

PROFIRE ENERGY INC
Form 10-Q
August 10, 2016

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, 2016

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 20-0019425
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

321 South 1250 West, Suite 1
Lindon, Utah 84042
(Address of principal executive offices) (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
Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Edgar Filing: PROFIRE ENERGY INC - Form 10-Q

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

As of August 5, 2016 the registrant had 53,325,215 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 June 30, 2016 (Unaudited) and March 31, 2016 | 3 |
| Condensed Consolidated Statements of Operations and Other Comprehensive Income (Loss) (Unaudited) for the three month periods ended June 30, 2016 and 2015 | 4 |
| Condensed Consolidated Statements of Cash Flows (Unaudited) for the three month periods ended June 30, 2016 and 2015 | 5 |
| Notes to Condensed Consolidated Financial Statements (Unaudited) | 6 |
| Item 2. Management's Discussion and Analysis of Financial Condition And Results of Operations | 18 |
| Item 3. Quantitative and Qualitative Disclosure about Market Risk | 25 |
| Item 4. Controls and Procedures | 25 |
| PART II — OTHER INFORMATION | |
| Item 1. Legal Proceedings | 27 |
| Item 1A. Risk Factors | 27 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 27 |
| Item 5. Other Information | 27 |
| Item 6. Exhibits | 28 |
| Signatures | 29 |

PART I. FINANCIAL INFORMATION

Item 1 Financial Information

PROFIRE ENERGY, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

| | For the Period Ending | |
|--|-----------------------|--------------|
| | June 30, | March 31, |
| | 2016 | 2016 |
| | (Unaudited) | |
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$22,043,090 | \$21,292,595 |
| Accounts receivable, net | 3,211,835 | 4,132,137 |
| Inventories | 9,971,352 | 11,046,682 |
| Income tax receivable | 474,796 | 268,326 |
| Prepaid expenses & other current assets | 308,263 | 315,757 |
| Total Current Assets | 36,009,336 | 37,055,497 |
| LONG-TERM ASSETS | | |
| Deferred tax asset | 437,336 | 452,431 |
| PROPERTY AND EQUIPMENT, net | | |
| | 7,969,169 | 8,232,911 |
| OTHER ASSETS | | |
| Goodwill | 997,701 | 997,701 |
| Intangible assets, net of accumulated amortization | 522,923 | 529,300 |
| Total Other Assets | 1,520,624 | 1,527,001 |
| TOTAL ASSETS | \$45,936,465 | \$47,267,840 |
| <u>LIABILITIES AND STOCKHOLDERS' EQUITY</u> | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$551,742 | \$893,822 |
| Accrued liabilities | 427,620 | 620,783 |
| Income taxes payable | - | 335,375 |
| Total Current Liabilities | 979,362 | 1,849,980 |
| LONG-TERM LIABILITIES | | |
| Deferred income tax liability | 632,732 | 632,732 |
| TOTAL LIABILITIES | 1,612,094 | 2,482,712 |
| 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: 53,316,134 and 53,256,296 shares issued and outstanding, respectively | 53,316 | 53,256 |

Edgar Filing: PROFIRE ENERGY INC - Form 10-Q

| | | |
|--|--------------|--------------|
| Additional paid-in capital | 26,308,327 | 26,164,622 |
| Accumulated other comprehensive loss | (2,281,909) | (2,282,682) |
| Retained earnings | 20,244,637 | 20,849,932 |
| Total Stockholders' Equity | 44,324,371 | 44,785,128 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$45,936,465 | \$47,267,840 |

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

3

Edgar Filing: PROFIRE ENERGY INC - Form 10-Q

PROFIRE ENERGY, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Other Comprehensive Income (Loss)

(Unaudited)

| | For the Three Months Ending June 30, | |
|---|---|--------------|
| | 2016 | 2015 |
| REVENUES | | |
| Sales of goods, net | \$3,462,893 | \$6,211,970 |
| Sales of services, net | 511,150 | 665,273 |
| Total Revenues | 3,974,043 | 6,877,243 |
| COST OF SALES | | |
| Cost of goods sold-product | 1,712,643 | 2,967,918 |
| Cost of goods sold-services | 347,150 | 595,538 |
| Total Cost of Goods Sold | 2,059,793 | 3,563,456 |
| GROSS PROFIT | 1,914,250 | 3,313,787 |
| OPERATING EXPENSES | | |
| General and administrative expenses | 2,385,567 | 3,441,140 |
| Research and development | 250,722 | 304,489 |
| Depreciation and amortization expense | 159,239 | 107,455 |
| Total Operating Expenses | 2,795,528 | 3,853,084 |
| INCOME (LOSS) FROM OPERATIONS | (881,278) | (539,297) |
| OTHER INCOME (EXPENSE) | | |
| Gain (Loss) on sale of fixed assets | (2,592) | 18,637 |
| Other (expense) income | 4,756 | (108,990) |
| Interest income | 27,942 | 21,123 |
| Total Other Income (Expense) | 30,106 | (69,230) |
| NET INCOME BEFORE INCOME TAXES | (851,172) | (608,527) |
| INCOME TAX EXPENSE (BENEFIT) | (245,877) | (149,714) |
| NET LOSS | \$(605,295) | \$(458,814) |
| FOREIGN CURRENCY TRANSLATION GAIN (LOSS) | \$773 | \$333,372 |
| TOTAL COMPREHENSIVE INCOME (LOSS) | \$(604,522) | \$(125,441) |
| BASIC EARNINGS PER SHARE | \$(0.01) | \$(0.01) |
| FULLY DILUTED EARNINGS PER SHARE | \$(0.01) | \$(0.01) |
| BASIC WEIGHTED AVG NUMBER OF SHARES OUTSTANDING | 53,256,333 | 53,214,594 |

| | | |
|---|------------|------------|
| FULLY DILUTED WEIGHTED AVG NUMBER OF SHARES OUTSTANDING | 53,256,333 | 53,214,594 |
|---|------------|------------|

