

PROFIRE ENERGY INC

Form 10-Q

November 07, 2018

Profire Energy Inc10-Q2018-09-30pfiefalse0001289636--12-3148,083,063Smaller Reporting

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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

Three Months

Ended

September 30,

2018

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 6, 2018, the registrant had 54,685,759 shares of common stock issued and 48,083,063 shares of common stock outstanding, par value \$0.001.

PROFIRE ENERGY, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION**Item 1 Financial Information****PROFIRE ENERGY, INC. AND SUBSIDIARIES**

Condensed Consolidated Balance Sheets

As of	September 30, 2018	December 31, 2017
(Unaudited)		
CURRENT ASSETS		
Cash and cash equivalents	\$ 8,637,838	\$ 11,445,799
Short-term investments	965,105	300,817
Short-term investments, other	4,618,379	4,009,810
Accounts receivable, net	8,094,228	8,069,255
Inventories, net	10,350,075	6,446,083
Prepaid expenses & other current assets	636,476	437,304
Income tax receivable	231,967	—
Total Current Assets	31,534,068	30,709,068
LONG-TERM ASSETS		
Net deferred tax asset	50,253	72,817
Long-term investments	8,023,172	8,517,182
Property and equipment, net	7,695,650	7,197,499
Goodwill	997,701	997,701
Intangible assets, net	460,307	494,792

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Total
 Long-Term Assets 17,279,991

TOTAL ASSETS 50,761,151 \$ 47,989,059

CURRENT LIABILITIES

Accounts payable 1,780,977

Accrued vacation 196,646

Accrued liabilities 1,044,284

Income taxes payable 919,728

Total Current Liabilities 3,941,635

TOTAL LIABILITIES 3,941,635

STOCKHOLDERS' EQUITY

Preferred shares: \$0.001 par value, 10,000,000 shares—authorized: no shares issued or outstanding

Common shares: 53,931

\$0.001 par value, 100,000,000 shares authorized: 54,685,759 issued and 48,083,063 outstanding at September 30, 2018 and 53,931,167 issued and

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48,606,425		
outstanding		
at		
December		
31,		
2017		
Treasury		
stock		
at	(10,890,349)	(6,890,349)
cost		
Additional		
paid-	27,890,171	27,535,469
capital		
Accumulated		
other		
comprehensive	(2,459,865)	(2,200,462)
loss		
Retained		
earnings	30,798,422	25,548,835
TOTAL		
STOCKHOLDERS'		
EQUITY		44,047,424
TOTAL		
LIABILITIES		
AND		
\$	50,761,151	\$ 47,989,059
STOCKHOLDERS'		
EQUITY		

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

PROFIRE ENERGY, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Other Comprehensive Income

(Unaudited)

For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
2018	2017	2018	2017
REVENUES			
Sales of goods, net	\$ 10,830,592	\$ 9,387,232	\$ 33,009,616
Sales of services, net	\$ 669,310	\$ 662,960	\$ 1,999,764
Total Revenues	\$ 11,499,902	\$ 10,050,192	\$ 35,009,380
COST OF SALES			
Cost of goods sold-product	\$ 4,917,449	\$ 4,509,191	\$ 15,434,698
Cost of goods sold-services	\$ 484,327	\$ 479,206	\$ 1,437,749
Total Cost of Goods Sold	\$ 5,401,776	\$ 4,988,397	\$ 16,872,447
GROSS PROFIT	\$ 6,098,126	\$ 5,061,795	\$ 18,136,933
OPERATING EXPENSES			
General and administrative expenses	\$ 3,180,726	\$ 2,771,869	\$ 9,887,451
Research and development	\$ 377,676	\$ 318,621	\$ 1,097,897
Depreciation and amortization expense	\$ 443,328	\$ 125,898	\$ 401,114
Total Operating Expenses	\$ 3,701,730	\$ 3,216,388	\$ 11,386,462
INCOME FROM OPERATIONS	\$ 2,396,396	\$ 1,845,407	\$ 6,750,471

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OTHER INCOME (EXPENSE)					
Gain on sale of fixed assets	43,904	14,017	129,989	62,492	
Other income (expense)	(506)	25,991	(7,462)	39,377	
Interest income	85,167	41,672	310,646	127,790	
Total Other Income	127,565	81,680	433,173	229,659	
INCOME BEFORE INCOME TAXES	7,523,961	1,927,087	7,183,644	4,977,310	
INCOME TAX EXPENSE	64,874	709,169	1,934,057	1,846,634	
NET INCOME	\$ 1,659,087	\$ 1,217,918	\$ 5,249,587	\$ 3,130,676	
OTHER COMPREHENSIVE INCOME (LOSS)					
Foreign currency translation gain (loss)	170,641	\$ 327,271	\$ (223,431)	\$ 640,927	
Unrealized gains (loss) on investments	(14,963)	10,138	(35,972)	73,085	
Total Other Comprehensive Income (Loss)	155,678	337,409	(259,403)	714,012	
NET COMPREHENSIVE INCOME	\$ 1,814,765	\$ 1,555,327	\$ 4,990,184	\$ 3,844,688	
BASIC EARNINGS PER SHARE	\$ 0.03	\$ 0.03	\$ 0.11	\$ 0.06	
FULLY DILUTED EARNINGS PER	0.03	\$ 0.02	\$ 0.11	\$ 0.06	

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SHARE

BASIC
WEIGHTED
AVG

NUMBER

48,552,770

48,337,517

49,613,704

OF
SHARES
OUTSTANDING

FULLY
DILUTED
WEIGHTED

AVG

NUMBER

49,369,835

49,107,178

50,346,333

OF
SHARES
OUTSTANDING

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

PROFIRE ENERGY, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

For the Nine Months Ended September 30,

	2018	2017
OPERATING ACTIVITIES		
Net income	\$ 5,249,587	\$ 3,130,676
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	667,085	675,223
Gain on sale of fixed assets	(120,825)	(62,310)
Bad debt expense	64,901	147,470
Stock awards issued for services	14,795	648,244
Changes in operating assets and liabilities:		
Changes in accounts receivable	(184,951)	(2,024,858)
Changes in income taxes receivable/payable	(62,575)	840,343
Changes in	63,287)	634,646

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inventories	
Changes	
in (172,497)	(93,669)
prepaid	
expenses	
Changes	
in	
deferred	(139,298)
tax	
asset/liability	
Changes	
in	
accounts	
payable	588,868
and	
accrued	
liabilities	
Net	
Cash	
Provided	4,345,335
by 3,723,193	
Operating	
Activities	
INVESTING	
ACTIVITIES	
Proceeds	
from	
sale	140,198
of	
equipment	
Purchase	
of (876,463)	(869,554)
investments	
Purchase	
of (1,271,997)	(214,632)
fixed	
assets	
Net	
Cash	
Used	(943,988)
in (1,929,191)	
Investing	
Activities	
FINANCING	
ACTIVITIES	
Value	
of	
equity	
awards	
surrendered	(25,667)
by (737,024)	
employees	
for	
tax	
liability	
Cash	—
received	
in	

exercise of stock options			
Purchase of (4,000,000) Treasury stock		(3,120,716)	
Net Cash Used in (4,563,022) Financing Activities		(3,146,383)	
Effect of exchange rate(38,941) changes on cash		213,793	
NET INCREASE (DECREASE) IN CASH		468,757	
CASH AT BEGINNING OF PERIOD		7,553,088	
CASH AT END	8,637,838	\$	8,021,845
OF PERIOD			
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
CASH PAID FOR:			
Interest	—	\$	—
Income taxes	2,164,149	\$	1,282,157

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
As of September 30, 2018, and December 31, 2017

NOTE 1 - CONDENSED FINANCIAL STATEMENTS

Except where the context otherwise requires, all references herein to the "Company," "Profire," "we," "us," "our," or similar words and phrases are to Profire Energy, Inc. and its wholly owned subsidiary, taken together.

