,881

PROFIRE ENERGY, INC. AND SUBSIDIARY
Notes to the Condensed Consolidated Financial Statements
September 30, 2014 and March 31, 2014

NOTE 4 – STOCK BASED COMPENSATION

On May 1, 2014, the Company issued a total of 133,900 stock purchase options exercisable for the purchase of its common stock at \$4.03 per share. The options were issued to key employees. The options vest 1/5 each year for 5 years. The Company estimates the fair value of each stock award at the grant date by using the Black-Scholes option pricing model. The following weighted average assumptions were used for grants as of May 1, 2014: dividend yield of zero percent; expected volatility of 149%; risk-free interest rates of 0.82% and expected life of 3.5 years.

On May 1, 2014, the Company issued a total of 180,000 shares of restricted stock to key employees. The shares vest 1/5 each year for 5 years. The Company estimates the fair value of the restricted shares at their intrinsic value at time of granting.

On September 18, 2014, the Company issued a total of 79,812 shares of restricted stock to the directors of the company. Half of the shares vested immediately with the remaining half vesting one year after issuance. Additionally, the company issued a total of 12,000 shares of restricted stock units to key employees. The units vest 1/5 each year for 5 years. The Company estimates the fair value of the units at their intrinsic value at time of granting.

The Company recognized \$880,824 and \$180,944 in expense for the fair value of previously granted stock based compensation that vested during the six months ended September 30, 2014 and 2013, respectively.

A summary of the status of the Company's stock option plans as of September 30, 2014 and March 31, 2014 and the changes during each period are presented below:

	Options	Wtd. Avg.
Outstanding, March 31, 2013	1,808,000	0.96
Granted	1,583,000	1.85
Exercised	(307,150)	0.39
Forfeited	(9,000)	1.64
Expired	-	-
Outstanding, March 31, 2014	3,074,850	1.47
Exercisable, March 31, 2014	990,850	1.39
	Options	Wtd. Avg.
Outstanding, March 31, 2014	3,074,850	1.47
Granted	133,900	4.03
Exercised	(273,635)	0.49
Forfeited	(41,500)	2.12
Expired	-	-
Outstanding, September 30, 2014	2,893,615	1.68

Exercisable, September 30, 2014	983,315	1.63
---------------------------------	---------	------

PROFIRE ENERGY, INC. AND SUBSIDIARY
Notes to the Condensed Consolidated Financial Statements
September 30, 2014 and March 31, 2014

NOTE 4 – STOCK BASED COMPENSATION (Continued)

The following table summarizes information about the Company's outstanding stock options as of March 31, 2014:

Total Outstanding and Exercisable March 31, 2014					
Range	Outstanding Shares	Average Remaining Life (Yrs)	Exercisable Shares	Weighted Average Exercise Price	
\$ 0.30	460,000	2.88	220,000	0.30	
\$ 0.40	250,000	0.46	250,000	0.40	
\$ 1.75	784,350	3.96	320,850	1.75	
\$ 1.37	1,280,500	5.07	50,000	1.37	
\$ 3.85	200,000	5.61	100,000	3.85	
\$ 3.95	100,000	5.86	50,000	3.95	
	3,074,850	4.14	990,850	1.39	

Total Outstanding and Exercisable September 30, 2014					
Range	Outstanding Shares	Average Remaining Life (Yrs)	Exercisable Shares	Weighted Average Exercise Price	
\$ 0.30	460,000	2.31	220,000	0.30	
\$ 1.75	1,243,000	3.43	314,600	1.75	
\$ 1.37	766,715	4.55	298,715	1.37	
\$ 3.85	200,000	5.11	100,000	3.85	
\$ 3.95	100,000	5.36	50,000	3.95	
\$ 4.03	123,900	5.59	-	4.03	
	2,893,615	4.02	983,315	1.58	

PROFIRE ENERGY, INC. AND SUBSIDIARY
Notes to the Condensed Consolidated Financial Statements
September 30, 2014 and March 31, 2014

NOTE 4 – STOCK BASED COMPENSATION (Continued)

The following table summarizes information about non-vested options as of the six months ended September 30, 2014:

	Options	Wtd. Avg. Grant Date Fair Value
Non-vested options		
Non-vested at March 31, 2014	2,084,000	1.51
Stock options issued during the six months	133,900	4.03
Stock options canceled	(21,500)	-
Vested during the six months ended September 30, 2014	(286,100)	1.37
Non-vested at September 30, 2014	1,910,300	1.70

The following table summarizes information about non-vested restricted stock as of the six months ended September 30, 2014:

	Restricted Stock	Wtd. Avg. Grant Date Fair Value
Non-vested restricted stock		
Non-vested at March 31, 2014	-	-
Restricted stock issued during the six months	259,811	4.09
Restricted stock options canceled	-	-
Vested during the six months ended September 30, 2014	-	-
Non-vested at September 30, 2014	259,811	4.09

	Restricted Stock Units	Wtd. Avg. Grant Date Fair Value
Non-vested restricted stock units		
Non-vested at March 31, 2014	-	-
Restricted stock units issued during the six months	12,000	4.21
Restricted stock units canceled	-	-
	-	-

Vested during the six months ended September 30,
2014

Non-vested at September 30, 2014	12,000	4.21
----------------------------------	--------	------

NOTE 5 – SUBSEQUENT EVENTS

In accordance with ASC 855-10 Company management reviewed all material events through the date of issuance and there are no material 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 six month periods ended September 30, 2014 and 2013. 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, 2014.

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 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 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, objectives, 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" or comparable terminology or the negative of such terms are intended to identify forward-looking statements; however, the absence of these words does not necessarily mean that a statement is not forward-looking. 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 products or services less competitive or obsolete; our failure to successfully develop new products and/or services or to anticipate current or prospective customers' needs; price increases; employee limitations; 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. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements and 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.

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 Commission.

Overview of Products & Services

Summary

We design, assemble, install, service, and sell oilfield-management technologies. Our flagship products are burner-management systems that monitor and manage burners found throughout the industry. Our products provide major benefits to our customers including improved efficiency, increased safety, and enhanced compliance with evolving industry regulation. We also sell related products such as flare ignition systems, fuel train components, secondary airplates, valve actuators, and solar packages. Our products and services aid oil and natural gas producers in the safe and efficient production and transportation of oil and natural gas.

Our Flagship Products: 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 and free-water knockout systems, 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 oil and moisture content (and temperature) of gas are critical to a number of oilfield processes, and is directly affected by the heat provided by the burner flame inside the vessel.

Our burner-management systems help ignite, monitor, and manage this burner flame, reducing the need for employee interaction with the burner, such as for re-ignition or temperature monitoring. As a result, oil and gas producers can achieve increased safety, greater operational efficiencies, and improved compliance with changing industry regulations such as Regulation 7 in Colorado and B 149.3-10 in Alberta. We believe there is a growing trend in the oil and gas industry toward enhanced control and process automation, and burner-management automation fits squarely within this trend.

In addition to selling products, we train and dispatch combustion technicians throughout North America to help optimize the combustion efficiency of the oilfield equipment that our systems manage.

Additional Complementary Products

In addition to our burner-management systems, we also sell complementary oilfield products to help facilitate improved oilfield safety and efficiency. Such products help manage fuel flow (e.g., valves and fuel trains), meter air flow (e.g., airplates), generate power on-site (e.g., solar packages), ignite and direct flame (e.g., flare stack igniter and nozzles), and other necessary functions. We have invested heavily to develop innovative complementary products, which we anticipate will help bolster continued long-term growth. We anticipate further investment in such products as we gather valuable market information to provide additional solutions in the oilfield.

Some of these products are resold from third parties (e.g., solar packages), while some are proprietary (e.g., flare stack igniter) or patent-pending (e.g., airplates). We intend to continue developing proprietary products to help enhance our margin on some of these complementary products.

Results of Operations

Comparison of the three- and six-months ended September 30, 2014 and 2013

Total Revenues

Total revenues during the three- and six-months ended September 30, 2014 increased \$6,378,476 and \$12,341,730, or 68% and 75%, respectively, compared to the comparable periods ended September 30, 2013. These increases were principally attributable to increased sales of goods, net, as well as increased sales of services, net. We plan to continue making strategic growth investments, and although we anticipate a lag before these returns are realized, we are optimistic they will generate meaningful returns in future quarters.

Sales of Goods, Net

Sales of goods, net during the three- and six-months ended September 30, 2014 increased \$5,688,656 and \$11,166,207, or 64% and 71%, respectively, compared to the comparable periods ended September 30, 2013. These increases were principally attributable to improved sales execution derived from developing sales relationships, a larger sales force, and increased efficacy in a number of growing sales territories including Texas, Colorado, Oklahoma, and Pennsylvania. Additionally, we have seen steady growth in the Canadian markets, specifically in Alberta, British Columbia and Saskatchewan, and we anticipate increased investment in these territories to drive further growth.