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

PROFIRE ENERGY, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)

| | For the Period Ending, | |
|---|------------------------|--------------|
| | June 30, | June 30, |
| | 2016 | 2015 |
| OPERATING ACTIVITIES | | |
| Net Loss | \$(605,295) | \$(458,814) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization expense | 252,914 | 225,945 |
| (Gain) Loss on sale of fixed assets | 2,592 | (18,637) |
| Bad debt expense | 151,444 | 104,774 |
| Stock options issued for services | 143,765 | 187,406 |
| Changes in operating assets and liabilities: | | |
| Changes in accounts receivable | 770,432 | 2,402,191 |
| Changes in income taxes receivable/payable | (541,844) | (129,012) |
| Changes in inventories | 1,075,330 | 786,325 |
| Changes in prepaid expenses | 7,491 | (18,728) |
| Changes in deferred tax asset/liability | 15,095 | (33,205) |
| Changes in accounts payable and accrued liabilities | (535,243) | (181,741) |
| Net Cash Provided by Operating Activities | 736,681 | 2,866,504 |
| INVESTING ACTIVITIES | | |
| Proceeds from sale of equipment | 16,896 | 52,500 |
| Purchase of fixed assets | - | (12,285) |
| Net Cash Provided by (Used in) Investing Activities | 16,896 | 40,215 |
| FINANCING ACTIVITIES | | |
| Value of equity awards surrendered by employees for tax liability | - | (23,526) |
| Stock issued in exercise of stock options | - | - |
| Net Cash Provided by (Used in) Financing Activities | - | (23,526) |
| Effect of exchange rate changes on cash | (3,082) | 158,248 |
| NET INCREASE IN CASH | 750,495 | 3,041,441 |
| CASH AT BEGINNING OF PERIOD | 21,292,595 | 14,144,796 |
| CASH AT END OF PERIOD | \$22,043,090 | \$17,186,237 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| CASH PAID FOR: | | |
| Interest | \$- | \$- |
| Income taxes | \$- | \$- |

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

PROFIRE ENERGY, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

June 30, 2016 and March 31, 2016

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, 2016 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, 2016 audited financial statements. The results of operations for the periods ended June 30, 2016 and 2015 are not necessarily indicative of the operating results for the full years.

NOTE 2 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This Organization and Summary of Significant Accounting Policies of Profire Energy, Inc. and Subsidiary (the "Company") is presented to assist in understanding the Company's consolidated financial statements. The Company's accounting policies conform to accounting principles generally accepted in the United States of America (US GAAP).

Profire Energy, Inc. was established on October 9, 2008 upon the closing of an Acquisition Agreement between The Flooring Zone, Inc. and Profire Combustion, Inc. and the shareholders of Profire Combustion, Inc. (the "Subsidiary"). Following the closing of the agreement The Flooring Zone, Inc. was renamed Profire Energy, Inc. (the "Parent").

Pursuant to the terms and conditions of the Acquisition Agreement, 35,000,000 shares of restricted common stock of the Company were issued to the three shareholders of the Subsidiary in exchange for all of the issued and outstanding shares of the Subsidiary. As a result of the transaction, the Subsidiary became a wholly-owned subsidiary of the Parent and the shareholders of the Subsidiary became the controlling shareholders of the Company.

Organization and Line of Business

The Parent was incorporated on May 5, 2003 in the State of Nevada. The Subsidiary was incorporated on March 6, 2002 in the province of Alberta, Canada.

The Company provides burner and chemical management products and services for the oil and gas industry in the Canadian and US markets.

Reclassification

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

PROFIRE ENERGY, INC. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
June 30, 2016 and March 31, 2016

NOTE 2 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in accordance 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reportable amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include our wholly-owned subsidiary. Intercompany balances and transactions have been eliminated.

Basic and Diluted Loss Per Share

The computation of basic loss per share of common stock is based on the weighted average number of shares outstanding during the periods presented using the treasury stock method. The computation of fully diluted loss per share includes common stock equivalents outstanding at the balance sheet date. As of June 30, 2016 and 2015 the Company had 332,794 and 69,190 common stock equivalents from equity awards that have been excluded from the calculation of diluted loss per share as their effect would have been anti-dilutive. Basic and diluted loss per share are as follows:

| | For the Three Months Ended June 30, | |
|---|---|--------------|
| | 2016 | 2015 |
| Net income (loss) applicable to common shareholders | \$(605,295) | \$(458,813) |
| Weighted average shares outstanding | 53,256,333 | 53,214,594 |
| Weighted average fully diluted shares outstanding | 53,256,333 | 53,214,594 |
| Basic earnings per share | \$(0.01) | \$(0.01) |
| Fully diluted earnings per share | \$(0.01) | \$(0.01) |

Foreign Currency and Comprehensive Income

The functional currency of the Company and its subsidiaries in the U.S. and Canada are the U.S. Dollar ("USD") and the Canadian Dollar ("CAD"). The financial statements of the Company were translated to USD using period end exchange rates for the balance sheet, and average exchange rates for the statements of operations. Equity transactions were translated using historical rates. The period-end exchange rates of 0.772081 and 0.7711 were used to convert the Company's June 30, 2016 and March 31, 2016 balance sheets, respectively, and the statements of operations used weighted average rates of 0.772962 and 0.811950 for the three months ended June 30, 2016 and 2015, 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 Consolidated Statement of Operations and Comprehensive Income (Loss), and the Consolidated Statements of Stockholders' Equity.

