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FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10QSB
May 14, 2003

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES ACT OF 1934

For the quarterly period ended MARCH 31, 2003

TRANSITION REPORT UNDER SECTION 13 OR 15(d)
OF THE SECURITIES ACT OF 1934
For the transition period from _____ to _____

Commission file number: 0-29649

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
(Name of small business issuer in its charter)

Nevada, USA

91-1922863

(State or other Jurisdiction of
Incorporation or Organization)

(IRS Employer Identification No.)

2614 Queenswood Drive, Victoria, British Columbia, Canada V8N 1X5

(Address of principal executive offices)

Issuer's Telephone Number: 250-477-9969

Securities to be registered pursuant to Section 12(b) of the Act: None

Securities to be registered pursuant to Section 12(g) of the Act:

Common Stock \$0.001 par value.

(Title of Class)

Indicate the number of shares outstanding of each of the issuer's
classes of common stock, as of March 31, 2003. Common
Stock, \$0.001 par value - 11,671,916 Shares.

Transitional Small Business Disclosure Format (Check one): Yes No

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PART 1 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Attached hereto and incorporated herein by reference

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information contains certain forward-looking statements that anticipate future trends or events. These statements are based on certain assumptions that may prove to be erroneous and are subject to certain risks including but not limited to the risks of increased competition in the Company's industry and other risks detailed in the Company's Securities and Exchange Commission filings. Accordingly, actual results may differ, possibly materially, from the predictions contained herein.

Overview

Gross sales increased \$904,646 during the first quarter of Fiscal 2003 as compared to the first quarter of Fiscal 2002. The increase was a result of increased production and sales in the Company's swimming pool division as well as the first significant revenue generated by the Water\$avr division. During the first quarter of Fiscal 2003, the Company experienced an increase in net income of \$159,760 as compared to the first quarter of Fiscal 2002. The increase in net income was the result of the increase in revenue mentioned above.

Results of Operations

Flexible Solutions is an environmental biotechnology company active in energy and water conservation products. The Company believes that its patented and patent-pending products are effective. All of the Company's products are biodegradable. The Company's corporate headquarters and research facilities are located in Victoria, British Columbia. It has one manufacturing plant situated in Calgary Alberta. The wholly owned Water\$avr subsidiary is based in Yorkville IL.

For the first quarter of the current fiscal year, ending March 31, 2003, sales increased 240% to \$1,281,266 compared to \$376,620 for the same quarter of the previous year. The Company experienced a higher volume of sales during the first quarter Fiscal 2003 as its "Tropical Fish" product continued to gain market share, Heat\$avr sold to the commercial pool sector increased and our new product "Water\$avr (W\$)" had its first significant quarter of revenue. Management expects that these trends will continue in the future.

2

General and administrative expenses for the Company were \$412,994 for the first quarter up from \$155,307 for the first quarter of last year. The increase in operating expenses was the result of the growth in the Company both in its Water\$avr Division and its "Heat\$aver" Division. Notable increases included: wages up to \$138,670 from \$31,755 directly a result of new hires in the W\$ division and increased head count at the factory in Alberta for increased production; office costs up to \$46,022 from \$29,149 a result of the new office cost of the W\$ division; travel, up to \$34,184 from \$7,611 due to world wide sales efforts in the W\$ group; research to \$17,531 from \$0 as a result of

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breaking out the category; currency exchange to \$16,167 from \$0 for the same reasons; telephone to \$8,762 from \$2,257 as a result of the general increase in corporate activity and consulting, \$41,684 from \$0 as a result of expensing options granted to consultants (this is a non-cash expense generated for accounting requirements).

Management attributes the increase in general and administrative expenses to the fact that the Company has expanded the manufacturing and sales of its entire product line. Excluding the non-cash option expense, operating costs increased 139% to \$371,310 from \$155,307 while revenue increased 254%.

Net income for the quarter was \$180,781 which represents an 760% increase over the first quarter of last year when net income was \$21,021. As stated earlier, the increase in net income was due to an increase in sales of all product lines and commencement of sales in the Water\$avr division.

Earnings per share were \$0.02 (basic), \$0.01 (fully diluted) for the first quarter of Fiscal 2003 compared to \$0.00 (basic) and \$0.00 (fully diluted) for the first quarter of fiscal 2002.