The accompanying financial statements have been prepared by the Company without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at September 30, 2018 and for all periods presented herein 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 ("US GAAP") have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements contained in its annual report on Form 10-K for the year ended December 31, 2017 ("Form 10-K"). The results of operations for the periods ended September 30, 2018 and 2017 are not necessarily indicative of the operating results for the full years.

NOTE 2 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Line of Business

This Organization and Summary of Significant Accounting Policies of the Company is presented to assist in understanding the Company's consolidated financial statements. The Company's accounting policies conform to US GAAP.

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

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 primarily in the Canadian and US markets.

Significant Accounting Policies

There have been no changes to the significant accounting policies of the Company from the information provided in Note 1 of the Notes to the Consolidated Financial Statements in the Company's most recent Form 10-K, except as discussed below.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 (Topic 606) "Revenue from Contracts with Customers," which supersedes the revenue recognition requirements in Topic 605 "Revenue Recognition" (Topic 605). Topic 606 requires entities to recognize revenue when control of the promised goods or services is transferred to customers. The amount of revenue recognized must reflect the consideration the entity expects to be entitled to receive in exchange for those goods or services. We adopted Topic 606 as of January 1, 2018 using the modified retrospective transition method. See [Note 6](#) for further details.

Recent Accounting Pronouncements

The Company has evaluated all recent accounting pronouncements and determined that the adoption of pronouncements applicable to the Company has not had or is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

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PROFIRE ENERGY, INC. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
As of September 30, 2018, and December 31, 2017
Reclassification

Certain balances in previously issued consolidated financial statements have been reclassified to be consistent with the current period presentation. The reclassification had no impact on financial position, net income, or stockholders' equity.

NOTE 3 – INVENTORY

Inventories consisted of the following at each balance sheet date:

	As of	
	September 30, 2018	December 31, 2017
Raw materials	\$ 300,699	\$ 225,735
Finished goods	10,425,104	6,417,494
Work in process	—	—
Subtotal	10,725,803	6,643,229
Reserve for Obsolescence	(375,728)	(197,146)
Total	\$ 10,350,075	\$ 6,446,083

NOTE 4 – STOCKHOLDERS' EQUITY

As of September 30, 2018, and December 31, 2017, the Company held 6,602,696 and 5,324,742 shares of its common stock in treasury at a total cost of \$10,890,349 and \$6,890,349, respectively.

NOTE 5 – SEGMENT INFORMATION

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

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,	
	2018	2017	2018	2017	2017
Sales					
Canada	\$ 1,803,957	\$ 1,982,739	\$ 4,374,844	\$ 5,024,957	
United States	9,695,945	8,067,453	30,634,536	22,314,720	
Total Consolidated	\$ 11,499,902	\$ 10,050,192	\$ 35,009,380	\$ 27,339,677	
Profit (Loss)					
Canada	\$ 24,224	\$ 193,636	\$ (676,268)	\$ (141,874)	
United States	1,634,863	1,024,282	5,925,855	3,272,550	
Total Consolidated	\$ 1,659,087	\$ 1,217,918	\$ 5,249,587	\$ 3,130,676	
Long-Lived Assets			As of		
			September 30,		
			2018	December 31, 2017	

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Canada	\$	2,317,839	\$	1,508,943
United States		14,909,244		15,771,048
Total Consolidated	\$	17,227,083	\$	17,279,991

NOTE 6 – REVENUE

On January 1, 2018, we adopted Topic 606. We elected to use the modified retrospective approach for contracts that were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented in accordance with Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting method under Topic 605. As a result of applying the new standard, there were no changes to any financial statement line item.

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PROFIRE ENERGY, INC. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
As of September 30, 2018, and December 31, 2017

Performance Obligations

Our performance obligations include delivery of product, installation of product, and servicing of product. We recognize product revenue performance obligations when the product is delivered to the customer. Upon delivery and at that point in time, the control of the product is transferred to the customer. When product is installed or serviced, we recognize service revenue when the work has been completed and we are entitled to bill the customer for the hours worked. We do not engage in transactions acting as an agent. We usually satisfy our performance obligations within a few months of entering into the contract. Depending on the size of the project, the performance obligations could be satisfied sooner or later.

Our customers have the right to return certain unused and unopened products within 90 days for an appropriate restocking fee. We provide a warranty on some of our products ranging from 90 days to 2 years, depending on the product. The amount accrued for expected returns and warranty claims was immaterial as of September 30, 2018.

Contract Balances

We have elected to use the practical expedient in ASC 340-40-25-4 (regarding recognition of the incremental costs of obtaining a contract) for costs related to contracts that are estimated to be completed within one year. All of the current contracts are expected to be completed within one year, and as a result, we have not recognized a contract asset account. If we had chosen not to use this practical expedient, we would not expect a material difference in the contract balances. We also did not have any material contract liabilities because we typically do not receive payments in advance of recognizing revenue.

Significant Judgments

For most revenue contracts, we invoice the customer when the performance obligation is satisfied and payment is due 30 days later. Occasionally, other terms such as progress billings or longer terms are agreed to on a case-by-case basis. We do not have significant financing components, non-cash consideration, or variable consideration. We estimate the transaction price between performance obligations based on stand-alone product prices. We elected the practical expedient by which disclosures are not required regarding the value of unsatisfied performance obligations for contracts with an original expected duration of one year or less.

Disaggregation of Revenue

All revenue recognized in the income statement is considered to be revenue from contracts with customers. The table below shows revenue by category:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Electronics	\$ 4,988,293	\$ 14,208,867
Manufactured	599,951	2,369,461
Re-Sell	5,242,348	16,431,288
Service	669,310	1,999,764
	\$ 11,499,902	\$ 35,009,380

PROFIRE ENERGY, INC. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
As of September 30, 2018, and December 31, 2017
NOTE 7 – BASIC AND DILUTED EARNINGS PER SHARE

The following table is a reconciliation of the numerator and denominators used in the earnings per share calculation:

	For the Three Months Ended September 30, 2018			2017		
	Income (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount	Income (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount
Basic EPS						
Net income available to common stockholders	1,659,487	48,872,506	\$ 0.03	1,217,918	48,552,770	\$ 0.03
Effect of Dilutive Securities						
Stock options & RSUs	—	769,661		—	817,065	
Diluted EPS						
Net income available to common stockholders + assumed conversions	1,659,487	49,642,167	\$ 0.03	1,217,918	49,369,835	\$ 0.02

Options to purchase 251,600 and 1,569,730 shares of common stock at a weighted average price of \$3.89 and \$3.17 per share were outstanding during the three months ended September 30, 2018, and 2017, respectively, but were not included in the computation of diluted EPS because the impact of these shares would be antidilutive. These options, which expire between November 2019 and May 2020, were still outstanding at September 30, 2018.

	For the Nine Months Ended September 30, 2018			2017		
	Income (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount	Income (Numerator)	Weighted Average Shares (Denominator)	Per-Share Amount
Basic EPS						
Net income available to common stockholders	5,249,487	48,873,517	\$ 0.11	3,130,676	49,613,704	\$ 0.06
Effect of Dilutive Securities						
Stock options & RSUs	—	769,661		—	732,629	
Diluted EPS						
Net income available to	5,249,487	50,077,178	\$ 0.11	3,130,676	50,346,333	\$ 0.06

common
stockholders +
assumed
conversions

Options to purchase 251,600 and 1,569,730 shares of common stock at a weighted average price of \$3.89 and \$3.17 per share were outstanding during the nine months ended September 30, 2018 and 2017, respectively, but were not included in the computation of diluted EPS because the impact of these shares would be antidilutive. These options, which expire between November 2019 and May 2020, were still outstanding at September 30, 2018.

