

PROFIRE ENERGY INC
Form 10-Q
February 14, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the Quarterly Period Ended December 31, 2012

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

For the Transition Period From _____ to _____

Commission File Number 000-52376

PROFIRE ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

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

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

84042
(Zip Code)

(801) 796-5127

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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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 February 9, 2013 the registrant had 45,155,000 shares of common stock, par value \$0.001, issued and outstanding.

PROFIRE ENERGY, INC.
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PART I. FINANCIAL INFORMATION

Item 1. Financial Information

PROFIRE ENERGY, INC. AND SUBSIDIARY
Condensed Consolidated Balance Sheets

ASSETS

	December 31, 2012 (Unaudited)	March 31, 2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,484,609	\$ 1,914,877
Accounts receivable, net	4,591,296	4,236,240
Marketable securities-available for sale	841	840
Inventories	3,463,476	1,968,740
Deferred tax asset	12,569	12,569
Prepaid expenses	1,968	10,202
Total Current Assets	9,554,759	8,143,468
PROPERTY AND EQUIPMENT, net	2,232,056	1,982,290
TOTAL ASSETS	\$ 11,786,815	\$ 10,125,758
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,607,945	\$ 645,215
Accrued liabilities	113,345	251,137
Income taxes payable	421,807	597,830
Total Current Liabilities	2,143,097	1,494,182
TOTAL LIABILITIES	2,143,097	1,494,182
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: 45,155,000 and 45,000,000 shares issued and outstanding, respectively	45,155	45,000
Additional paid-in capital	431,586	74,343
Accumulated other comprehensive income	254,840	484,692

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Retained earnings	8,912,137	8,027,541
Total Stockholders' Equity	9,643,718	8,631,576
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 11,786,815	\$ 10,125,758

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

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

	For the Three Months Ended December 31,		For the Nine Months Ended December 31,	
	2012	2011	2012	2011
REVENUES				
Sales of goods, net	\$ 3,176,627	\$ 4,780,099	\$ 10,724,586	\$ 11,463,655
Sales of services, net	364,434	288,884	873,341	811,573
Total Revenues	3,541,061	5,068,983	11,597,927	12,275,228
COST OF SALES				
Cost of goods sold-products	1,050,966	2,583,872	4,329,037	4,957,297
Cost of goods sold-services	313,442	231,445	697,474	616,388
Total Cost of Goods Sold	1,364,408	2,815,317	5,026,511	5,573,685
GROSS PROFIT	2,176,653	2,253,666	6,571,416	6,701,543
OPERATING EXPENSES				
General and administrative expenses	1,378,148	354,091	3,284,533	1,339,878
Payroll expenses	1,144,024	602,125	1,845,679	1,257,345
Depreciation expense	116,678	45,396	227,604	132,110
Total Operating Expenses	2,638,850	1,001,612	5,357,816	2,729,333
INCOME (LOSS) FROM OPERATIONS	(462,197)	1,252,054	1,213,600	3,972,210
OTHER INCOME (EXPENSE)				
Interest expense	(4,493)	(6,773)	(13,171)	(15,569)
Rental income	-	-	-	3,600
Interest income	13,074	41	21,389	366
Total Other Income (Expense)	8,581	(6,732)	8,218	(11,603)
NET INCOME (LOSS) BEFORE INCOME TAXES	(453,616)	1,245,322	1,221,818	3,960,607
INCOME TAX EXPENSE (BENEFIT)	(127,347)	350,287	337,222	1,105,336
NET INCOME (LOSS)	\$ (326,269)	\$ 895,035	\$ 884,596	\$ 2,855,271