7

PROFIRE ENERGY, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

June 30, 2016 and March 31, 2016

NOTE 2 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Instruments

The fair value of a financial instrument is the amount that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. A fair value hierarchy is used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs or inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair value.

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments. Management is of the opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

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, 2016 and March 31, 2016, cash and cash equivalents totaled \$22,043,090 and \$21,292,595 respectively.

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 \$268,464 and \$250,646 as of June 30, 2016 and March 31, 2016, respectively.

Inventories

In accordance with ARB No. 43 "Inventory Pricing," 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. Inventory consists of finished goods held for sale and includes the following:

8

PROFIRE ENERGY, INC. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
June 30, 2016 and March 31, 2016

NOTE 2 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

| | For the Period Ending | |
|--------------------------|-----------------------|-------------------|
| | June 30, 2016 | March 31, 2016 |
| Raw materials | \$716,949 | \$967,823 |
| Finished goods | 9,484,322 | 10,316,857 |
| Work in process | - | - |
| Subtotal | 10,201,271 | 11,284,680 |
| Reserve for Obsolescence | (229,919) | (237,998) |
| Total | \$9,971,352 | \$11,046,682 |

Long-Lived Assets

We periodically review the carrying amount of our long-lived assets for impairment. An asset is considered impaired when estimated future cash flows are less than the asset's carrying amount. In the event the carrying amount of such asset is not considered recoverable, the asset is adjusted to its fair value. Fair value is generally determined based on discounted future cash flow.

Other Intangible Assets

The Company accounts for Other Intangible Assets under the guidance of ASC 350, "Intangibles—Goodwill and Other". The Company capitalizes certain costs related to patent technology, as a substantial portion of the purchase price related to the Company's acquisition of VIM assets has been assigned to patents. Under the guidance, Other Intangible Assets with definite lives are amortized over their estimated useful lives. Intangible assets with indefinite lives are tested annually for impairment.

Goodwill

Goodwill, representing the difference between the total purchase price and the fair value of assets (tangible and intangible) and liabilities at the date of acquisition, is reviewed for impairment annually, and more frequently as circumstances warrant, and written down only in the period in which the recorded value of such assets exceed their fair value. The Company does not amortize goodwill in accordance with Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") 350, "Intangibles—Goodwill and Other" ("ASC 350").

Goodwill is tested for impairment at the reporting unit level. The Company's two operating segments comprise the reporting unit for goodwill impairment testing purposes.

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.

PROFIRE ENERGY, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

June 30, 2016 and March 31, 2016

NOTE 2 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cost of Sales

The Company includes product costs (i.e. material, direct labor and overhead costs), shipping and handling expense, production-related depreciation expense and product license agreement expense in cost of sales.

Advertising Costs

The Company classifies expenses for advertising as general and administrative expenses. The Company incurred advertising costs of \$32,141 and \$20,240 during the three months ended June 30, 2016 and 2015, respectively.

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.

Income Taxes

The Parent is subject to US income taxes on a stand-alone basis. The Parent and its Subsidiary file separate stand-alone tax returns in each jurisdiction in which they operate. The Subsidiary is a corporation operating in Canada and is subject to Canadian income taxes on its stand-alone taxable income. The effective rates of income tax expense (benefit) are (29%) and (25%) for the three months ended June 30, 2016 and 2015, respectively.

The Company utilizes an asset and liability approach for financial accounting and reporting for income taxes. Deferred income taxes are provided for temporary differences in the basis of assets and liabilities as reported for financial statement and income tax purposes. Deferred income taxes reflect the tax effects of net operating loss and tax credit carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of certain deferred tax assets is dependent upon future earnings, if any. The Company makes estimates and judgments in determining the need for a provision for income taxes, including the estimation of our taxable income for each full fiscal year.

Research and Development

All costs associated with research and development are expensed when incurred. Costs incurred for research and development were \$250,722 and \$304,489 for the three months ended June 30, 2016 and 2015, respectively.

Shipping and Handling Fees and Costs

The Company records all amounts billed to customers related to shipping and handling fees as revenue. The Company classifies expenses for shipping and handling costs as cost of goods sold. The Company incurred shipping and handling costs of \$37,715 and \$85,326 during the three months ended June 30, 2016 and 2015, respectively.

PROFIRE ENERGY, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

June 30, 2016 and March 31, 2016

NOTE 2 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss) as currently reported by the Company adjusted for other comprehensive items. Other comprehensive items for the Company consist of foreign currency translation gains and losses and unrealized holding gains and losses on available for sale securities.

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, results of operations or cash flows.

Property and Equipment Useful Lives

Property and equipment is stated at cost. Depreciation on property and equipment is computed using the diminishing balance method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

| <u>Assets</u> | <u>Estimated useful life</u> |
|-------------------------|------------------------------|
| Furniture and fixtures | 7 Years |
| Machinery and equipment | 7 Years |
| Buildings | 30 Years |
| Vehicles | 5 Years |
| Computers | 3 Years |
| Software | 2 Years |

Beginning in fiscal year 2016, we revised the estimated useful lives from 5 to 7 years for furniture and fixtures, and machinery and equipment, 25 to 30 years for buildings, 3 to 5 years for vehicles, and added a software asset type that has a useful life of 2 years. The change in depreciable lives is considered a change in accounting estimate on a prospective basis from April 1, 2015 and had an immaterial impact on overall financial statements for the period ended June 30, 2016.

