

Edgar Filing: FLEXIBLE SOLUTIONS INTERNATIONAL INC - Form 10QSB

FLEXIBLE SOLUTIONS INTERNATIONAL INC  
Form 10QSB  
August 14, 2002

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

FORM 10QSB

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

For the quarterly period ended June 30th 2002

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number \_\_\_\_\_

FLEXIBLE SOLUTIONS INTERNATIONAL INC.

-----  
(Exact name of small business issuer as specified in its charter)

NEVADA

91-1922863

-----  
(State or other jurisdiction of  
incorporation or organization)

-----  
(IRS Employer  
Identification No.)

2614 Queenswood Dr. Victoria BC Canada V8N 1X5

-----  
(Address of principal executive offices)

( 250 ) 477 - 9969

-----  
( Issuer's telephone number)

(Former name, former address and former fiscal year if changed  
since last report)

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be  
filed by Section 12,13 or 15(d) of the Exchange Act after the distribution of  
securities under a plan confirmed by a court. Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common  
equity, as of the latest practicable date: Common stock \$.001 par value  
11,449,416 shares as of Aug 1st 2002.

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

PART 1 - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

Attached hereto and incorporated herein by reference.

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### Item 2. MANAGEMENTS 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.

During the three months ended June 30th 2002, the Company experienced a net after tax income of \$22,262 as compared to income of \$145,885 for the three months ended June 30th 2001. A decrease of \$75,108 is a result of expensing consultant options. Also, some decrease was due to reduced sales of our residential swimming pool product possibly as a result of poor weather in the Northeastern USA and Eastern Canada, our primary residential market area. As well, in this period the Company hired additional personnel, expanded Water\$avr sales and marketing and increased expenditures for sales to the commercial pool market. The overall result was a net income of \$22,262 for the second quarter of fiscal 2002 and a net income for the first six months of fiscal 2002 of \$43,281.

#### RESULTS OF OPERATIONS

Reference is made to Item 2, "Management's Discussion and Analysis" included in the Company's registration statement on Form 10-SB for the year ended December 31st 1999, as amended, on file with the Securities and Exchange Commission. The following analysis and discussion pertains to the Company's results of operations for the three month and six month periods ended June 30th 2002, compared to the results of operations for the three month and six month periods ended June 30th 2001, and to changes in the Company's financial condition from December 31st 2001 to June 30th 2002.

#### THREE MONTHS ENDED June 30th 2002 and 2001

For the second quarter of the current fiscal year ending June 30th 2002, sales were \$665,245 compared to \$808,025 for the same quarter of the previous year. The decrease in sales were as a result of our distributors selling less into our primary residential markets in the Northeastern US and Eastern Canada probably due to cold weather early in the pool season and extremely hot weather later on. Both conditions would be expected to reduce demand for our Tropical Fish product.

Operating expenses were \$232,257 for the second quarter, up from \$112,890 for the second quarter of last year. This is as a result of increased costs related to factory expansion for swimming pool products and increased expenses for sales and marketing of our commercial pool and water conservation products. The largest increases were in the areas of stock option expenses (\$75,108) wages (\$54,199), rent (\$13,664), administrative (\$25,762) and stock promotion/transfer agent fees (21,869).

The net income for the quarter was \$22,262 which represents a decrease over second quarter last year when the net income was \$145,885. The decrease in income was a result of lower sales of Tropical Fish to our distributor, very likely as a result of poor weather in our primary residential markets. Stock option expenses reduced earnings by \$75,108 in the quarter. As well, a proportion of the increased wage and administrative costs were associated with increased research, development and marketing of new products. The earnings per share (fully diluted) was \$0.00 for the three months ended June 30th 2002 compared to \$0.02 for the three months ended June 30th 2001.

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SIX MONTHS ENDED June 30th 2002

Sales in the first six months ended June 30th 2002 were \$1,041,865 compared to \$1,159,472 for the six months ended June 30th 2001. As was the case for the three months ended June 30th 2002 the decrease in sales were a result of decreased sales to our residential pool product distributor and likely attributable to poor weather in primary markets.

Operating expenses for the Company were \$387,566 for the six months ended June 30th 2002 up from \$188,689 for the six months ended June 30th 2001. As well as the costs of expensing options, the increase in operating expenses are a result of increased salaries, wages, rent, stock promotion/transfer agent fees, research and development and expansion of sales and marketing for commercial pool products and water conservation products. In addition there were one time expenses associated with listing the Company's shares on the Frankfurt stock exchange in Germany.