UNREALIZED HOLDING GAIN (LOSS) ON AVAILABLE FOR SALE SECURITIES	\$	-	\$	11	\$	-	\$	(2,389)
FOREIGN CURRENCY TRANSLATION GAIN (LOSS)		(449,470)		57,400		(229,852)		(386,416)
TOTAL COMPREHENSIVE INCOME (LOSS)	\$	(775,739)	\$	952,446	\$	654,744	\$	2,466,466
BASIC EARNINGS (LOSS) PER SHARE	\$	(0.01)	\$	0.02	\$	0.02	\$	0.06
FULLY DILUTED EARNINGS (LOSS) PER SHARE	\$	(0.01)	\$	0.02	\$	0.02	\$	0.06
BASIC WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		45,155,000		45,000,000		45,088,400		45,000,000
FULLY DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING		45,155,000		45,199,645		45,357,724		45,199,645

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

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

	For the Nine Months Ended December 31,	
	2012	2011
OPERATING ACTIVITIES		
Net Income	\$ 884,596	\$ 2,855,271
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation expense	225,076	132,110
Common stock issued for services	208,750	-
Bad debt expense	69,995	-
Stock options issued for services	148,648	60,398
Changes in operating assets and liabilities:		
Changes in accounts receivable	(642,358)	(3,297,464)
Changes in inventories	(1,493,076)	(431,123)
Changes in prepaid expenses	8,231	-
Changes in accounts payable and accrued liabilities	1,031,985	869,776
Changes in income taxes payable	(132,932)	454,261
Net Cash Provided by Operating Activities	308,915	643,229
INVESTING ACTIVITIES		
Purchase of fixed assets	(474,381)	(1,210,757)
Net Cash Used in Investing Activities	(474,381)	(1,210,757)
FINANCING ACTIVITIES		
Effect of exchange rate changes on cash	(264,802)	(153,609)
NET INCREASE (DECREASE) IN CASH	(430,268)	(721,137)
CASH AT BEGINNING OF PERIOD	1,914,877	1,689,386
CASH AT END OF PERIOD	\$ 1,484,609	\$ 968,249
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
CASH PAID FOR:		
Interest	\$ 13,171	\$ 15,569

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Income taxes	\$	513,245	\$	616,677
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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PROFIRE ENERGY, INC. AND SUBSIDIARY
Notes to the Condensed Consolidated Financial Statements
December 31, 2012 and March 31, 2012

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 December 31, 2012 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 financial statements be read in conjunction with the financial statements and notes thereto included in the Company's March 31, 2012 audited financial statements. The results of operations for the periods ended December 31, 2012 and 2011 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 December 31, 2012 and March 31, 2012, bank balances included \$1,484,609 and \$1,914,877, respectively, held by the Company's banks guaranteed by the Province of Alberta, Canada.

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 \$135,186 and \$65,110 as of December 31, 2012 and March 31, 2012, 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 first-in first-out (FIFO) basis. As of December 31, 2012 and March 31, 2012 inventory consisted of the following:

	December 31, 2012	March 31, 2012
Raw materials	\$ 3,520,844	\$ 2,026,108
Work in progress	-	-
Finished goods	-	-
Reserve for obsolescence	(57,368)	(57,368)
Total	\$ 3,463,476	\$ 1,968,740

PROFIRE ENERGY, INC. AND SUBSIDIARY
Notes to the Condensed Consolidated Financial Statements
December 31, 2012 and March 31, 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Canadian income taxes on its world-wide income with a credit provided for foreign taxes paid. Any income earned in the United States is subject to applicable state and federal tax rates in the United States. The combined effective rates of income tax expense (benefit) are 28% and 28% for the nine months ended December 31, 2012 and 2011, 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 269,324 and 199,645 stock options included in the fully diluted earnings per share as of December 31, 2012 and 2011, respectively. The Company uses the treasury stock method to calculate the dilutive effects of stock options and warrants.