Liquidity and Capital Resources

As of March 31st, 2003, the Company had working capital of \$6,344,840, which represented an increase of \$5,810,013 as compared to the working capital position of \$534,827 on March 31st 2002. The increase in working capital was due to net financings of \$5,750,000 in April and July 2002 through private placements of common shares, capital realized from exercise of stock options in the 12 months to March 31st 2003 and the positive cash flow from operations over the 12 month period.

Accounts Receivable and Inventory represented 12.5% of current assets and both continue to turn over at acceptable rates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS:

The Company does not have any derivative financial instruments as of May 11th 2003. However, the Company is exposed to interest rate risk.

3

The Company's interest income and expense are most sensitive to changes in the general level of U.S. and Canadian interest rates. In this regard, changes in U.S. and Canadian interest rates affect the interest paid on the Company's investments.

FOREIGN CURRENCY RISK

The Company operates primarily in Canada. Therefore, the Company's business and financial condition is sensitive to currency exchange rates or any other restriction imposed on its currency.

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ITEM 1. LEGAL PROCEEDINGS

In December 2001, the Company filed suit in British Columbia Supreme Court against Equity Trust and John Wells. The Company is claiming that Equity Trust and John Wells did not provide the services for which they were paid 100,000 shares of common stock and loaned \$25,000. The Company is seeking return (and cancellation) of the shares, repayment of the loan, costs and penalties from Equity Trust and John Wells. As of 3/31/2002, the BC Supreme Court has enjoined the defendant against any transaction regarding the shares until trial is complete. The Company has accounted for the loan as un-collectable; the 100,000 shares are included in reported issued/outstanding common stock. The Company will continue to prosecute this case to a final decision by the courts.

ITEM 2. CHANGES IN SECURITIES

- a. No Disclosure Necessary.
- b. No Disclosure Necessary.
- c. 101,000 shares of common stock issued in 1st Quarter of 2003 upon exercise of employee stock option with proceeds of \$38,500 received.
- d. No Disclosure Necessary.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

No Disclosure Necessary.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No Disclosure Necessary

ITEM 5. OTHER INFORMATION

No Disclosure Necessary

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

No Disclosure Necessary

4

ITEM 14. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Flexible Solutions International Inc.
Registrant

Date: May 11th 2003 /s/ DANIEL B. O'BRIEN

President and CEO

5

CERTIFICATION PURSUANT TO
18 U.S.C. 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Flexible Solutions International Inc. (the Company) on form 10-Q for the period ended March 31st 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dan O'Brien, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(b) of the Securities Exchange Act of 1934; and 2. The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAN O'BRIEN

Dan O'Brien
CFO, May 11th 2003

CERTIFICATION PURSUANT TO
18 U.S.C. 1350,

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AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Flexible Solutions International Inc. on form 10-Q for the period ended March 31st 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dan O'Brien, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes -Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and 2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ DAN O'BRIEN

Dan O'Brien
CEO, May 11th 2003

6

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONSOLIDATED BALANCE SHEETS
(U.S. DOLLARS)

	MARCH 31, 2003	DECEMBER 31, 2002
	(Unaudited)	
ASSETS		
CURRENT		
Cash	\$ 405,492	\$ 556,789
Short-term investment	5,112,762	5,062,495
Accounts receivable	706,593	55,222
Income tax recoverable	86,775	118,014
Loan receivable	10,964	10,082
Inventory	104,016	203,830
Prepaid expenses	76,454	87,321
TOTAL CURRENT ASSETS	6,503,056	6,093,753
PROPERTY AND EQUIPMENT	132,981	128,566
INVESTMENT	32,500	32,500
TOTAL ASSETS	\$ 6,668,537	\$ 6,254,819

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LIABILITIES		
CURRENT		
Accounts payable	\$ 158,216	\$ 53,146

STOCKHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized		
50,000,000 Common shares with a par value of \$0.001 each		
1,000,000 Preferred shares with a par value of \$0.01 each		
Issued and Outstanding		
11,671,916 and 11,570,916 Common shares	11,671	11,570
CAPITAL IN EXCESS OF PAR VALUE	9,411,231	9,328,648
SHARE SUBSCRIPTION RECEIVABLE	(16,217)	(16,217)
OTHER COMPREHENSIVE INCOME (LOSS)	23,829	(21,354)
ACCUMULATED DEFICIENCY	(2,920,193)	(3,100,974)

TOTAL STOCKHOLDERS' EQUITY	6,510,321	6,201,673

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 6,668,537	\$ 6,254,819
=====		

See notes to consolidated financial statements.

