

LUXOTTICA GROUP SPA  
Form 6-K  
March 19, 2003

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## SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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### FORM 6-K

#### REPORT OF FOREIGN ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NO. 1 - 10421  
FOR THE YEAR ENDED DECEMBER 31, 2002

### LUXOTTICA GROUP S.p.A.

VIA CANTÙ 2, MILAN 20123 ITALY  
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by regulation S-T Rule 101 (b) (1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by regulation S-T Rule 101 (b) (7):

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

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#### LUXOTTICA GROUP S.p.A.

The information included in this Report is an English translation of information that Luxottica Group S.p.A. is required to file with Italian regulatory authorities. Luxottica will include additional information regarding its business and fiscal year ended December 31, 2002 in its 2002 Annual Report on Form 20-F.

The audit of the financial statements as of and for the year ended December 31, 2002 included in this Report is not yet complete and, therefore, such financial statements are unaudited. Luxottica intends to file audited financial statements for 2002 in its Annual

## Report on Form 20-F.

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**CONSOLIDATED BALANCE SHEETS US GAAP****DECEMBER 31, 2001 AND DECEMBER 31, 2002**

	December 31, 2001 (Thousand of Euro)	December 31, 2002	December 31, 2002 (Thousand of US dollars)(1)
<b>ASSETS</b>			
<i>CURRENT ASSETS</i>			
Cash	199,202	151,418 \$	158,762
Restricted cash	213,507		
Accounts receivable net	381,281	370,234	388,191
Sales and income taxes receivable	23,327	10,956	11,487
Inventories	371,406	406,032	425,724
Prepaid expenses and other	75,468	53,385	55,974
Net deferred tax assets current	163,201	148,088	155,270
<b>Total current assets</b>	<b>1,427,392</b>	<b>1,140,113</b>	<b>1,195,408</b>
<b>PROPERTY, PLANT AND EQUIPMENT net</b>			
	<b>501,346</b>	<b>506,545</b>	<b>531,113</b>
<i>OTHER ASSETS</i>			
Intangible assets net	2,009,740	1,916,526	2,009,478
Investments	5,798	12,837	13,459
Other assets	4,085	10,311	10,811
<b>Total other assets</b>	<b>2,019,623</b>	<b>1,939,674</b>	<b>2,033,748</b>
<b>TOTAL</b>	<b>3,948,362</b>	<b>3,586,332 \$</b>	<b>3,760,269</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<i>CURRENT LIABILITIES</i>			
Bank overdrafts	411,193	371,729 \$	389,757
Current portion of long-term debt	1,339,131	178,335	186,984
Accounts payable	183,431	202,897	212,737
Accrued expenses and other	345,863	217,883	228,451
Accrual for customers' right of return	14,087	9,130	9,573
Income taxes payable	5,793	18,748	19,657
<b>Total current liabilities</b>	<b>2,299,498</b>	<b>998,722</b>	<b>1,047,160</b>
<i>LONG TERM LIABILITIES</i>			
Long term debt	132,247	855,654	897,153
Liability for termination indemnities	35,029	48,945	51,319
Net deferred tax liabilities non current	10,282	121,805	127,713
Other	122,989	133,605	140,085
<b>Total long term liabilities</b>	<b>300,547</b>	<b>1,160,010</b>	<b>1,216,271</b>
<b>MINORITY INTERESTS IN CONSOLIDATED SUBSIDIARIES</b>	<b>5,473</b>	<b>9,705</b>	<b>10,175</b>
<i>SHAREHOLDERS' EQUITY</i>			
Capital stock par value Euro 0.06 452,865,817 and 454,263,600 ordinary shares authorized and issued at December 31, 2001 and December 31, 2002, respectively; 451,660,817 and 452,351,900 shares outstanding at December 31, 2001 and December 31, 2002, respectively.	27,172	27,256	28,578
Additional paid-in capital	18,381	34,799	36,487
Retained earnings	1,152,508	1,447,374	1,517,572
Accumulated other comprehensive income	147,116	(66,987)	(70,236)
<b>Total</b>	<b>1,345,177</b>	<b>1,442,442</b>	<b>1,512,400</b>
Less Treasury shares at cost; 1,205,000 and 1,911,700 shares at December 31, 2001 and December 31, 2002, respectively	2,334	24,547	25,737
<b>Shareholders' equity</b>	<b>1,342,843</b>	<b>1,417,895</b>	<b>1,486,663</b>
<b>TOTAL</b>	<b>3,948,362</b>	<b>3,586,332 \$</b>	<b>3,760,269</b>

(1) Translated at the Noon Buying Rate of Euro 1.00 = US \$1.0485 on December 31, 2002 (see Note 6).

**STATEMENTS OF CONSOLIDATED INCOME US GAAP FOR THE YEAR ENDED DECEMBER 31, 2001 AND 2002**

	2001	2002(3)	2002(3)
	(Thousand of Euro)(1)		(Thousand of US dollars)(1)(2)

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NET SALES	3,064,907	3,132,201	\$	3,284,113
COST OF SALES	883,961	878,003		920,586
<b>GROSS PROFIT</b>	<b>2,180,946</b>	<b>2,254,198</b>		<b>2,363,527</b>
OPERATING EXPENSES:				
Selling and advertising	1,302,384	1,355,148		1,420,873
General and administrative	369,071	297,542		311,973
<b>Total</b>	<b>1,671,454</b>	<b>1,652,690</b>		<b>1,732,846</b>
INCOME FROM OPERATIONS	509,492	601,508		630,681
OTHER INCOME (EXPENSE):				
Interest income	15,060	5,036		5,281
Interest expense	(91,978)	(65,935)		(69,132)
Other net	8,737	(1,168)		(1,225)
<b>Other income (expense) net</b>	<b>(68,181)</b>	<b>(62,066)</b>		<b>(65,076)</b>
INCOME BEFORE PROVISION FOR INCOME TAXES	441,311	539,442		565,605
PROVISION FOR INCOME TAXES	123,450	162,695		170,586
INCOME BEFORE MINORITY INTERESTS IN INCOME OF CONSOLIDATED SUBSIDIARIES	317,861	376,746		395,019
MINORITY INTERESTS IN INCOME OF CONSOLIDATED SUBSIDIARIES	1,488	4,669		4,895
NET INCOME	316,373	372,077	\$	390,123
EARNINGS PER SHARE:				
Basic	0.70	0.82	\$	0.86
Diluted	0.70	0.82	\$	0.86
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (thousands):				
Basic	451,037.0	453,174.0		
Diluted	453,965.5	455,353.5		

- (1) Except for earnings per share which are stated in Euro and U.S. dollars.
- (2) Translated at the Noon Buying Rate of Euro 1.00 = US \$1.0485 on December 31, 2002 (see Note 6).
- (3) Results for the year ended December 31, 2002 include the effect of the adoption of Statement of Financial Accounting Standards No. 142 (see Note 8). For a comparison between the two periods on a consolidated adjusted basis, see "Management Discussion and Analysis" section.

STATEMENT OF CONSOLIDATED SHAREHOLDERS' EQUITY US GAAP

FOR THE YEAR ENDED DECEMBER 31, 2002

	Common Stock		Additional Paid-in Capital	Retained Earnings	Comprehensive Income	Accumulated Other Comprehensive Income	Treasury Shares	Consolidated Shareholders' Equity
	Shares	Amount						
(Thousand of Euro)								
BALANCES, January 1, 2002	452,865,817	27,172	18,381	1,152,508		147,116	(2,334)	1,342,843
Exercise of stock options	1,397,783	84	9,483					9,567
Translation adjustment					(198,463)	(198,463)		(198,463)
Minimum pension liability, net of taxes					(26,569)	(26,569)		(26,569)
Purchases of treasury shares							(24,547)	(24,547)
Sales of treasury shares, net of taxes			6,935				2,334	9,269
Other					10,929	10,929		10,929
Dividends declared				(77,211)				(77,211)
Net income				372,077	372,077			372,077
Comprehensive income					157,974			
BALANCES, December 31, 2002	454,263,600	27,256	34,799	1,447,374		(66,987)	(24,547)	1,417,895
Comprehensive income					\$ 165,636			
(Thousand of US dollars)(1)								
BALANCES December 31, 2002	\$ 454,263,600	\$ 28,578	\$ 36,487	\$ 1,517,572		\$ (70,236)	\$ (25,737)	\$ 1,486,663
(Thousand of US dollars)(1)								

(1) Translated at the Noon Buying Rate of Euro 1.00 = US \$1.0485 on December 31, 2002 (see Note 6).

**STATEMENTS OF CONSOLIDATED CASH FLOWS US GAAP**

**FOR THE YEAR ENDED DECEMBER 31, 2001 AND 2002**

	2001	2002	2002
	(Thousand of Euro)		(Thousand of US dollars)(1)

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net income before minority interests	317,861	376,746	\$	395,019
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	211,906	145,980		153,060
Benefit for deferred income taxes	(15,983)	(7,785)		(8,163)
Losses (Gains) on disposal of fixed assets - net	1,764	(1,212)		(1,271)
Termination indemnities matured during the period	2,886	5,977		6,267
Changes in assets and liabilities:				
Accounts receivable	(56,021)	(17,522)		(18,371)
Prepaid expenses and other	8,012	51,924		54,442
Inventories	(29,200)	(58,573)		(61,414)
Accounts payable	(27,121)	8,926		9,359
Accrued expenses and other	29,508	6,188		6,488
Accrual for customers right of return	745	(3,147)		(3,300)
Income taxes payable	(8,310)	13,055		13,689
Total adjustments	118,186	143,811		150,786
Cash provided by operating activities	436,047	520,557	\$	545,804

(1) Translated at the Noon Buying Rate of Euro 1.00 = US \$1.0485 on December 31, 2002 (see Note 6).