	For the Nine Months Ended December 31,	
	2012	2011
Net income	\$ 884,596	\$ 2,855,271
Basic weighted average number of shares outstanding	45,088,400	45,000,000
Common stock equivalents	269,324	199,645
Fully diluted weighted average number of shares outstanding	45,357,724	45,199,645
Basic earnings per share	\$ 0.02	\$ 0.06
Fully diluted earnings per share	\$ 0.02	\$ 0.06

Foreign Currency and Comprehensive Income

The functional currency of our wholly-owned subsidiary, Profire Combustion, Inc., is Canadian dollars. All Canadian dollar balances have been translated to U.S. dollars using year-end exchange rates for the balance sheet and weighted average exchange rates for the statements of operations. Equity transactions were translated using historical rates. The period-end exchange rates of 1.0031 and 1.00274 were used to convert the Company's December 31, 2012 and March 31, 2012 balance sheets, respectively, and the statements of operations used weighted average rates of 1.001 and 1.01070 for the nine months ended December 31, 2012 and 2011, 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.

PROFIRE ENERGY, INC. AND SUBSIDIARY
Notes to the Condensed Consolidated Financial Statements
December 31, 2012 and March 31, 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements

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

Stock-Based Compensation

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

NOTE 3 – FAIR VALUE MEASUREMENT

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

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include inputs that are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant inputs are observable in the market or can be derived from observable market data. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, foreign exchange rates, and credit ratings.

Level 3 - Unobservable inputs that are supported by little or no market activities.

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

We classify our cash equivalents and marketable securities within Level 1. This is because we value our cash equivalents and marketable securities using quoted market prices.

PROFIRE ENERGY, INC. AND SUBSIDIARY
Notes to the Condensed Consolidated Financial Statements
December 31, 2012 and March 31, 2012

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

Description	As of December 31, 2012	Fair Value Measurement at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash Equivalents	\$ 1,484,609	\$ 1,484,609	-	-
Marketable Securities	841	841	-	-

NOTE 4 – SEGMENT INFORMATION

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

Sales	Three Months Ended December 31,		Nine Months Ended December 31,	
	2012	2011	2012	2011
Canada	\$ 2,386,091	\$ 4,845,808	\$ 9,940,391	\$ 12,010,254
United States	1,154,970	223,175	1,657,536	264,974
Total	\$ 3,541,061	\$ 5,068,983	\$ 11,597,927	\$ 12,275,228

Long-Lived Assets	As of December 31,		As of March 31, 2012
	2012	2012	
Canada	\$ 1,528,861	\$ 1,596,209	
United States	703,195	368,081	
Total	\$ 2,232,056	\$ 1,982,290	

NOTE 5 – SUBSEQUENT EVENTS

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

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

This discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the three month and nine month periods ended December 31, 2012 and 2011. 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, 2012.

Forward-Looking Statements

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

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

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

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

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

Overview

We are an oilfield technology company specializing in burner management systems. In the oil and natural gas industry, various applications (e.g. tanks, line heaters, separators, dehydrators, amine reboilers, etc.) are used in the production and transportation of oil and natural gas. These applications require heat, which is used to facilitate the proper function of the application. To provide that heat, a burner is used within the application. Our primary products monitor and manage this burner.

A burner management system monitors the burner, reignites it automatically when needed, and can even manage the temperature set-points (which can be set by the user). In this way, a burner management system allows for more efficient burner operation and re-ignition, improved safety, and improved compliance with regulatory bodies. Without a burner management system, burners must be monitored and reignited manually, which is both inefficient and dangerous.

To ensure the proper installation and servicing of our products, we also employ skilled combustion technicians to help install and service our products.

Results of Operations

Comparison of the three months ended December 31, 2012 and 2011

Total Revenues

Total revenues during the quarter ended December 31, 2012 decreased 30% compared to the quarter ended December 31, 2011. This decrease was principally attributable to reduced product sales in Canada.

Sales of Goods, Net

We realized a \$1,603,472, or 34%, decrease in sales of goods, net during the third fiscal quarter 2013 compared to the same fiscal quarter 2012. Certain pending oil field safety legislative changes in Canada have resulted in some of our Canadian customers postponing purchases until clarification is received as to the nature of the legislative changes. As the industry receives clarity regarding the legislative changes, sales in Canada are beginning to return to previously anticipated levels – as evidenced by January 2013 sales revenues. Year-over-year, however, sales in Canada declined from \$4,546,924 during the quarter ended December 31, 2011 to \$2,021,657 during the quarter ended December 31, 2012.

