

Edgar Filing: FLEXIBLE SOLUTIONS INTERNATIONAL INC - Form 10QSB

FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10QSB
November 14, 2003

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 Sept. 30th 2003

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
(State or other jurisdiction
of incorporation or organization)

91-1922863
(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
11,792,916 shares as of Sept. 30th 2003. -----

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

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 CONSOLIDATED BALANCE SHEETS
 SEPTEMBER 30TH 2003
 (UNAUDITED - U.S. DOLLARS)

| | SEPTEMBER 30 2003 | DECEMBER 31 2002 |
|--|----------------------|---------------------|
| <hr/> | | |
| Assets | | |
| CURRENT | | |
| Cash and cash equivalents | \$ 141,435 | \$ 556,789 |
| Short term investments | 5,206,178 | 5,062,495 |
| Accounts receivable | 226,218 | 55,222 |
| Income tax receivable | 58,000 | 118,014 |
| Loan receivable | 11,909 | 10,082 |
| Inventory | 227,292 | 203,830 |
| Prepaid expenses | 52,636 | 87,321 |
| | <hr/> | <hr/> |
| | 5,923,670 | 6,093,753 |
| PROPERTY AND EQUIPMENT | 153,275 | 128,566 |
| INVESTMENT | 310,125 | 32,500 |
| | <hr/> | <hr/> |
| | \$ 6,387,070 | \$ 6,254,819 |
| <hr/> | | |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | \$ 65,942 | \$ 53,146 |
| <hr/> | | |
| 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 | | |
| 11,792,916 (2002: 11,570,916) common shares | 11,793 | 11,570 |
| CAPITAL IN EXCESS OF PAR VALUE | 9,729,483 | 9,328,648 |
| SHARE SUBSCRIPTION RECEIVABLE | (13,217) | (16,217) |
| OTHER COMPREHENSIVE INCOME (LOSS) | 33,068 | (21,354) |
| DEFICIT | (3,440,000) | (3,100,974) |
| | <hr/> | <hr/> |
| TOTAL STOCKHOLDER'S EQUITY | 6,321,128 | 6,201,673 |

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TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY \$ 6,387,070 \$ 6,254,819
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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED - U.S. DOLLARS)

| | THREE MONTHS ENDED SEPTEMBER 30 | |
|---|---------------------------------|----------------|
| | 2003 | 2002 |
| SALES | \$ 40,009 | \$ 55,257 |
| COST OF SALES | 34,944 | 54,782 |
| GROSS PROFIT | 5,064 | 475 |
| OPERATING EXPENSES | | |
| Wages | 74,786 | 28,880 |
| Administrative salaries and benefits | 20,783 | 5,202 |
| Advertising and promotion | 31,757 | 8,976 |
| Investor relations and transfer agent fee | 51,606 | 15,510 |
| Office and miscellaneous | 24,559 | 7,922 |
| Rent | 11,601 | 16,788 |
| Consulting | 39,572 | 2,711,958 |
| Professional fees | 45,270 | 37,478 |
| Travel | 41,611 | 13,608 |
| Telecommunications | 11,976 | 2,124 |
| Shipping | 6,409 | 3,462 |
| Research | 41,594 | |
| Bad debt expense (recovery) | 822 | 1 |
| Currency exchange | (42,172) | 4,797 |
| Utilities | 3,711 | 1,953 |
| Depreciation | 8,841 | 6,390 |
| | 372,725 | 2,865,049 |
| INCOME (LOSS) BEFORE INTEREST INCOME AND INCOME TAX | (367,660) | (2,864,574) |
| INTEREST INCOME | 50949.58 | 15,221 |
| INCOME (LOSS) BEFORE INCOME TAX | (316,711) | (2,849,353) |
| INCOME TAX (RECOVERY) | (26,457) | (43,343) |
| NET INCOME (LOSS) | (290,254) | \$ (2,806,010) |
| NET INCOME (LOSS) PER SHARE | \$ -0.02 | \$ -0.25 |
| WEIGHTED AVERAGE NUMBER OF SHARES | 11,791,612 | 11,448,128 |

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED - U.S. DOLLARS)

