FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10QSB/A
December 06, 2005

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

FORM 10-QSB/A
(AMENDMENT NO. 1)

(Mark one)

|X| Quarterly Report Pursuant to Section 13 or 15(D) of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004.

|_| Transition Report Under Section 13 or 15(D) of the Securities Exchange Act of 1934

For the transition period from _______________ to ______________.

Commission File Number 000-29649

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
(Name of Small Business Issuer as Specified in Its Charter)

NEVADA	91-1922863
(State of Incorporation)	(IRS Employer Identification No.)

615 DISCOVERY STREET VICTORIA, BRITISH COLUMBIA, CANADA	V8T 5G4
(Address of Principal Executive Offices)	(Zip Code)

(250) 477-9969
(Issuer'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 |X| No |_|

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: The Company had 11,831,916 shares of Common Stock, par value $0.001 per share, outstanding as of June 30, 2004.

Transitional Small Business Disclosure Format (check one): Yes |_| No |X|

FORM 10-QSB/A

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EXPLANATORY NOTE

Flexible Solutions International, Inc. ("we," "us," and "our") is filing this Quarterly Report on Form 10-QSB/A to amend and restate in its entirety its Quarterly Report on Form 10-QSB for the fiscal quarter ended June 30, 2004, which was previously filed with the Securities and Exchange Commission on August 16, 2004.

In October 2005, while completing a registration statement for securities issued in the second quarter of 2005, we determined that certain disclosures made in connection with our stock-based compensation expense required adjustment. As such, on October 5, 2005, upon the recommendation of our management, our board of directors and its audit committee, and our independent accountants, we determined to restate our consolidated financial statements for each of the periods ended since September 30, 2002, including each of the years ended December 31, 2002 through 2004, and for both of the quarters in the six months ended June 30, 2005 (the "Restated Periods").

In accordance with this determination to restate the Restated Periods, we revised the disclosures for stock-based compensation expense as required under Emerging Issues Task Force ("EITF") No. 96-18, Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services; EITF No. 00-18, Accounting Recognition for Certain Transactions involving Equity Instruments Granted to Other Than Employees; and EITF No. 01-9, Accounting for Consideration Given by a Vendor to a Customer. In particular, we adjusted the stock-based compensation expense in our financial statements and notes thereto recorded in connection with our grant of an option to purchase 2,000,000 shares of our common stock in September 2002 pursuant to the terms of a product distribution agreement. Additional information on this restatement and its effects on our financial condition and results of operations can be found in our Notes to Unaudited Consolidated Financial Statements contained herein.

This Form 10-QSB/A does not reflect events occurring after the filing of our Form 10-QSB on August 16, 2004 or modify any of the disclosures contained therein, or in the accompanying financial statements and notes thereto, in any way other than by the amendments identified above and as set forth herein. Notwithstanding the above, and for the convenience of the reader, this entire report has been amended as a result of, and to reflect, the restatement, as well as to revise the disclosure of our management's discussion and analysis, unregistered sales of equity securities, and legal proceedings, as well as to generally reflect the current disclosure requirements of Form 10-QSB.

This Form 10-QSB/A should be read in conjunction with our periodic filings made with the Securities and Exchange Commission subsequent to the date of their original filings, including any amendments to those filings. In addition, in accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, and certain other rules, this Form 10-QSB/A includes updated certifications from our Chief Executive Officer and Chief Financial Officer.

We are presently unaware of any evidence that the restatements described above are due to any material noncompliance by us, as a result of misconduct, with any financial reporting requirement under the federal securities laws. Our audit committee of the board of directors is working with our management and our accountants to assure that we are taking the appropriate approach to resolving the issues related to the restatements, as well as any further issues that may be identified during the course of its review. The filing of this Form 10-QSB/A shall not be deemed an admission that the original filing, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB/A for the quarter ended June 30, 2004 ("Quarterly Report"), including the Notes to Unaudited Consolidated Financial Statements, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, those statements relating to development of new products, our financial condition, our ability to increase distribution of our products, integration of businesses we acquire, and disposition of any of our current business. Forward-looking statements can be identified by the use of forward-looking terminology, such as "may," "will," "should," "expect," "anticipate," "estimate," "continue," "plans," "intends," or other similar terminology. These forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is anticipated or forecasted in these forward-looking statements due to numerous factors, including, but not limited to, our ability to generate or obtain sufficient working capital to continue our operations, changes in demand for our products, the timing of customer orders and deliveries, and the impact of competitive products and pricing. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions.