Since the second fiscal quarter 2012 we have opened offices in Utah and Texas. Our U.S. sales for the three months ended December 31, 2012 were \$1,405,176 compared to \$233,175 during the three months ended December 31, 2011. We anticipate opening offices in North Dakota and Pennsylvania during the fourth quarter of fiscal year 2013, which, over time, we expect will further increase U.S. sales.

Sales of Services, Net

During the three months ended December 31, 2012 we realized a \$75,550, or 26% increase in sales of services, net. Historically, our service revenue has come from our Canadian operations. We anticipate service revenues in our Utah and Texas offices will begin to expand in upcoming quarters. As our sales team proactively looks for equipment sales the opportunity to discuss services related sales also increases.

Total Cost of Goods Sold

We realized a 52% decrease in total cost of goods sold during the third fiscal quarter 2013 as a result of a 59% decrease in cost of goods for our products sold and a 35% increase in cost of goods sold for our services. As a percentage of total revenues, total cost of goods sold decreased to 39% during the third fiscal quarter 2013 compared to 56% during the third fiscal quarter 2012. This improvement in gross margin was realized due to enhanced inventory management procedures put in place in our Utah and Texas locations due to our hiring of an experienced warehouse team.

Cost of Goods Sold-Products

During the quarter ended December 31, 2012 cost of goods sold-products decreased 59% as compared to the quarter ended December 31, 2011. Significant factors contributing to this decrease were the hiring of a full-time warehouse manager and a sourcing/purchasing employee who reduced the need to rush ship back ordered components needed to fulfill orders. For the near future we expect cost of goods sold-products will roughly follow the same trend as sales of goods. Our margins on product sales fluctuate based on a number of variables, but we believe that through volume purchasing and more detailed component sourcing, margins may improve slightly over time, but should be expected to level off. We will attempt to improve our margins when it is prudent for our long-term strategic advantage.

Cost of Goods Sold-Services

Cost of goods sold-services increased 35% during the quarter ended December 31, 2012 compared to the comparable prior-year quarter. This increase is due to the increase in sales of services. During the quarter ended December 31, 2012, a larger percentage of our service revenue was generated from lower-margin services as compared to the quarter ended December 31, 2011. Cost of goods sold related to services as a percentage of total service revenue varies with the types of services provided. For example, there are times when we provide preventative maintenance service or testing which results in lower margins from a contractual and travel expense perspective. Contrastingly, when we perform multiple installs of valve trains, airplates, etc. at static locations our margins improve accordingly. We anticipate these fluctuations will normalize over time as the absolute number of service opportunities expand.

Gross Profit

Because the decrease in total revenue outpaced the decrease in cost of goods sold, gross profit decreased approximately 3% to \$2,176,653 during the quarter ended December 31, 2012.

Total Operating Expenses

Our total operating expenses increased 163% during the three months ended December 31, 2012 compared to the three months ended December 31, 2011. General and administrative expenses increased 289% during the quarter, payroll expenses increased 90% and depreciation expense increased 157%.

General and Administrative Expenses

During the three months ended December 31, 2012 general and administrative expenses increased by \$1,024,057. This increase is the result of increased operational and growth activities, primarily the hiring and training of multiple new employees, costs associated with the build-out of our sites, equipment for testing and enhanced quality control of our systems, construction of an enhanced Company website and increased investor relations and public relations related expenses. While management is mindful to maintain control over general and administrative expenses, we do not expect to see a trend of lower general and administrative expenses. Rather, we believe as operations continue to expand our general and administrative expenses will continue to increase as we seek to expand our operations into North Dakota and Pennsylvania.

Payroll Expenses

We experienced a \$541,899 increase in payroll expenses in the third fiscal quarter 2013. This increase was the result of increased hiring in our Utah and Texas offices during the second fiscal quarter 2013. We expect to hire additional staff as we seek to expand into North Dakota and Pennsylvania. Accordingly, we anticipate payroll expenses will be higher quarter-on-quarter through the remainder of the fiscal year, as we increase sales, warehouse and operational personnel.