Sales of Services, Net

Sales of services, net during the three- and six-months ended September 30, 2014 increased \$689,820 and \$1,175,523, or 171% and 158%, respectively, compared to the comparable periods ended September 30, 2013. We continue to experience increasing service revenues as a result of leveraging new service personnel particularly in our Pennsylvania and Texas offices. While the primary purpose of our service team is to support product sales, our service team also provides a number of auxiliary services for our customers, and may provide a recurring revenue stream (for preventative maintenance) in future quarters, as that model is currently being tested. We anticipate increased investment to build out this model, presuming that the test-results of the program continue to be positive.

Total Cost of Goods Sold

Total cost of goods sold during the three- and six-months ended September 30, 2014 increased \$3,388,599 and \$6,103,656, or 90% and 90%, respectively, compared to the comparable periods ended September 30, 2013.

As a percentage of total revenues, total cost of goods sold increased to 46% and 45% during the three- and six-months ended September 30, 2014, compared to 40% and 41% for the comparable periods ended September 30, 2013. These increases are attributable to the increase in cost of goods sold-products, as well as an increase in service revenue, which carries a lower margin.

Cost of Goods Sold-Products

Cost of goods sold-products during the three- and six-months ended September 30, 2014 increased \$2,919,352 and \$5,262,499, or 82% and 84%, respectively, compared to the comparable periods ended September 30, 2013, primarily as a result of increased sales.

As a percentage of revenues from product sales, cost of goods sold-products increased to 44% and 43% during the three- and six-months ended September 2014, compared to 40% and 40% for the comparable periods ended September 30, 2013. These increases are largely attributable to changes in product mix sold during the periods, as well as the allocation of overhead of some product-related fixed assets.

We presume this decrease in gross margin will be temporary and we anticipate that total cost of goods sold in future quarters will return to approximate historical levels as product mix normalizes and we realize higher levels of revenue to absorb higher overhead associated with our larger Utah warehouse. Additionally, continued development of proprietary product replacements for low-margin resold products could slightly expand gross margin on product sales, over time. We anticipate maintaining our historical margin in the long-run, though quarterly product-mixes will vary.

Cost of Goods Sold-Services

Cost of goods sold-services during the three- and six-months ended September 30, 2014 increased \$469,247 and \$841,157, or 202% and 168%, respectively, compared to the comparable periods ended September 30, 2013, as a result of increased sales of service.

As a percentage of service revenues, cost of goods sold-service increased and decreased, respectively, to 64% and 67% during the three- and six-months ended September 30, 2013, compared to 58% and 70% for the comparable periods ended September 30, 2013. A recurring-revenue model with our service team, if implemented, could serve to slightly expand gross margin on service sales, over time, as preventative maintenance would be expected to have slightly higher service margin than our historical burner-related services. Additionally, as our expanding service team acquires increased experience, we may be able to command higher prices—and margin—on our services.

Gross Profit

Because the percentage increase in total revenue was surpassed by the increase in cost of goods sold, gross profit during the three- and six-months ended September 30, 2014 decreased from 60% to 54% and from 59% to 55% of total revenues compared to the comparable periods ended September 30, 2013.

Total Operating Expenses

Our total operating expenses during the three- and six-months ended September 30, 2014 increased \$2,884,981 and \$5,124,234 or 120% and 121% compared to the comparable periods ended September 30, 2013.

As a percentage of total revenues, total operating expenses during the three- and six-months ended September 30, 2014 increased from 26% to 34% and 26% to 32% compared to the comparable periods ended September 30, 2013. These increases are largely attributable to growth in general and administrative expenses and research and development expenses.

General and Administrative Expenses

General and administrative expenses during the three- and six-months ended September 30, 2014 increased by \$1,607,209 and \$3,177,155, or 128% and 151% compared to the comparable periods ended September 30, 2013. This is in line with expectations, as we are executing our growth strategy and building out resources to seize market opportunities in the Bakken, Marcellus, and Permian basins, and expand our sales- and service-presence in Colorado.

As a percentage of total operating expenses, general and administrative expenses during the three- and six-months ended September 30, 2014 increased from 52% to 54% and from 49% to 56% compared to the comparable periods ended September 30, 2013. These increases were due to commissions, expenses related to the issuance and vesting of stock options, increased insurance levels for officers and directors, and increases in professional fees. The increases are consistent with our long term plans to substantially grow and incent personnel in sales, service, marketing, and research and development. Increased insurance levels were also requested (or required) by some of our larger customers, which increased our insurance expense.

Research and Development

Research and development expenses during the three- and six-months ended September 30, 2014 increased \$383,704 and \$599,001 or 247% and 223% compared to the comparable periods ended September 30, 2013.