NOTE 8 – CONTINGENCIES

As discussed in our most recent Annual Report on Form 10-K, during the first quarter of 2018 we became aware of a mechanical issue affecting one of the actuators we manufacture and sell. The actuator is an ancillary product sold separately from our burner-management systems (BMS) and chemical-management systems (CMS). We do not believe the mechanical issue presents any significant safety concerns for customers.

At the time we filed our 10-K, we did not have enough information to effectively estimate the warranty costs we expected to incur, so we disclosed a wide possible range. During the first and second quarters of 2018, we were able to collect additional

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PROFIRE ENERGY, INC. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
As of September 30, 2018, and December 31, 2017

data regarding solutions to the problem and as of September 30, 2018, we estimated the remaining warranty costs to be approximately \$60,000. This amount is reflected in accrued liabilities on the balance sheet.

NOTE 9 – SUBSEQUENT EVENTS

In accordance with ASC 855 "Subsequent Events," Company Management reviewed all material events through November 7, 2018, and the following subsequent events occurred:

On October 30, 2018, our Board of Directors authorized the repurchase of up to \$2,000,000 worth of our stock at Management's discretion through October 31, 2019. As of the date of this filing, no shares have been repurchased under this plan.

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 and nine-month periods ended September 30, 2018 and 2017. 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 December 31, 2017.

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, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, that are based on Management's beliefs and assumptions and on information currently available to Management and involve a number of risks and uncertainties. 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. 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. Forward-looking 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 oil and gas 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 SEC. 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 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. 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.

Forward-looking statements in this report speak only as of their dates. We undertake no obligation to amend this report or revise publicly these forward-looking statements (other than as required by law) to reflect subsequent events or circumstances, whether as the result of new information, future events or otherwise.

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

Overview of Products & Services

We are an oilfield technology company providing products that enhance the efficiency, safety, and compliance of the oil and gas industry. We specialize in the creation of burner-management systems used on a variety of oilfield forced-air and natural-draft fire-tube vessels. We sell our products and services primarily throughout North

America. Our experienced team of industry service professionals also provides supporting services for our products.

Principal Products and Services

In the oil and natural gas industry, there are numerous demands for heat generation and control. Applications such as combustors, enclosed flares, gas production units, treaters, glycol and amine reboilers, indirect line-heaters, heated tanks, process heaters require heat as part of their production or processing functions, which is provided by a burner flame. This burner flame is integral to the process of separating, treating, storing, and transporting oil and gas. Factors such as the American Petroleum Institute gravity, presence of hydrates, temperature and hydrogen sulfide content contribute to the requirement for heat in oil and gas production and processing applications. Our burner-management systems help ignite, monitor, and manage this burner flame, which can be done remotely, reducing the need for employee interaction with the burner, such as for the purposes of re-ignition or temperature monitoring. In addition, our burner-management systems can help reduce gas emissions by quickly reigniting a failed flame.

Oil and gas producers can use our burner-management systems to achieve increased safety, greater operational efficiencies, and improved compliance with changing industry regulations. Without burner-management systems, an employee must discover and reignite an extinguished burner flame, then restart the application manually. Therefore, without burner-management systems, all application monitoring is done directly on-site. Such on-site monitoring can result in the interruption of production for longer periods of time, risk in reigniting a flame, which can lead to burns and explosions, and the possibility of raw gas being vented into the atmosphere when the flame fails. In addition, without a burner-management system, burners often run longer, incurring significant fuel costs. We believe there is a growing trend in the oil and gas industry toward enhanced control, process automation, and data logging, largely for improved efficiency and operational cost savings, and partly for potential regulatory-satisfaction purposes. Our burner-management systems are designed to be always on standby to make sure the burner flame is lit and managed properly, which can reduce how often a burner is running and may reduce fuel costs. We continue to assess compliance-interest in the industry and 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 service burner flame installations in Canada and throughout the United States.

We initially developed our first burner-management system in 2005. Since then, we have released several iterations of our initial burner-management system, increasing features and capabilities, while maintaining compliance with Canadian Standards Association and Underwriters Laboratories ratings.

Our burner-management systems have become widely used in Western Canada, and throughout many regions in the United States. We have sold our burner-management systems to many large energy companies, including Anadarko, Chesapeake, ConocoPhillips, Devon, Encana, XTO, CNRL, 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. We are established in the North American oil and gas markets, which is our current primary focus, but we are also interested in expanding into more international markets as well.

Product Extension: PF3100

The PF3100 is a burner-management system which is designed to operate, monitor, and control more complex, multi-faceted oilfield appliances. The PF3100 is an advanced system designed to work with other of our engineered modules thus allowing the system to expertly manage a wide variety of applications.

Throughout the industry, Programmable Logic Controllers, or PLCs, are used to operate and manage custom-built oilfield applications. Though capable, PLCs can be expensive, tedious, and difficult to use. 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. We are selling the PF3100 for initial use in the oil and gas industry's natural-draft and forced-draft applications.

We frequently assess market needs by participating in industry conferences and soliciting feedback from existing and potential customers, which enables us to provide quality solutions to the oil and gas producing companies we serve. Upon identifying a potential market need, we begin 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).

Chemical-Management Systems

In addition to the burner-management systems and complementary technologies we have sold historically, we acquired the assets of VIM Injection Management in November 2014, which extended our product offering 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, and over-injection causes unnecessary expense for producers. Under-injection can also be problematic because it often results in the creation of poor product (i.e., with wax, hydrate, or corrosion agents) and causes problems with pipeline operations.

Our chemical-management systems monitor and manage the 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 supervisory control and data acquisition or other remote-communication systems. We hold a U.S. patent related to our chemical management system and its process for supplying a chemical agent to a process fluid.

Results of Operations*Comparison quarter over quarter*

The table below presents certain financial data comparing the most recent quarter to prior quarters:

	For the three months ended				
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017	September 30, 2017
Total Revenues	\$11,499,190	\$11,239,761	\$12,169,718	\$10,946,738	\$10,050,192
Gross Profit Percentage	53%	52%	50%	53%	50%

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Operating Expenses	\$3,701,730	\$3,810,898	\$3,873,840	\$3,766,299	\$3,216,388
Net Income	\$1,659,008	\$1,714,267	\$1,876,228	\$1,318,899	\$1,217,918
Operating Cash Flow	\$599,861	\$1,670,392	\$1,452,939	\$3,367,476	\$1,579,809

As oil prices have increased over the past year or so, we have seen increased capital budgets from our customers and an increased willingness to invest in new equipment. Despite a decline in revenues compared to the first quarter of 2018, our revenues for the quarter ended September 30, 2018 were up slightly compared to the prior quarter. Overall, our quarterly revenues continue to reflect a significant improvement over the last twelve months due to increased sales volumes. If oil prices remain at or above current levels and our customers' capital budgets increase, we expect that sales volumes will continue to increase at a moderate pace. Revenues for the quarter ended September 30, 2018 increased by \$1,449,710 compared to the quarter ended September 30, 2017, while operating expenses increased \$485,342, which enabled us to increase net income \$441,169 or 36% for the third quarter of 2018 compared to the third quarter of 2017.

Our gross profit percentage fluctuates each quarter due to changes in product mix. Over the past year it has stayed fairly consistent within an expected range and we anticipate it will remain so for the remainder of the year, assuming normal product mix fluctuations. We believe that our gross profit percentage could improve as the PF3100 becomes a larger contributor to revenue in future periods.