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**STATEMENTS OF CONSOLIDATED CASH FLOWS - US GAAP****FOR THE YEAR ENDED DECEMBER 31, 2001 AND 2002**

	2001	2002	2002
	(Thousand of Euro)		(Thousand of US dollars)(1)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Property, plant and equipment:			
Additions	(123,475)	(173,330)	\$ (181,736)
Disposals	7,811	4,646	4,871
Increase (Decrease) in investments	(2,718)	(7,611)	(7,980)

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Acquisitions of business (net of cash acquired)	(568,981)	(27,428)	(28,758)
Increase (Decrease) in intangible assets	(23,714)	24,937	26,147
	<u>          </u>	<u>          </u>	<u>          </u>
Cash used in investing activities	(711,077)	(178,787)	(187,456)
	<u>          </u>	<u>          </u>	<u>          </u>

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Long term debt:

Proceeds	500,000	980,114	1,027,650
Repayments	(245,916)	(1,408,308)	(1,476,611)
(Investment in)/use of restricted cash deposit	44,610	201,106	210,860
Repayments of acquired Debt	(104,155)		
Sales of treasury shares and additional paid-in capital		6,935	7,271
Purchase of treasury shares		(24,547)	(25,738)
Exercise of stock options	11,465	9,567	10,031
Dividends paid	(63,326)	(77,211)	(80,955)
	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) financing activities	142,678	(312,343)	(327,493)
	<u>          </u>	<u>          </u>	<u>          </u>

EFFECT OF TRANSLATION ADJUSTMENTS

	(15,404)	(35,601)	(37,327)
	<u>          </u>	<u>          </u>	<u>          </u>

<b>INCREASE (DECREASE) IN CASH</b>	(147,756)	(6,172)	(6,472)
<b>CASH, BEGINNING OF THE PERIOD</b>	(66,718)	(211,991)	(222,272)
	<u>          </u>	<u>          </u>	<u>          </u>

EFFECT OF TRANSLATION ADJUSTMENTS ON CASH

	2,484	(2,147)	(2,251)
	<u>          </u>	<u>          </u>	<u>          </u>

<b>CASH, END OF THE PERIOD</b>	(211,990)	(220,310)	\$ (230,995)
	<u>          </u>	<u>          </u>	<u>          </u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Cash paid during the period for interest	91,174	58,162	\$ 60,982
Cash paid during the period for taxes	126,833	137,650	\$ 144,326
	<u>          </u>	<u>          </u>	<u>          </u>

(1) Translated at the Noon Buying Rate of Euro 1.00=US \$1.0485 on December 31, 2002 (see Note 6).

**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying consolidated balance sheet as of December 31, 2002 and the related statements of consolidated income and cash flows for the year ended December 31, 2001 and 2002 and the statement of consolidated shareholders' equity for the year ended December 31, 2002 have been prepared by Luxottica Group S.p.A. (the "Company") in accordance with accounting principles generally accepted in the United States of America. The consolidated balance sheet at December 31, 2002, the statements of consolidated income and cash flows for the year

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ended December 31, 2002, and the statement of consolidated shareholders' equity for the year ended December 31, 2002 are derived from financial statements for which the audit is currently pending. The audit of the financial statements as of and for the year ended December 31, 2002 included in this Report is not yet complete and, therefore, such financial statements are unaudited. Luxottica intends to file audited financial statements for 2002 in its Annual Report on Form 20-F. In the opinion of Management, all adjustments (which include only normal recurring adjustments) necessary to fairly present the financial position, results of operations and cash flows as of and for the years ended December 31, 2001 and 2002 have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States of America have been omitted. The consolidated financial statements as of and for the year ended December 31, 2002 should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2001.

### 2. ACQUISITION OF SUNGLASS HUT INTERNATIONAL

On February 20, 2001, the Company formed an indirect wholly-owned U.S. subsidiary, Shade Acquisition Corp., for the purpose of making a tender offer for all the outstanding common stock of Sunglass Hut International, Inc. ("SGHI" or "Sunglass Hut"), a publicly traded company on the NASDAQ National Market. The tender offer commenced on March 5, 2001 and was completed on March 30, 2001. On April 4, 2001, Shade Acquisition Corp. was merged with and into SGHI and SGHI became an indirect wholly-owned subsidiary of the Company. As such, the results of SGHI have been consolidated into the Company's consolidated financial statements as of the acquisition date. The acquisition was accounted for using the purchase method, and accordingly, the purchase price of Euro 558 million (including approximately Euro 33.9 million of acquisition-related expenses) was allocated to the assets acquired and liabilities assumed based on their fair value at the date of the acquisition. This included an independent valuation of the value of intangibles, including trade names. As a result of the final independent valuation, which was completed in March 2002, the aggregate balance of goodwill and other intangibles previously recorded at December 31, 2001 increased by approximately Euro 147 million. The excess of purchase price over net assets acquired has been recorded in the accompanying consolidated balance sheets.

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The purchase price and expenses have been allocated based upon the valuation of the Company's acquired assets and liabilities assumed as follows (thousands of Euro):

	Thousand of Euro
<b>Assets purchased:</b>	
Cash and cash equivalents	17,023
Inventories	90,034
Property, plant and equipment	113,212
Prepaid expenses and other current assets	14,717
Accounts receivable	2,161
Trade name	340,858
Other assets including deferred tax assets	34,657
<b>Liabilities assumed:</b>	
Accounts payable and accrued expenses	(101,020)
Other current liabilities	(52,200)
Deferred tax liabilities	(135,340)

differing regulatory requirements and changes in those requirements.

*We are subject to credit risk and may be subject to substantial write-offs if one or more of our significant customers default on their payment obligations to us.*



We currently allow our major customers between 30 and 90 days to pay for each sale. This practice, while customary, presents an accounts receivable write-off risk in that if one or more of our significant customers defaulted on their payment obligations to us, such write-off, if substantial, would have a material adverse effect on our business and results of operations.

***Our products can be hazardous if not handled, stored and used properly; litigation related to the handling, storage and safety of our products would have a material adverse effect on our business and results of operations.***

Some of our products are flammable and must be stored properly to avoid fire risk. Additionally, some of our products may cause irritation to a person's eyes if they are exposed to the concentrated product. Although we label our products to warn of such risks, our sales could be reduced if our products were considered dangerous to use or if they are implicated in causing personal injury or property damage. We are not currently aware of any circumstances in which our products have caused harm or property damage to consumers. Nevertheless, litigation regarding the handling, storage and safety of our products would have a material adverse effect on our business and results of operations.

***Our failure to comply with environmental regulations may create significant environmental liabilities and force us to modify our manufacturing processes.***

We are subject to various federal, state and local environmental laws, ordinances and regulations relating to the use, storage, handling and disposal of chemicals. Under such laws, we may become liable for the costs of removal or remediation of these substances that have been used by our consumers or in our operations. Such laws may impose liability without regard to whether we knew of, or caused, the release of such substances. Any failure by us to comply with present or future regulations could subject us to substantial fines, suspension of production, alteration of manufacturing processes or cessation of operations, any of which could have a material adverse effect on our business, financial condition and results of operations.

***Our failure to protect our intellectual property could impair our competitive position.***

While we own certain patents and trademarks, some aspects of our business cannot be protected by patents or trademarks. Accordingly, in these areas there are few legal barriers that prevent potential competitors from copying certain of our products, processes and technologies or from otherwise entering into operations in direct competition with us. In particular, we have been informed that our former exclusive agent for the sale of our products in North America is now competing with us in the swimming pool and personal spa markets. As a former distributor, they were given access to many of our sales, marketing and manufacturing techniques.



*Our products may infringe on the intellectual property rights of others, and resulting claims against us could be costly and prevent us from making or selling certain products.*

Third parties may seek to claim that our products and operations infringe on their patents or other intellectual property rights. We may incur significant expense in any legal proceedings to protect our proprietary rights or to defend infringement claims by third parties. In addition, claims of third parties against us could result in awards of substantial damages or court orders that could effectively prevent us from making, using or selling our products in the United States or abroad.

*A claim for damages could materially and adversely affect our financial condition and results of operations.*

Our business exposes us to potential product liability risks. There are many factors beyond our control that could lead to liability claims, including the failure of our products to work properly and the chance that consumers will use our products incorrectly or for purposes for which they were not intended. There can be no assurance that the amount of product liability insurance that we carry will be sufficient to protect us from product liability claims. A product liability claim in excess of the amount of insurance we carry could have a material adverse effect on our business, financial condition and results of operations.

*Our ongoing success is dependent upon the continued availability of certain key employees.*

Our business would be adversely affected if the services of Daniel B. O'Brien ceased to be available to us since we currently do not have any other employee with an equivalent level of expertise in and knowledge of our industry. If Mr. O'Brien no longer served as our President and Chief Executive Officer, we would have to recruit one or more new executives, with no real assurance that we would be able to engage a replacement executive with the required skills on satisfactory terms. The market for skilled employees is highly competitive, especially for employees in the fields in which we operate. While our compensation programs are intended to attract and retain qualified employees, there can be no assurance that we will be able to retain the services of all our key employees or a sufficient number to execute our plans, nor can there be any assurances that we will be able to continue to attract new employees as required.

**Item 1B. Unresolved Staff Comments.**

Not applicable.

**Item 2. Properties.**

We lease a 6,400 sq. ft. facility in Naperville, Illinois which we use for offices and laboratories at a cost of \$5,440 per month with a lease effective to December 2020 and 30,600 sq. ft. of warehouse space in Peru, IL used for storage and extra capacity at a cost of \$10,270 per month with a lease effective to October 2021. We own a 56,780 sq. ft. facility in Peru, Illinois which is used to manufacture our TPA line of products. In 2017, we purchased a 3,000 sq ft building on 1 acre of land in Taber, AB Canada. We also own 3.3 acres of cleared and undeveloped land in Taber, AB.

