

SEYCHELLE ENVIRONMENTAL TECHNOLOGIES INC /CA

Form 10-Q

October 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ending August 31, 2015

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

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

Commission File No. 0-29373

Seychelle Environmental Technologies, Inc.

(Exact Name of registrant as specified in its charter)

Nevada

(State or other jurisdiction Of incorporation)

33-0836954

(IRS Employer File Number)

32963 Calle Perfecto

San Juan Capistrano, California

(Address of principal executive offices)

92675

(zip code)

(949) 234-1999

(Registrant's telephone number, including area code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports); and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T(Section 232.405 of this chapter) during the preceding 12 months(or such shorter period that the registrant was required to submit and post such files. Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

☐ Accelerated filer

☐

Non-accelerated filer

☐ Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  
o No ☒

The number of shares outstanding of the Registrant's common stock, as of October 9, 2015 was 26,372,646.

References in this document to "us," "we," or "Company" refer to Seychelle Environmental Technologies, Inc., its predecessor and its subsidiaries.

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FORM 10-Q

Securities and Exchange Commission  
Washington, D.C. 20549

Seychelle Environmental Technologies, Inc.

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## PART I

## ITEM 1. FINANCIAL STATEMENTS

SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

	August 31, 2015	February 28, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,687,564	\$1,514,534
Accounts receivable, net of allowance for doubtful accounts and sales returns of \$13,400	436,655	284,121
Related party receivables	22,407	12,601
Inventory, net	1,752,270	1,009,491
Deferred tax assets	116,829	629,838
Prepaid expenses, deposits and other current assets	164,144	174,052
Total current assets	4,179,869	3,624,637
Property and equipment, net	193,820	162,107
Intangible assets, net	151,776	152,643
Deferred tax assets	611,314	611,314
Other assets	15,651	25,491
Total assets	\$5,152,430	\$4,576,192
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$190,320	\$238,009
Accrued legal and settlement fees	-	532,103
Customer deposits	45,939	119,215
Capital lease obligations, current portion	11,413	5,639
Total current liabilities	247,672	894,966
Long-term liabilities:		
Capital lease obligations, net of current	22,340	4,081
Total liabilities	270,012	899,047
Stockholders' equity:		
Preferred stock, 6,000,000 shares authorized, none issued or outstanding		-
Common stock \$0.001 par value, 50,000,000 shares authorized, 26,158,646 and	26,159	25,914

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25,913,646 issued and outstanding at August 31, 2015 and February 28, 2015,  
respectively

Additional paid-in capital	8,675,056	8,457,603
Accumulated deficit	(3,818,797)	(4,806,372)
Total stockholders' equity	4,882,418	3,677,145
Total liabilities and stockholders' equity	\$5,152,430	\$4,576,192

See accompanying notes to condensed consolidated financial statements.

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SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (UNAUDITED)

	For the Three Months Ended August 31,	
	2015	2014
Sales	\$2,724,829	\$767,216
Cost of sales	1,319,711	435,646
Gross profit	1,405,118	331,570
Operating expenses		
Selling, general, and administrative expenses	602,371	659,165
Archette legal expenses	-	199,823
Depreciation and amortization	20,395	15,815
Total operating expenses	622,766	874,803
Income (loss) from operations	782,352	(543,233 )
Other income (expense)		
Interest income	39	1,111
Interest expense	(133 )	(179 )
Other income (expense)	537	(5,953 )
Total other income (expense)	443	(5,021 )
Income (loss) before income tax benefit (expense)	782,795	(548,254 )
Income tax benefit (expense)	(267,718 )	205,666
Net income (loss)	\$515,077	\$(342,588 )
BASIC INCOME (LOSS) PER SHARE	\$0.02	\$(0.01 )
DILUTED INCOME (LOSS) PER SHARE	\$0.02	\$(0.01 )
BASIC WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	26,144,531	25,903,646
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	28,464,562	25,903,646

See accompanying notes to condensed consolidated financial statements.

SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (UNAUDITED)

	For the Six Months Ended August 31,	
	2015	2014
Sales	\$5,072,012	\$1,874,514
Cost of sales	2,387,741	1,005,481
Gross profit	2,684,271	869,033
Operating expenses		
Selling, general, and administrative expenses	1,154,287	1,225,034
Archette legal expenses	-	268,263
Depreciation and amortization	30,107	29,574
Total operating expenses	1,184,394	1,522,871
Income (loss) from operations	1,499,877	(653,838 )
Other income (expense)		
Interest income	228	2,771
Interest expense	(292 )	(448 )
Other income	771	2,539
Total other income	707	4,862
Income (loss) before income tax benefit (expense)	1,500,584	(648,976 )
Income tax benefit (expense)	(513,009 )	243,660
Net income (loss)	\$987,575	\$(405,316 )
BASIC INCOME (LOSS) PER SHARE	\$0.04	\$(0.02 )
DILUTED INCOME (LOSS) PER SHARE	\$0.04	\$(0.02 )
BASIC WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	26,023,362	25,891,146
DILUTED WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	27,917,424	25,891,146

See accompanying notes to condensed consolidated financial statements.

SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	For The Six Months Ended August 31,	
	2015	2014
<b>OPERATING ACTIVITIES:</b>		
Net income (loss)	\$987,575	\$(405,316 )
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	30,107	29,574
Stock-based compensation	217,698	210,350
Provision for doubtful accounts	-	9,958
Deferred income tax expense (benefit)	513,009	(243,460 )
Changes in operating assets and liabilities:		
Increase in accounts receivable	(152,534 )	(17,240 )
Increase in related party receivables	(9,806 )	(7,008 )
(Increase) decrease in inventory	(742,779 )	15,890
(Increase) decrease in prepaid expenses, deposits and other assets	19,748	(23,640 )
(Decrease) increase in accounts payable and accrued expenses	(47,689 )	51,375
Decrease in accrued legal and settlement fees	(532,103 )	-
Decrease in customer deposits	(73,276 )	(16,766 )
Net Cash Provided By (Used In) Operating Activities	209,950	(396,283 )
<b>INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(34,953 )	(33,918 )
Purchase of intangible assets	-	(150,434 )
Net Cash Used In Investing Activities	(34,953 )	(184,352 )
<b>FINANCING ACTIVITIES:</b>		
Repayment of capital lease obligations	(1,967 )	(2,012 )
Net Cash Used in Financing Activities	(1,967 )	(2,012 )
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 173,030	 (582,647 )
 CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	 1,514,534	 2,971,825
 CASH AND CASH EQUIVALENTS AT END OF PERIOD	 \$1,687,584	 \$2,389,178

Supplemental disclosures of cash flow information:

Non-cash investing and financing activities:

Acquisition of equipment under capital leases

\$26,000      \$-

Cash paid for:

Interest

\$292      \$448

Income taxes

\$-      \$-

See accompanying notes to condensed consolidated financial statements.

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SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.  
NOTES TO CONDENSED CONSOLIDATED (UNAUDITED) FINANCIAL STATEMENTS

NOTE 1: CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements have been prepared by Seychelle Environmental Technologies, Inc., and subsidiaries (the "Company") without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and cash flows at August 31, 2015, and for all periods presented herein, have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended February 28, 2015. The results of operations for the periods ended August 31, 2015 and 2014 are not necessarily indicative of the operating results for the full fiscal years.

The summary of significant accounting policies of the Company is presented to assist in understanding the Company's consolidated financial statements. The consolidated financial statements and notes are representations of the Company's management, which is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of these condensed consolidated financial statements and the February 28, 2015 consolidated financials included in the 10-K filed on May 29, 2015.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

NOTE 2: BASIC INCOME (LOSS) PER SHARE

Basic income (loss) per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during each period presented. Diluted income (loss) per share is determined using the weighted average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents. In periods when losses are reported, the weighted average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive. The dilutive effect of outstanding stock options and warrants is reflected in diluted earnings per share by application of the treasury stock method.

The denominator for diluted income (loss) per share for the three- and six- month period ended August 31, 2014 did not include warrants as they would have been anti-dilutive. During the three and six months ended August 31, 2015, 3,446,467 and 4,535,479 warrants, respectively, were excluded from the denominator for diluted income (loss) per share.