For over a year we have been focusing on optimizing and right-sizing our operations to be able to facilitate growth without increasing costs more than necessary. The \$485,342 increase in operating expenses compared to the same quarter in 2017 was primarily due to additional staffing and labor costs required to support the revenue growth we have experienced.

Due to the reasons discussed above, net income increased 36% during the quarter ended September 30, 2018 compared to the same quarter last year. Operating cash flows decreased 62% during the third quarter of 2018 compared to the third quarter of 2017 primarily due to increases in inventory. Assuming favorable economic conditions continue, we believe we are well-positioned for continued growth in future periods.

Comparison of the nine-months ended September 30, 2018 and 2017

The table below presents certain financial data comparing the nine months ended September 30, 2018 to the same period ended September 30, 2017:

	For the Nine Months Ended September 30,		\$ Change	% Change
	2018	2017		
Total Revenues	\$35,009,386	\$27,339,677	\$7,669,703	28%
Gross Profit Percentage	51.8%	53.0%		(1)%
Operating Expenses	\$11,386,469	\$9,658,188	\$1,728,274	18%
Net Income	\$5,249,587	\$3,130,676	\$2,118,911	68%
Operating Cash Flow	\$3,723,193	\$4,345,335	-\$622,142	(14)%

Revenues during the nine-month period ended September 30, 2018 compared to the same period last year increased 28% while operating expenses only increased 18%. As a result of our right-sizing efforts, those changes have improved our bottom line, resulting in a 68% increase in net income. Our gross profit percentage declined slightly by 1% during the nine-months ended September 30, 2018, compared to the same period in 2017, primarily due to changes in product mix, direct labor cost increases, and inventory adjustments.

Liquidity and Capital Resources

Working capital at September 30, 2018 was \$28,165,982 compared to \$26,767,433 at December 31, 2017. This increase was primarily due to increased inventory and short-term investments, partially offset by a decrease in cash balances.

We have begun permitting and design work on a new office building and research and development facility in Canada. We acquired the land in June of 2018 and expect to begin construction on the building during 2018. Excluding the cost of the land, the building is expected to cost approximately \$4,500,000 CAD or \$3,500,000 USD. We believe our

available cash resources are sufficient to cover construction costs for the building and other expected capital expenditures for the foreseeable future, and we have no current plans to incur debt financing.

Off-Balance Sheet Arrangements

We have not engaged in any off-balance sheet arrangements, nor do we plan to engage in any in the foreseeable future.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

As a smaller reporting company, this section is not required.

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 controls and procedures were not effective due to material weaknesses identified as part of our 2017 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 annual report on Form 10-K for the year ended December 31, 2017.

Changes in Internal Control over Financial Reporting

During the quarter ended September 30, 2018, Management designed and implemented (i) system controls to ensure proper segregation of duties and authorization in the cash disbursement process, (ii) system and manual controls over revenue recognition, (iii) increased documentation and precision in review controls, and (iv) restructured user access within the Company's accounting system. The reliability of internal control processes requires repeatable execution. Once these internal control enhancements have been in operation for a sufficient period of time, we believe it is likely Management will be in a position to conclude that the identified material weaknesses have been successfully remediated.

Management's Remediation Initiatives

The material weaknesses mentioned above were originally discovered in an independent audit performed at the end of fiscal year 2015. Since that time the Company has not been required to have another audit on the effectiveness of internal controls; however, the Company determined that it will be required to have an audit on the effectiveness of internal controls for the year ending December 31, 2018. Management has been actively developing and implementing remediation plans for new controls and processes to address and prepare to remove the aforementioned control deficiencies in future audits. We continue to improve our control environment.

As part of the remediation efforts, Management has updated the Company's active risk control matrix, improved the documentation of control narratives and flow charting of all controls, and implemented software to automate the control documentation and testing. The Company has also hired a full-time employee dedicated to testing and improving our internal control structure. It is anticipated that these efforts will allow the Company to streamline its internal audit efforts and provide greater confidence in the Company's control environment and control activities.

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 that may have a material impact on 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 risks discussed throughout this report we are subject to the following risks.

Risks Relating to Our Business

Changes in the level of capital-spending by our customers could materially and adversely impact our business and financial condition.

Our principal customers are oil and natural gas exploration and production companies and the original equipment manufacturers, or OEM's, that supply the exploration and production companies with burner related equipment. Thus, the results of our operations and financial condition depend on the level of capital spending by our customers. The energy industry's level of capital spending is tied to the prevailing commodity prices of natural gas and crude oil because the amount of crude oil and natural gas that our customers can economically produce also depends on the prevailing prices for those commodities. Volatility in commodity prices may make our customers reluctant to invest in oilfields where our products would be used. Although our products may enhance the operational efficiency of producing wells, a prolonged or substantial downturn in market price could lead to reductions or delays in the capital spending of our customers and therefore reduce the demand for our products and services, which could materially and adversely impact our results of operations, financial condition and cash flow.

We depend on our customers' willingness to make operating and capital expenditures to transport, refine and produce oil and natural gas. Industry conditions are influenced by numerous factors over which we have no control, such as:

- the level of oil and gas production;
- the demand for oil and gas related products;
- domestic and worldwide economic conditions;
- political instability in the Middle East and other oil-producing regions;
- the actions of the Organization of Petroleum Exporting Countries;
- the price of foreign imports of oil and gas, including liquefied natural gas;
- natural disasters or weather conditions, such as hurricanes;
- technological advances affecting energy consumption;
- the level of oil and gas inventories;
- the cost of producing oil and gas;

- the price and availability of alternative fuels;
- merger and divestiture activity among oil and gas producers; and
- governmental regulations.

These and other industry conditions could influence our customers' willingness to make operating and capital expenditures to transport, refine and produce oil and natural gas. If our customers reduce or eliminate such operating and capital expenditures, it may adversely affect our business and financial condition.

Changes in foreign exchange rates in countries where our business operates could have a material adverse impact on our business and financial condition.

A portion of our consolidated revenue and consolidated operating income is in Canadian dollars. As a result, we are subject to significant risks, including:

- foreign currency exchange risks resulting from changes in foreign currency exchange rates and the execution of controls in this area;
- limitations on our ability to reinvest earnings from operations in one country to fund our operations in other countries.

The Canadian Dollar, or CAD, lost substantial value compared to the United States Dollar, or USD, during the nine-month transition period ended December 31, 2016 and negatively impacted our financial results. However, rates rebounded during the year ended December 31, 2017, which positively impacted our financial results. If the volatility in the CAD/USD exchange rate causes another devaluation, it could have a material adverse impact on our business and financial condition.

The competitive nature of the oilfield services industry could lead to an increase of direct competitors.

As our segment within the oil and gas exploration and production industry grows and matures we expect additional companies will seek to enter this market. New entrants to our industry may be more highly capitalized, better recognized or better situated to take advantage of market opportunities. Any failure by us to adequately compete against current and future competitors could have a material adverse effect on our business, financial condition and results of operations.

We may not realize all of the anticipated benefits of our acquisitions, joint ventures or divestitures, or these benefits may take longer to realize than expected.

Our future business strategies may include growth through the acquisitions of other businesses. We may not be able to identify attractive acquisition opportunities or successfully acquire those opportunities that are identified. Even if we are successful in integrating future acquisitions into existing operations, we may not derive the benefits, such as administrative or operational synergy or earnings, that were expected from such acquisitions, which may result in the commitment of capital resources without the expected returns on the capital. Additionally, the competition for acquisition opportunities may increase which in turn would increase our cost of making acquisitions.