The net income for the six months ended June 30th 2002 was \$43,281 compared to a net income of \$246,889 for the six months ended June 30th 2001. The decrease in income was due to the decrease in total sales for the six month period ended June 30th 2001 and increase in expenses related to new product research, development and marketing. As noted above, expensing of stock options significantly reduced earnings.

The earnings per share (fully diluted) was \$0.00 for the six month period ended June 30th 2002 compared to \$0.03 for the six month period ended June 30th 2001.

### LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company has financed its cash flow requirements through retained earnings from sales. Cash provided by operating earnings and issue of common shares which occurred during the six months ended June 30th was \$1,151,370. This resulted in a total cash and cash equivalent position of \$1,647,707 at the end of the period.

As of June 30th 2002 the Company had working capital of \$1,647,707 which represented an increase of \$1,073,074 as compared to the working capital of June 30th 2001. The increase was a result of operating earnings from the six month period ending June 30th 2002 less the losses from third and fourth quarters 2001 plus the capital raised through the sale of common stock in the 6 month period ended June 30th 2002 .

The Company has no external sources of liquidity in the form of credit lines from banks.

Management believes that its available cash will be sufficient to fund the Company's working capital requirements through December 31st 2002. Management further believes that available cash will be sufficient to implement the Company's expansion plans. No investment banking agreements are in place and there is no guarantee that the Company will be able to raise capital in the future should that become necessary.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS:

The Company does not have any derivative financial instruments as of June 30th 2002. However, the Company is exposed to interest rate risk.

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 cash

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equivalents as well as the interest paid on debt.

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.

Part II - OTHER INFORMATION

- Item 1. Legal proceedings - None
- Item 2. Changes in Securities - 502,000 common shares were issued during the quarter. Four hundred thousand shares were sold from treasury in a private placement priced at \$2.50 per share resulting in net proceeds of \$950,000. 102,000 shares were issued for options exercised for net proceeds of \$54,000. Total proceeds to the Company for shares issued in the quarter were \$1,004,000.
- Item 3. Default upon Senior Securities - None
- Item 4. Submission of Matters to a Vote of Securities Holders - None
- Item 5. Other Information - None
- Item 6. Reports on Form 8-K - None

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, there unto duly authorized.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.  
(Registrant)

Dated: August 10 2002

/s/ DAN O'BRIEN

-----  
Dan O'Brien, President and Director

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. on form 10-Q for the period ended June 30th 2002 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

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Dan O'Brien  
CEO, Aug 13th 2002

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. (the Company) on form 10-Q for the period ended June 30th 2002 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  
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Dan O'Brien  
CFO, Aug 13th 2002

FLEXIBLE SOLUTIONS INTERNATIONAL INC.  
Consolidated Balance Sheets (Unaudited)  
As of June 30  
(U.S. Dollars)

	2002	2001
-----		
Assets		
Current		
Cash	\$374,064	\$153,109
Accounts receivable	250,287	540,844
In Trust	22,756	25,000
Short Term Loans	23,097	0
Inventory	128,050	86,836
Income Tax Installments	57,157	42,745
Prepaid expenses	14,148	3459
-----		
Total Current Assets	869,560	851,993
Investments	913,307	
Property and Equipment	76,213	66,289
-----		
Total Assets	\$1,859,080	\$918,282
-----		
Liabilities		
Current		
Accounts payable	16,377	64,419
Accrued liabilities	49,917	61,628
Income tax payable	42,095	151,313
-----		
Total Current Liabilities	108,389	277,360
-----		
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		
10,025,816 & 9,233,816 Common shares	10,026	9,233
Capital in Excess of Par Value	1,704,568	164,378

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Other Comprehensive Income (Loss)	(17,196)	5,106
Retained Earnings	53,293	462,205
	1,750,691	640,922
Total Liabilities and Stockholders' Equity	\$1,859,080	\$918,282

FLEXIBLE SOLUTIONS INTERNATIONAL INC.  
Consolidated Statement of Operations (Unaudited)  
Quarters Ended June 30  
(U.S. Dollars)