	For the six months ended August 31,	
	2015	2014
Numerator:		
Net income (loss) available to common shareholders	\$987,575	\$(405,316 )
Weighted average shares – basic	26,023,362	25,891,146
Net income (loss) per share – basic	\$0.04	\$(0.02 )
Dilutive effect of common stock equivalents:		
Warrants	1,894,062	-
Weighted average shares – diluted	27,917,424	25,891,146
Net income (loss) per share – diluted	\$0.04	\$(0.02 )

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SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.  
NOTES TO CONDENSED CONSOLIDATED (UNAUDITED) FINANCIAL STATEMENTS

NOTE 2: BASIC INCOME (LOSS) PER SHARE (continued)

	For the three months ended August 31,	
	2015	2014
Numerator:		
Net income (loss) available to common shareholders	\$515,077	\$(342,588 )
Weighted average shares – basic	26,144,531	25,903,646
Net income (loss) per share – basic	\$0.02	\$(0.01 )
Dilutive effect of common stock equivalents:		
Warrants	2,320,031	-
Weighted average shares – diluted	28,464,562	25,903,646
Net income (loss) per share – diluted	\$0.02	\$(0.01 )

NOTE 3: COMMON STOCK PURCHASE WARRANTS

Common Stock

During the six month period ended August 31, 2015, 115,000 shares of restricted common stock were issued to employees and officers of the Company. Additionally, 100,000, 20,000, and 10,000 shares of restricted common stock were issued to TAM, vendors, and TAM's trustee, respectively. The shares were fully vested upon issuance. The value recorded in the accompanying condensed consolidated financial statements was based on the estimated fair value of the stock on the date of the grant and aggregated \$83,000.

During the six month period ended August 31, 2014, 50,000 shares of restricted stock were issued by the Company to an employee. The shares vest over a two year period, with 17,000 shares vested upon issue. The remaining shares vest 17,000 and 16,000 after one and two years, respectively. The value recorded in the accompanying condensed consolidated financial statements was based on the estimated fair value of the stock on the date of the grant.

Warrants

The Company has determined the estimated value of warrants granted using the Black-Scholes option pricing model. The amount of the expense charged to operations for warrants was \$67,200 and \$134,200 for the three and six month periods ended August 31, 2015, respectively, and \$88,175 and \$176,350 for the three and six month periods ended August 31, 2014, respectively. All outstanding warrants are expected to be vested in December 2015.

A summary of warrant activity for the six months ended August 31, 2015 is as follows:

Weighted-

	Warrants Outstanding	Average Exercise Price
Outstanding at February 28, 2015	8,407,221	0.21
Granted	-	-
Exercised	-	-
Forfeited	(2,000,000 )	0.21
Outstanding at August 31, 2015	6,407,221	0.21
Vested at August 31, 2015	5,766,498	0.21
Exercisable at August 31, 2015	5,766,498	0.21

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SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.  
NOTES TO CONSOLIDATED (UNAUDITED) FINANCIAL STATEMENTS

NOTE 3: COMMON STOCK PURCHASE WARRANTS (continued)

The following table summarizes significant ranges of outstanding warrants as of August 31, 2015:

Warrants Outstanding			Warrants Exercisable		
	Weighted		Weighted		
Exercise Number	Average		Average		
Price	Remaining	Exercise	Number	Exercise	
	Outstanding	Price	Outstanding	Price	
\$0.21	6,407,221	5.29	\$0.21	5,766,498	\$0.21

NOTE 4: INVENTORY

The Company's inventory consisted of the following at August 31, 2015 and February 28, 2015:

	August 31, 2015	February 28, 2015
Raw materials	\$996,829	\$536,302
Finished goods	795,441	513,189
	1,792,270	1,049,491
Reserve for obsolete and slow moving inventory	(40,000 )	(40,000 )
	\$1,752,270	\$1,009,491

NOTE 5: LINE OF CREDIT

As of February 28, 2015, the Company had a line of credit agreement totaling \$500,000, with no outstanding borrowings as of February 28, 2015 or August 31, 2015. The line expired on September 1, 2015 (see Note 9).

NOTE 6: CONCENTRATIONS

Sales to two customers accounted for 61% and 66%, respectively, of sales for the three and six month period ended August 31, 2015. Accounts receivable from these two customers amounted to \$166,861 or 37% of accounts receivable as of August 31, 2015. Two other customers amounted to \$194,500 or 43% of accounts receivable as of August 31, 2015.

Sales to three customers accounted for 57% and 59% of sales for the three and six month periods ended August 31, 2014, respectively. Accounts receivable from these three customers amounted to \$235,000 or 73% of accounts receivable as of August 31, 2014.

NOTE 7: RELATED PARTY TRANSACTIONS

During the three month periods ended August 31, 2015 and 2014, payments totaling \$25,000 and \$24,000, respectively, and during the six month periods ended August 31, 2015 and 2014, payments totaling \$75,000 and \$74,000, respectively, were made to TAM Irrevocable Trust ("TAM") for consulting services, in which Cari Beck, is a trustee as well as the daughter of the Company's President.