In pursuing our business strategy, from time to time we evaluate targets and enter into agreements regarding possible acquisitions. To be successful, we conduct due diligence to identify valuation issues and potential loss contingencies, negotiate transaction terms, complete transactions and manage post-closing matters such as the integration of acquired businesses. However, we may incur unanticipated costs or expenses following a completed acquisition, including post-closing asset impairment charges, expenses associated with eliminating duplicate facilities, litigation, and other liabilities.

The risks associated with our past or future acquisitions also include the following:

- the business culture of the acquired business may not match well with our culture;
- we may fail to retain, motivate and integrate key management and other employees of the acquired business;
- we may experience problems in retaining customers and integrating customer bases;
- we may experience complexities associated with managing the combined businesses; and
- consolidating multiple physical locations.

The anticipated benefits of these acquisitions may not be realized, if at all, and we may incur significant time and costs beyond those anticipated with the integration of new acquisitions to the existing business. If we are unable to accomplish the integration and management of the combined business successfully, or achieve a substantial portion of the anticipated benefits of these acquisitions within the time frames anticipated by Management, it could have a material adverse effect on our business and financial condition.

Many of these factors will be outside of our control and any one of them could result in increased costs, decreases in the amount of expected revenues and diversion of Management's time and attention. They may also delay the realization of the benefits we anticipate when we enter into a transaction. Failure to implement our acquisition strategy, including successfully integrating acquired businesses, could have a material adverse effect on our business and financial condition.

Our operations involve operating hazards, which, if not insured or indemnified against, could harm our results of operations and financial condition.

Our operations are subject to hazards inherent in our technology's use in oilfield service operations, oilfield development and oil production activities, including fire, explosions, blowouts, spills and damage or loss from natural disasters, each of which could result in substantial damage to the oil-producing formations and oil wells, production facilities, other property, equipment and the environment, or in personal injury or loss of life. These hazards could also result in the suspension of purchasing, or in claims by employees, customers or third parties which could have a material adverse effect on our financial condition.

Some of these risks are either not insurable or insurance is available only at rates that we consider uneconomical. Although we will maintain liability insurance in an amount that we consider consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits. We may not always be successful in obtaining contractual indemnification from our customers, and customers who provide contractual indemnification protection may not maintain adequate insurance or otherwise have the financial resources necessary to support their indemnification obligations. Our insurance or indemnification arrangements may not adequately protect us against liability or loss from all the hazards of our operations. The occurrence of a significant event that we have not fully insured or indemnified against, or the failure of a customer to meet its indemnification obligations to us, could materially and adversely affect our results of operations and financial condition.

Changes to governmental regulation of the oil and gas industry could materially and adversely affect our business.

If the laws and regulations governing oil and natural gas exploration and production were to become less stringent, we could experience a decline in the demand for our products, which we expect would materially and adversely impact our results of operations and financial condition. These regulations are subject to change and new regulations may curtail or eliminate customer activities in certain areas where we currently operate.

Furthermore, our operations are affected by local, provincial, state, federal, and foreign laws and other regulations relating to oil, gas and electric standards. Such standards can be related to safety, environmental protection, or other regulatory dimensions for the oil and gas industry. Any change in local, provincial, state, federal and foreign laws and other regulations could adversely affect our business and financial condition.

Our international operations subject us to certain operating risks, which could adversely impact our results of operations and financial condition.

Our international operations involve additional risks not associated with our domestic operations. We intend to continue our expansion into international oil and gas producing areas. The effect on our international operations from the risks we describe will not be the same in all countries and jurisdictions. Risks associated with our operations outside of the United States include risks of:

- multiple, conflicting, and changing laws and regulations, export and import restrictions, and employment laws;
- regulatory requirements, and other government approvals, permits, and licenses;
- potentially adverse tax consequences;
- political and economic instability, including wars and acts of terrorism, political unrest, boycotts, curtailments of trade and sanctions, and other business restrictions;
- expropriation, confiscation, or nationalization of assets;
- renegotiation or nullification of existing contracts;
- difficulties and costs in recruiting and retaining individuals skilled in international business operations;
- foreign exchange restrictions;
- foreign currency fluctuations;
- foreign taxation;
- the inability to repatriate earnings or capital;
- changing foreign and domestic monetary policies;
- cultural and communication challenges;
- industry-process changes in heating and flow of oil;
- regional economic downturns;
- foreign governmental regulations favoring or requiring the awarding of contracts to local contractors or requiring foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction that may harm our ability to compete; and
- compliance with anti-corruption and anti-bribery laws, including the U.S. Foreign Corrupt Practices Act.

Our business has potential liability for litigation, personal injury and property damage claims assessments.

Most of our products are used in hazardous production applications and involve exposure to inherent risks, including explosions and fires, where an accident or a failure of a product could result in liability for personal injury, loss of life, property damage, pollution or other environmental hazards or loss of production. Litigation may arise from a

catastrophic occurrence at a location where our equipment and services are used. This litigation could result in large claims for damages, including consequential damages, and could impair the market's acceptance of our products. The frequency and severity of such incidents could affect our operating costs, insurability and relationships with customers, employees and regulators. These occurrences could result in substantial costs and diversion of Management's attention and resources, which could have an adverse effect on our business.

Our business may be subject to product liability claims or product recalls, which could be expensive and could result in a diversion of Management's attention.

The oil industry experiences significant product liability claims. As an installer and servicer of oilfield combustion management technologies and related products, we face an inherent business risk of exposure to product liability claims in the event that our products, or the equipment into which our products are incorporated, could malfunction and result in personal injury or death. We may be named in product liability claims even if there is no evidence that our technology, products or services caused or contributed to the accidents. Product liability claims could result in significant losses as a result of expenses incurred in defending claims or the awarding of damages. In addition, we may be required to participate in recalls involving our products if any of our products prove to be defective, or we may voluntarily initiate a recall or make payments related to such claims as a result of various industry or business practices, or in an effort to maintain good customer relationships. Our product liability insurance may not be sufficient to cover all product liability claims, such claims may exceed our insurance coverage limits, or such insurance may not continue to be available on commercially reasonable terms, if at all. Any product liability claim brought against us could have a material adverse effect on our reputation and business.

Uninsured or underinsured claims or litigation or an increase in our insurance premiums could adversely impact our results of operations.

Although we maintain insurance protection for certain risks in our business and operations, we are not fully insured against all possible risks, nor are all such risks insurable. It is possible an unexpected judgment could be rendered against us for which we could be uninsured or underinsured and damages could be beyond the amounts we currently have reserved or anticipate incurring. Significant increases in the cost of insurance and more restrictive coverage may have an adverse impact on our results of operations. In addition, we may not be able to maintain adequate insurance in the future at rates we consider reasonable or that our insurance coverage will be adequate to cover future claims and assessments that may arise.

Our assets and operations, as well as the assets and operations of our customers, could be adversely affected by weather and other natural phenomena.

Our assets and operations could be adversely affected by natural phenomena, such as tornados, earthquakes, wildfire, floods, and landslides. A significant disruption in our operations or the operations of our customers due to weather or other natural phenomena could adversely affect our business and financial condition.

Liability to customers under warranties may materially and adversely affect our earnings.

We provide warranties as to the proper operation and conformance to specifications of the products we sell. Failure of our products to operate properly, or to meet specifications may increase our costs by requiring additional engineering resources and services, replacement of parts and equipment, or monetary reimbursement to a customer. We have in the past received warranty claims and we expect to continue to receive them in the future. To the extent that we incur substantial warranty claims in any period, our reputation, our ability to obtain future business, and our earnings could be adversely affected.

Some of our products use equipment and materials that are available from a limited number of suppliers.