| | NINE MONTHS ENDED SEPTEMBER 30 | |
|---|--------------------------------|--------------|
| | 2003 | 2002 |
| SALES | \$ 1,982,571 | \$ 1,089,164 |
| COST OF SALES | 1,130,293 | 594,041 |
| GROSS PROFIT | 852,277 | 495,123 |
| OPERATING EXPENSES | | |
| Wages | 408,658 | 248,933 |
| Administrative salaries and benefits | 60,258 | 77,228 |
| Advertising and promotion | 60,915 | 37,739 |
| Investor relations and transfer agent fee | 120,273 | 41,156 |
| Office and miscellaneous | 59,334 | 23,204 |
| Rent | 49,153 | 46,356 |
| Consulting | 122,223 | 2,760,275 |
| Professional fees | 173,143 | 67,283 |
| Travel | 120,030 | 24,023 |
| Telecommunications | 36,576 | 7,074 |
| Shipping | 14,687 | 9,087 |
| Research | 61,298 | - |
| Bad debt expense (recovery) | 822 | (350) |
| Currency exchange | 20,787 | 20,205 |
| Utilities | 13,938 | 4,159 |
| Depreciation | 24,768 | 15,335 |
| | 1,346,862 | 3,381,707 |
| INCOME (LOSS) BEFORE INTEREST INCOME AND INCOME TAX | (494,584) | (2,886,584) |
| INTEREST INCOME | 155,196 | 15,221 |
| INCOME (LOSS) BEFORE INCOME TAX | (339,389) | (2,871,363) |
| INCOME TAX LOSS (RECOVERY) | (363) | - |
| NET INCOME (LOSS) | (339,026) | (2,871,363) |
| NET INCOME (LOSS) PER SHARE | \$ -0.03 | \$ -0.27 |
| WEIGHTED AVERAGE NUMBER OF SHARES | 11,715,619 | 10,555,256 |

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED - U.S. DOLLARS)

| | NINE MONTHS ENDED SEPTEMBER 30 | |
|---|--------------------------------|----------------|
| | 2003 | 2002 |
| <hr/> | | |
| OPERATING ACTIVITIES | | |
| Net income (loss) | \$ (339,026) | \$ (2,871,363) |
| Stock compensation expense | 68,998 | 2,844,758 |
| Depreciation | 24,768 | 15,335 |
| Changes in non-cash working capital items: | | |
| Accounts receivable | (170,996) | (29,045) |
| Inventory | (23,462) | 18,505 |
| Prepaid expenses | 34,685 | 39,803 |
| Accounts payable | 12,796 | 11,014 |
| Income tax receivable | 60,014 | (90,406) |
| <hr/> | | |
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | (332,223) | (61,399) |
| <hr/> | | |
| INVESTING ACTIVITIES | | |
| Acquisition of property and equipment | (49,477) | (54,299) |
| Purchase of short-term investments | (143,683) | 9,225 |
| Acquisition of investments | (277,625) | |
| Loan receivable | (1,827) | (69) |
| <hr/> | | |
| CASH USED IN INVESTING ACTIVITIES | (472,613) | (45,143) |
| <hr/> | | |
| FINANCING ACTIVITY | | |
| Proceeds from issuance of common stock | 401,058 | 5,867,600 |
| Subscriptions received | 3,000 | 13,010 |
| <hr/> | | |
| CASH PROVIDED BY FINANCING ACTIVITIES | 404,059 | 5,880,610 |
| <hr/> | | |
| Effect of exchange rate changes on cash | (14,576) | 4,921 |
| <hr/> | | |
| INFLOW (OUTFLOW) OF CASH | (415,354) | 5,778,989 |
| Cash and cash equivalents, beginning of period | 556,789 | 190,457 |
| <hr/> | | |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 141,435 | \$ 5,969,446 |
| <hr/> | | |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Income taxes paid | \$ 58,000 | \$ 74,067 |
| Interest received | 155,196 | 15,221 |
| <hr/> | | |

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SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:

Issue of common stock for investment (2002 - services) \$ 271,000 \$ 44,400

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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 PERIODS ENDED SEPTEMBER 30
 (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 September 30, 2003 and the consolidated results of operations and the consolidated statements of cash flows for the nine months ended September 30, 2003 and 2002. The results of operations for the three months ended September 30, 2003 are not necessarily indicative of the results to be expected for the entire fiscal year.

2. STOCKHOLDERS' EQUITY

(a) During the prior period, the Company granted 30,000 stock options to consultants and have recognized consulting expense applying SFAS 123 using the Black-Scholes option pricing model which resulted in expense of \$12,407 for the three months ended September 30, 2003.

(b) The following table summarizes the Company's stock option activity for the period:

| | 2003 | Exercise Price Per Share | Weighted Average Exercise Price |
|---------------------------|-----------|-----------------------------|------------------------------------|
| Balance, March 31, 2003 | 3,620,800 | \$ 0.25 to \$ 5.50 | \$ 3.79 |
| Granted During the Period | 2,000 | \$ 4.25 | 4.25 |
| Exercised | (5,000) | \$ 0.25 to \$ 2.28 | (1.40) |
| Balance, June 30, 2003 | 3,617,800 | \$ 0.25 to \$ 5.50 | \$ 3.81 |

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- (c) Share subscription receivable represents amount due for stock purchased on exercise of options on June 30, 2002.

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

3. SUBSEQUENT EVENTS

On October 9, 2003, the Company announced the modification of the marketing agreement with Ondeo Nalco. Ondeo Nalco fell short of sales targets to maintain exclusive distributorship of WATER\$AVR, opening other avenues for the company to pursue key markets internally. This resulted in the return of two million incentive stock options, which will be accounted for in the next quarter.