**Item 3. Legal Proceedings.**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchase of Equity Securities.**

Our common stock is traded on the NYSE American under the symbol "FSI". The following is the range of high and low closing prices for our common stock for the periods indicated:

	High	Low
Year Ended December 31, 2017		
First Quarter	\$1.63	\$1.29
Second Quarter	2.48	1.46
Third Quarter	1.93	1.64
Fourth Quarter	1.97	1.68

	High	Low
Year Ended December 31, 2016		
First Quarter	\$1.10	\$0.75
Second Quarter	1.81	0.84
Third Quarter	2.41	1.33
Fourth Quarter	2.26	1.20

As of March 30, 2017 we had approximately 2,200 shareholders.

Our common stock also trades on the Frankfurt stock exchange under the symbol “FXT.”

We have not paid any dividends on our common stock and it is not anticipated that any dividends will be paid in the foreseeable future. Our board of directors intends to follow a policy of retaining earnings, if any, to finance our growth. The declaration and payment of dividends in the future will be determined by our directors in light of conditions then existing, including our earnings, financial condition, capital requirements and other factors.

None of our officers or directors, nor any of our principal shareholders purchased, on our behalf, any shares of our common stock from third parties either in a private transaction or as a result of purchases in the open market during the years ended December 31, 2016 and 2017.

As of March 30, 2018 we had 11,630,991 outstanding shares of common stock. The following table lists additional shares of our common stock, including shares issuable upon the exercise of options which have not yet vested, which may be issued as of March 30, 2018:

	Number Of Shares	Note Reference
Shares issuable upon exercise of options granted to our officers, directors, employees, consultants, and third parties	680,000	A

A. Options are exercisable at prices ranging from \$0.75 to \$1.70 per share. See Item 11 of this report for more information concerning these options.

**Item 6. Selected Financial Data.**

Not applicable.

**Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operation.**

**Results of Operations**

We have two product lines.

The first is a chemical (“EWCP”) used in swimming pools and spas. The product forms a thin, transparent layer on the water’s surface. The transparent layer slows the evaporation of water, allowing the water to retain a higher temperature for a longer period of time thereby reducing the energy required to maintain the desired temperature of the water. A modified version of EWCP can also be used in reservoirs, potable water storage tanks, livestock watering pods, canals, and irrigation ditches for the purpose of reducing evaporation.

The second product, biodegradable polymers (“TPAs”), is used by the petroleum, chemical, utility and mining industries to prevent corrosion and scaling in water piping. TPAs can also be used to increase biodegradability in detergents and in the agriculture industry to increase crop yields by enhancing fertilizer uptake.

Material changes in the line items in our Statement of Operations for the year ended December 31, 2017 as compared to the same period last year, are discussed below:

Item	Increase (I) or Decrease (D)	Reason
------	---------------------------------------	--------

Sales		
EWCP products	D	Loss of Taber, AB manufacturing facility to fire.
TPA products	D	Lower uptake by customers.
Gross Profit, as a % of sales	D	Temporary increase in costs after loss of the EWCP manufacturing plant to fire along with increased aspartic acid costs.
Wages	I	Increased wages to retain employees.
Administrative salaries and benefits	I	Increased wages to retain employees.
Rent	I	Additional storage and capacity space for BCPS products.
Professional fess	I	Increased legal fees related to IP and general legal representation along with increased accounting costs.
Gain on involuntary disposition	I	Result of fire at Taber, AB manufacturing facility.



The factors that will most significantly affect future operating results will be:

the sale price of crude oil which is used in the manufacture of aspartic acid we import from China. Aspartic acid is a key ingredient in our TPA product;

activity in the oil and gas industry, as we sell our TPA product to oil and gas companies; and

drought conditions, since we also sell our TPA product to farmers.

Other than the foregoing we do not know of any trends, events or uncertainties that have had, or are reasonably expected to have, a material impact on our revenues or expenses.

### Capital Resources and Liquidity

Our sources and (uses) of cash for the years ended December 31, 2017 and 2016 are shown below:

	2017	2016
Cash provided by (used by) operations	1,042,425	1,775,226
Long term deposits	7,980	(15,925 )
Return on investment	25,000	(87,500 )
Insurance proceeds from fire loss	3,366,889	-
Sales (purchases) of equipment	(426,480 )	(114,270 )
Advances from (repayments of) short term line of credit	-	50,000
Repayment of loans	(201,193 )	(201,193 )
Repurchase of common stock	-	(1,575,000)
Proceeds from issuance of common stock	156,020	32,600
Changes in exchange rates	471,431	107,390

We have sufficient cash resources to meets our future commitments and cash flow requirements for the coming year. As of December 31, 2017, our working capital was \$11,259,028 and we have no substantial commitments that require significant outlays of cash over the coming fiscal year.

We are committed to minimum rental payments for property and premises aggregating approximately \$735,670 over the term of three leases, the last expiring on October 31, 2021.

Commitments for rent in the next four years are as follows:

2018	\$201,840
2019	\$205,580
2020	\$209,400
2021	\$118,850

Other than as disclosed above, we do not anticipate any material capital requirements for the twelve months ending December 31, 2018.

Other than as disclosed in Item 7 of this report, we do not know of any trends, demands, commitments, events or uncertainties that will result in, or that are reasonable likely to result in, our liquidity increasing or decreasing in any material way.

Other than as disclosed in Item 7 of this report, we do not know of any significant changes in our expected sources and uses of cash.

We do not have any commitments or arrangements from any person to provide us with any equity capital.

See Note 2 to the consolidated financial statements included as part of this report for a description of our significant accounting policies.

## **Critical Accounting Policies And Estimates**

*Allowances for Product Returns.* We grant certain of our customers the right to return product which they are unable to sell. Upon sale, we evaluate the need to record a provision for product returns based on our historical experience, economic trends and changes in customer demand.

*Allowances for Doubtful Accounts Receivable.* We evaluate our accounts receivable to determine if they will ultimately be collected. This evaluation includes significant judgments and estimates, including an analysis of receivables aging and a review of large accounts. If, for example, the financial condition of a customer deteriorates resulting in an impairment of its ability to pay or a pattern of late payment develops, an allowance may be required.

*Provisions for Inventory Obsolescence.* We may need to record a provision for estimated obsolescence and shrinkage of inventory. Our estimates would consider the cost of inventory, the estimated market value, the shelf life of the inventory and our historical experience. If there are changes to these estimates, provisions for inventory obsolescence may be necessary.

## **Recent Accounting Pronouncements**

We have evaluated recent accounting pronouncements issued since January 1, 2017 and determined that the adoption of these recent accounting pronouncements will not have a material effect on our financial statements.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

**Item 8. Financial Statements and Supplementary Data.**

FLEXIBLE SOLUTIONS INTERNATIONAL, INC. AND SUBSIDIARIES INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and  
Stockholders of Flexible Solutions International, Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying balance sheets of Flexible Solutions International Inc. (the Company) as of December 30, 2017 and 2016, and the related statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2017, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2009.

Vancouver, BC

March 31, 2017

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**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.****Consolidated Balance Sheets****As at December 31****(U.S. Dollars)**

	2017	2016
Assets		
Current		
Cash and cash equivalents	\$6,912,138	\$2,470,066
Accounts receivable (see Note 3)	2,105,471	3,008,153
Inventories (see Note 4)	4,686,852	3,786,093
Prepaid expenses	255,080	228,699
Total current assets	13,959,541	9,493,011
Property, equipment and leaseholds, net (see Note 5)	1,938,509	3,393,944
Patents (see Note 6)	79,452	95,890
Long term deposits (see Note 7)	18,531	26,163
Investment (Note 8)	13,414	122,480
Deferred tax asset (Note 11)	1,763,923	2,026,999
Total Assets	\$17,773,370	\$15,158,487
Liabilities		
Current		
Accounts payable and accrued liabilities	\$939,116	\$902,037
Deferred revenue	208,608	95,308
Income taxes payable	1,101,596	893,867
Short term line of credit (Note 9)	250,000	250,000
Current portion of long term debt (Note 10)	201,193	201,193
Total current liabilities	2,700,513	2,342,405
Long term debt (Note 10)	150,896	352,089
Total liabilities	2,851,409	2,694,494
Stockholders' Equity		
Capital stock (see Note 14)		
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:		

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11,597,991 (2016: 11,457,991) common shares	11,598	11,458
Capital in excess of par value	15,114,835	14,842,863
Other comprehensive loss	(656,093 )	(1,087,208 )
Accumulated earnings (deficit)	451,621	(1,303,120 )
Total Stockholders' Equity	14,921,961	12,463,993
Total Liabilities and Stockholders' Equity	\$17,773,370	\$15,158,487

**Commitments and Subsequent events**

**(See Notes 16 and 17)**

See Notes to Consolidated Financial Statements.