Depreciation Expense

Depreciation expense increased \$71,282 during the quarter ended December 31, 2012 compared to the quarter ended December 31, 2011. This increase in depreciation expense is primarily due to the purchase of the Company's expanded Utah facility and to additional equipment necessary to expand our production capacity.

Total Other Income (Expense)

During the three months ended December 31, 2012 we realized total other income of \$8,581 compared to total other expense of \$6,732 for the three months ended December 31, 2011. During the quarter ended December 31, 2012 we realized interest expense of \$4,493 which was completely offset by interest income of \$13,074. By comparison, during the quarter ended December 31, 2012 we realized interest expense of \$6,773 and interest income of \$41.

Net Income (Loss) Before Income Taxes

The 30% decrease we realized in total revenues, the 52% decrease in total cost of goods sold and the 163% increase in total operating expenses combined to result in a net loss before income taxes during the quarter ended December 31, 2012 of \$453,616 compared to net income before income taxes of \$1,245,322 during the quarter ended December 31, 2011.

Income Tax Expense

Because we realized a net loss before income taxes, we recognized income tax benefit of \$127,347 during the three months ended December 31, 2012 compared to income tax expense of \$350,287 during the three months ended December 31, 2011. We anticipate our income tax obligations will typically follow a similar trend as our net income or loss before income taxes.

Foreign Currency Translation Gain (Loss)

The functional currency of our wholly-owned subsidiary, Profire Combustion, Inc., is Canadian dollars. All Canadian dollar balances have been translated to U.S. dollars using year-end exchange rates for the balance sheet and weighted average exchange rates for the statements of operations. Equity transactions were translated using historical rates. Foreign currency translation gains or losses as a result of fluctuations in the exchange rates are reflected in the Statement of Operations and Other Comprehensive Income (Loss).

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

During the quarter ended December 31, 2012 we recognized a foreign currency translation loss of \$449,470. By comparison, during the quarter ended December 31, 2011 we recognized a foreign currency translation gain of \$57,400. The loss during the quarter ended December 31, 2012 was the result of the weakening of the U.S. dollar against the Canadian dollar.

Total Comprehensive Income

For the foregoing reasons, we realized a total comprehensive loss of \$775,739 during the quarter ended December 31, 2012 compared to total comprehensive income of \$952,446 during the quarter ended December 31, 2011.

Comparison of the nine months ended December 31, 2012 and 2011

Total Revenues

Total revenues during the nine months ended December 31, 2012 decreased 6% compared to the nine months ended December 31, 2011. This decrease was principally attributable to reduced product sales in Canada.

Sales of Goods, Net

We realized a \$739,069, or 6%, decrease in sales of goods, net during the first nine months of fiscal 2013 compared to the same fiscal period 2012. This decrease in sales of goods, net during the nine months ended December 31, 2012 was the result of the decrease in sales in Canada during the third fiscal quarter 2012 discussed above. During the nine months ended December 31, 2012 Canadian sales were \$7,359,664 and U.S. sales were \$3,364,922, compared to \$11,230,480 and \$233,175, respectively, during the nine months ended December 31, 2011.

Sales of Services, Net

During the nine months ended December 31, 2012 we realized a \$61,768 or 8% increase in sales of services, net. Sales of services, net increased as a result of our efforts to expand product sales during fiscal 2013, which helped lead to additional service sales. We anticipate service revenues in our Utah and Texas offices will begin to expand in upcoming quarters. We anticipate as product sales increase so will service sales.

Total Cost of Goods Sold

We realized a 10% decrease in total cost of goods sold during the first three fiscal quarters of 2013 as a result of a 13% decrease in cost of goods sold-products. As a percentage of total revenue, total cost of goods sold fell to 43% during the nine months ended December 31, 2012 compared to 45% during the comparable nine-month period of the prior fiscal year. We feel that in the future our margins will remain around this level or perhaps even improve.