PROFIRE ENERGY, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

June 30, 2016 and March 31, 2016

NOTE 3 – PROPERTY, PLANT AND EQUIPMENT

Property and equipment consisted of the following:

| | For the Period Ending | |
|--------------------------------|-----------------------|-------------------|
| | June 30, 2016 | March 31, 2016 |
| Office furniture and equipment | \$962,026 | \$968,135 |
| Service and shop equipment | 567,230 | 577,240 |
| Vehicles | 2,677,825 | 2,715,920 |
| Land and buildings | 6,735,050 | 6,733,415 |
| Total property and equipment | 10,942,131 | 10,994,710 |
| Accumulated depreciation | (2,972,962) | (2,761,799) |
| Net property and equipment | \$7,969,169 | \$8,232,911 |

NOTE 4 – STOCKHOLDERS' EQUITY

The Company had the following \$0.001 par value authorized stock:

Preferred Stock 10,000,000 shares.

Common Stock 100,000,000 shares.

As of June 30, 2016 and March 31, 2016, the Company had 53,316,134 and 53,256,296 shares of common stock issued and outstanding, respectively.

During the period ended June 30, 2016, the Company issued 59,953 restricted shares of common stock for the settlement of previously vested restricted stock awards for which the compensation expense was recorded in prior years.

NOTE 5 – INTANGIBLE ASSETS

Definite-lived intangible assets consist of distribution agreements, patents, trademarks, copyrights, and domain names. The costs of distribution agreements are amortized over the remaining life of agreements. The costs of the patents are to be amortized over 20 years once the patent has been approved. Indefinite-lived intangible assets consist of goodwill.

In accordance with ASC 350, Goodwill is not amortized but tested for impairment annually or more frequently when events or circumstances indicates that the carrying value of a reporting unit more likely than not exceeds its fair value. The Company's annual goodwill impairment testing date is March 31 of each year. Intangible assets consisted of the following:

Definite-lived intangible assets

| For the Period Ending | |
|--------------------------|--------------|
| June 30, 2016 | March 31, |

Edgar Filing: PROFIRE ENERGY INC - Form 10-Q

| | 2016 | |
|--|------------|-----------|
| Distribution agreements | \$40,757 | \$40,702 |
| Less: Accumulated amortization | \$(40,757) | (40,702) |
| Distribution agreements, net | — | — |
| Patents, trademarks, copyrights, and domain names | \$567,882 | 567,109 |
| Less: Accumulated amortization | \$(44,959) | (37,809) |
| Patents, trademarks, copyrights, and domain names, net | 522,923 | 529,300 |
| Total definite-lived intangible assets, net | \$522,923 | \$529,300 |

PROFIRE ENERGY, INC. AND SUBSIDIARIES
 Notes to the Condensed Consolidated Financial Statements
 June 30, 2016 and March 31, 2016

NOTE 5 – INTANGIBLE ASSETS (CONTINUED)

Indefinite-lived intangible assets

| | For the Period Ending | |
|----------|--------------------------|----------------------|
| | June 30, 2016 | March 31, 2016 |
| Goodwill | \$997,701 | \$997,701 |

Estimated amortization expense for the distribution agreements, patents, trademarks, copyrights, and domain names for the next five years consists of the following as of March 31, 2016:

| | <u>For the Three Months Ending March 31, Year</u> | Amount |
|--|---|--------|
| | 2017 | 28,103 |
| | 2019 | 28,103 |
| | 2020 | 28,103 |
| | 2021 | 28,103 |

NOTE 6 – SEGMENT INFORMATION

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

| | For the Three Months Ending June 30, | |
|---------------|---|-------------|
| | 2016 | 2015 |
| Sales | | |
| Canada | \$1,422,087 | \$1,401,544 |
| United States | 2,551,956 | 5,475,699 |
| Total | \$3,974,043 | \$6,877,243 |

| | For the Period Ending | |
|-------------------|-----------------------|-------------------|
| | June 30, 2016 | March 31, 2016 |
| Long-lived assets | | |
| Canada | \$1,049,427 | \$1,067,346 |
| United States | 6,919,742 | 7,165,565 |
| Total | \$7,969,169 | \$8,232,911 |

NOTE 7 – STOCK BASED COMPENSATION

On May 25, 2016 the Company granted a total of 315,500 stock options to employees. The options vest 1/3 each year for 3 years, with the first vesting occurring on the first anniversary of the vesting date. The Company estimates the fair value of each option award at the grant date by using the Black-Scholes option pricing model.

Additionally, the Company granted 15,000 RSUs to Ryan Oviatt, the Company CFO vesting immediately on the date of grant, pursuant to his employment agreement. The Company estimates the fair value of the RSUs at their intrinsic value at the time of granting.

The Company recognized \$143,765 and \$187,406 in expense for the fair value of previously granted stock based compensation vested during the three months ended June 30, 2016, and 2015, respectively. Stock compensation expense is recognized on a pro-rata basis over the vesting period of the equity awards. During the three month periods ended June 30, 2016 the Company recognized \$143,765 in compensation expense arising from equity awards issued, leaving \$1,142,898 of compensation expense on equity awards to be recognized subsequent to June 30, 2016.