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**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.****Consolidated Statements of Income and Comprehensive Income****For the Years Ended December 31****(U.S. Dollars)**

	2017	2016
Sales	\$15,494,325	\$16,246,014
Cost of sales	9,508,827	9,256,526
Gross profit	5,985,498	6,989,488
Operating Expenses		
Wages	1,647,780	1,528,031
Administrative salaries and benefits	1,007,850	838,837
Advertising and promotion	18,257	21,199
Investor relations and transfer agent fee	152,362	131,037
Office and miscellaneous	238,195	269,800
Insurance	285,418	301,856
Interest expense	44,125	41,699
Rent	241,286	117,715
Consulting	133,949	119,198
Professional fees	222,743	184,931
Travel	137,392	140,340
Telecommunications	26,071	24,363
Shipping	19,624	16,338
Research	98,928	95,098
Commissions	112,678	66,839
Bad debt expense	1,191	-
Currency exchange	64,870	(10,602 )
Utilities	21,339	17,495
Total operating expenses	4,474,058	3,904,174
Operating income	1,511,440	3,085,314
Gain on sale of equipment	-	6,848
Gain on involuntary disposition (net of tax)	2,043,614	-
Write down of inventory	(51,346 )	-
Loss on investment	(84,066 )	(15,086 )
Interest income	913	2,184
Income before income tax	3,420,555	3,079,260
Income taxes (Note 11)		

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Deferred income (expense) tax recovery	(985,495 )	(303,793 )
Income tax recovery (expense)	(680,319 )	(982,133 )
Net income for the year	\$1,754,741	\$1,793,334
Other comprehensive income	431,115	118,590
Comprehensive income	2,185,856	1,911,924
Income per share (basic) (Note 12)	\$0.15	\$0.16
Income per share (diluted) (Note 12)	\$0.15	\$0.15
Weighted average number of common shares (basic)	11,485,580	11,464,270
Weighted average number of common shares (diluted)	11,725,482	11,635,136

See Notes to Consolidated Financial Statements.

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**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.****Consolidated Statements of Cash Flows****For Years Ended December 31****(U.S. Dollars)**

	2017	2016
Operating activities		
Net income	\$1,754,741	\$1,793,334
Adjustments to reconcile net income to net cash:		
Stock based compensation	116,092	66,318
Depreciation and amortization	286,616	540,079
Loss on investment	84,066	15,086
Decrease in deferred tax asset	985,495	303,793
Write down of inventory	(51,346 )	-
Gain on involuntary disposition	(2,043,614)	-
Changes in non-cash working capital items:		
(Increase) Decrease in accounts receivable	912,056	(1,199,267)
(Increase) Decrease in inventories	(887,339 )	(506,278 )
(Increase) Decrease in prepaid expenses	(23,758 )	15,793
Increase (Decrease) in accounts payable and accrued liabilities	(407,555 )	90,111
Increase (Decrease) in taxes payable	207,729	600,629
Increase (Decrease) deferred revenue	109,242	55,628
Cash provided by operating activities	1,042,425	1,775,226
Investing activities		
Long term deposits	7,980	(15,925 )
Investment	25,000	(87,500 )
Proceed from insurance	3,366,889	-
Net purchase of property, equipment and leaseholds	(426,480 )	(114,270 )
Cash used in investing activities	2,973,389	(217,695 )
Financing activities		
Draw from short term line of credit	-	50,000
Loan repayment	(201,193 )	(201,193 )
Repurchase of common stock	-	(1,575,000)
Proceeds of issuance of common stock	156,020	32,600
Cash used in financing activities	(45,173 )	(1,693,593)

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Effect of exchange rate changes on cash	471,431	107,390
Inflow (outflow) of cash	4,442,072	(28,672 )
Cash and cash equivalents, beginning	2,470,066	2,498,738
Cash and cash equivalents, ending	\$6,912,138	\$2,470,066
Supplemental disclosure of cash flow information:		
Income taxes paid	833,766	452,654
Interest paid	43,003	41,699

See Notes to Consolidated Financial Statements.

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**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.****Consolidated Statements of Stockholders' Equity****For the Years Ended December 31, 2017 and 2016****(U.S. Dollars)**

	Shares	Par Value	Capital in Excess of Par Value	Accumulated Earnings (Deficiency)	Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance December 31, 2015	13,177,991	\$13,178	\$16,317,225	\$(3,096,454)	\$(1,205,798)	\$12,028,151
Translation adjustment	—	—	—	—	118,590	118,590
Net income	—	—	—	1,793,334	—	1,793,334
Comprehensive income	—	—	—	—	—	1,911,924
Common stock cancelled	(1,750,000)	(1,750)	(1,573,250)	—	—	(1,575,000)
Common stock issued	30,000	30	32,570	—	—	32,600
Stock-based compensation	—	—	66,318	—	—	66,318
Balance December 31, 2016	11,457,991	\$11,458	\$14,842,863	\$(1,303,120)	\$(1,087,208)	\$12,463,993
Translation adjustment	—	—	—	—	431,115	431,115
Net income	—	—	—	1,754,741	—	1,754,741
Comprehensive income	—	—	—	—	—	2,185,856
Common stock issued	140,000	140	155,880	—	—	156,020
Stock-based compensation	—	—	116,092	—	—	116,092
Balance December 31, 2017	11,597,991	\$11,598	\$15,114,835	\$451,621	\$(656,093)	\$14,921,961

See Notes to Consolidated Financial Statements.

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**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2017 and 2016**

(U.S. Dollars)

**1. Basis of Presentation.**

These consolidated financial statements include the accounts of Flexible Solutions International, Inc. (the “Company”), and its wholly-owned subsidiaries Flexible Fermentation Ltd. (“Flexible Ltd.”), NanoChem Solutions Inc. (“NanoChem”), Flexible Solutions Ltd., Flexible Biomass LP, FS Biomass Inc., NCS Deferred Corp., Conserve H2O Ltd. and Natural Chem SEZC Ltd. All inter-company balances and transactions have been eliminated. The Company was incorporated May 12, 1998 in the State of Nevada and had no operations until June 30, 1998.

Flexible Solutions International, Inc. and its subsidiaries develop, manufacture and market specialty chemicals which slow the evaporation of water. One product, HEATSAVR®, is marketed for use in swimming pools and spas where its use, by slowing the evaporation of water, allows the water to retain a higher temperature for a longer period of time and thereby reduces the energy required to maintain the desired temperature of the water in the pool. Another product, WATERSAVR®, is marketed for water conservation in irrigation canals, aquaculture, and reservoirs where its use slows water loss due to evaporation. In addition to the water conservation products, the Company also manufactures and markets water-soluble chemicals utilizing thermal polyaspartate biopolymers (hereinafter referred to as “TPAs”), which are beta-proteins manufactured from the common biological amino acid, L-aspartic. TPAs can be formulated to prevent corrosion and scaling in water piping within the petroleum, chemical, utility and mining industries. TPAs are also used as proteins to enhance fertilizers in improving crop yields and can be used as additives for household laundry detergents, consumer care products and pesticides.

**2. Significant Accounting Policies.**

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States applicable to a going concern and reflect the policies outlined below.

(a) *Cash and Cash Equivalents.*

The Company considers all highly liquid investments purchased with an original or remaining maturity of less than three months at the date of purchase to be cash equivalents. Cash and cash equivalents are maintained with several financial institutions.

(b) *Inventories and Cost of Sales*

The Company has three major classes of inventory: completed goods, work in progress and raw materials and supplies. In all classes, inventories are stated at the lower of cost and net realizable value for 2017 and at the lower of cost or market for 2016. Cost is determined on a first-in, first-out basis. Cost of sales includes all expenditures incurred in bringing the goods to the point of sale. Inventory costs and costs of sales include direct costs of the raw material, inbound freight charges, warehousing costs, handling costs (receiving and purchasing) and utilities and overhead expenses related to the Company's manufacturing and processing facilities.

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(c) *Allowance for Doubtful Accounts*

The Company provides an allowance for doubtful accounts when management estimates collectability to be uncertain. Accounts receivable are continually reviewed to determine which, if any, accounts are doubtful of collection. In making the determination of the appropriate allowance amount, the Company considers current economic and industry conditions, relationships with each significant customer, overall customer credit-worthiness and historical experience.

(d) *Property, Equipment, Leaseholds and Intangible Assets.*

The following assets are recorded at cost and depreciated using the methods and annual rates shown below:

Computer hardware	30% Declining balance
Furniture and fixtures	20% Declining balance
Manufacturing equipment	20% Declining balance
Office equipment	20% Declining balance
Boat	20% Declining balance
Building and improvements	10% Declining balance
Trailer	30% Declining balance
Patents	Straight-line over 17 years
Technology	Straight-line over 10 years
Leasehold improvements	Straight-line over lease term

Property and equipment are written down to net realizable value when management determines there has been a change in circumstances which indicates their carrying amounts may not be recoverable. No write-downs have been necessary to date.

(e) *Impairment of Long-Lived Assets.*

In accordance with FASB Codification Topic 360, "Property, Plant and Equipment (ASC 360), the Company reviews long-lived assets, including, but not limited to, property, equipment and leaseholds, patents and other assets, for impairment annually or whenever events or changes in circumstances indicate the carrying amounts of assets may not be recoverable. The carrying value of long-lived assets is assessed for impairment by evaluating operating performance and future undiscounted cash flows of the underlying assets. If the expected future cash flows of an asset is less than its carrying value, an impairment measurement is indicated. Impairment charges are recorded to the extent that an asset's carrying value exceeds its fair value. Accordingly, actual results could vary significantly from such

estimates. There were no impairment charges during the periods presented.

(f) *Foreign Currency.*

The functional currency of three of the Company's subsidiaries is the Canadian Dollar. The translation of the Canadian Dollar to the reporting currency of the Company, the U.S. Dollar is performed for assets and liabilities using exchange rates in effect at the balance sheet date. Revenue and expense transactions are translated using average exchange rates prevailing during the year. Translation adjustments arising on conversion of the Company's financial statements from the subsidiary's functional currency, Canadian Dollars, into the reporting currency, U.S. Dollars, are excluded from the determination of income (loss) and are disclosed as other comprehensive income in the consolidated statements of income and comprehensive income.

Foreign exchange gains and losses relating to transactions not denominated in the applicable local currency are included in operating income (loss) if realized during the year and in comprehensive income (loss) if they remain unrealized at the end of the year.