During the three month periods ended August 31, 2015 and 2014, TAM purchased, on behalf of the Company, \$208,000 and \$0, respectively, of raw materials from a vendor with which it already had a business relationship. During the six month periods ended August 31, 2015 and 2014, TAM purchased, on behalf of the Company, \$393,000 and \$0, respectively, of raw materials, and paid \$3,500 and \$0, respectively, for related tooling to a vendor with which it already had a business relationship. The Company reimbursed TAM for these outlays in full during the six months ended August 31, 2015.

SEYCHELLE ENVIRONMENTAL TECHNOLOGIES, INC.  
NOTES TO CONSOLIDATED (UNAUDITED) FINANCIAL STATEMENTS

NOTE 7: RELATED PARTY TRANSACTIONS (continued)

During the six month period ending August 31, 2014, the Company paid \$150,000 to TAM for purchase of intellectual property retained by TAM when the Company was organized in 1998.

NOTE 8: COMMITMENTS AND CONTINGENCIES

The Company previously reported that it was involved in a case titled Letty Garcia v. Carl Palmer, Seychelle Environmental Technologies, Inc., et. al. brought in the Superior Court for the State of California, San Diego County District. This case has been transferred to the Orange County Superior Court for the State of California with additional hearings scheduled. We anticipate that it will be resolved this fiscal year and believe that Seychelle will prevail.

In January 2012, the Company entered into a contract with a distributor in which it granted exclusive distribution rights for certain new product lines. Subsequently, there was a contract dispute that has resulted in a lawsuit titled, Archette Wellness Group, dba Functional Water Technologies v. Seychelle Environmental Technologies, brought in the U.S. District Court, for the Central District of California, Southern Division. The case was settled on March 4, 2015, and such amount was fully provided for as of February 28, 2015. The outstanding obligations were paid in full during the six month period ended August 31, 2015.

Otherwise, as of August 31, 2015, we know of no other legal proceedings pending or threatened, or judgments entered against the Company or any of its directors or officers in their capacity as such.

NOTE 9: SUBSEQUENT EVENTS

On September 1, 2015, 130,000 shares of restricted common stock were issued to employees and officers of the Company. Additionally, 100,000 shares of restricted common stock were issued to TAM. The Company also re-purchased 16,000 shares from a stockholder.

The line of credit (see Note 5) expired on September 1, 2015 and was not renewed.

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

This discussion summarizes the significant factors affecting the operating results, financial condition and liquidity and cash flows of Seychelle Environmental Technologies, Inc., and subsidiaries (the "Company") as of and for the three and six month periods ended August 31, 2015 and 2014. The discussion and analysis that follows should be read together with the consolidated financial statements of Seychelle Environmental Technologies, Inc. and the notes to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended February 28, 2015. Except for historical information, the matters discussed in this section are forward looking statements that involve risks and uncertainties and are based upon judgments concerning various factors that are beyond the Company's control.

### Forward-Looking Statements

Certain statements contained herein are "forward-looking" statements. Forward-looking statements include statements which are predictive in nature; which depend upon or refer to future events or conditions; or which include words such as "expects", "anticipates", "intends", "plans", "believes", "estimates", or variations or negatives thereof or by similar or comparable words or phrases. In addition, any statement concerning future financial performance, ongoing business strategies or prospects, and possible future Company actions that may be provided by management are also forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are subject to risks, uncertainties, and assumptions about the Company; and economic and market factors in the countries in which the Company does business, among other things. These statements are not guarantees of future performance, and the Company has no specific intentions to update these statements. Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors including, among others:

- (1) the portable water filtration industry is in a state of rapid technological change, which can render the Company's products obsolete or unmarketable;  
any failure by the Company to anticipate or respond to technological developments or changes in industry
- (2) standards or customer requirements, or any significant delays in product development or introduction, could have a material adverse effect on the Company's business, operating results and financial condition;
- (3) the Company's sales are concentrated to a few large customers, and loss of business from one or more could impact the Company's revenues, gross profit and operating results;
- (4) the Company's cost of sales may be materially affected by increases in the market prices of the raw materials used in the Company's assembly processes;
- (5) the Company's water related product sales could be materially affected by weather conditions and government regulations;
- (6) the Company is subject to the risks of conducting business internationally; and
- (7)

the industries in which the Company operates are highly competitive. Additional risks and uncertainties are outlined in the Company's filings with the Securities and Exchange Commission, including its most recent fiscal 2015 Annual Report on Form 10-K.