13

PROFIRE ENERGY, INC. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
June 30, 2016 and March 31, 2016

NOTE 7 – STOCK BASED COMPENSATION (CONTINUED)

A summary of the status of the Company's stock option plans and the changes during each period are presented below:

Stock Based Compensation

| | Options | Wtd. Avg. Fair Value |
|-----------------------------|------------|-------------------------------|
| Outstanding, March 31, 2015 | 2,113,500 | 1.90 |
| Granted | - | - |
| Exercised | - | - |
| Forfeited/Expired | (552,300) | 1.54 |
| Outstanding, March 31, 2016 | 1,561,200 | 1.90 |
| Exercisable, March 31, 2016 | 1,050,800 | 2.12 |
| | | Wtd. Avg. Fair Value |
| | Options | |
| Outstanding, March 31, 2016 | 1,561,200 | 1.90 |
| Granted | 315,500 | 1.01 |
| Exercised | - | - |
| Forfeited/Expired | (96,000) | 1.92 |
| Outstanding, June 30, 2016 | 1,780,700 | 1.84 |
| Exercisable, June 30, 2016 | 1,128,500 | 2.10 |

PROFIRE ENERGY, INC. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
June 30, 2016 and March 31, 2016

NOTE 7 – STOCK BASED COMPENSATION (CONTINUED)

The following table summarizes information about the Company's outstanding stock options:

Total Outstanding and Exercisable March 31, 2016

| Strike Price | Outstanding Options (1 share/option) | Average Remaining Life (Yrs) | Exercisable Shares | Weighted Average Exercise Price |
|--------------|--------------------------------------|------------------------------|--------------------|---------------------------------|
| \$0.30 | 110,000 | 0.88 | 110,000 | 0.30 |
| \$1.37 | 711,500 | 3.13 | 345,500 | 1.37 |
| \$1.75 | 346,500 | 1.93 | 276,500 | 1.75 |
| \$3.85 | 200,000 | 3.61 | 200,000 | 3.85 |
| \$3.95 | 100,000 | 7.86 | 100,000 | 3.95 |
| \$4.03 | 93,200 | 4.09 | 18,800 | 4.03 |
| | 1,561,200 | 2.92 | 1,050,800 | 2.12 |

Total Outstanding and Exercisable June 30, 2016

| Strike Price | Outstanding Options (1 share/option) | Average Remaining Life (Yrs) | Exercisable Shares | Weighted Average Exercise Price |
|--------------|--------------------------------------|------------------------------|--------------------|---------------------------------|
| \$0.30 | 110,000 | 0.63 | 110,000 | 0.30 |
| \$1.01 | 315,500 | 3.90 | - | 1.01 |
| \$1.37 | 658,000 | 2.84 | 431,000 | 1.37 |
| \$1.75 | 320,000 | 1.68 | 255,000 | 1.75 |
| \$3.85 | 200,000 | 3.36 | 200,000 | 3.85 |
| \$3.95 | 100,000 | 7.61 | 100,000 | 3.95 |
| \$4.03 | 77,200 | 3.84 | 32,500 | 4.03 |
| | 1,780,700 | 2.67 | 1,128,500 | 2.10 |

PROFIRE ENERGY, INC. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
June 30, 2016 and March 31, 2016

NOTE 7 – STOCK BASED COMPENSATION (CONTINUED)

The following table summarizes information about non-vested options as of the three months ended June 30, 2016:

| Non-vested options | Options | Wtd. Avg. Grant Date Fair Value |
|---|-----------|--|
| Non-vested at March 31, 2016 | 510,400 | 1.81 |
| Stock options granted during the period | 315,500 | 1.01 |
| Stock options canceled | (96,000) | 1.92 |
| Cancellation of previously vested stock options | 50,700 | 1.59 |
| Vested during the period ended June 30, 2016 | (128,200) | 1.68 |
| Non-vested at June 30, 2016 | 659,900 | 1.41 |

The following table summarizes information about non-vested restricted stock awards as of the three months ended June 30, 2016:

| Non-vested restricted stock | Restricted Stock | Wtd. Avg. Grant Date Fair Value |
|---|------------------|--|
| Non-vested at March 31, 2016 | 97,334 | 4.03 |
| Restricted stock granted during the period | - | - |
| Restricted Stock canceled | - | - |
| Vested, not settled during the period ended June 30, 2016 | (24,332) | 4.03 |
| Vested & settled during the period ended June 30, 2016 | - | - |
| Non-vested at June 30, 2016 | 73,002 | 4.03 |

| Non-vested restricted stock units | Restricted Stock Units | Wtd. Avg. Grant Date Fair Value |
|---|------------------------|--|
| Non-vested at March 31, 2016 | 305,333 | 1.38 |
| Restricted stock units granted during the period | 15,000 | 1.01 |
| Restricted stock units canceled | - | - |
| Vested, not settled during the period ended June 30, 2016 | (48,333) | 1.01 |
| Vested & settled during the period ended June 30, 2016 | - | - |
| Non-vested at June 30, 2016 | 272,000 | 1.36 |

PROFIRE ENERGY, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements

June 30, 2016 and March 31, 2016

NOTE 8 – SUBSEQUENT EVENTS

On July 18, 2016, Mr. Stephen E. Pirnat notified (the "Company") of his decision not to stand for re-election to the Company's Board of Directors ("Board") at the Company's 2016 Annual Meeting of Stockholders ("2016 Annual Meeting"). Mr. Pirnat will continue to serve as a Director until the election of Directors at the 2016 Annual Meeting. Mr. Pirnat's decision to resign did not involve any disagreement with the Company, the Company's managers, or the Board of Directors.

On May 13, 2016, (the "Company") received a letter ("Notice") from The NASDAQ Stock Market LLC ("Nasdaq") notifying the Company that, because the closing bid price for its Common stock was below \$1.00 per share for the previous 30 consecutive business days, it no longer complied with the minimum bid price requirement for continued listing on The Nasdaq Capital Market pursuant to Nasdaq Marketplace Rule 5550(a)(2). The letter also stated that the Company was granted an initial compliance period of 180 calendar days, or until November 9, 2016, to regain compliance with the Minimum Bid Price Requirement pursuant to Nasdaq Marketplace Rule 5810(c)(3)(A). The letter indicated that if, at any time during the 180 day compliance period, the closing bid price of the Common Stock is at least \$1.00 for a minimum of ten consecutive business days, Nasdaq will provide the Company with written confirmation that it has achieved compliance with the minimum bid price requirement.