(g) *Revenue Recognition.*

Revenue from product sales is recognized at the time the product is shipped since title and risk of loss is transferred to the purchaser upon delivery to the carrier. Shipments are made F.O.B. shipping point. The Company recognizes revenue when there is persuasive evidence of an arrangement, delivery to the carrier has occurred, the fee is fixed or determinable, collectability is reasonably assured and there are no significant remaining performance obligations. When significant post-delivery obligations exist, revenue is deferred until such obligations are fulfilled. To date, there have been no such significant post-delivery obligations.

Since the Company's inception, product returns have been insignificant; therefore, no provision has been established for estimated product returns.

Deferred revenues consist of products sold to distributors with payment terms greater than the Company's customary business terms due to lack of credit history or operating in a new market in which the Company has no prior experience. The Company defers the recognition of revenue until the criteria for revenue recognition has been met, and payments become due or cash is received from these distributors.

(h) *Stock Issued in Exchange for Services.*

The Company's common stock issued in exchange for services is valued at estimated fair market value based upon trading prices of the Company's common stock on the dates of the stock transactions. The corresponding expense of the services rendered is recognized over the period that the services are performed.

(i) *Stock-based Compensation.*

The Company recognizes compensation expense for all share-based payments in accordance with FASB Codification Topic 718, *Compensation — Stock Compensation*, (ASC 718). Under the fair value recognition provisions of ASC 718, the Company recognizes share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award.

The fair value at grant date of stock options is estimated using the Black-Scholes option-pricing model. Compensation expense is recognized on a straight-line basis over the stock option vesting period based on the estimated number of stock options that are expected to vest. Shares are issued from treasury upon exercise of stock options.

(j) *Comprehensive Income.*

Other comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income, but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders' equity. The Company's other comprehensive income is primarily comprised of unrealized foreign exchange gains and losses.

(k) *Income Per Share.*

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding in the period. Diluted earnings per share are calculated giving effect to the potential dilution of the exercise of options and warrants. Common equivalent shares, composed of incremental common shares issuable upon the exercise of stock options and warrants are included in diluted net income per share to the extent that these shares are dilutive. Common equivalent shares that have an anti-dilutive effect on net income per share have been excluded from the calculation of diluted weighted average shares outstanding for the years ended December 31, 2017 and 2016.

(l) *Use of Estimates.*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact the results of operations and cash flows.

Estimates and underlying assumptions are reviewed at each period end. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates include assumptions and estimates relating to the asset impairment analysis, share-based payments and warrants, valuation allowances for deferred income tax assets, determination of useful lives of property, equipment and leaseholds, and the valuation of inventory.

(m) *Financial Instruments.*

The fair market value of the Company's financial instruments comprising cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and short term line of credit were estimated to approximate their carrying values due to immediate or short-term maturity of these financial instruments.

(n) *Fair Value of Financial Instruments*

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs described below, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

Level 1 – Quoted prices in active markets for identical assets or liabilities

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Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that are supported by little or no market activity which is significant to the fair value of the assets or liabilities.

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and the short term line of credit for all periods presented approximate their respective carrying amounts due to the short term nature of these financial instruments

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(o) *Contingencies*

Certain conditions may exist as of the date the financial statements are issued which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. Legal fees associated with loss contingencies are expensed as incurred.

(p) *Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance so that the assets are recognized only to the extent that when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized.

Per FASB ASC 740 "Income taxes" under the liability method, it is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At December 31, 2017, the Company believes it has appropriately accounted for any unrecognized tax benefits. To the extent the Company prevails in matters for

which a liability for an unrecognized benefit is established or is required to pay amounts in excess of the liability, the Company's effective tax rate in a given financial statement period may be affected. Interest and penalties associated with the Company's tax positions are recorded as interest expense in the consolidated statements of income and comprehensive income.

(q) *Risk Management.*

The Company's credit risk is primarily attributable to its accounts receivable. The amounts presented in the accompanying consolidated balance sheets are net of allowances for doubtful accounts, estimated by the Company's management based on prior experience and the current economic environment. The Company is exposed to credit-related losses in the event of non-payment by customers. Credit exposure is minimized by dealing with only credit worthy counterparties. Accounts receivable for the Company's two primary customers totaled \$1,247,374 (65%) at December 31, 2017 (December 31, 2016 - \$2,032,646 or 67%).

The credit risk on cash and cash equivalents is limited because the Company limits its exposure to credit loss by placing its cash and cash equivalents with major financial institutions. The Company maintains cash balances at financial institutions which at times exceed federally insured amounts. The Company has not experienced any material losses in such accounts.

The Company is exposed to foreign exchange and interest rate risk to the extent that market value rate fluctuations materially differ from financial assets and liabilities, subject to fixed long-term rates.

In order to manage its exposure to foreign exchange risks, the Company is closely monitoring the fluctuations in the foreign currency exchange rates and the impact on the value of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. The Company has not hedged its exposure to currency fluctuations.

(r) *Equity Method Investment*

The Company accounts for investments using the equity method of accounting if the investment provides the Company the ability to exercise significant influence, but not control, over the investee. Significant influence is generally deemed to exist if the Company's ownership interest in the voting stock of the investee ranges between 20% and 50%, although other factors, such as representation on the investee's board of directors, are considered in determining whether the equity method of accounting is appropriate. Under the equity method of accounting, the investment is recorded at cost in the consolidated balance sheets under other assets and adjusted for dividends received and the Company's share of the investee's earnings or losses together with other-than-temporary impairments which are recorded through interest and other loss, net in the consolidated statements of income and comprehensive income.

(s) *Adoption of new accounting principles*

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. The standard will require inventory to be measured at the lower of cost or net realizable value. The guidance will not apply to inventories for which cost is determined using the last-in, first-out method or the retail inventory method. The standard is effective for annual and interim reporting periods beginning after December 15, 2016. Adoption of this standard had no material effect on our consolidated financial statements.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). This standard was issued as part of the FASB's Simplification Initiative that involve several aspects of the accounting for share based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. For public business entities, ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The method of adoption is dependent on the specific aspect of accounting addressed in this new guidance. Early adoption is permitted in any interim or annual period. Adoption of this standard had no material effect on our consolidated



financial statements.

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(t) *Accounting Pronouncements Not Yet Adopted*

In February 2016, the FASB issued ASU 2016-02, Leases. The standard will require lessees to recognize most leases on their balance sheet and makes selected changes to lessor accounting. The standard is effective for annual and interim reporting periods beginning after December 15, 2018. A modified retrospective transition approach is required, with certain practical expedients available. We are currently evaluating the impact the adoption of this standard will have on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which has been updated through several revisions and clarifications since its original issuance. The standard will require revenue recognized to represent the transfer of promised goods or services to customers at an amount that reflects the consideration which a company expects to receive in exchange for those goods or services. The standard also requires new, expanded disclosures regarding revenue recognition. The standard will be effective January 1, 2018 with early adoption permissible beginning January 1, 2017. We do not expect this to have a material impact on our consolidated financial statements.

**3. Accounts Receivable**

	2017	2016
Accounts receivable	\$2,145,803	\$3,044,652
Allowances for doubtful accounts	(40,332 )	(36,499 )
	\$2,105,471	\$3,008,153

**4. Inventories**

	2017	2016
Completed goods	\$2,530,914	\$1,646,465
Work in progress	183,944	2,572
Raw materials and supplies	1,971,994	2,137,056
	\$4,686,852	\$3,786,093

In February 2017, the Company lost \$367,331CAD (\$277,482USD) in inventory in a fire at the Taber, AB location. Insurance was in place. See Note 5.

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## 5. Property, Equipment and Leaseholds

	2017 Cost	Accumulated Depreciation	2017 Net
Buildings and improvements	\$3,400,792	\$2,409,179	\$991,613
Computer hardware	40,904	39,398	1,506
Furniture and fixtures	17,673	11,156	6,517
Office equipment	1,480	148	1,332
Manufacturing equipment	2,590,158	2,104,137	486,021
Trailer	9,562	1,434	8,128
Boat	34,400	14,586	19,814
Leasehold improvements	85,432	32,506	52,926
Technology	101,748	101,748	—
Land	370,652	—	370,652
	\$6,652,801	\$4,714,292	\$1,938,509

	2016 Cost	Accumulated Depreciation	2016 Net
Buildings and improvements	\$4,762,094	\$2,967,370	\$1,794,724
Computer hardware	89,480	85,784	3,696
Furniture and fixtures	32,439	23,142	9,297
Office equipment	17,745	16,788	957
Manufacturing equipment	5,236,404	4,102,635	1,133,769
Trailer	12,859	12,250	609
Boat	34,400	9,632	24,768
Leasehold improvements	85,432	15,419	70,013
Technology	101,748	101,748	—
Land	356,111	—	356,111
	\$10,728,712	\$7,334,768	\$3,393,944

Amount of depreciation expense for 2017: \$270,178 (2016: \$524,463) and is included in cost of sales in the consolidated statements of income and comprehensive income.

In February 2017, the Company lost a net carrying value total of \$2,196,722CAD (\$1,659,404USD) in building and manufacturing equipment in a fire at the Taber, AB location. Insurance was in place. During the year ended December 31, 2017, the Company was approved for interim insurance proceeds of \$5,570,000CAD (\$4,207,578USD).

**6. Patents**

	2017	Accumulated Amortization	2017
	Cost		Net
Patents	\$212,426	\$ 132,974	\$79,452

	2016	Accumulated Amortization	2016
	Cost		Net
Patents	\$197,448	\$ 101,558	\$95,890

Increase in 2017 cost was due to currency conversion. 2017 cost in Canadian dollars - \$265,102 (2016 - \$265,102 in Canadian dollars).