Although we believe that the expectations reflected in these forward-looking statements are reasonable and achievable, such statements involve risks and uncertainties and no assurance can be given that the actual results will be consistent with these forward-looking statements. Except as otherwise required by Federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changed circumstances or any other reason, after the date of this Quarterly Report.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
AT JUNE 30, 2004
(U.S. DOLLARS)

	JUNE 30, 2004 AS RESTATED (NOTE 7) (UNAUDITED)
ASSETS	
CURRENT	
Cash and cash equivalents	$ 738,337
Short-term investments	1,334,649
Accounts receivable	533,220
Income tax receivable	84,003
Loan receivable	17,540
Inventory	841,398
Prepaid expenses	69,820
	3,618,967
PROPERTY AND EQUIPMENT	5,252,053
INVESTMENT	303,500
	$ 9,174,520
LIABILITIES	
CURRENT	
Due to shareholders	$ --
Short-term loan	3,150,000
Accounts payable and accrued liabilities	189,195
	3,339,195
STOCKHOLDERS' EQUITY	
CAPITAL STOCK	
Authorized	
50,000,000 Common shares with a par value of $0.001 each	
1,000,000 Preferred shares with a par value of $0.01 each	
Issued and outstanding	
11,831,916 (2003: 11,794,916) common shares	11,832
CAPITAL IN EXCESS OF PAR VALUE	7,275,505
OTHER COMPREHENSIVE INCOME (LOSS)	--
DEFICIT	(1,452,012)
TOTAL STOCKHOLDERS' EQUITY	5,835,325
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 9,174,520

- See Notes to Unaudited Consolidated Financial Statements -

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(U.S. DOLLARS -- UNAUDITED)

	SIX MONTHS ENDED J
	2004 AS RESTATED (NOTE 7)
SALES	$ 1,035,871
COST OF SALES	411,007
GROSS PROFIT	624,864
OPERATING EXPENSES	
Wages	257,716
Administrative salaries and benefits	57,544
Advertising and promotion	56,792
Investor relations and transfer agent fee	122,625
Office and miscellaneous	96,922
Rent	52,216
Consulting	188,816
Professional fees	107,714
Travel	49,514
Telecommunications	14,714
Shipping	10,797
Research	15,842
Bad debt expense (recovery)	(797)
Currency exchange	3,324
Utilities	14,198
Depreciation	185,547
	1,233,484
INCOME (LOSS) BEFORE INTEREST INCOME AND INCOME TAX	(608,620)
INTEREST INCOME	30,470
INCOME (LOSS) BEFORE INCOME TAX	(578,150)
INCOME TAX (RECOVERY)	--
NET INCOME (LOSS)	(578,150)
DEFICIT, BEGINNING	(873,862)
DEFICIT, ENDING	$ (1,452,012)
NET INCOME (LOSS) PER SHARE	$ (0.05)

WEIGHTED AVERAGE NUMBER OF SHARES	11,819,916

- See Notes to Unaudited Consolidated Financial Statements -

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED JUNE 30, 2004 AND 2003
(U.S. DOLLARS -- UNAUDITED)

	THREE MONTHS ENDED
	2004 AS RESTATED (NOTE 7)
SALES	$ 547,761
COST OF SALES	105,088
GROSS PROFIT	442,673
OPERATING EXPENSES	
Wages	143,246
Administrative salaries and benefits	32,697
Advertising and promotion	49,062
Investor relations and transfer agent fee	57,947
Office and miscellaneous	62,332
Rent	30,867
Consulting	114,138
Professional fees	71,206
Travel	25,938
Telecommunications	9,014
Shipping	7,655
Research	6,681
Bad debt expense (recovery)	(797)
Currency exchange	2,902
Utilities	8,833
Depreciation	175,595
	797,316
INCOME (LOSS) BEFORE INTEREST INCOME AND INCOME TAX	(354,643)
INTEREST INCOME	27,354
INCOME (LOSS) BEFORE INCOME TAX	(327,289)
INCOME TAX (RECOVERY)	--
NET INCOME (LOSS)	(327,289)
DEFICIT, BEGINNING	(1,124,723)
DEFICIT, ENDING	$ (1,452,012)

NET INCOME (LOSS) PER SHARE	$	(0.03)
WEIGHTED AVERAGE NUMBER OF SHARES		11,819,916

- See Notes to Unaudited Consolidated Financial Statements -

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(U.S. DOLLARS -- UNAUDITED)