1

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(U.S. DOLLARS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31, 2003	2002
-----	-----	-----
SALES	\$ 1,281,266	\$ 376,620
COST OF SALES		
(Exclusive of depreciation shown separately below)	687,067	187,410

GROSS PROFIT	594,199	189,210

OPERATING EXPENSES		
Wages	138,670	31,755
Professional fees	23,063	26,952
Office	46,022	29,149
Consulting (note 2)	41,684	0
Travel	34,184	7,611
Administrative salaries and benefits	17,642	25,014
Research	17,531	0
Currency exchange	16,167	0
Rent	14,398	15,772
Subcontracting	10,248	6,035
Telephone	8,762	2,257

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Shipping	3,692	3,164
Stock promotion and transfer agent fee	33,120	3,820
Bad debt expense (recovery)	0	(410)
Depreciation	7,811	4,188
-----	-----	-----
	412,994	155,307
-----	-----	-----
INCOME BEFORE OTHER ITEM AND INCOME TAX	181,205	33,903
INTEREST INCOME	50,268	0
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INCOME BEFORE INCOME TAX	231,473	33,903
INCOME TAX	50,692	12,882
-----	-----	-----
NET INCOME	\$ 180,781	\$ 21,021
-----	-----	-----
NET INCOME PER SHARE	\$ 0.02	\$0.00
=====	=====	=====
DILUTED INCOME PER SHARE	\$ 0.01	\$ 0.00
=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES	11,610,138	9,378,338
DILUTIVE EFFECTS OF OPTIONS	2,716,200	791,500
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WEIGHTED AVERAGE NUMBER OF SHARES WITH DILUTION	14,326,338	10,169,838
=====	=====	=====

See notes to consolidated financial statements.

2

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
PERIODS ENDED MARCH 31
(U.S. DOLLARS)

	Shares	Par Value	Capital in Excess of Par Value	Share Subscription Receivable	Accumulated Earnings (Deficiency)	C In
-----	-----	-----	-----	-----	-----	-----
BALANCE, DECEMBER 31, 1999	9,131,316	9,131	163,653	0	\$ 76,455	\$
Translation adjustment	0	0	0	0	0	
Net income	0	0	0	0	138,971	
-----	-----	-----	-----	-----	-----	-----
BALANCE, DECEMBER 31, 2000	9,131,316	9,131	163,653	0	215,426	
SHARES ISSUED FOR						
Cash (October and December Services (January, July and November)	9,500	9	4,116	0	0	
Stock option compensation	132,000	132	139,868	0	0	
Translation adjustment	0	0	256,076	0	0	
	0	0	0	0	0	

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Net loss	0	0	0	0	(233,955)	
BALANCE, DECEMBER 31, 2001	9,272,816	9,272	563,713	0	(18,529)	
UNAUDITED INFORMATION						
Issued for cash						
Private placement	1,828,600	1,829	5,998,271	0	0	
Exercise of stock options	439,500	439	150,686	0	0	
Services	30,000	30	44,370	0	0	
Share issue costs	0	0	(250,000)	0	0	
Share subscription	0	0	0	(33,000)	0	
Payment of subscriptions receivable	0	0	0	16,783	0	
Stock option compensation	0	0	2,821,608	0	0	
Translation adjustment	0	0	0	0	0	
Net loss, period ended September 30, 2002	0	0	0	0	(3,082,445)	
BALANCE, SEPTEMBER 30, 2002	11,570,916	\$ 11,570	\$ 9,328,648	\$ (16,217)	\$ (3,100,974)	\$

See notes to consolidated financial statements.

3

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
PERIODS ENDED MARCH 31
(U.S. DOLLARS)

	Shares	Par Value	Capital in Excess of Par Value	Share Subscription Receivable	Accumulated Earnings (Deficiency)	Co In
CARRIED FORWARD	11,570,916	\$ 11,570	\$ 9,328,648	\$ (16,217)	\$ (3,100,974)	\$
SHARES ISSUED FOR CASH						
Exercise of stock options	101,000	101	38,399	0	0	
Stock option compensation	0	0	44,184	0	0	
Translation adjustment	0	0	0	0	0	
Net income	0	0	0	0	180,781	
Balance, March 31, 2003	11,671,916	\$ 11,671	\$ 9,411,231	\$ (16,217)	\$ (2,920,193)	\$

See notes to consolidated financial statements.