We purchase equipment provided by a limited number of manufacturers. During periods of high demand, these manufacturers may not be able to meet our requests for timely delivery, resulting in delayed deliveries of equipment and higher prices for equipment. There are a limited number of suppliers for certain materials used in burner management systems, our largest product line. Although these materials are generally available, supply disruptions may occur due to factors beyond our control. Such disruptions, delayed deliveries, and higher prices, could limit our

ability to meet our customers' needs, or could increase the related costs, thus possibly reducing revenues and profits.

Dependence on contract manufacturing and outsourcing other portions of our supply chain may adversely affect our ability to bring products to market and damage our reputation.

As part of our efforts to streamline operations and to cut costs, we outsource many of our manufacturing processes and other functions and continue to evaluate additional outsourcing. If our contract manufacturers or other outsourcers fail to perform their obligations in a timely manner or at satisfactory quality levels, our ability to bring products to market and our reputation could suffer. For example, during a market upturn, our contract manufacturers may be unable to meet our demand requirements, which may prevent us from fulfilling our customers' orders on a timely basis. The ability of these manufacturers

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to perform is largely outside of our control. Additionally, changing or replacing our contract manufacturers or other outsourcers could cause disruptions or delays.

We are exposed to risks of delay, cancellation, and nonpayment by customers in the ordinary course of our business activities.

We are exposed to risks of loss in the event of delay, cancellation, and nonpayment by our customers. Our customers are subject to their own operating and regulatory risks and may be highly leveraged. We may experience financial losses in our dealings with other parties. Any delay and any increases in the cancellation of contracts or nonpayment by our customers and/or counterparties could adversely affect our results of operations and financial condition. In addition, the same factors that may lead to a reduction in our potential customers' spending may also increase our exposure to the risks of nonpayment and nonperformance by our existing customers. A significant reduction in our customers' liquidity may result in a decrease in their ability to pay or otherwise perform their obligations to us. Any increase in nonpayment or nonperformance by our customers, either as a result of recent changes in financial and economic conditions or otherwise, could have an adverse impact on the operating results and adversely affect liquidity.

Our ability to successfully commercialize our technology and products may be materially adversely affected if we are unable to obtain and maintain effective intellectual property rights for our technologies and planned products, or if the scope of the intellectual property protection is not sufficiently broad.

Our success depends in part on our ability to obtain and maintain patent and other intellectual property protection with respect to our proprietary technology and products. In recent years, patent rights have been the subject of significant litigation. As a result, the issuance, scope, validity, enforceability and commercial value of the patent rights is highly uncertain. Pending and future patent applications may not result in patents being issued which protect our technology or products or which effectively prevent others from commercializing competitive technologies and products. Changes in either the patent laws or interpretation of the same, especially in jurisdictions in which we hope to secure protection, may diminish the value of patents or narrow the scope of patent protection. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications, in the United States and other jurisdictions, such discoveries are typically not published until 18 months after filing, or in some cases not at all. Therefore, we may not have been the first to make the inventions claimed in our patents or pending patent applications, or we may not have been the first to file for patent protection of such inventions.

Even if the patent applications we rely on are issued as patents, they may not be issued in a form that will provide us with any meaningful protection, prevent competitors from competing with us, or otherwise provide us with any competitive advantage. Our competitors may be able to circumvent our patents by developing similar or alternative technologies or products in a non-infringing manner. The issuance of a patent is not conclusive as to its scope, validity or enforceability, and patents may be challenged in the courts or patent offices in the United States and internationally. Such challenges may result in patent claims being narrowed, invalidated or held unenforceable, which could limit our ability to stop, or prevent us from stopping, others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection of our technology and products. As a result, our patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours, or otherwise provide us with a competitive advantage.

While we are not currently engaged in any material intellectual property litigation, in the future we may commence lawsuits against others if we believe they have infringed our rights. We may not be successful in any such litigation. Our involvement in any intellectual property litigation could require the expenditure of substantial time and other resources, may adversely affect the development of sales of our products or intellectual property, our capital resources, or may divert the efforts of our technical and management personnel, and could have a material adverse effect on our business, results of operations, and financial condition.

We may not be able to protect or enforce our intellectual property rights throughout the world.

Filing, prosecuting and defending our patents throughout the world would be prohibitively expensive. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products, and may export otherwise infringing products to territories where we have patent protection but where enforcement is not as strong as in the United States. These products may compete with our products in jurisdictions where we do not have any issued patents, and our intellectual property rights may not be effective or sufficient to prevent them from so competing. Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries may not favor the enforcement of patents and other intellectual property protection, which could

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make it difficult for us to stop the infringement of any patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce any patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business.

If we are unable to protect the confidentiality of our trade secrets, the value of our technology could be materially adversely affected, harming our business and competitive position.

Some of our proprietary intellectual property is not protected by any patent, copyright or patent or copyright applications, and, despite our precautions, it may be possible for third parties to obtain and use such intellectual property without authorization. We rely upon confidential proprietary information, including trade secrets, unpatented know-how, technology, software, and other proprietary information, to develop and maintain our competitive position. Any disclosure to, or misappropriation by, third parties of our confidential proprietary information could enable competitors to quickly duplicate or surpass our technological achievements, thus eroding our competitive position in the market. We seek to protect our confidential proprietary information, in part, by confidentiality agreements with our employees and our collaborators and consultants. We also have agreements with our employees and selected consultants that obligate them to assign their inventions to us.

These agreements are designed to protect our proprietary information; however, our trade secrets and other confidential information could be disclosed or competitors could otherwise gain access to our trade secrets, or that technology relevant to our business could be independently developed by a person that is not a party to such agreements. Furthermore, if the employees, consultants or collaborators that are parties to these agreements breach or violate the terms of these agreements, we may not have adequate remedies for any such breach or violation, and we could lose our trade secrets through such breaches or violations. Further, our trade secrets could be disclosed, misappropriated or otherwise become known or be independently discovered by our competitors. In addition, intellectual property laws in foreign countries may not protect trade secrets and confidential information to the same extent as the laws of the United States. If we are unable to prevent disclosure of the intellectual property related to our technologies to third parties, we may not be able to establish or maintain a competitive advantage in our market, which would harm our ability to protect our rights and have a material adverse effect on our business.

Third parties may initiate legal proceedings alleging that we are infringing their intellectual property rights, the outcome of which would be uncertain and could have a material adverse effect on the success of our business.

Our commercial success depends upon our ability and the ability of our distributors, contract manufacturers, and suppliers to manufacture, market, and sell our products, and to use our proprietary technologies without infringing, misappropriating, or otherwise violating the proprietary rights or intellectual property of third parties. While we are not aware of any issued or pending patent applications that could restrict our ability to operate, we may in the future become party to, or be threatened with, adversarial proceedings or litigation regarding intellectual property rights with respect to our products and technology. Third parties may assert infringement claims against us based on existing or future intellectual property rights. If we are found to infringe upon a third party's intellectual property rights, we may be temporarily or permanently prohibited from commercializing our products that are held to be infringing. We might, if possible, also be forced to redesign our products so that we no longer infringe the third party intellectual property rights, or we could be required to obtain a license from such third party to continue developing and marketing our products and technology. We may also elect to enter into such a license in order to settle pending or threatened litigation. However, we may not be able to obtain any required license on commercially reasonable terms or at all. Even if we were able to obtain a license, it could be non-exclusive, thereby giving our competitors access to the same technologies licensed to us, and could require us to pay significant royalties and other fees. We could be forced, including by court order, to cease commercializing the infringing technology or product. In addition, we could be found liable for monetary damages. A finding of infringement could prevent us from commercializing our products or force us to cease some of our business operations, which could materially harm our business.