Cost of Goods Sold-Products

During the nine months ended December 31, 2012 cost of goods sold-products decreased 13% as compared to the nine months ended December 31, 2011. As a direct result of the decline in sales of goods, cost of goods sold-products decreased. As discussed above, this decrease in the cost of products sold was recognized as the result of the hiring of a full-time warehouse manager and a sourcing/purchasing employee who reduced the need to rush ship back ordered components needed to fulfill orders.

Cost of Goods Sold-Services

Cost of goods sold-services increased 13% during the nine months ended December 31, 2012 compared to the comparable prior year period.

Gross Profit

As a result of decreased total revenue being partially offset by the decrease in total cost of goods sold, gross profit decreased from \$6,701,543 during the nine months ended December 31, 2011 to \$6,571,416 during the nine months ended December 31, 2012.

Total Operating Expenses

Our total operating expenses increased 96% during the nine months ended December 31, 2012 compared to the nine months ended December 31, 2011. General and administrative expenses increased 145%, payroll expenses increased 47% and depreciation expense increased 72%. These increases are a function of the investments the Company is making in its future development.

General and Administrative Expenses

During the nine months ended December 31, 2012 general and administrative expenses increased by \$1,944,655. This increase is the result of increased operational and growth activities, primarily the hiring and training of multiple new employees, costs associated with the build-out of our sites, equipment for testing and enhanced quality control of our systems, construction of an enhanced Company website and increased investor relations and public relations related expenses. While management is mindful to maintain control over general and administrative expenses, we do not expect to see a trend of lower general and administrative expenses. Rather, we believe as operations continue to expand our general and administrative expenses will continue to increase.

Payroll Expenses

We experienced a \$588,334 increase in payroll expenses during the first three fiscal quarters of 2013. There were multiple new hires during the first nine months of fiscal 2013 that contributed to this increase. We expect payroll expenses to remain higher quarter-on-quarter through the remainder of the year as we continue to expand our workforce through the hiring of talented employees.

Depreciation Expense

Depreciation expense increased from \$132,110 during the nine months ended December 31, 2011 to \$227,604 the nine months ended December 31, 2012. This increase in depreciation expense is primarily due to the purchase of the Company's expanded Utah facility as well as the Edmonton expansion and the associated increase in depreciation with these fixed assets.

Total Other Income (Expense)

For the nine month period ended December 31, 2012 total other income was \$8,218 compared to total other expense of \$11,603 during the nine month period ended December 31, 2011. The change from total other income to total other expense is attributable to a \$21,023 increase in interest income and a \$2,398 decrease in interest expense which were only partially offset by a decrease of \$3,600 in rental income from the 2012 period. We do not expect to have further rental income in the future as the tenant has left the premises and we are now using the space.

Net Income Before Income Taxes

As a result of the 10% decrease in total cost of goods sold and the 96% increase in total operating expenses coupled with the 6% decrease in total revenue during the nine months ended December 31, 2012, our net income before income taxes was 69% lower during the first nine months of fiscal 2013 than during the first nine months of fiscal 2012.

Income Tax Expense

Because of the decrease in net income before income taxes discussed above, we recognized income tax expense of \$337,222 during the nine months ended December 31, 2012 compared to an income tax expense of \$1,105,336 during the nine months ended December 31, 2011. We anticipate our income tax obligations will typically follow a similar trend as our net income or loss before income taxes.

Foreign Currency Translation Gain (Loss)

Our consolidated financial statements are presented in U.S. dollars. Our functional currency is Canadian dollars. Our financial statements were translated to U.S. dollars using year-end exchange rates for the balance sheet and weighted average exchange rates for the statements of operations. Equity transactions were translated using historical rates. Foreign currency translation gains or losses as a result of fluctuations in the exchange rates are reflected in the statement of operations and comprehensive income.

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

During the nine month period ended December 31, 2012 our foreign currency translation loss was \$229,852. By comparison, during the nine month period ended December 31, 2011 we recognized a foreign currency translation loss of \$386,416. This increase in foreign currency translation loss was the result of the weakening of the U.S. dollar against the Canadian dollar.