	SIX MONTHS ENDED J	
	2004	
OPERATING ACTIVITIES		
Net income (loss)	$	(578,150)
Stock compensation expense		135,230
Depreciation		185,547
Changes in non-cash working capital items:		
Accounts receivable		(238,982)
Inventory		(628,460)
Prepaid expenses		(33,719)
Accounts payable		31,552
Income tax receivable		2,240
Decrease in due to shareholders		(7,700)
Unrealized foreign exchange gain/loss		--
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		(1,132,442)
INVESTING ACTIVITIES		
Acquisition of property and equipment		(5,270,011)
Short-term investments		3,699,188
Loan receivable		45
Acquisition of investments		--
CASH USED IN INVESTING ACTIVITIES		(1,570,778)
FINANCING ACTIVITIES		
Subscriptions received		--
Short term loan		3,150,000
Proceeds from issuance of common stock		57,500
CASH PROVIDED BY FINANCING ACTIVITIES		3,207,500

Effect of exchange rate changes on cash		(3,023)
INFLOW (OUTFLOW) OF CASH		501,257
Cash and cash equivalents, beginning		237,080
CASH AND CASH EQUIVALENTS, ENDING	$	738,337
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	$	--
Interest received	$	30,470

- See Notes to Unaudited Consolidated Financial Statements -

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2004
(U.S. DOLLARS)

1. BASIS OF PRESENTATION.

These unaudited consolidated financial statements of Flexible Solutions International, Inc (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. These financial statements are condensed and do not include all disclosures required for annual financial statements. The organization and business of the Company, accounting policies followed by the Company and other information are contained in the notes to the Company's audited consolidated financial statements filed as part of the Company's December 31, 2003 Annual Report on Form 10-KSB. This quarterly report should be read in conjunction with such annual report.

In the opinion of the Company's management, these consolidated financial statements reflect all adjustments necessary to present fairly the Company's consolidated financial position at June 30, 2004, and the consolidated results of operations and the consolidated statements of cash flows for the six months ended June 30, 2004 and 2003. The results of operations for the three months ended June 30, 2004 are not necessarily indicative of the results to be expected for the entire fiscal year.

These consolidated financial statements include the accounts of the Company, and its wholly-owned subsidiaries Flexible Solutions, Ltd. ("Flexible Ltd."), NanoChem Solutions Inc. and WaterSavr Global Solutions Inc. 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, as described below.

On June 30, 1998, the Company completed the acquisition of all of the shares of Flexible Ltd. The acquisition was effected through the issuance of 7,000,000 shares of common stock by the Company, with the former shareholders of Flexible Ltd. receiving all of the shares then issued and outstanding of the Company. The transaction has been accounted for as a reverse-takeover. Flexible Ltd. is accounted for as the acquiring party and the surviving entity. As Flexible Ltd. is the accounting survivor, the consolidated financial statements presented for all periods are those of Flexible Ltd. The shares issued by the Company pursuant to the acquisition have been accounted for as if those shares had been issued upon the organization of Flexible Ltd.

On May 2, 2002, the Company established WaterSavr Global Solutions Inc. through the issuance of 100 shares of its common stock.

Pursuant to a purchase agreement dated May 26, 2004, the Company acquired the assets of Donlar Corporation on June 9, 2004 and created a new company, NanoChem Solutions Inc. The purchase price of the transaction was $6,150,000, with consideration being a combination of cash and debt. Under the purchase agreement and as part of the consideration, the Company issued a promissory note bearing interest at 4% to satisfy $3,150,000 of the purchase price. This note is due June 2, 2005 and all of the former Donlar assets were pledged as security.

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The following table summarizes the estimated fair value of the assets acquired at the date of acquisition:

As at June 9, 2004:

Current assets	$	1,126,805
Property and equipment		5,023,195
		6,150,000
Acquisition costs assigned to property and equipment		314,724
Total assets acquired	$	6,464,724

The acquisition costs assigned to property and equipment are all direct costs incurred by the Company to purchase the assets. These costs include due diligence fees paid to outside parties investigating and identifying the assets, legal costs directly attributable to the purchase of the assets, plus applicable transfer taxes. These costs have been assigned to the individual assets based on their proportional fair values and will be amortized based on the rates associated with the related assets.

2. SIGNIFICANT ACCOUNTING POLICIES.

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles accepted in the United States of America 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) Inventory and Cost of Sales.

Inventory is valued at the lower of cost and net realizable value. 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. Inventorial 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.

(c) Property, Equipment and Leaseholds.

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

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

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

(d) Foreign Currency.

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

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

(e) 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 has occurred, the fee is fixed or determinable, collectibility 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.

Provisions are made at the time the related revenue is recognized for estimated product returns. Since the Company's inception, product returns have been insignificant; therefore no provision has been established for estimated product returns.