Amount of amortization for 2017: \$16,438 (2016: \$15,616) and is included in cost of sales in the consolidated statements of income and comprehensive income (loss).

Estimated amortization expense over the next five years is as follows:

2018	\$16,438
2019	16,438
2020	16,438
2021	16,438
2022	16,438

**7. Long Term Deposits**

The Company has security deposits that are long term in nature which consist of damage deposits held by landlords and security deposits held by various vendors.

	2017	2016
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Long term deposits	\$18,531	\$26,163
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## 8. Equity Method Investment

The Company has a 42% ownership interest in ENP Peru Investments LLC (“ENP Peru”), which the Company acquired in fiscal 2016. ENP Peru is located in Illinois and leases warehouse space. The Company accounts for this investment using the equity method of accounting. A summary of the Company’s investment is as follows:

January 1, 2016 Balance	-
Capital contributions	\$150,066
Return of equity	(12,500 )
Loss in equity method investment	(15,086 )
December 31, 2016 Balance	\$122,480
Return of equity	(25,000 )
Loss on equity method investment	(84,066 )
December 31, 2017 Balance	13,414

## 9. Short-Term Line of Credit

In May 2017, the Company signed a new agreement with Harris Bank (“the Bank”) to renew the expiring credit line. The revolving line of credit is for an aggregate amount of up to the lesser of (i) \$3,000,000, or (ii) 75% of eligible domestic accounts receivable and certain foreign accounts receivable plus 40% of inventory. The loan has an annual interest rate of 5%. (2016 – 4%) and is up for renewal on June 30, 2018.

The Revolving Line of Credit contains customary affirmative and negative covenants, including the following: compliance with laws, provision of financial statements and periodic reports, payment of taxes, maintenance of inventory and insurance, maintenance of operating accounts at the Bank, the Bank’s access to collateral, formation or acquisition of subsidiaries, incurrence of indebtedness, dispositions of assets, granting liens, changes in business, ownership or business locations, engaging in mergers and acquisitions, making investments or distributions and affiliate transactions. The covenants also require that the Company maintain a minimum ratio of qualifying financial assets to the sum of qualifying financial obligations. As of December 31, 2017, Company was in compliance with all loan covenants.

To secure the repayment of any amounts borrowed under the Revolving Line of Credit, the Company granted the Bank a security interest in substantially all of the assets of NanoChem Solutions Inc., exclusive of intellectual property assets.

Short-term borrowings outstanding under the Revolving Line as of December 31, 2017 were \$250,000 (December 31, 2016 - \$250,000).

## 10. Long Term Debt

In September 2014, NanoChem Solutions Inc. signed a \$1,005,967 promissory note with Harris Bank with a rate of prime plus 0.5% (2017 – 5%) to be repaid over 5 years with equal monthly installments plus interest. This money was used to retire the previously issued and outstanding debt obligations. The balance owing at December 31, 2017 was \$352,089 (December 31, 2016 - \$553,282). The final payment will be made in September 2019.

The Company has committed to the following repayments:

2018	\$201,193
2019	\$150,896

As of December 31, 2017, Company was in compliance with all loan covenants.

	December 31, 2017	December 31, 2016
Continuity		
Balance, beginning of year	\$553,282	\$754,475
Less: Payments on loan	201,193	201,193
Balance, end of year	\$352,089	\$553,282
Less: current portion	(201,193)	(201,193)
Long term balance	\$150,896	\$352,089

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**11. Income Tax**

The provision for income tax expense (benefit) is comprised of the following:

	2017	2016
Current tax, federal	\$547,486	\$787,539
Current tax, state	132,833	194,594
Current tax, foreign	-	-
Current tax, total	680,319	982,133
Deferred income tax, federal	(11,069 )	41,343
Deferred income tax, state	(2,686 )	10,215
Deferred income tax, foreign	385,639	252,235
Deferred income tax, total	371,884	303,793
Total	\$1,052,203	\$3,191,056

The following table reconciles the income tax benefit at the U.S. Federal statutory rate to income tax benefit at the Company's effective tax rates.

	2017	2016
Income (loss) before tax, net of tax from gain on involuntary disposition	3,420,556	3,079,260
Tax from gain on involuntary disposition	(613,611 )	-
Income (loss) before taxes	2,806,945	3,079,260
US statutory tax rates	39.69 %	39.12 %
Expected income tax (recovery)	1,114,147	1,207,840
Non-deductible items	520,665	(139,975 )
Change in estimates	(91,632 )	228,495
Change in enacted tax rate	189,626	4,437
Option expired during the year	21,640	8,418
Foreign tax rate difference	(662,381 )	(46,498 )
Change in valuation allowance	(39,863 )	22,878
Total income taxes (recovery)	1,052,203	1,285,595
Current income tax expenses (recovery)	680,318	982,133
Deferred tax expenses (recovery)	371,884	303,792
Total income taxes (recovery)	1,052,203	1,285,925

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax assets (liabilities) at December 31, 2017 and 2016 are comprised of the following:

Canada	2017	2016
Non capital loss carryforwards	1,378,242	830,476
Patents	69,597	45,351
Fixed assets	-	848,843
Financial instruments	-	-
	1,447,839	1,724,670
Valuation Allowance	-	-
Net Deferred tax asset (liability)	1,447,839	1,724,670

USA	2017	2016
Fixed Assets	351,746	322,634
Stock-Based Compensation	154,023	209,242
	505,768	531,876
Deferred tax asset not recognized	189,684	229,547
Net Deferred tax asset	316,084	302,329

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The Company has non-operating loss carryforwards of approximately \$5,097,682 (2016 - \$3,075,838) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

Expiry	Loss
2029	710,778
2030	862,371
2031	992,967
2032	649,299
2033	77,587
2037	1,804,680
Total	5,097,682

As at December 31, 2017, the Company has no net operating losses carryforward available for US tax purposes.

#### Accounting for Uncertainty for Income Tax

Effective January 1, 2009, the Company adopted the interpretation for accounting for uncertainty in income taxes which was an interpretation of the accounting standard accounting for income taxes. This interpretation created a single model to address accounting for uncertainty in tax positions. This interpretation clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements.

As at December 31, 2017 and 2016, the Company's consolidated balance sheets did not reflect a liability for uncertain tax positions, nor any accrued penalties or interest associated with income tax uncertainties. The Company has no income tax examinations in progress.

**12. Income Per Share**

We present both basic and diluted income per share on the face of our consolidated statements of income. Basic and diluted income per share are calculated as follows:

	2017	2016
Net income (loss)	\$1,754,741	\$1,793,334
Weighted average common shares outstanding:		
Basic	11,485,580	11,464,270
Diluted	11,725,482	11,635,136
Net income (loss) per common share:		
Basic	\$0.15	\$0.16
Diluted	\$0.15	\$0.15

Certain stock options whose terms and conditions are described in Note 13, "Stock Options" could potentially dilute basic EPS in the future, but were not included in the computation of diluted EPS because to do so would have been anti-dilutive. Those anti-dilutive options are as follows.

	2017	2016
Anti-dilutive options	nil	72,000

There were no preferred shares issued and outstanding during the years ended December 31, 2017 or 2016.

**13. Stock Options.**

The Company adopted a stock option plan ("Plan"). The purpose of this Plan is to provide additional incentives to key employees, officers, directors and consultants of the Company and its subsidiaries in order to help attract and retain the best available personnel for positions of responsibility and otherwise promote the success of the Company's business. It is intended that options issued under this Plan constitute non-qualified stock options. The general terms of awards under the option plan are that 100% of the options granted will vest the year following the grant. The maximum term of options granted is 5 years.

The Company may issue stock options and stock bonuses for shares of its common stock to provide incentives to directors, key employees and other persons who contribute to the success of the Company. The exercise price of all incentive options are issued for not less than fair market value at the date of grant.

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The following table summarizes the Company's stock option activity for the years ended December 31, 2017 and 2016:

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2015	1,190,000	\$0.75 - \$2.45	\$ 1.34
Granted	168,000	\$1.42	\$ 1.42
Cancelled or expired	(515,000 )	\$0.75 - 2.45	\$ 1.61
Exercised	(30,000 )	\$1.00 - 1.21	\$ 1.09
Balance, December 31, 2016	813,000	\$0.75 - 2.22	\$ 1.19
Granted	154,000	\$1.70	\$ 1.70
Cancelled or expired	(114,000 )	\$1.00 - 2.22	\$ 1.75
Exercised	(140,000 )	\$0.75 - 1.21	\$ 1.11
Balance, December 31, 2017	713,000	\$0.75 - 1.70	\$ 1.21
Exercisable, December 31, 2017	559,000	\$0.75 - 1.41	\$ 1.08

The weighted-average remaining contractual life of outstanding options is 2.8 years.

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

	2017	2016
Expected life – years	3.0	3.0
Interest rate	2.23 %	1.37 %
Volatility	73.09 %	75.64 %
Dividend yield	— %	— %
Weighted average fair value of options granted	\$0.8344	\$0.7073

During the year ended December 31, 2017, the Company granted 40,000 (2016 – 40,000) stock options to consultants and has applied ASC 718 using the Black-Scholes option-pricing model, which resulted in additional expenses of \$6,675 (2016 - \$5,658). Options granted in other years resulted in additional expenses of \$22,634 (2016 – \$11,879). During the year ended December 31, 2017, employees were granted 114,000 (2016 – 128,000) stock options, which resulted in additional expenses of \$19,024 (2016 – \$17,824). Options granted in other years resulted in additional expenses in the amount of \$67,759 for employees during the year ended December 31, 2017 (2016 - \$30,957). There were 110,000 employee and 30,000 consultant stock options exercised during the year ended December 31, 2017 (2016 – 30,000 employee; nil consultant).