On July 8, 2016 the Company received a letter from Nasdaq notifying the Company that for the previous 10 consecutive business days, from June 23 to July 7, 2016, the closing bid price of the Company's common stock was \$1.00 per share or greater, and that the Company regained compliance with Marketplace Rule 5550(a)(2) and this matter is now closed.

On June 20, 2016 the Company issued a total of 9,081 restricted shares to its CFO. The shares were issued as a net settlement of previously granted and vested restricted stock units.

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, 2016 and 2015. 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, 2016.

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", "will" 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; limits to employee capabilities; 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.

Recent Developments

On May 26, 2016, Profire announced that its Board of Directors had authorized a share repurchase program allowing the Company to repurchase up to \$2,000,000 worth of the Company's common stock from time to time through May 25, 2017. Any purchases under the program will be made at the discretion of management. The size and timing of any purchases will depend on price, market and business conditions and other factors. Open market purchases will be conducted in accordance with applicable legal requirements. The repurchase program may be suspended, terminated or modified at any time for any reason, including market conditions, the cost of repurchasing shares, the availability of alternative investment opportunities, liquidity, and other factors deemed appropriate. These factors may also affect the timing and amount of share repurchases. The repurchase program does not obligate the Company to purchase any particular number of shares.

On May 4, 2016, the Company issued a total of 59,953 restricted shares to one of its Independent Directors. The shares were issued in the settlement of previously granted and vested restricted stock units.

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. We believe 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, solar packages, and chemical-management systems. Our products and services aid oil and natural gas producers in the safe and efficient production and transportation of oil and natural gas.

Principal Products and Services

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 heat to satisfy their various functions, which is provided by a burner flame inside the vessel. This burner flame is integral to the operation of the vessel because these vessels use the flame's heat to facilitate the proper function of the vessel. Such functions include separating, storing, transporting and purifying oil and gas (or even water). For example, the viscosity of oil and moisture content (and temperature) of gas are critical to a number of oilfield processes, and are 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 the purposes of 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. We believe, despite the industry down turn, there is a growing trend in the oil and gas industry toward enhanced control, process automation, and data logging, partly for potential regulatory-satisfaction purposes. We continue to assess compliance-interest in the industry, especially given the budgetary constraints we have observed over the last year. We believe that enhanced burner-management products and services can help our customers be compliant with such regulatory requirements, where applicable. In addition to selling products, we train and dispatch service technicians to address this industry need in Canada and throughout the United States.

After providing installation and maintenance services for several years, we decided to pursue the development of burner-management technologies, and we began work on a proprietary burner-management system to ignite, monitor, and manage the burner flames used in oilfield vessels. Our principal objectives in developing our proprietary burner-management system were to:

- provide a safe, efficient and code-compliant method to ignite, monitor, and/or manage burner flames in the industry; and
- ensure the system could be easily controlled by oilfield operators.

With these objectives in mind, we initially developed our first burner-management system in 2005. Since 2005, we have released several iterations of our initial burner-management system, increasing features and capabilities, while maintaining compliance with Canadian Standards Association (CSA) and Underwriters Laboratories (UL) ratings. Our burner-management systems have become widely used in Western Canada, and well-received in the United States market, with sales to such companies as Anadarko, Chesapeake Energy, ConocoPhillips, Devon Energy, Encana, Exxon-Mobil, Petro-Canada, Shell and others. Our systems have also been sold or installed in other parts of the world, including France, Italy, Ukraine, India, Nigeria, the Middle East, Australia, and Brazil. While we have an interest in expanding our long-run international distribution capabilities, our current principal focus is on the North American oil and gas market.

Recent Product Extension: PF3100

In September of 2015, the Company unveiled its next generation burner-management system which is designed to operate, monitor, and control more complex, multi-faceted oilfield applications. The newly announced management system, the PF3100, is an advanced management system designed to work with any number of Profire-engineered modules, specific to different applications, thus allowing the system to expertly manage a wide variety of applications and possibly whole new environments in future years.

Throughout the industry, Programmable Logic Controllers (PLC) are used to operate and manage custom-built oilfield applications. Though capable, PLC's can be expensive, tedious, and difficult to use. Our unique solution, the PF3100, can help manage and synchronize custom applications helping oilfield producers meet deadlines and improve profitability through an off-the-shelf solution with dynamic customization. The Company has begun selling the PF3100 for initial use in the oil and gas industry's natural-draft market, with additional modules, including forced-air modules, planned for the near-future.

The Company frequently assesses market needs by participating in industry conferences and soliciting feedback from existing and potential customers and looks for opportunities to provide quality solutions to the oil and gas producing companies it serves. Upon identifying a potential market need, the Company begins researching the market and developing products that might have feasibility for future sale.

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.

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., inline pilot and valve technologies). We intend to continue developing proprietary products to help enhance our margin on some of these complementary products.

Chemical-Management Systems

In addition to the burner-management systems and complementary technologies we have sold historically, we extended our product line by acquiring the assets of VIM Injection Management ("VIM") in November 2014, which extended our brand to include chemical-management systems.

Chemical injection is used for a wide variety of purposes in the oil and gas industry including down-hole inhibition of wax, hydrates, and corrosion agents, so that product can flow more efficiently to the wellhead. Once at the wellhead, chemical injection can also be used to further process the oil or gas before it is sent into a pipeline, and with other applications.