(f) Stock Issued in Exchange for Services.

The valuation of the Company's common stock issued in exchange for services is valued at an estimated fair market value as determined by officers and directors of the Company based upon trading prices of the Company's common stock on the dates of the stock transactions.

(g) Stock-based Compensation.

The Company applies the fair value based method of accounting prescribed by the Statement of Financial Accounting Standards ("FAS") No. 123 in accounting for stock issued in exchange for services to consultants and non-employees.

FAS No. 123 encourages, but does not require, companies to record compensation cost for stock-based compensation plans to employees at fair value. The Company has chosen to account for stock-based compensation to employees and directors using Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees. Accordingly, compensation cost for stock options for employees is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee is required to pay for the stock.

The Company adopts the disclosure provisions of FAS No. 123 for stock options granted to employees and directors. The Company discloses on a supplemental basis, the pro-forma effect of accounting for stock options awarded to employees and directors, as if the fair value based method had been applied, using the Black-Scholes option-pricing model.

(h) 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.

(i) Income (Loss) Per Share.

Income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding.

(j) Use of Estimates.

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 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.

(k) Financial Instruments.

The fair market value of the Company's financial instruments comprising cash, short-term investment, accounts receivable, income tax recoverable, loan receivable, accounts payable and accrued liabilities and amounts due to shareholders were estimated to approximate their carrying values due to immediate or short-term maturity of these financial instruments.

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.

(l) Recent Accounting Pronouncements.

(i) In June 2001, the Financial Accounting Standards Board ("FASB") issued FAS No. 142, Goodwill and Other Intangible Assets. Under FAS No. 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed at least annually for impairment. The amortization provisions of FAS No. 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company adopted FAS No. 142 effective January 1, 2002. Application of the non-amortization provisions of FAS No. 142 for goodwill did not have any impact on the Company's financial reporting.

(ii) In October 2001, the FASB issued FAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. FAS No. 144 addresses significant issues relating to the implementation of FAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and develops a single accounting model, based on the framework established in FAS No. 121 for long-lived

assets to be disposed of by sale, whether such assets are or are not deemed to be a business. FAS No. 144 also modifies the accounting and disclosure rules for discontinued operations. The standard was adopted on January 1, 2002 and did not have any impact on the Company's financial statements.

(iii) In November 2001, the FASB issued Emerging Issues Task Force ("EITF") Issue No. 01-14, Income Statement Characterization of Reimbursements Received for "Out of Pocket" Expenses Incurred. This guidance requires companies to recognize the recovery of reimbursable expenses such as travel costs on service contracts as revenue. These costs are not to be netted as a reduction of cost. This guidance was implemented January 1, 2002. The Company does not expect this guidance to have a material impact on its financial statements.

3. PROPERTY, EQUIPMENT AND LEASEHOLDS AT JUNE 30, 2004.

	Cost	Accumulated Amortization	2004 Net
Computer hardware	$ 33,587	$ 9,576	$ 24,01
Furniture and equipment	12,278	2,583	9,69
Office equipment	25,745	8,210	17,53

Manufacturing equipment	1,996,107	197,738	1,798,36
Trailer	1,740	475	1,26
Building	3,082,956	77,074	3,005,88
Leasehold improvements	12,918	8,046	4,87
Land	390,422	--	390,42
	$ 5,555,754	$ 303,701	$ 5,252,05

4. STOCKHOLDERS' EQUITY.

(a) The Company has previously granted stock options to consultants and has recognized consulting expense applying FAS No. 123 using the Black-Scholes option-pricing model, which resulted in expense of $68,295 for the period ended June 30, 2004.

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

	2004		
	Number of Shares	Exercise Price Per Share	Weighted Average Exercise Price
Balance, March 31, 2004	1,669,000	$1.20 to $4.55	$ 3.18
Granted During the Period	77,000	$4.25 to $4.55	4.37
Exercised	(12,000)	$(1.00 to $1.50)	(1.42)
Balance, June 30, 2004	1,734,000	$1.00 to $4.25	$ 3.06

5. ACQUISITION OF ASSETS OF DONLAR CORPORATION.

Pursuant to a purchase agreement dated May 26, 2004, the Company acquired the assets of Donlar Corporation on June 9, 2004.

The purchase price of the transaction was $6,150,000 with consideration being a combination of cash and debt. Under the purchase agreement and as part of the consideration, the Company issued a

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promissory note bearing interest at the prime rate to the vendor to satisfy $3,150,000 of the purchase price.