As of December 31, 2017, there was approximately \$102,798 of compensation expense related to non-vested awards. This expense is expected to be recognized over a weighted average period of 1 year.

The aggregate intrinsic value of vested options outstanding at December 31, 2017 is \$413,410 (2016 – nil).

**14. Capital Stock.**

During the year ended December 31, 2017, the Company issued 110,000 shares upon the exercise of employee stock options and 30,000 shares upon the exercise of consultant stock options

On January 6, 2016, the Company repurchased 1,750,000 shares of its common stock at \$0.90 per share for a total purchase price of \$1,575,000. The shares were returned to treasury.

The Company issued 30,000 shares upon the exercise of employee stock options during the year ended December 31, 2016.

#### **15. Segmented, Significant Customer Information and Economic Dependency.**

The Company operates in two segments:

(a) Energy and water conservation products (as shown under the column heading “EWCP” below), which consists of a (i) liquid swimming pool blanket which saves energy and water by inhibiting evaporation from the pool surface, and (ii) food-safe powdered form of the active ingredient within the liquid blanket and which is designed to be used in still or slow moving drinking water sources.

(b) Biodegradable polymers (“BCPA’s”), also known as TPA’s, used by the petroleum, chemical, utility and mining industries to prevent corrosion and scaling in water piping. This product can also be used in detergents to increase biodegradability and in agriculture to increase crop yields by enhancing fertilizer uptake.

The accounting policies of the segments are the same as those described in Note 2, *Significant Accounting Policies*. The Company evaluates performance based on profit or loss from operations before income taxes, not including nonrecurring gains and losses and foreign exchange gains and losses.

The Company’s reportable segments are strategic business units that offer different, but synergistic products and services. They are managed separately because each business requires different technology and marketing strategies.

Year ended December 31, 2017:

EWCP	BCPA	Consolidated
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Sales	\$641,675	\$14,852,650	\$15,494,325
Interest expense	54	44,071	44,125
Depreciation	62,376	219,108	281,484
Income tax expense	-	680,319	680,319
Segment profit	2,021,289	(266,548)	1,754,741
Segment assets	580,304	1,437,657	2,017,961
Expenditures for segment assets	287,853	138,628	426,480

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Year ended December 31, 2016:

	EWCP	BCPA	Consolidated
Sales	\$785,660	\$15,460,354	\$16,246,014
Interest expense	59	41,640	41,699
Depreciation	325,696	214,383	540,079
Income tax expense	-	982,133	982,133
Segment profit (loss)	(417,770 )	2,211,104	1,793,334
Segment assets	1,966,564	1,523,270	3,489,834
Expenditures for segment assets	6,352	107,918	114,270

Sales by territory are shown below:

	2017	2016
Canada	\$362,362	\$453,480
United States and abroad	15,131,963	15,792,534
Total	\$15,494,325	\$16,246,014

The Company's long-lived assets (property, equipment, leaseholds and patents) are located in Canada and the United States as follows:

	2017	2016
Canada	\$580,304	\$1,966,564
United States	1,437,657	1,523,270
Total	\$2,017,961	\$3,489,834

Three customers accounted for \$8,453,163 (55%) of sales made in 2017 (2016 - \$10,148,042 or 62%).

## 16. Commitments.

The Company is committed to minimum rental payments for property and premises aggregating approximately \$735,670 over the term of two leases, the last expiring on October 31, 2021.

Commitments for rent in the next four years are as follows:

2018	\$201,840
2019	\$205,580
2020	\$209,400
2021	\$118,850

### **17. Subsequent Events.**

In January 2018, the Company issued 23,000 shares on the exercise of employee stock options and 10,000 shares on the exercise of consultant stock options.

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.**

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports to the SEC is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching our desired disclosure control objectives.

As of the end of the period covered by this Annual Report on Form 10-K for the year ended December 31, 2017, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined under Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective.

**Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. As defined by the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of our principal executive officer and principal financial officer and implemented by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements in accordance with U.S. generally accepted accounting principles.

Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of our financial statements in accordance with U.S. generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (3) provide reasonable

assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In connection with the preparation of our annual financial statements, management has undertaken an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or the 2013 COSO Framework. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of those controls.

Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of December 31, 2017.

There was no change in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information.**

None.

**Item 10. Directors, Executive Officers and Corporate Governance.**

Name	Age	Position
Daniel B. O'Brien	61	President, Chief Executive Officer, Principal Financial and Accounting Officer and a Director
John H. Bientjes	65	Director
Robert Helina	52	Director
Tom Fyles	66	Director
Ben Seaman	37	Director
David Fynn	60	Director

Daniel B. O'Brien has served as our President, Chief Executive Officer and Principal Financial and Accounting Officer, as well as a director since June 1998. He has been involved in the swimming pool industry since 1990, when he founded our subsidiary, Flexible Solutions Ltd. From 1990 to 1998 Mr. O'Brien was also a teacher at Brentwood College where he was in charge of outdoor education.

John H. Bientjes has been a director since February 2000. Since 1984, Mr. Bientjes has served as the manager of the Commercial Aquatic Supplies Division of D.B. Perks & Associates, Ltd., located in Vancouver, British Columbia, a company that markets supplies and equipment to commercial swimming pools which are primarily owned by municipalities. Mr. Bientjes graduated in 1976 from Simon Fraser University in Vancouver, British Columbia with a Bachelor of Arts Degree in Economics and Commerce.

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Robert T. Helina has been a director since October 2011. Mr. Helina has been involved in the financial services industry for over 25 years which has given him extensive knowledge in business, economics and finance. His specialty is in Corporate Finance and Capital Markets. Mr. Helina holds a Bachelor of Arts degree from Trinity Western University.

Thomas M. Fyles has been a director since August 2012. Since 1979 Dr. Fyles has been a chemistry professor at the University of Victoria (Assistant Professor 1979-1984/Associate Professor 1984-1992/and Professor with Tenure since 1992) Dr. Fyles received his Bachelor of Science degree (with honors) from the University of Victoria in 1974 and his Ph.D. in chemistry from York University in 1977. Dr. Fyles was a postdoctoral fellow with Prof. J.M. Lehn, Institut Le Bel, Universite Louis Pasteur, Strasbourg, France, between September 1977 and July 1979.

Ben Seaman was elected as a director in 2016. Mr. Seaman has been the CEO of Eartheasy.com Sustainable Living Ltd since 2007, growing the company from \$50K to over \$25M in annual revenue. His company has contributed over \$1M towards clean water projects in Kenya since 2013, and has been recognized internationally by the Stockholm Challenge Award and the Outdoor Industry Inspiration Award in 2016. Prior to that, he worked in sales and investor relations at Flexible Solutions. Mr. Seaman graduated from the University of Victoria with a Bachelor of Science degree in 2004. He has significant experience in launching new products, marketing, distribution and e-commerce in both the US and Canada. He's a strong believer in the triple bottom line approach to business, giving consideration to social and environmental issues in addition to financial performance.

David Fynn was elected as a director in 2016. Mr. David Fynn is a Canadian Chartered Professional Accountant and services individuals/companies in many sectors including mining and commodities in his private practice. David worked as a senior manager with KPMG in Canada and Ernst & Young in the United Kingdom and Saudi Arabia. Since 1996 he has been the principal of D.A. Fynn & Associates Inc., an accounting firm.

Directors are elected annually and hold office until the next annual meeting of our stockholders and until their successors are elected and qualified. All executive offices are chosen by the board of directors and serve at the board's discretion.

John Bientjes, Thomas Fyles, Ben Seaman and David Fynn are independent directors as that term is defined in section 803 of the listing standards of the NYSE American.

Our Audit Committee, consisting of John Bientjes, Ben Seaman and David Fynn all of whom have strong financial backgrounds, facilitates and maintains open communications with our board of directors, senior management and our independent auditors. Our Audit Committee also serves as an independent and objective party which monitors our financial reporting process and internal control system. In addition, our Audit Committee reviews and appraises the efforts of our independent auditors. Our Audit Committee meets periodically with management and our independent auditors. John Bientjes and David Fynn meet the SEC's definition of an audit committee financial expert. Each member of the Audit Committee is "independent" as that term is defined in Section 803 of the listing standards of the NYSE American.

Our Compensation Committee, consisting of John Bientjes, Ben Seaman and David Fynn, establishes salary, incentive and other forms of compensation for our Chief Executive Officer and administers our Stock Option Program. None of our officers participated in deliberations of the compensation committee concerning executive officer compensation. During the year ended December 31, 2017, none of our executive officers served as a member of the compensation committee or as a director of another entity, one of whose executive officers served on our compensation committee or as one of our directors.



We have adopted a Code of Ethics that applies to our Chief Executive Officer, our Chief Financial Officer and our Principal Accounting Officer, as well as our other senior management and financial staff. Interested persons may obtain a copy of our Code of Ethics from our website at [www.flexiblesolutions.com](http://www.flexiblesolutions.com).

We believe our directors benefit us for the following reasons:

Name	Reason
Daniel B. O'Brien	Long standing relationship with us.
John J. Bientjes	Long standing relationship with us.
Robert Helina	Corporate finance experience.
Dr. Thomas Fyles	Scientific expertise.
Ben Seaman	Younger generation businessman increases our awareness of internet sales and adds value to our audit and compensation committees
David Fynn	Experienced accountant adds value our audit and compensation committees

#### Item 11. Executive Compensation.

##### Summary Compensation Table

The following table shows in summary form the compensation earned by (i) our Chief Executive Officer and (ii) by each other executive officer who earned in excess of \$100,000 during the two fiscal years ended December 31, 2017.