4

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. DOLLARS)
(UNAUDITED)

	THREE MONTHS ENDED MARCH 31,	
	2003	2002

OPERATING ACTIVITIES		
Net income	\$ 180,781	\$ 21,021
Adjustments to reconcile net income to net cash, provided by operating activities		
Stock option compensation	44,184	0
Depreciation	7,811	4,188
Accrued interest income	(50,267)	0
Changes in Non-Cash Working Capital		
Accounts receivable	(651,371)	(369,187)
Inventory	99,814	48,076
Prepaid expenses	10,867	27,916
Accounts payable	105,070	140,299
Income tax receivable	31,239	25,543
Unrealized foreign exchange gain (loss)	37,277	0

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CASH USED IN OPERATING ACTIVITIES	(184,595)	(102,144)

INVESTING ACTIVITIES		
Acquisition of property and equipment	(12,226)	(12,355)
Note receivable	0	9,403
Loan receivable	(882)	0

CASH USED IN INVESTING ACTIVITIES	(13,108)	(2,952)

FINANCING ACTIVITY		
Proceeds from issuance of common stock	38,500	61,500

EFFECT OF EXCHANGE RATE CHANGES ON CASH	7,906	(9,986)

OUTFLOW OF CASH	(151,297)	(53,582)
CASH, BEGINNING OF PERIOD	556,789	190,457

CASH, END OF PERIOD	\$ 405,492	\$ 136,875
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See notes to consolidated financial statements.

5

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 PERIODS ENDED MARCH 31
 (U.S. DOLLARS)
 (UNAUDITED)

1. BASIS OF PRESENTATION

These unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information. These financial statements are condensed and do not include all disclosures required for annual financial statements. The organization and business of the Company, accounting policies followed by the Company and other information are contained in the notes to the Company's audited consolidated financial statements filed as part of the Company's December 31, 2002 Form 10-KSB.

In the opinion of the Company's management, these consolidated financial statements reflect all adjustments necessary to present fairly the Company's consolidated financial position at March 31, 2003 and the consolidated results of operations and the consolidated statements of cash flows for the three months ended March 31, 2003 and 2002. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results to be expected for

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the entire fiscal year.

2. STOCKHOLDERS' EQUITY

- (a) During the period, the Company granted 50,000 stock options to consultants and have been recognized applying SFAS 123 using the Black-Scholes option pricing model which resulted in consulting expense of \$20,625 for the three months ended March 31, 2003. Additional consulting expense of \$21,059 have also been recognized on the 75,000 stock options granted on December 31, 2002 which have a vesting period of one year.
- (b) The following table summarizes the Company's stock option activity for the period:

		2003		
	Number of Shares	Exercise Price Per Share		Weighted Average Exercise Price
Balance, December 31, 2002	3,671,800	\$ 0.25 to \$ 5.50		\$ 3.79
Granted During the Period	50,000	\$ 3.25		3.25
Exercised	(101,000)	\$ 0.25 to \$ 1.50		(0.38)
Balance, March 31, 2003	3,620,800	\$ 0.25 to \$ 5.50		\$ 3.79

6

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 PERIODS ENDED SEPTEMBER 30
 (U.S. DOLLARS)
 (UNAUDITED)

2. STOCKHOLDERS' EQUITY (Continued)

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock options granted to employees, and accordingly, compensation expense of \$2,500 was recognized as wages expense for the three months ended March 31, 2003. Had compensation expense been determined as provided in SFAS 123 using the Black-Scholes option pricing model, the pro-forma effect on the Company's net income and per share amounts for the three months ended March 31, 2003 would have been as follows:

Net income, as reported	\$ 180,781
Net income, pro-forma	\$ 88,038
Net income per share, as reported	\$ 0.02
Net income per share, pro-forma	\$ 0.01

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The fair value of each option grant is calculated using the following weighted average assumption:

Expected life (years)	5 years
Interest rate	3%
Volatility	36.55%
Dividend yield	0
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- (c) Share subscription receivable represents amount due for stock purchased on exercise of options on June 30, 2002.