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FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10QSB
May 13, 2002

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, 2002
- 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

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)

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of March 31, 2002: Common Stock, \$0.001 par value - 9,519,816 Shares.

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

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

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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 \$25,173 during the first quarter of Fiscal 2002 as compared to the first quarter of Fiscal 2001. During the first quarter of Fiscal 2002, the Company experienced a decrease in net income of \$79,985 as compared to the first quarter of Fiscal 2001. The decrease in net income was the result of an increase in the cost of sales and an increase in operating expenses as discussed below.

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 is located in Victoria, British Columbia. It has two manufacturing centers. One located in Calgary, Alberta and the second located in Ontario Canada.

For the first quarter of the current fiscal year, ending March 31, 2002, sales increased 7.2% to \$376,620 compared to \$351,447 for the same quarter of the previous year. The Company experienced a higher volume of sales during the first quarter Fiscal 2002 as its "Tropical Fish" product gained greater acceptance in the market place. Management expects that this trend will continue in the future.

General and administrative expenses for the Company were \$155,309 for the first quarter up from \$75,799 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 28% (\$31,755 compared to \$24,781); administrative salaries and benefits up 90% (\$25,014 compared to \$13,164); advertising up 908% (\$15,329 compared to only \$1,520); professional fees up 540% (\$26,952 compared to \$4,213); and, rent up 268% (\$15,772 compared to \$4,288) Increases also occurred in

depreciation; miscellaneous items; insurance; entertainment; utilities; telecommunications; office; shipping; and, subcontracting.

Management attributes the increase in general and administrative expenses to the fact that the Company has expanded the manufacturing and sales of its "Water\$avr" product and its "Heat\$aver" product .

Subsequent to the conclusion of the first quarter of Fiscal 2001, the Company hired a new President for the "Water\$aver" division and marketing efforts within this division have grown significantly as evidenced by the letters of intent for the purchase of this product from a multinational company located in India and from the Ministry of Water of the Peoples Republic of China and the National Engineering Research Center for Water Saving and Irrigation at Yang Ling. Management expects that sales from these sources will begin in the latter portion of Fiscal 2002.

Also contributing to the increase in expenses, a new facility was put into place after the first quarter of Fiscal 2001 to expand the manufacturing and distribution of the "Tropical Fish" product. This facility is located in

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Calgary, Alberta and augments the manufacturing and distribution activities taking place at the Company's facility located in the province of BC.

Within the category of operating expenses, decreases did occur in the categories of travel; commissions; stock promotion and transfer agent fees.

Net income for the quarter was \$21,019 which represents a 79% decrease over the first quarter of last year when net income was \$101,004. As stated earlier, the decrease in net income was due primarily to an increase in the activities of the Water\$avr Division and the expansion of facilities which occurred within the "Heat\$aver" Division.

Earnings per share (fully diluted) were \$0.00 for the first quarter of Fiscal 2002 compared to \$0.01 for the first quarter of fiscal 2001.

Liquidity and Capital Resources

As of March 31, 2002, the Company had working capital of \$534,827 which represented an increase of \$108,299 as compared to the working capital position of \$426,528 on March 31, 2001. The increase in working capital was due to an increase in cash and cash equivalents of \$73,752; an increase in accounts receivable of \$4,437; an increase in inventory of \$13,634; an increase in prepaid expenses of \$6,329; and, an increase in income tax installments of \$27,544.

Accounts Receivable and Inventory represented 75.6% of current assets and both continue to turn over at acceptable rates.

Based on the Company's current working capital position and its policy of retaining earnings, the Company has adequate working capital to meet its needs during the current fiscal year. On April 30, 2002, the Company announced the closing of a private placement that raised \$1,000,000 through the sale of 400,000 common shares at \$2.50. The proceeds of this private

placement will be used to accelerate the sales initiatives of the Company's Water\$avr Division of the Company and for general corporate purposes.

PART II OTHER INFORMATION

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.

ITEM 2. CHANGES IN SECURITIES

- a. No Disclosure Necessary.
- b. No Disclosure Necessary.
- c. 217,000 shares of common stock issued in 1st Quarter of 2002 upon exercise of employee stock option with proceeds of \$61,141 received.
- d. No Disclosure Necessary.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

No Disclosure Necessary.

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- 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

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: 5-13-2002 /s/ Daniel B. O'Brien

Daniel B. O'Brien, President/Treasurer/Secretary/Director

FLEXIBLE SOLUTIONS INTERNATIONAL INC.