Currently, a variety of pumps are used to meter the chemicals injected, but are often inaccurate in injecting the proper amount of chemical, as they may not account for all of the variables that affect how much chemical should be injected (e.g., pressure, hydrogen sulfide concentration, etc.) nor the optimal efficiency rates of varying pump systems.

Inaccurate injection levels are problematic because the chemicals injected are expensive; over-injection causes unnecessary expense for producers. However, under-injection can often result in the creation of poor product (i.e., with wax, hydrate, or corrosion agents) and cause problems with pipeline audits.

Our chemical-management systems monitor and manage this chemical-injection process to ensure that optimal levels of chemicals are injected. This improves the efficiency of the pump and production quality of the well, improves safety for workers that would otherwise be exposed to these chemicals, and improves compliance with pipeline operators. Like our burner-management systems, our chemical-management systems can be monitored and managed remotely via SCADA or other remote-communication systems. A patent was issued domestically related to our chemical management system and its process for supplying a chemical agent to a process fluid. Other international patents are pending.

Results of Operations

Comparison of the three months ended June 30, 2016 and 2015

Total Revenues

Total revenues during the three months ended June 30, 2016 decreased \$2,903,200 or 42%, compared to the comparable period ended June 30, 2015. This decrease was principally attributable to decreased sales of goods, net, as well as decreased sales of services, net. Though we expect to continue to deal with a difficult industry environment for some time, we are focusing our resources in geographic areas that we believe will produce the highest level of total revenues and return on investment.

Sales of Goods, Net

Sales of goods, net during the three months ended June 30, 2016 decreased \$2,749,077 or 44%, compared to the comparable period ended June 30, 2015. This decrease was principally attributable to the reduced purchasing from companies in the oil and gas industry stemming from budget constraints due to the drastic decline in the underlying commodity prices year over year.

Sales of Services, Net

Sales of services, net during the three months ended June 30, 2016 decreased \$154,123 or 23%, compared to the comparable period ended June 30, 2015. The decrease in sales of services, net, was principally attributable to the decrease in overall purchasing by our customers, as services are generally provided on the installation of newly purchased systems. Although the primary purpose of our service team is to support product sales, our service team also provides valuable feedback for our sales and research and development teams as well as a number of auxiliary services for our customers.

Total Cost of Goods Sold

Total cost of goods sold during the three months ended June 30, 2016 decreased \$1,503,664 or 42%, compared to the comparable period ended June 30, 2015. As a percentage of total revenues, total cost of goods sold was 52% during the three months ended June 30, 2016 and 2015.

Cost of Goods Sold-Products

Cost of goods sold-products during the three months ended June 30, 2016 decreased \$1,255,275 or 42%, compared to the comparable period ended June 30, 2015, primarily as a result of decreased sales. As a percentage of revenues from product sales, cost of goods sold-products increased to 50% during the three months ended June 30, 2016, compared to 48% for the comparable period ended June 30, 2015. This change is largely attributable to the improved allocation of overhead costs of some product-related fixed assets associated with storage and inventory management.

Given the current and expected industry conditions in the oil and gas industry, we have been and will continue to work with our suppliers to control our inventory costs, which has the largest impact on margin. We have been relatively successful in maintaining our price during the industry volatility, though customers have sought price reductions. We anticipate holding prices relatively stable, within the confines of normal sales operations. We anticipate returning to a more historical margin in the long-run, especially with increased sales, though quarterly results will vary. We expect this migration to historical margin levels will take several quarters.

Cost of Goods Sold-Services

Cost of goods sold-services during the three months ended June 30, 2016 decreased \$248,388 or 42%, compared to the comparable period ended June 30, 2015, as a result of decreased sales of service. As a percentage of service revenues, cost of goods sold-service decreased to 68% during the three months ended June 30, 2016, compared to 90% for the comparable period ended June 30, 2015. The change in cost of goods sold-service was achieved by cost cutting measures to right size our service division for the current industry context and make it more profitable.

Gross Profit

Gross profit during the three months ended June 30, 2016 remained unchanged at 48% compared to the comparable period ended June 30, 2015.

Total Operating Expenses

Our total operating expenses during the three months ended June 30, 2016 decreased \$1,057,556 or 27%, compared to the comparable period ended June 30, 2015. As a percentage of total revenues, total operating expenses during the three months ended June 30, 2016 increased from 56% to 70%, compared to the comparable period ended June 30, 2015. Despite significant efforts to control and manage operating costs which brought total operating costs down by 27%, revenue declined 42% which caused total operating expenses as a percentage of total revenues to increase sharply.

General and Administrative Expenses

General and administrative expenses during the three months ended June 30, 2016 decreased by \$1,055,573 or 31% compared to the comparable period ended June 30, 2015. As a percentage of total operating expenses, general and administrative expenses during the three months ended June 30, 2016 decreased from 89% to 85% compared to the comparable period ended June 30, 2015. The decrease in overall costs were due to cost management and reduction efforts in professional fees, sales and marketing expenses, stock based compensation, travel and payroll costs. We will continue to closely evaluate expenses and determine what expense-reduction actions, if any, need to be taken.

Research and Development

Research and development expenses during the three months ended June 30, 2016 decreased \$53,767 or 18%, compared to the comparable period ended June 30, 2015. As a percentage of total operating expenses, research and development expenses during the three months ended June 30, 2016 increased from 8% to 9% compared to the comparable period ended June 30, 2015. This decrease in total cost was due to cost cutting efforts across the department while maintaining the prioritization of research and development projects.

Depreciation and Amortization Expense

Depreciation and amortization expense during the three months ended June 30, 2016 increased \$51,784 or 48%, compared to the comparable period ended June 30, 2015. As a percentage of total operating expenses, depreciation increased from 2.8% to 5.7% due to the decrease in the allocation of depreciation to cost of goods sold mostly related to operational changes made to the service department.