Even if we are successful in defending against intellectual property claims, litigation or other legal proceedings relating to such claims may cause us to incur significant expenses, and could distract our technical and management personnel from their normal responsibilities. Such litigation or proceedings could substantially decrease our operating profits and reduce our resources available for development activities. We may not have sufficient financial or other resources to adequately conduct such litigation or proceedings. As a result of their substantially greater financial resources, some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can. Uncertainties resulting from the initiation and continuation of litigation or other intellectual property related proceedings could have a material adverse effect on our ability to compete in the marketplace.

If we do not develop and commercialize new competitive products, our revenue may decline.

To remain competitive in the market for oilfield technologies, we must continue to develop and commercialize new products. If we are not able to develop commercially competitive products in a timely manner in response to industry demands, our business and revenues will be adversely affected. Our future ability to develop new products depends on our ability to:

- design and commercially produce products that meet the needs of our customers;
- attract and retain talented research-and-development management and personnel;
- successfully market new products; and
- protect our proprietary designs from our competitors.

We may encounter resource constraints or technical or other difficulties that could delay introduction of new products and services. Our competitors may introduce new products before we do and achieve a competitive advantage.

Additionally, the time and expense invested in product development may not result in commercial products, or provide revenues. Our inability to enhance existing products in a timely manner or to develop and introduce new products that incorporate new technologies, conform to stringent regulatory standards and performance requirements, and achieve market acceptance in a timely manner, could negatively impact our competitive position. New product development or modification is costly, involves significant research, development, time and expense and may not necessarily result in the successful commercialization of any new products. Moreover, we may experience operating losses after new products are introduced and commercialized because of high start-up costs, unexpected manufacturing costs or problems, or lack of demand.

New technologies could render our existing products obsolete.

New developments in technology may negatively affect the development or sale of some or all of our products or make our products obsolete. Our success depends upon our ability to design, develop and market new or modified technologies and related products.

Our business and financial condition could be negatively impacted if we lose the services of certain members of senior management.

Our development to date has largely depended, and in the future will continue to largely depend, on the efforts of our senior management. We currently do not have key-person insurance on any of our senior management team. Thus, the loss of any member of our senior management could impair our ability to execute our business plan and could therefore have a material adverse effect on our business, results of operations, and financial condition.

Failing to attract and retain skilled employees could impair our growth potential and profitability.

Our ability to remain productive and profitable depends substantially on our ability to attract and retain skilled employees. Our ability to scale our operations is in part, and at times, impacted by our ability to increase our labor force. The demand for skilled oilfield employees is high and the supply is limited. As a result of the volatility of the oil field services and technology industry, our ability to offer competitive wages and retain skilled employees may be diminished.

A portion of our total compensation program for key personnel has historically included awards of options to buy our common stock or other equity-based awards. If the price of our common stock performs poorly, such performance may adversely affect our ability to retain or attract key personnel. In addition, if we are unable to continue to provide attractive equity compensation awards or other compensation incentives for any reason, we may be unable to retain and motivate existing personnel and recruit new personnel.

If we are unable to expand in existing or into new markets, our ability to grow our business as profitably as planned could be materially and adversely affected.

We may not be able to expand our market share in our existing markets or successfully enter new or contiguous markets especially in light of industry volatility. In addition, such expansion could adversely affect our profitability and results of operations. If we are unable to enter into new markets, our business could be materially and adversely affected.

If we are unable to manage growth effectively, our business, results of operations, and financial condition could be materially and adversely affected.

Our ability to successfully expand to new markets, or expand our penetration in existing markets, depends on a number of factors including:

- our ability to market our products and services to new customers;
- our ability to provide large-scale support and training materials for a growing customer base;
- our ability to hire, train and assimilate new employees;
- the adequacy of our financial resources; and
- our ability to correctly identify and exploit new geographical markets and to successfully compete in those markets.

We may not be able to achieve our planned expansion and our products may not gain access to new markets or be accepted in new marketplaces. We may not achieve greater market penetration in existing markets and we may not achieve planned operating results, or results comparable to those we experience in existing markets, in the new markets we enter.

Disruptions, failures or security breaches of our information technology infrastructure could have a negative impact on our operations.

Information technology is critically important to our business operations. We use information technology to manage all business processes including manufacturing, financial, logistics, sales, marketing, and administrative functions. These processes collect, interpret and distribute business data and communicate internally and externally with employees, suppliers, customers, and others.

We invest in industry standard security technology to protect our data and business processes against risk of data security breach and cyber-attack. Our data security management program includes identity, trust, vulnerability and threat management business processes as well as adoption of standard data protection policies. We measure our data security effectiveness through industry accepted methods and remediate significant findings. Additionally, we certify our major technology suppliers and any outsourced services through accepted security certification standards.

While we believe that our security technology and processes provide adequate measures of protection against security breaches and reduce cybersecurity risks, disruptions in, or failures of, information technology systems are possible and could have a negative impact on our operations or business reputation. Failure of our systems, including failures due to cyber-attacks that would prevent the ability of systems to function as intended, could cause transaction errors, loss of customers and sales, and could have negative consequences to our business, our employees, and those with whom we do business.

Risks Relating to our Common Stock

The market price of our common stock has been and may continue to be volatile and you may have difficulty reselling any shares of our common stock.

The market price of our common stock has been volatile, and fluctuates widely in price in response to various factors which are beyond our control. The price of our common stock is not necessarily indicative of our operating performance or long-term business prospects. In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock. Factors such as the following could cause the market price of our common stock to fluctuate substantially:

- the underlying price of the commodities in the oil and gas industry;
- announcements of capital budget changes by a major customer;
- the introduction of new products by our competitors;
- announcements of technology advances by us or our competitors;
- current events affecting the political and economic environment in the United States or Canada;
- conditions or industry trends, including demand for our products, services and technological advances;
- changes to financial estimates by us or by any securities analysts who might cover our stock;
- additions or departures of our key personnel;
- government regulation of our industry;
- seasonal, economic, or financial conditions;
- our quarterly operating and financial results; or
- litigation or public concern about the safety of our products.

The realization of any of these risks and other factors beyond our control could cause the market price of our common stock to decline significantly. In particular, the market price of our common stock may be influenced by variations in oil and gas prices, because demand for our products and services is closely related to commodity prices. The stock market in general experiences, from time to time, extreme price and volume fluctuations. Periodic and/or continuous market fluctuations could result in extreme volatility in the price of our common stock, which could cause a decline in the value of our common stock. Price volatility may be worse if the trading volume of our common stock is low.

A small number of existing stockholders own a significant amount of our common stock, which could limit your ability to influence the outcome of any stockholder vote.

As of September 30, 2018, our executive officers, directors, and certain beneficial owners owned approximately 32% of our common stock. As a result, our insiders have sufficient voting power to significantly influence the outcome of many matters requiring stockholder approval. These matters may include:

- the composition of our Board of Directors, which has the authority to direct our business, appoint and remove our officers, and declare dividends;
- approving or rejecting a merger, consolidation, or other business combination;
- raising future capital; and
- amending our articles of incorporation and bylaws.

This concentration of ownership of our common stock could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs, or other purchases of our common stock that might otherwise give our other stockholders the opportunity to realize a premium over the then-prevailing market price of our common stock. This concentration of ownership may also adversely affect our share price. The interests of these existing stockholders may differ from the interests of our other stockholders.

While we have no existing agreements or plans for mergers or other corporate transactions that would require a stockholder vote at this time, this concentration of ownership may delay, prevent or deter a change in control, or deprive investors of a possible premium for owned common stock as part of a sale of our Company.

Our existing stockholders could experience dilution if we elect to raise equity capital to meet our liquidity needs or to finance strategic transactions.