#### Description of the Business

We were incorporated under the laws of the State of Nevada on January 23, 1998 as a change of domicile to Royal Net, Inc., a Utah corporation that was originally incorporated on January 24, 1986. Royal Net, Inc. changed its state of domicile to Nevada and its name to Seychelle Environmental Technologies, Inc. effective in January 1998.

On January 30, 1998, we entered into an Exchange Agreement with Seychelle Water Technologies, Inc., a Nevada corporation (SWT), whereby we exchanged our issued and outstanding capital shares with the shareholders of SWT on a one share for one share basis. We became the parent company and SWT became a wholly owned subsidiary. SWT had been formed in 1997 to market water filtration systems of Aqua Vision International.

Our Company is presently comprised of Seychelle Environmental Technologies, Inc., a Nevada corporation, with two wholly-owned subsidiaries, Seychelle Water Technologies, Inc. and Fill 2 Pure International, Inc., also Nevada corporations (collectively, the Company or Seychelle). We use the trade name "Seychelle Water Filtration Products, Inc." in our commercial operations.

Seychelle designs, assembles and distributes unique, state-of-the-art ionic absorption micron filters for portable filter devices that remove up to 99.99% of all pollutants and contaminants found in any fresh water source. Patents or trade secrets cover all proprietary products.

Our principal business address is 32963 Calle Perfecto, San Juan Capistrano, California 92675. Our telephone number at this address is 949-234-1999.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Results of Operations

Our summarized historical financial data is presented in the following table to aid in your analysis. You should read this data in conjunction with this section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations, our condensed consolidated financial statements and the related notes to the condensed consolidated financial statements included elsewhere in this report. The selected condensed consolidated statements of operations data for the three and six month periods ended August 31, 2015 and 2014 are derived from our condensed consolidated financial statements included elsewhere in this report.

Three month period ended August 31, 2015 compared to the corresponding period in 2014

	2015	2014	Period over Period change	%
Sales	\$2,724,829	\$767,216	1,957,611	255 %
Cost of sales	1,319,711	435,646	884,065	203 %
Gross profit	1,405,118	331,570	1,073,548	324 %
Gross profit %	52 %	43 %	-	-
Selling general and administrative expenses	602,371	659,165	(56,794 )	(9 %)
Archette legal expenses	-	199,823	(199,823 )	(100 %)
Depreciation and amortization expense	20,395	15,815	4,580	29 %
Income (loss) before income tax benefit (expense)	782,795	(548,254)	1,331,049	243 %
Income tax benefit (expense)	(267,718 )	205,666	(473,384 )	(230 %)
Net income (loss)	515,077	(342,588)	857,665	250 %
Net income as a percentage of sales	19 %	(45 %)	-	64 %

Sales. The increase in sales to \$2.7 million during the three months ended August 31, 2015 from \$0.8 million during the three months ended August 31, 2014 (255%) is primarily due the launch of our pH2O product line, which increases the alkalinity of municipal water to between 8.0-9.5 pH. Sales during the three months ended August 31, 2015 of this product line were approximately \$866,000, compared to nothing in the comparable period of 2014. Additionally, we had one customer (who has not purchased any product from the pH2O line) that has developed a private label pitcher and bottle, and significantly increased its distribution line, with sales increasing from \$60,000 during the three months ended August 31, 2014 to \$643,000 during the three months ended August 31, 2015.

Additionally, during the third quarter ended November 30, 2014, we hired a National Sales Manager to assume some of the sales and larger customer relationship roles, and to develop sales programs with our smaller customers to increase their sales and broaden our customer base. We anticipate continued sales improvements during the balance of this fiscal year, and in the subsequent fiscal year as we expand our distribution of the pH2O product line and continue to strengthen relationships with existing customers.

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Cost of sales and gross profit percentage. As a percentage of sales, the gross profit margin during the three months ended August 31, 2015 increased from 43% to 52% as compared to the comparable period of the previous year. The largest increase to our sales was directly related to the launch of our aforementioned pH2O product line. We are selling this product with strict minimum order quantities that allow us to achieve greater profit margins, averaging 68% during the three months ended August 31, 2015. Additionally, our National Sales Manager (a position created and filled subsequent to the three months ended August 31, 2014), introduced a Minimum Advertised Pricing policy during the three months ended May 31, 2015 that has allowed us to increase our margins with customers who market our products online, as well as increased sales prices on our own website store. The product mix and timing of significant sales is always a significant factor in the resulting profit margins reported. The Company expects the gross margin percentages to remain at approximately 50% in the foreseeable future.