As a percentage of total operating expenses, Research and development expenses during the three- and six-months ended September 30, 2014 increased from 6% to 10% and from 6% to 9% compared to the comparable periods ended September 30, 2013. This increase was due to the acceleration of multiple projects, as well as the expansion of the department's personnel (and the allocation to research and development the payroll expense of the same). We plan to continue developing solutions through investment in research and development as new product verticals are identified with our research and development team.

Payroll Expenses

Payroll expenses during the three- and six-months ended September 30, 2014 increased \$836,737 and \$1,267,360, or 90% and 72%, compared to the comparable periods ended September 30, 2013. These increases were expected and primarily the result of increased hiring of sales-, marketing-, and research and development-personnel, particularly in our Utah, Texas, and Pennsylvania offices during the past fiscal year.

As a percentage of total Operating Expenses, payroll during the three- and six-months ended September 30, 2014 decreased from 39% to 33% and from 42% to 32% compared to the comparable periods ended September 30, 2013. We have made significant investments in talented personnel and anticipate these investments will generate meaningful returns in the coming quarters and years.

Depreciation Expense

Depreciation expense during the three- and six-months ended September 30, 2014 increased \$57,331 and \$120,718, or 87% and 95%, compared to the comparable periods ended September 30, 2013. These increases in depreciation expense are primarily due to the purchase of multiple fixed assets including additional warehouse space and additional sales and service vehicles in the last fiscal year, which result in a higher ongoing depreciation expense. As a percentage of total operating expenses, however, depreciation remained the same at slightly under 3%.

Total Other Income (Expense)

Total other income during the three- and six-months ended September 30, 2014 decreased \$3,371 and increased \$9,038 compared to the comparable periods ended September 30, 2013. During the three- and six-months ended September 30, 2014, we did not realize any interest expense, however, we realized interest income of 7,543 and \$7,780 and other income of \$(257) and \$2,864, respectively. By comparison, during the three- and six-months ended September 30, 2013, we realized interest expense of \$100 and \$10,567, interest income of \$7,565 and \$8,366, and other income of \$1,575 and \$2,190.

Net Income Before Income Taxes

The increases we realized in total revenues, total cost of goods sold and total operating expenses combined to increase net income before income taxes during the three- and six-months ended September 30, 2014 to \$3,260,877 and \$6,630,625 compared to net income before income taxes of \$3,159,352 and \$5,507,747 during to the comparable periods ended September 30, 2013.

As a percentage of total revenues, net income before income taxes during the three- and six-months ended September 30, 2014 represented 21% and 23% of total revenues, compared to 34% and 33% during the prior-year comparable periods. This decrease in net income before income taxes is in line with expectations during our growth phase and was attributable to a slightly lower gross margin and increased operating expenses. In the near-term, we anticipate net margin to be somewhat lower than historical levels, as we continue executing on our strategic growth plans. We expect returns on these strategic investments will be realized in two to three quarters.

Income Tax Expense

Income tax expense during the three- and six-months ended September 30, 2014 increased \$72,873 and \$487,504 or 7% and 26% compared to the comparable periods ended September 30, 2013. These increases were a result of the increase in net income before income taxes particularly from our US operations, which are subject to a higher income tax rate. We anticipate future quarters' income tax obligations will typically follow a similar trend.

Foreign Currency Translation Gain (Loss)

Our consolidated financial statements are presented in United States dollars ("USD"). Our functional currencies are the USD and the Canadian dollar ("CAD"). Transactions initiated in other currencies are translated to USD 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. 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.

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).

We recognized a foreign currency translation loss during the three- and six-months ended September 30, 2014 of \$455,114 and \$158,678. By comparison, during the three- and six-months ended September 30, 2013 we recognized a foreign currency translation loss of \$90,191 and \$200,224. The changes in translation loss were the result of volatility in foreign exchange rates.

Total Comprehensive Income

For the foregoing reasons, we realized total comprehensive income during the three- and six-months ended September 30, 2014 of \$1,623,087 and \$4,140,229 compared to total comprehensive income of \$1,959,358 and \$3,463,309 compared to the comparable periods ended September 30, 2013.

Liquidity and Capital Resources

Total current assets during the six-months ended September 30, 2014 were \$42,295,925 and total assets were \$50,154,422 including cash and cash equivalents of \$18,671,824. At September 30, 2014 total liabilities were \$7,146,445, all of which were current liabilities.

During the six months ended September 30, 2014 cash was primarily used to fund operations. See below for additional discussion and analysis of cash flow.