Total Comprehensive Income

For the foregoing reasons, we realized a total comprehensive income of \$654,744 during the nine months ended December 31, 2012 compared to total comprehensive income of \$2,466,466 during the nine months ended December 31, 2011.

Liquidity and Capital Resources

We have not required any financing during the past two fiscal years. As of December 31, 2012 we had total current assets of \$9,554,759 and total assets of \$11,786,815 including cash and cash equivalents of \$1,484,609. At December 31, 2012 total liabilities were \$2,143,097, all of which were current liabilities.

During the nine months ended December 31, 2012 and 2011 cash was primarily used to fund operations. See below for additional discussion and analysis of cash flow.

	Nine Months ended December 31, 2012	Nine Months ended December 31, 2011
Net cash provided by operating activities	\$ 308,915	\$ 643,229
Net cash used in investing activities	\$ (474,381)	\$ (1,210,757)
Net cash provided by (used in) financing activities	\$ -	\$ -
Effect of exchange rate changes on cash	\$ (264,802)	\$ (153,609)
NET INCREASE (DECREASE) IN CASH	\$ (430,268)	\$ (721,137)

Net cash provided by our operating activities was \$308,915. As discussed above, during the nine months ended December 31, 2012 we realized a decrease in net income. We decreased cash due to an increase of our accounts receivable by \$642,358 or 8%. We also decreased cash due to a 76% increase in inventory. Inventory grew during the nine months ended December 31, 2012 based on our forecasts for product demand in the next few quarters. This may ebb and flow from quarter to quarter as we forecast future demand. Accounts receivable were lower due to our decreased sales in the most recent quarter combined with increased efforts to collect accounts receivable. If needed we believe our accounts receivable could be factored provide cash flow, but to date this has not been necessary.

During the nine months ended December 31, 2012 net cash used in investing activities was \$736,376 lower compared to the nine months ended December 31, 2011. This reduction in cash used in investing activities is largely attributable to the acquisitions of additional space at our facilities in Spruce Grove, Alberta, Canada and Lindon, Utah, USA during the nine months ended December 30, 2011. During the nine-month period ended December 31, 2012 cash used in investing activities was largely used to fund our expansion into Texas, which included expenses related to establishing the office and warehouse and training the staff. Unlike our Spruce Grove and Lindon facilities, which we own, our Houston office space is leased, as reflected in the Summary of Material Contractual Commitments table below.

As a result of the significant decrease in net cash used in investing activities and the weakening of the U.S. dollar, we realized a \$430,268 net decrease in cash during the first nine months of fiscal 2013 compared to a \$721,137 net decrease during the first nine months of fiscal 2012.

Summary of Material Contractual Commitments

The following table lists our significant commitments as of December 31, 2012.

Contractual Commitments	Total	Payments Due by Fiscal Year			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Office Lease	\$32,175	\$17,550	\$14,625	\$ -	\$ -
Total	\$32,175	\$17,550	\$14,625	\$ -	\$ -

Inflation

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

Seasonality

Activity of our customers will sometimes be affected by weather and season. Currently as the majority of our operations currently are in western Canada, sales may slow due to winter conditions that may hamper the ability of our customers to build out new locations or maintain and access current locations. We typically have our strongest revenue growth cycles in the non-winter months. As we expand into the United States and additional international markets we anticipate this effect to diminish. The quarter ended June 30 is historically our slowest quarter with the quarter ended December 31 being our busiest.

Off-Balance Sheet Arrangements

As of December 31, 2012 we had no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

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

Management's Remediation Initiatives

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

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

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2012 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

In addition to the other information set forth in this quarterly report on Form 10-Q, you should carefully consider the risks discussed in our annual report on Form 10-K for the year ended March 31, 2012, which risks could materially affect our business, financial condition or future results. These risks are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results.

Item 6. Exhibits

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

Exhibit 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

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

PROFIRE ENERGY, INC.

Date: February 14, 2013

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

Date: February 14, 2013

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