Selling, general and administrative expenses. These expenses decreased by \$56,794, or 9%, during the period ended August 31, 2015 compared to the same period in the prior year. This decrease was largely a result of a decreased need for third-party consultants during the current quarter, as well as certain moving and product packaging development expenses that were incurred during the period ended August 31, 2014, but not in the current period. We anticipate slight increases in sales, general and administrative expenses in future quarters to accommodate our expanding markets and product lines, which are driving increases in sales.

The Archette case was settled on March 4, 2015 and there were no further legal expenses related to the case incurred during the period ended August 31, 2015.

Depreciation and amortization expense. Depreciation and amortization expense was relatively flat from period to period, but the slight increase is due to additional tooling, and a Company vehicle being purchased during the period ended August 31, 2015.

Income tax expense (benefit). The Company recorded income tax provision of approximately \$268,000 due to the pretax income of approximately \$783,000 during the three month period ended August 31, 2015, compared to a benefit of approximately \$206,000 due to the pretax loss of approximately \$548,000 during the three month period ended August 31, 2014.

Net income (loss). Net income for the three month period ended August 31, 2015 was \$515,077, up 250% compared to net loss of \$342,588 for the three month period ended August 31, 2014. This was primarily due to an increase of approximately \$1.9 million in sales during the three month period ended August 31, 2015. Additionally, the improved margins and decrease in selling, general and administrative expenses and legal expense discussed above contributed to the net income during the three months ended August 31, 2015. We remain focused on the primary factors affecting our bottom line and expect the Company's profitability to continue during fiscal 2016 and future fiscal years.

Six month period ended August 31, 2015 compared to the corresponding period in 2014

		Period over Period change	%
2015	2014		

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Sales	\$5,072,012	\$1,874,514	3,197,498	171 %
Cost of sales	2,387,741	1,005,481	1,382,260	137 %
Gross profit	2,684,271	869,033	1,815,238	209 %
Gross profit %	53 %	46 %		
Selling general and administrative expenses	1,154,287	1,225,034	(70,747 )	(6 %)
Archette legal expenses	-	268,263	(268,263 )	(100%)
Depreciation and amortization expense	30,107	29,574	533	2 %
Income (loss) before income tax benefit (expense)	1,500,584	(648,976 )	2,149,560	331 %
Income tax benefit (expense)	(513,009 )	243,660	(756,669 )	(311%)
Net income (loss)	987,585	(405,316 )	1,392,901	344 %
Net income as a percentage of sales	19 %	(22 %)		41 %

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**Sales.** The increase in sales to \$5.1 million during the six months ended August 31, 2015 from \$1.9 million during the three months ended August 31, 2014 (171%) is primarily due the launch of our pH2O product line, which increases the alkalinity of municipal water to between 8.0-9.5 pH. Sales during the six months ended August 31, 2015 of this product line were approximately \$1.9 million, compared to nothing in the comparable period 2014. Additionally, we had one customer (who has not purchased any product from the pH2O line) that has developed a private label pitcher and bottle, and significantly increased its distribution line, with sales increasing from \$106,000 during the six months ended August 31, 2014 to \$1,249,000 during the six months ended August 31, 2015. Additionally, during the third quarter ended November 30, 2014, we hired a National Sales Manager to assume some of the sales and larger customer relationship roles, and to develop sales programs with our smaller customers to increase their sales and broaden our customer base. We anticipate continued sales improvements during the balance of this fiscal year, and in the subsequent fiscal year as we expand our distribution of the pH2O product line and continue to strengthen relationships with existing customers.

**Cost of sales and gross profit percentage.** As a percentage of sales, the gross profit margin during the six months ended August 31, 2015 increased from 46% to 53% as compared to the comparable period of the previous year. The largest increase to our sales was directly related to the launch of our aforementioned pH2O product line. We are selling this product with strict minimum order quantities that allow us to achieve greater profit margins, averaging 68% during the six months ended August 31, 2015. Additionally, our National Sales Manager (a position created and filled subsequent to the three months ended August 31, 2014), introduced a Minimum Advertised Pricing policy during the three months ended May 31, 2015 that has allowed us to increase our margins with customers who market our products online, as well as increased sales prices on our own website store. The product mix and timing of significant sales is always a significant factor in the resulting profit margins reported. The Company expects the gross margin percentages to remain at approximately 50% in the foreseeable future.