Consolidated Balance Sheets

(Unaudited)

As of March 31

(U.S. Dollars)

| | 2002 | 2001 |
|--|-----------|-----------|
| ----- | | |
| Assets | | |
| Current | | |
| Cash | \$109,331 | \$35,579 |
| Accounts receivable | 415,560 | 411,123 |
| In Trust | 22,552 | 25,000 |
| Short Term Loans | 9,338 | 0 |
| Inventory | 133,621 | 119,987 |
| Income Tax Installments | 27,544 | 0 |
| Prepaid expenses | 8,823 | 2,494 |
| | ----- | ----- |
| Total Current Assets | 726,769 | 594,183 |
| Property and Equipment | 77,560 | 60,410 |
| | ----- | ----- |
| Total Assets | \$804,329 | \$654,593 |
| | ===== | ===== |
| | | |
| Liabilities | | |
| Current | | |
| Accounts payable | 78,177 | 15,158 |
| Accrued liabilities | 82,713 | 0 |
| Income tax payable | 31,051 | 152,497 |
| | ----- | ----- |
| Total Current Liabilities | 191,942 | 167,655 |
| | | |
| 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 | | |
| 9,519,816 & 9,231,316 Common shares | 9,520 | 9,231 |

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| | | |
|--|-----------|-----------|
| Capital in Excess of Par Value | 624,966 | 163,653 |
| Other Comprehensive Income (Loss) | (24,587) | (2,366) |
| Retained Earnings | 2,490 | 316,420 |
| | ----- | ----- |
| | 612,389 | 486,938 |
| | ----- | ----- |
| Total Liabilities and Stockholders' Equity | \$804,331 | \$654,593 |
| | ===== | ===== |

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Consolidated Statement of Operations (Unaudited)
Quarters Ended March 31
(U.S. Dollars)

| | 2002 | 2001 |
|---|-----------|-----------|
| Sales | \$376,620 | \$351,447 |
| Cost of Sales (Exclusive of Depreciation) | 187,410 | 112,755 |
| | ----- | ----- |
| Gross Profit | 189,210 | 238,692 |
| | ----- | ----- |
| Operating Expenses | | |
| Wages | 31,755 | 24,781 |
| Bad Debt Expense | -410 | 0 |
| Administrative salaries and benefits | 25,014 | 13,164 |
| Advertising | 15,328 | 1,520 |
| Professional fees | 26,952 | 4,213 |
| Subcontracting | 6,035 | 5,629 |
| Shipping | 3,164 | 1,912 |
| Rent | 15,772 | 4,288 |
| Travel | 7,611 | 8,454 |
| Office | 4,892 | 1,590 |
| Telecommunications | 2,257 | 553 |
| Commission | 0 | 178 |
| Utilities | 2,340 | 0 |
| Entertainment | 361 | 0 |
| Stock promotion and transfer agent fees | 3,820 | 5,471 |
| Insurance | 1,227 | 0 |
| Miscellaneous | 5,001 | 1,362 |
| Water\$avr | 0 | 0 |
| Depreciation | 4,188 | 2,684 |
| | ----- | ----- |
| | 155,309 | 75,799 |
| | ----- | ----- |
| Income Before Income Tax | 33,901 | 162,893 |
| Income Tax | 12,882 | 61,889 |
| | ----- | ----- |
| Net Income | \$21,019 | \$101,004 |
| | ===== | ===== |
| Earnings Per Share | \$0.00 | \$0.01 |
| | ===== | ===== |
| Weighted Average Number of Shares | 9,397,816 | 9,212,247 |
| | ===== | ===== |

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
Consolidated Statement of Cash Flow (Unaudited)
Quarters Ended March 31
(U.S. Dollars)

| | 2002 | 2000 |
|--|-------|-------|
| | ----- | ----- |

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| | | |
|--|-----------|-----------|
| Operating Activities | | |
| Net income | \$21,019 | \$100,994 |
| provided by (used in) operating activities | | |
| Depreciation | 4,188 | 2,684 |
| Changes in non-cash working capital | | |
| Accounts receivable | (369,186) | (266,740) |
| Notes receivable | 9,403 | (25,000) |
| Inventory | 48,077 | (26,474) |
| Prepaid expenses & deposits | 27,916 | (3,657) |
| Income Tax Installments | (27,544) | 0 |
| Accounts payable & accrued liabilities | 140,299 | 2,736 |
| Income tax payable | 25,543 | 61,899 |
| | ----- | ----- |
| Cash provided (Used in) Operating Activities | (120,285) | (153,558) |
| Investing Activities | | |
| Acquisitions and Equipment | (12,355) | (10,030) |
| Financing Activities | | |
| Funds received for share issues | 61,500 | 0 |
| Income Taxes Paid | \$27,544 | \$0 |
| Effect of Exchange Rate Changes on Cash | (9,986) | 6,887 |
| | ----- | ----- |
| Inflow (Outflow) of Cash | (53,582) | (156,701) |
| Cash, Beginning of Quarter | 190,457 | 192,280 |
| | ----- | ----- |
| Cash, End of Quarter | \$136,875 | \$35,579 |
| | ===== | ===== |

Flexible Solutions International Inc.
Notes to Consolidated Financials
For the Quarter Ended March 31, 2002

Note 1 Interim Reporting

While the information presented in the accompanying interim three months to March 31, 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.