Total Other Income (Expense)

Total other income during the three months ended June 30, 2016 increased \$99,336 compared to the comparable period ended June 30, 2015. The majority of this increase is due to the impact of Foreign Exchange gains and losses in each period.

Net Income (Loss) Before Income Taxes

The decreases we realized in total revenues, gross profit and total operating expenses combined to lead to a net loss before income taxes during the three months ended June 30, 2016 of \$851,172 compared to net loss before income taxes of \$608,527 during to the comparable period ended June 30, 2015.

Income Tax Expense (Benefit)

Income tax benefit during the three months ended June 30, 2016 increased \$96,163 or 64%, compared to the comparable period ended June 30, 2015. The increase was due to the larger net loss before tax during the period and due to changes in various deferred tax items.

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 period ending 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 gain of \$773 during the three months ended June 30, 2016. By comparison, during the three months ended June 30, 2015 we recognized a gain of \$333,372 in foreign currency translation. The changes in translation gain were the result of volatility in foreign exchange rates, specifically between the USD and CAD.

Total Comprehensive Income (Loss)

For the foregoing reasons, we realized a total comprehensive loss during the three months ended June 30, 2016 of \$604,522 compared to total comprehensive loss of \$125,441 during the comparable period ended June 30, 2015.

Liquidity and Capital Resources

Total current assets were \$36,009,336 and total assets were \$45,936,465 including cash and cash equivalents of \$22,043,090 at June 30, 2016. Total current liabilities were \$979,362 and total liabilities were \$1,612,094 at June 30, 2016. Working capital at June 30, 2016 was \$35,029,974 compared to \$35,205,517 at March 31, 2016.

During the three months ended June 30, 2016 the increase in cash was primarily provided from operations. See below for additional discussion and analysis of cash flow:

| | For the Three Months Ending June 30, | |
|---|---|-------------|
| | 2016 | 2015 |
| Net cash provided by operating activities | \$736,681 | \$2,866,505 |
| Net cash provided by investing activities | 16,896 | 40,215 |
| Net cash provided by (used in) financing activities | - | (23,526) |
| Effect of exchange rate changes on cash | (3,082) | 158,248 |
| NET INCREASE IN CASH | \$750,495 | \$3,041,442 |

Net cash provided by our operating activities was \$736,681. During the three months ended June 30, 2016 we realized an increase in cash primarily derived from changes in accounts receivable and inventory. These increases were partially offset by decreases in cash resulting from our net loss and a significant pay down of accounts payable and accrued liabilities during the period.

During the three months ended June 30, 2016, net cash provided by investing activities was \$16,896 and was primarily driven by proceeds from disposal of equipment during the period. We do not have plans to make significant purchases of fixed assets in the short-term.

During the three months ended June 30, 2016, no cash was received in financing activities for the issuance of stock options.

As a result of the net cash provided from operating and investing activities, we realized a net increase in cash during the three months ended June 30, 2016 of \$750,495 compared to a \$3,041,442 net increase during the three months ended June 30, 2015.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

We are exposed to certain market risks in the ordinary course of business. These risks result primarily from changes in foreign currency exchange rates and interest rates. In addition, international operations are subject to risks related to differing economic conditions, changes in political climate, differing tax structures and other regulations and restrictions.

To date we have not utilized derivative financial instruments or derivative commodity instruments. We do not expect to employ these or other strategies to hedge market risk in the foreseeable future. Cash is held in checking, savings, and money market funds, which are subject to minimal credit and market risk. We believe that the market risks associated with these financial instruments are immaterial, although there can be no guarantee that these market risks will be immaterial to us.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 as of the end of the period covered by this Report. Based on this evaluation, the principal executive officer and principal financial officer concluded that as of the end of the period covered by this Report, our disclosure and control procedures were not effective due to material weaknesses identified as part of fiscal

year 2016 year-end review of internal controls over financial reporting. A material weakness is a control deficiency, or combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the registrant's annual or interim financial statements will not be prevented or detected on a timely basis. For more information on material weaknesses identified by management during our internal assessment, see our Form 10-K for the fiscal year ended March 31, 2016.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Remediation Initiatives

Management has been actively developing a remediation plan and been implementing new controls and processes to address the aforementioned deficiencies. Upon receiving the results of our internal controls review, we have taken actions to strengthen our internal control structure, including the following:

- Hired third parties to provide advice on COSO framework and risk control matrices;
- Implemented company-wide trainings over internal controls in relation with new accounting standard operating procedures including the requirement of supplying supporting evidence, proving the level of precision with which a control is performed, etc.;
- Required evidence of review in nearly all controls; and
- Reviewed and updated each employee's access within the enterprise resource management system.

Management continues to meet with key managers and control owners to evaluate the effectiveness of internal controls and to ensure implementation of remediation initiatives.

Limitations on the Effectiveness of Internal Controls

An internal control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance 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. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the internal control. The design of any system of controls also is based in part upon 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. Over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

To the best of our knowledge, there are no legal proceedings pending or threatened against us; and there are no actions pending or threatened against any of our directors or officers that are adverse to us.

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, 2016, 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 legislation has 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

Exhibit 101.INS XBRL Instance Document

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit 101.DEF XBRL Taxonomy Definition Linkbase Document

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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: August 10, 2016 By: /s/Brenton W. Hatch
Brenton W. Hatch
Chief Executive Officer

Date: August 10, 2016 By: /s/Ryan W. Oviatt
Ryan W. Oviatt
Chief Financial Officer