**Selling, general and administrative expenses.** These expenses decreased by \$70,747, or 6%, during the six months ended August 31, 2015 compared to the same period in the prior year. This decrease was largely a result of a decreased need for third-party consultants during the current period, as well as moving and product packaging development expenses that were incurred during the period ended August 31, 2014, but not in the current period. We anticipate slight increases in sales, general and administrative expenses in future quarters to accommodate our expanding markets and product lines, which are driving increases in sales.

The Archette case was settled on March 4, 2015 and there were no further legal expenses related to the case incurred during the six months ended August 31, 2015.

**Depreciation and amortization expense.** Depreciation and amortization expense was relatively flat from period to period, but the slight increase is due to additional tooling and a Company vehicle being purchased during the period ended August 31, 2015.

**Income tax expense (benefit).** The Company recorded an income tax provision of approximately \$513,000 due to the pretax income of approximately \$1,501,000 during the six month period ended August 31, 2015, compared to a benefit of approximately \$244,000 due to the pretax loss of approximately \$649,000 during the six month period ended August 31, 2014.

**Net income (loss).** Net income for the six month period ended August 31, 2015 was \$987,585, up 344% compared to net loss of \$405,316 for the six month period ended August 31, 2014. This was primarily due to the increase in sales of approximately \$3.2 million during the six month period ended August 31, 2015. Additionally, the improved gross

margins and decrease in selling, general and administrative expenses and legal expenses discussed above contributed to the net income during the six months ended August 31, 2015. We remain focused on the primary factors affecting our bottom line and expect the Company's profitability to continue during fiscal 2016 and future fiscal years.

#### Liquidity and Capital Resources

Net cash provided operating activities. During the six month period ended August 31, 2015, cash provided by operating activities was approximately \$210,000, primarily as the result of the net income reported for the period of approximately \$988,000, compared to cash used in operating activities of approximately \$396,000 during the six month period ended August 31, 2014. Additionally, we recorded a non-cash tax provision of approximately \$513,000, issued stock-based compensation of approximately \$218,000 and utilized prior period prepayments of approximately \$20,000 during the current period. This was offset reducing our customer deposit liabilities by approximately \$73,000, an increase in accounts receivable of approximately \$153,000, a decrease in accounts payable and accrued expenses of approximately \$48,000, a decrease of accrued legal and settlement fees of approximately \$532,000, and an inventory increase of approximately \$743,000.

Net cash used in investing activities. During the six month period ended August 31, 2015, the Company spent approximately \$35,000 on capital expenditures. In the comparable period of the prior year, the Company spent approximately \$34,000 on capital expenditures and \$150,000 for intangible assets.

Net cash provided by financing activities. Cash used in financing activities during the six month period ended August 31, 2015 was relatively consistent with the comparable period in the prior year.

As of August 31, 2015, the Company had approximately \$1.7 million in cash and cash equivalents. The Company believes it has substantial liquidity to meet its operating needs through the balance of fiscal 2016.

#### Critical Accounting Policies and Estimates

The Company's discussion and analysis of its financial condition and results of operations are based upon its condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these condensed consolidated financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

The Company believes that the estimates, assumptions and judgments involved in the accounting policies described in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of its most recent fiscal 2015 Annual Report on Form 10-K have the greatest potential impact on its consolidated financial statements, so it considers these to be its critical accounting policies. Because of the uncertainty inherent in these matters, actual results could differ from the estimates the Company uses in applying the critical accounting policies. Certain of these critical accounting policies affect working capital account balances, including the policies for inventory reserves and stock-based compensation. These policies require that the Company make estimates in the preparation of its consolidated financial statements as of a given date.

Within the context of these critical accounting policies, the Company is not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported. There were no material changes to the Company's critical accounting policies or estimates during the six and three month periods ended August 31, 2015.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers," which requires entities to recognize revenue in the way it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most of the existing revenue recognition requirements in U.S. GAAP when it becomes effective. This pronouncement is effective for annual reporting periods beginning after December 15, 2017, as amended, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. The Company is currently evaluating the effect that this pronouncement will have on our consolidated financial statements and related disclosures.