Name and Principal Position	Fiscal Year	Salary (1)	Bonus (2)	Restricted Stock Awards (3)	Options Awards (4)	All Other Annual Compensation (5)	Total
Daniel B. O'Brien President, Chief Executive Officer and Principal Financial and Accounting Officer	2017	\$901,605	—	—	—	—	\$901,605
	2016	\$743,042	—	—	—	—	\$743,042

(1) The dollar value of base salary (cash and non-cash) earned.

(2) The dollar value of bonus (cash and non-cash) earned.

- (3) During the periods covered by the table, the value of the shares of restricted stock issued as compensation for services to the persons listed in the table.
- (4) The value of all stock options granted during the periods covered by the table.
- (5) All other compensation received that we could not properly report in any other column of the table.

During the year ended December 31, 2012, the Company determined that Daniel B. O'Brien, the Company's President and Chief Executive Officer, was underpaid. Accordingly, the Company increased Mr. O'Brien's annual salary to twice that which was paid to the highest paid employee of the Company. The Company expects that Mr. O'Brien's salary for the year ending December 31, 2018 will again be twice the annual salary paid to the Company's highest paid employee, excluding Mr. O'Brien.

### **Non-Qualified Stock Option Plan**

In August 2014 we adopted a Non-Qualified Stock Option Plan which authorizes the issuance of up to 1,500,000 shares of our common stock to persons that exercise options granted pursuant to the Plan. Our employees, directors and officers, and consultants or advisors are eligible to be granted options pursuant to the Non-Qualified Plan.

The Plan is administered by our Compensation Committee. The Committee is vested with the authority to determine the number of shares issuable upon the exercise of the options, the exercise price and expiration date of the options, and when, and upon what conditions options granted under the Plan will vest or otherwise be subject to forfeiture and cancellation.

During the fiscal year ended December 31, 2017 we issued 154,000 options pursuant to the Non-Qualified Plan (2016 – 168,000).

### **Stock Option Program**

Prior to August 2014 we had a Stock Option Program which involved the issuance of options, from time to time, to our employees, directors, officers, consultants and advisors. Options were granted by means of individual option agreements. Each option agreement specified the shares issuable upon the exercise of the option, the exercise price, the expiration date and other terms and conditions of the option.

Options granted had terms of between one and five years after the date of grant and had exercise prices equal to the fair market value of a share of our common stock on the date of grant.

As a result of the adoption of our Non-Qualified Stock Option Plan in August 2014, all future options have been granted pursuant to the Non-Qualified Stock Option Plan.

### **Summary**

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The following table shows the weighted average exercise price of the outstanding options granted pursuant to our Non-Qualified Stock Option Plan and our Stock Option Program as of December 31, 2017, our most recently completed fiscal year.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Non-Qualified Stock Option Plan	561,000	\$ 1.26	861,000
Stock Option Program	152,000	\$ 1.03	Not Applicable
Total	713,000	\$ 1.21	861,000

Our Non-Qualified Stock Option Plan and all grants made pursuant to our Stock Option Program have been approved by our shareholders.

As of December 31, 2017 options to purchase 561,000 shares of our common stock were outstanding under our Non-Qualified Stock Option Plan. The exercise price of these options varies between \$0.75 and \$1.70 per share and the options expire at various dates between on December 31, 2019 and December 31, 2022.

As of December 31, 2017 options to purchase 152,000 shares of our common stock were outstanding under our Stock Option Program. The exercise price of these options varies between \$1.00 and \$1.21 per share. The options expire on December 31, 2018.

No options were exercised by our executive officers during the fiscal year ended December 31, 2017.

### Director Compensation

We reimburse directors for any expenses incurred in attending board meetings. We also compensate directors \$5,000 annually for each year that they serve.

Our directors received the following compensation in 2017:

Name	Paid in Cash	Stock Awards (1)	Option Awards (2)
John H. Bientjes	\$5,000	—	—
Dale Friend	\$5,000	—	—
Robert Helina	\$5,000	—	—
Tom Fyles	\$5,000	—	—

(1)The fair value of stock issued for services computed in accordance with ASC 718 on the date of grant.

(2)The fair value of options granted computed in accordance with ASC 718 on the date of grant.

The terms of outstanding options granted to our directors are shown below:

Name	Option Price	No. of Options	Expiration Date
John H. Bientjes	\$ 1.00	5,000	December 31, 2018
John H. Bientjes	\$ 1.05	5,000	December 31, 2019
Robert Helina	\$ 1.00	5,000	December 31, 2018
Robert Helina	\$ 1.05	5,000	December 31, 2019

Daniel B. O'Brien was not compensated for serving as directors during 2017.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The following table shows the beneficial ownership of our common stock as of March 30, 2018 by (i) each stockholder who is known by us to own beneficially more than five percent of our outstanding common stock, (ii) each of our officers and directors, and (iii) by all of our executive officers and directors as a group.

	Shares (1)	Percentage Ownership	
Daniel B. O'Brien 6001 54 Ave. Taber, AB Canada T1G 1X4	4,521,900	39.5	%
John Bientjes #1-230 West 13th Street North Vancouver, B.C. Canada V7M 1N7	10,000	0.1	%
Robert Helina 6001 54 Ave. Taber, AB Canada T1G 1X4	15,000	0.1	%
Dr. Thomas Fyles Box 3065 Victoria, BC Canada V8W 3V6	15,000	0.1	%
Ben Seaman Unit 605 5 E. Cordova St. Vancouver BC Canada V6A 0A5	800	0	%
David Fynn 202-2526 Yale Court, Abbotsford, BC Canada V2S 8G9	0	0	%
All officers and directors as a group (6 persons)	4,562,700	39.3	%

(1) Includes shares which may be acquired on the exercise of the stock options, all of which were exercisable as of March 30, 2018, listed below.





Name	No. of Options	Exercise Price	Expiration Date
John Bientjes	5,000	\$ 1.00	December 31, 2018
	5,000	\$ 1.05	December 31, 2019
Robert Helina	5,000	\$ 1.00	December 31, 2018
	5,000	\$ 1.05	December 31, 2019

**Item 13. Certain Relationships and Related Transactions, Director Independence.**

Not applicable.

**Item 14. Principal Accountant Fees and Services.**

MNP, LLP, Chartered Accountants, examined our financial statements for the years ended December 31, 2016 and 2015.

Audit Fees

MNP was paid \$72,375 and \$64,553 for the fiscal years ended December 31, 2017 and 2016, respectively, for professional services rendered in the audit of our annual financial statements and for the reviews of the financial statements included in our quarterly reports on Form 10-Q during these fiscal years.

Tax Fees

MNP was paid nil and \$5,663 for the fiscal years ended December 31, 2017 and 2016, respectively, for professional services rendered for the preparation and filing of our income tax returns for the fiscal years ended December 31, 2016 and 2015.

All Other Fees

MNP was not paid any other fees for professional services during the fiscal years ended December 31, 2017 and 2016.

Audit Committee Pre-Approval Policies

Rules adopted by the SEC in order to implement requirements of the Sarbanes-Oxley Act of 2002 require public company audit committees to pre-approve audit and non-audit services. Our Audit Committee has adopted a policy for the pre-approval of all audit, audit-related and tax services, and permissible non-audit services provided by our independent auditors. The policy provides for an annual review of an audit plan and budget for the upcoming annual financial statement audit, and entering into an engagement letter with the independent auditors covering the scope of the audit and the fees to be paid. Our Audit Committee may also from time-to-time review and approve in advance other specific audit, audit-related, tax or permissible non-audit services. In addition, our Audit Committee may from time-to-time give pre-approval for audit services, audit-related services, tax services or other non-audit services by setting forth such pre-approved services on a schedule containing a description of, budget for, and time period for such pre-approved services. The policies require our Audit Committee to be informed of each service and the policies do not include any delegation of our Audit Committee’s responsibilities to management. Our Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated will report any pre-approval decisions to our Audit Committee at its next scheduled meeting.

During the year ended December 31, 2017 our Audit Committee approved all of the fees paid to MNP. Our Audit Committee has determined that the rendering of all non-audit services by MNP is compatible with maintaining MNP’s independence. During the year ended December 31, 2017, none of the total hours expended on our financial audit by MNP were provided by persons other than MNP’s full-time permanent employees.

**Item 15. Exhibits, Financial Statement Schedules.**

Number Description

- 3.1 Articles of Incorporation of the Registrant. (1)
- 3.2 Bylaws of the Registrant. (1)
- 21.1 Subsidiaries. (2)
- 23.1 Consent of Independent Accountants.
- 31.1 Certification of Principal Executive Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive and Financial Officer Pursuant to 18 U.S.C. §1350 and §906 of the Sarbanes-Oxley Act of 2002.

(1) Previously filed as an exhibit to our Registration Statement on Form 10-SB filed with the Commission on February 22, 2000, and incorporated herein by reference.

(2) Previously filed as an exhibit to our Registration Statement on Form SB-2 filed with the Commission on January 22, 2003, and incorporated herein by reference.



**SIGNATURES**

In accordance with the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

April 2, 2018      **Flexible Solutions International, Inc.**

By:            */s/ Daniel B. O'Brien*  
 Name:        Daniel B. O'Brien  
 Title:        President and Chief Executive  
                  Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
<i>/s/ Daniel B. O'Brien</i> Daniel B. O'Brien	President, Principal Executive Officer, Principal Financial and Accounting Officer and a Director	April 2, 2018
<i>/s/ John H. Bientjes</i> John H. Bientjes	Director	April 2, 2018
<i>/s/ Robert T. Helina</i> Robert T. Helina	Director	April 2, 2018
<i>/s/ Thomas Fyles</i> Thomas Fyles	Director	April 2, 2018
<i>/s/ Ben Seaman</i> Ben Seaman	Director	April 2, 2018
<i>/s/ David Fynn</i> David Fynn	Director	April 2, 2018