	2002	2001
Sales	\$665,245	\$808,025
Cost of Sales (Exclusive of Depreciation)	351,048	459,836
Gross Profit	314,197	348,189
Operating Expenses		
Wages	75,449	47,564
Bad Debt Expense	64	0
Administrative salaries and benefits	47,012	18,638
Advertising	3,054	1,308
Professional fees	2,545	15,797
Subcontracting	9,642	4,987
Shipping	2,434	3,850
Rent	13,664	6,683
Travel	2,725	1,414
Office	2,672	2,209
Telecommunications	2,677	2,193
Commission	0	266
Utilities	1,950	0
Entertainment	829	0
Stock promotion and transfer agent fees	54,477	2,737
Insurance	1,061	0
Miscellaneous	7,402	1,706
Water\$avr	175	654
Depreciation	4,425	2,884
	232,257	112,890
Income Before Income Tax	81,940	235,299
Income Tax	59,678	89,414
Net Income	\$22,262	\$145,885
Earnings Per Share	\$0.00	\$0.02
Weighted Average Number of Shares	9,893,728	9,232,966

FLEXIBLE SOLUTIONS INTERNATIONAL INC.  
Consolidated Statement of Operations (Unaudited)  
Six Months Ended June 30  
(U.S. Dollars)

	2002	2001
Sales	\$1,041,865	\$1,159,472
Cost of Sales (Exclusive of Depreciation)	538,458	575,591

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Gross Profit	503,407	583,881
-----		
Operating Expenses		
Wages	107,204	72,345
Bad Debt Expense	-346	0
Administrative salaries and benefits	72,026	31,802
Advertising	18,382	2,828
Professional fees	29,497	20,010
Subcontracting	15,677	10,616
Shipping	5,598	5,762
Rent	29,437	10,971
Travel	10,336	9,868
Office	7,564	3,799
Telecommunications	4,934	2,746
Commission	0	444
Utilities	4,290	0
Entertainment	1,190	0
Stock promotion and transfer agent fees	58,297	8,208
Insurance	2,288	0
Miscellaneous	12,403	3,068
Water\$avr	175	654
Depreciation	8,613	5,568
	387,566	188,689
-----		
Income Before Income Tax	115,841	395,192
Income Tax	72,560	150,173
-----		
Net Income	\$43,281	\$245,019
-----		
Earnings Per Share	\$0.00	\$0.03
-----		
Weighted Average Number of Shares	9,645,601	9,229,797

FLEXIBLE SOLUTIONS INTERNATIONAL INC.  
Consolidated Statement of Cash Flow (Unaudited)  
Quarters Ended June 30  
(U.S. Dollars)

	2002	2001
-----		
Operating Activities		
Net income	\$22,262	\$145,885
provided by (used in) operating activities		
Depreciation	4,425	2,884
Changes in non-cash working capital		
Accounts receivable	165,272	(129,721)
Notes receivable	(277)	0
Inventory	5,571	33,151
Prepaid expenses & deposits	(5,529)	(965)
Short Term Loans	(13,482)	0
Income Tax Installments	(29,704)	(42,745)
Accounts payable & accrued liabilities	(91,696)	110,889
Income tax payable	50,584	(1,184)
-----		
Cash provided (Used in) Operating Activities	107,427	118,194
Investing Activities		
Acquisitions and Equipment	0	(8,763)

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Investments (US Treasury Bills)	(913,307)	0
Financing Activities		
Funds received for share issues	1,080,108	0
Income Taxes Paid	-\$29,704	-\$42,745
Effect of Exchange Rate Changes on Cash	(9,495)	8,099
-----		
Inflow (Outflow) of Cash	264,733	117,530
Cash, Beginning of Quarter	109,331	35,579
-----		
Cash, End of Quarter	\$374,064	\$153,109
-----		

Flexible Solutions International Inc.  
Notes to Consolidated Financials  
For the Quarter Ended June 30, 2002

Note 1 Interim Reporting

While the information presented in the accompanying interim six months to June 30, 2002 financial statements is unaudited, it includes all adjustments which are, in the opinion of management, necessary to present fairly the financial position, results of operations and cash flows for the interim periods presented. These interim financial statements follow the same accounting policies and methods of their application as the December 31, 2001 annual financial statements. It is suggested that these interim financial statements be read in conjunction with the company's December 31, 2001 annual financial statements.

Note 2 FASB 123

If FASB 123 was used, Wages and Administrative Benefits would have an additional \$127,975 expensed for first quarter and \$141,964 expensed for second quarter.