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ITEM 2. MANAGER'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.

For the three months ended Sept. 30th 2003, the Company experienced a loss of \$290,254 as compared to a loss of \$2,806,010 for the three months ended Sept. 30th 2002. As in the quarter ending Sept. 30th 2002, the end of the Northeastern USA pool season reduces demand for our products in the usual cyclical manner and resulted in very low production requirements in 3rd quarter and revenue of \$40,009 compared to \$55,257 in the year earlier quarter. In addition, the Company increased expenditures in the areas of WATER\$AVR sales and marketing and production equipment development. Finally, the Company produced the correct amount of product in Q-1 and Q-2 2003 as a percentage of annual sales and therefore did not have to carry high production rates into Q-3 2003.

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, and the Company's 10K-SB for the years ended Dec. 31st 2000 and 2001 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 nine month periods ended Sept. 30th 2003, compared to the results of operations for the three month and nine month periods ended Sept. 30th 2002, and to changes in the Company's financial condition from December 31st 2002 to Sept. 30th 2003.

THREE MONTHS ENDED SEPT. 30TH 2003 AND 2002

For the third quarter of the current fiscal year ending Sept. 30th 2003, sales were \$40,009 compared to \$55,257 for the same quarter of the previous year. This essentially flat sales result was expected since third quarter is our slowest every year, a situation that is expected to continue because most sales to the residential pool market are completed by the end of second quarter each year.

Operating expenses were \$372,725 for the third quarter, down from \$2,865,049 for the third quarter of last year. The decrease is as a result of non-recurrence of a non-cash expense (\$2,704,000) to account for options granted to Ondeo Nalco Company. Flexible Solutions continued increased spending on sales and marketing for Water\$avr and development of advanced production machinery. The largest real increases were in the areas of wages (\$74,786 versus \$28,880), advertising and promotion, (\$31,757 from \$8,976), investor relations and transfer agent (\$51,606 from \$15,510), travel (\$41,611 from \$13,608) and research from \$nil to \$41,594. These increases were primarily related to promoting, developing and marketing the new Water\$avr products. Additional personnel were hired for these purposes and travel increased in line with the personnel in order to promote the products throughout North America and around the world.

The loss for the quarter was \$290,254, a huge decrease from third quarter last year when the loss was \$2,806,010. The decreased loss was almost all related to non-cash option expenses. Cost of sales decreased to 87% from 99% as a result of lower sales with a concurrent larger reduction in costs.

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The loss per share was \$0.02 for the three months ended Sept. 30th 2003 compared to a loss of \$0.25 for the three months ended Sept. 30th 2002.

NINE MONTHS ENDED SEPT. 30TH 2003 AND 2002

Sales in the nine months ended Sept. 30th 2003 were \$1,982,571 compared to \$1,089,164 for the nine months ended Sept. 30th 2002. The 82% increase was a result of the increase in sales in our swimming pool division in the first two quarters combined with the first significant sales from the drinking water product, "Water\$avr".

Operating expenses for the Company were \$1,346,662 for the nine months ended Sept. 30th 2003 down from \$3,381,707 for the nine months ended Sept. 30th 2002. The nine months ended Sept. 30th 2002 included a non-cash charge of \$2,704,000 for expensing consultant options. The cash increase in operating expenses were as a result of increases in sales and marketing costs for Water\$avr.

The net income for the nine months ended Sept. 30th 2003 was (\$339,026) compared to a net income of (\$2,871,363) for the nine months ended Sept. 30th 2002. The cash flow from operations decreased substantially from (\$61,399 to (\$332,223) as costs related to the sales and marketing of Water\$avr increased.

The loss per share was \$0.03 for the nine-month period ended Sept. 30th 2003 compared to a loss of \$0.27 for the nine-month period ended Sept. 30th 2002.

LIQUIDITY AND CAPITAL RESOURCES

The Company has cash on hand of \$5,347,613 as of the end of the quarter.

As of Sept. 30th 2003 the Company had working capital of \$5,857,728 as compared to working capital of \$6,040,607 on Dec 31st 2002. The decrease was a result of operational costs incurred to market Water\$avr during the 9 months ended Sept 30th 2003.

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 2004. 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 Sept. 30th 2003. 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 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

- 2000 options were granted to an employee during the period.
- 5,000 options were exercised by an employee during the period for proceeds to the Company of \$7,000.

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. (a) EXHIBITS

- 31 Certification pursuant to Rule 13a-14(a)/15d-14(a)
- 32 Certification pursuant to 18 U.S.C. SS. 1350

(b) Reports on Form 8-K

July 10th 2003

Aug 5th 2003

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

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.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
(Registrant)

Dated: November 14th 2003

/s/ DAN O'BRIEN

Dan O'Brien, President and Director