	Six months ended September 30, 2014	Six months ended September 30, 2013
Net cash provided by operating activities	\$ 1,360,004	\$ 245,863
Net cash used in investing activities	(3,720,259)	(355,455)
Net Cash provided by financing activities	16,605,654	48,000
Effect of Exchange rate on cash	(30,249)	(144,925)
Net increase in cash	\$ 14,215,150	\$ (206,517)

Net cash provided by our operating activities was \$1,360,004. As discussed above, during the six months ended September 30, 2014 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 31% increase in inventory and a 72% increase in accounts receivable when compared to the six months ended September 30, 2013, although we also saw an increase in accounts payable as well.

Inventory grew during the six months ended September 30, 2014 to accommodate growing sales, but may ebb and flow from quarter to quarter, based on our supply chain capabilities and lead times, as well as our forecasts for future demand. Accounts receivable were higher due to our increased sales in the most recent quarter.

During the six months ended September 30, 2014 net cash used in investing activities was \$3,364,804 higher compared to the six months ended September 30, 2013. This increase in cash used in investing activities is largely attributable to the addition and renovation of recently acquired space at our facilities in Lindon, Utah, as well as the purchase of trucks for our sales and service teams during the six months ended September 30, 2014.

During the six months ended September 30, 2014 net cash provided from financing activities was \$16,557,654 higher compared to the six months ended September 30, 2013. The increase in cash provided from financing activities is attributable to the growth capital raise completed on July 2, 2014.

As a result of the increase in cash provided from operations, the increase in net cash used in investing activities and the increase in cash provided from financing activities we realized a \$14,215,150 net increase in cash during the six months ended September 30, 2014 compared to a \$(206,517) net decrease during the six months ended September 30, 2013.

Summary of Material Contractual Commitments

The following table lists our significant commitments as of September 30, 2014.

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Contractual Commitments					
Consulting Agreement – Al Johnson	\$ 3,800,000	\$ 400,000	\$ 800,000	\$ 800,000	\$ 1,800,000

Edgar Filing: PROFIRE ENERGY INC - Form 10-Q

Total	\$ 3,800,000	\$ 400,000	\$ 800,000	\$ 800,000	\$ 1,800,000
-------	--------------	------------	------------	------------	--------------

Item 3. Quantitative and Qualitative Disclosure about Market Risk

As a smaller reporting company, as defined in Rule 12b-2 promulgated under of the Exchange Act 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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the design and operation of our disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

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.

Management's Remediation Initiatives

We will continue to monitor and evaluate the effectiveness of our disclosure controls and procedures and our internal control over financial reporting. 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 September 30, 2014 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. However, litigation is subject to inherent uncertainties, and an adverse result in matters may arise from time to time that may harm our business. As of the date of this quarterly report on Form 10-Q management is not aware of any material pending legal, judicial or administrative proceedings to which the Company or any of its subsidiaries is a party or of which any properties of the Company or its subsidiaries is the subject.

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, 2014, 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 2. Unregistered Sales of Equity Securities and Use of Proceeds

As previously reported, on June 26, 2014, the SEC declared effective our registration statement on Form S-1 (File No. 333-196462). The registration statement related to 6,000,000 shares of our common stock; 4,500,000 shares were sold by the Company and 1,500,000 shares were sold by certain selling stockholders. On July 2, 2014, we sold 4,500,000 shares of our common stock at the price of \$4.00 per share, for an aggregate sale price of \$18,000,000.

We expect to use the proceeds from this offering for expansion of our sales and service team to match the demand for our product in regions where recent legislation passed, requiring the use of our technology, and for other working capital purposes. We may also use a portion of the net proceeds to fund possible investments in, or acquisitions of, complementary businesses, solutions or technologies. In addition, the amount and timing of what we actually spend for these purposes may vary significantly and will depend on a number of factors, including our future revenue and cash generated by operations and other factors. Accordingly, our management will have discretion and flexibility in applying the net proceeds of this offering. Pending any uses, as described above, we intend to invest the net proceeds in high quality, investment grade, short-term fixed income instruments which include corporate, financial institution, federal agency or U.S. government obligations.

Item 6. Exhibits

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

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

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

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

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

E x h i b i tXBRL Instance Document
101.INS

E x h i b i tXBRL Taxonomy Extension Schema Document
101.SCH

E x h i b i tXBRL Taxonomy Extension Calculation Linkbase Document
101.CAL

E x h i b i tXBRL Taxonomy Definition Linkbase Document
101.DEF

E x h i b i tXBRL Taxonomy Extension Label Linkbase Document
101.LAB

E x h i b i tXBRL Taxonomy Extension Presentation Linkbase Document
101.PRE

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, thereunto duly authorized.

PROFIRE ENERGY, INC.

Date: November 12, 2014

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

Date: November 12, 2014

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