In August 2014, FASB issued ASU No. 2014-15, "Preparation of Financial Statements – Going Concern (Subtopic 205-40), Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". Under U.S. GAAP, continuation of a reporting entity as a going concern is presumed as the basis for preparing financial statements unless and until the entity's liquidation becomes imminent. Preparation of financial statements under this presumption is commonly referred to as the going concern basis of accounting. If and when an entity's liquidation becomes imminent, financial statements should be prepared under the liquidation basis of accounting in accordance with Subtopic 205-30, Presentation of Financial Statements—Liquidation Basis of Accounting. Even when an entity's liquidation is not imminent, there may be conditions or events that raise substantial doubt about the entity's ability to continue as a going concern. In those situations, financial statements should continue to be prepared under the going concern basis of accounting, but the amendments in this ASU should be followed to determine whether to disclose information about the relevant conditions and events. The amendments in this ASU are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The

Company will evaluate the going concern considerations in this ASU, however, at the current period, management does not believe that it has met conditions which would subject these condensed consolidated financial statements for additional disclosure.

In July 2015, FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory," which requires an entity to measure inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using last-in, first-out ("LIFO") or the retail inventory method. This ASU is effective for annual reporting periods beginning after December 15, 2016. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial position and results of operations.

Management does not believe any other recently issued but not yet effective accounting pronouncements, if adopted, would have a material effect on the Company's present or future consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

None.

ITEM 4. CONTROLS AND PROCEDURES

Not applicable.

ITEM 4T. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, based on an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act), our Chief Executive Officer and the Chief Financial Officer each have concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the applicable time periods specified by the SEC's rules and forms.

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 240.13a-15 or Rule 240.15d-15 of this chapter that occurred during our most recent fiscal three months that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This report does not include an attestation report by the Company's independent registered public accounting firm regarding internal control over financial reporting as we are not subject to this requirement.

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company previously reported that it was involved in a case titled Letty Garcia v. Carl Palmer, Seychelle Environmental Technologies, Inc., et. al. brought in the Superior Court for the State of California, San Diego County District. This case has been transferred to the Orange County Superior Court for the State of California with additional hearings scheduled. We anticipate that it will be resolved this fiscal year and believe that Seychelle will prevail.

In January 2012, the Company entered into a contract with a distributor in which it granted exclusive distribution rights for certain new product lines. Subsequently there was a contract dispute that has resulted in a lawsuit titled, Archette Wellness Group, dba Functional Water Technologies v. Seychelle Environmental Technologies, brought in the U.S. District Court, for the Central District of California, Southern Division. This case was settled on March 4, 2015, and such amount was fully provided for as of February 28, 2015. The outstanding obligations were paid in full during the six month period ended August 31, 2015.

Otherwise, as of August 31, 2015, we know of no other legal proceedings pending or threatened, or judgments entered against the Company or any of our directors or officers in their capacity as such.

### ITEM 1A. RISK FACTORS

There have been no changes to our Risk Factors included in our fiscal 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission on May 29, 2015.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the six month period ended August 31, 2015, 115,000 shares of restricted common stock were issued to employees and officers of the Company at a price of \$0.32 per share. Additionally, 100,000, 20,000, and 10,000 shares of restricted common stock were issued to TAM, vendors, and TAM's trustee, respectively at a price of \$0.32 per share. The shares were fully vested upon issuance. The value recorded in the accompanying condensed consolidated financial statements was based on the estimated fair value of the stock on the date of the grant and aggregated \$83,000.

During the six month period ended August 31, 2014, 50,000 shares of restricted stock were issued by the Company to an employee at a price of \$0.68 per share. The shares vest over a two year period, with 17,000 shares vested upon issue. The remaining shares vest 17,000 and 16,000 after one and two years, respectively. The value recorded in the accompanying condensed consolidated financial statements was based on the estimated fair value of the stock on the date of the grant.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

On June 1, 2015, 105,000 shares of restricted common stock were issued to employees and officers of the Company. Additionally, on the same date, 100,000, 20,000, and 10,000 shares of restricted common stock were issued to TAM, vendors, and TAM's trustee, respectively.

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ITEM 6. EXHIBITS

Exhibits

Exhibit No.	Description
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002)
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) (Section 302 of the Sarbanes-Oxley Act of 2002)
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C.ss.1350 Section 906 of the Sarbanes-Oxley Act of 2002)
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C.ss.1350 Section 906 of the Sarbanes-Oxley Act of 2002)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the Registrant has duly caused this Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

Seychelle Environmental  
Technologies, Inc.

Date: October 9, 2015 By: /s/ Carl Palmer  
Carl Palmer  
Director, Chief Executive Officer

Date: October 9, 2015 By: /s/ Jim Place  
Jim Place  
Director and  
Chief  
Financial  
Officer