As part of our growth strategy, we may desire to raise capital, issue stock to employees pursuant to the 2014 plan, or utilize our common stock to effect strategic business transactions, any of which will likely require that we issue equity or debt securities which would result in dilution to our existing stockholders. Although we intend to minimize the dilutive impact of any future capital-raising activities or business transactions, we may not effectively be able to do so.

Future sales of our common stock, or the perception that future sales may occur, may cause the market price of our common stock to decline, even if our business is doing well.

If any significant number of outstanding shares of our common stock are sold, such sales could have a depressive effect on the market price of our stock. Sales of substantial amounts of shares in the public market, or the perception that such sales could occur, could depress prevailing market prices for the shares. Such sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price which we deem appropriate.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results, and current and potential stockholders may lose confidence in our financial reporting.

We are required by the SEC to establish and maintain adequate internal control over financial reporting that provides reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. We are likewise required, on a quarterly basis, to evaluate the effectiveness of our internal control over financial reporting and to disclose any changes in internal control over financial reporting. In our Annual Report on Form 10-K for the year ended December 31, 2017, we disclosed that with respect to the standards of Section 404 of the Sarbanes-Oxley Act of 2002, the internal controls-standard to which we are subjected, we reported material weaknesses in our internal control over financial reporting. For additional information on this item, please see Item 9A of our Annual Report on Form 10-K for the year ended December 31, 2017.

Although we believe our historical efforts have strengthened our internal control over financial reporting (and we concluded that our financial statements were reliable, notwithstanding the material weakness we reported), we cannot be certain that our revised internal control practices will ensure that we will have or maintain adequate internal control over our financial reporting in future periods. Any failure to have or maintain such internal controls could adversely impact our ability to report our financial results accurately and on a timely basis. If our financial statements are not accurate, investors may not have a complete understanding of our operations.

We may be subject to stockholder litigation, thereby diverting our resources, which could materially adversely affect our profitability and results of operations.

The market for our common stock is volatile, and we expect it will continue to be volatile for the indefinite future. Plaintiffs often initiate securities class action litigation against a company following periods of volatility in the market price for its securities. In addition, stockholders may bring actions against companies relating to past transactions or other matters. Any such actions could give rise to substantial damages and thereby materially adversely affect our consolidated financial position, liquidity, or results of operations. Even if an action is not resolved against us, the uncertainty and expense associated with stockholder actions could materially adversely affect our business, prospects, and financial condition. Litigation can be costly, time-consuming and disruptive to business operations. The defense of lawsuits could also result in diversion of Management's time and attention away from business operations, which could harm our business.

We could issue “blank check” preferred stock without stockholder approval with the effect of diluting existing stockholders and impairing their voting rights, and provisions in our charter documents and under Nevada corporate law could discourage a takeover that stockholders may consider favorable.

Our articles of incorporation authorize the issuance of up to 10,000,000 shares of “blank check” preferred stock with designations, rights and preferences as may be determined from time to time by our Board of Directors. Our Board of Directors is empowered, without stockholder approval, to authorize the issuance of a series of preferred stock with dividend, liquidation, conversion, voting or other rights which could dilute the interest of, or impair the voting power of, our common stockholders. The issuance of a series of preferred stock could be used as a method of discouraging, delaying or preventing a change in control. For example, it would be possible for our Board of Directors to authorize preferred stock with voting or other rights or preferences that could impede the success of any attempt to effect a change in control of our Company. Any aspect of the foregoing, alone or together, could delay or prevent unsolicited takeovers and changes in control or changes in our management.

We do not anticipate paying cash dividends for the foreseeable future, and therefore investors should not buy our stock if they wish to receive cash dividends.

We have never declared or paid any cash dividends or distributions on our common stock. We currently intend to retain our future earnings to support operations and to finance expansion and, therefore, we do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any payment of cash dividends in the future will be dependent on the amount of funds legally available, our earnings, financial condition, capital requirements, and other factors that our Board of Directors may deem relevant. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

Anti-takeover effects of certain provisions of Nevada state law hinder a potential takeover of our company.

Although we are not currently subject to Nevada’s control share law, we could become subject to Nevada’s control share law in the future. A corporation is subject to Nevada’s control share law if it has more than 200 stockholders, at least 100 of whom are stockholders of record and residents of Nevada, and it does business in Nevada or through an affiliated corporation. The law focuses on the acquisition of a “controlling interest” which means the ownership of outstanding voting shares sufficient, but for the control share law, to enable the acquiring person to exercise the following proportions of the voting power of the corporation in the election of directors: (i) one-fifth or more but less than one-third, (ii) one-third or more but less than a majority, or (iii) a majority or more. The ability to exercise such voting power may be direct or indirect, as well as individual or in association with others.

The effect of the control share law is that the acquiring person, and those acting in association with it, obtains only such voting rights in the control shares as are conferred by a resolution of the stockholders of the corporation, approved at a special or annual meeting of stockholders. The control share law contemplates that voting rights will be considered only once by the other stockholders. Thus, there is no authority to strip voting rights from the control shares of an acquiring person once those rights have been approved. If the stockholders do not grant voting rights to the control shares acquired by an acquiring person, those shares do not become permanent non-voting shares. The acquiring person is free to sell its shares to others. If the buyers of those shares themselves do not acquire a controlling interest, their shares do not become governed by the control share law. If control shares are accorded full voting rights and the acquiring person has acquired control shares with a majority or more of the voting power, any stockholder of record, other than an acquiring person, who has not voted in favor of approval of voting rights is entitled to demand fair value for such stockholder’s shares. Nevada’s control share law may have the effect of discouraging takeovers of the corporation.

In addition to the control share law, Nevada has a business combination law which prohibits certain business combinations between Nevada corporations and “interested stockholders” for two years after the “interested stockholder” first becomes an “interested stockholder,” unless the corporation’s Board of Directors approves the combination in advance. For purposes of Nevada law, an “interested stockholder” is any person who is (i) the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the outstanding voting shares of the corporation, or (ii) an affiliate or associate of the corporation and at any time within the two previous years was the beneficial owner, directly or indirectly, of ten percent or more of the voting power of the then outstanding shares of the corporation. The definition of the term “business combination” is sufficiently broad to cover virtually any kind of transaction that would allow a potential acquirer to use the corporation’s assets to finance the acquisition or otherwise to benefit its own interests rather than the interests of the corporation and its other

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stockholders. The effect of Nevada's business combination law is to potentially discourage parties interested in taking control of our Company from doing so if it cannot obtain the approval of our Board of Directors.

We may not be able to maintain compliance with the Nasdaq Capital Market's continued listing requirements.

Our common stock is listed on the Nasdaq Capital Market. There are a number of continued listing requirements that we must satisfy in order to maintain our listing on the Nasdaq Capital Market. Although we intend to comply with all of the continued listing requirements, it is possible we may fail to do so. If we fail to maintain compliance with all applicable continued listing requirements for the Nasdaq Capital Market and they determine to delist our common stock, the delisting could adversely affect the market liquidity of our common stock, our ability to obtain financing, to repay any future debt we could incur and fund our operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

This item is not applicable.

Item 3. Defaults Upon Senior Securities

We do not have any debt nor any current plans to obtain debt financing.

Item 4. Mine Safety Disclosures

This item is not applicable.

Item 5. Other Information

This item is not applicable.

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
<u>Exhibit</u> <u>32.2*</u>	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

+ Indicates Management contract or compensatory plan or arrangement

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PROFIRE
ENERGY,
INC.**

Date: November 7, 2018 By: /s/ Brenton W. Hatch
Brenton W.
Hatch
Chief
Executive
Officer

Date: November 7, 2018 By: /s/ Ryan W. Oviatt
Ryan W.
Oviatt
Chief
Financial
Officer