The following table summarizes the estimated fair value of the assets acquired at the date of acquisition:

As at June 9, 2004:

Current assets	$ 1,126,805

Property and equipment	$	5,023,195
	$	6,150,000
Acquisitions costs assigned to property and equipment	$	219,475
Total assets acquired	$	6,369,475

6. CONTINGENCIES.

(a) On November 13, 2003, Patrick Grant filed a lawsuit in the Circuit Court of Cook County, Illinois against the Company, WaterSavr Global Solutions Inc. ("WGS"), the wholly-owned subsidiary of the Company, and Daniel B. O'Brien , the Company's Chief Executive Officer. The plaintiff claims damages for breach of contract, tortious interference with an agreement and various wrongful discharge claims. The plaintiff seeks monetary damages in excess of $1,020,000 for the breach of contract and tortious interference claims and unspecified compensatory and punitive damages in the wrongful discharge claims. The Company considers the case without merit and is planning to dispute the matter vigorously. In addition, the Company intends to file counterclaims against the plaintiff for failure to repay financial obligations owed to the Company of almost $40,000, as well as unspecified damages arising out of the plaintiff's disclosure of confidential information to a client during his employment at WGS. No amounts have been recorded as receivable and no accrual has been made for any loss in the Company's consolidated financial statements as the outcome of the claim filed by Mr. Grant is not determinable.

(b) On May 1, 2003, the Company filed a lawsuit in the Supreme Court of British Columbia, Canada, against John Wells and Equity Trust, S.A. seeking return of 100,000 shares of the Company's common stock and repayment of a $25,000 loan, which were provided to defendants for investment banking services consisting of securing a $5 million loan and a $25 million stock offering. Such services were not performed and in the proceeding, the Company seeks return of such shares after defendant's failure to both return the shares voluntarily and repay the note. On May 7, 2003, the Company obtained an injunction freezing the transfer of the shares. The proceeding is still in a discovery phase. On the date of issuance, the share transaction was recorded as shares issued for services at fair market value, a value of $0.80 per share. No amounts have been recorded as receivable in the Company's consolidated financial statements as the outcome of this claim is not determinable.

7. RESTATEMENTS AS A RESULT OF CORRECTING STOCK COMPENSATION EXPENSE.

In October 2005, while completing a registration statement for securities issued in the second quarter of 2005, the Company determined that certain disclosures made in connection with its stock-based compensation expense required adjustment. In September 2002, the Company entered into a distribution agreement with Ondeo Nalco Company ("Ondeo") whereby Ondeo agreed to serve as the exclusive distributor of the Company's WATER$AVR(R) products for so long as Ondeo maintained a certain threshold sales level as defined in the agreement. As consideration for signing the agreement, Ondeo was granted an option to purchase 2,000,000 shares of the Company's common stock. Half of the option for

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one million shares was exercisable immediately at an exercise price of $4.25 for each common share. The remaining half of the option for 1,000,000 shares was exercisable after certain threshold sales targets were achieved at a price of $5.50 for each common share.

In determining the stock-based compensation expense for the nine months ended September 30, 2002, the Company expensed the entire fair value of the stock option believing that the option fully vested upon the signing of the agreement. In its October 2005 review, however, the Company determined that: (i) first, as stated above, half of the option to purchase 1,000,000 shares of common stock did not vest and was not exercisable until the threshold sales target had been met, which would not be until five years after the signing of the distribution agreement; and (ii) second, the Company did not consider Emerging Issues Task Force ("EITF") No. 96-18, Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services; EITF No. 00-18, Accounting Recognition for Certain Transactions involving Equity Instruments Granted to Other Than Employees; and EITF No. 01-9, Accounting for Consideration Given by a Vendor to a Customer.

To correctly account for the stock options granted to Ondeo, the stock-based compensation expense, included in consulting expenses, should have been measured at the date the performance obligation was complete and then recognized on a rational and systematic manner in relation to the sales achieved by Ondeo. Had the Company correctly accounted for these stock options, stock-based compensation expense for the quarter would have been nil as no sales had yet been achieved. Instead, the Company recorded a stock-based compensation expense of $2,704,000 for the quarter.

During the three months ended March 31, 2003, Ondeo achieved the first threshold sales target, and, accordingly, the Company should have recorded a corresponding stock-based compensation expense of $54,080. However, since the entire stock-based compensation expense had been recorded in the September 30, 2002 interim financial statements and in the year ended December 31, 2002, the Company did not record any additional stock-based compensation expense as a result of the attained first threshold level.

In the fourth quarter of the year ended December 31, 2003, it was determined that Ondeo was not going to attain the minimum sales targets stipulated in the exclusive distributorship agreement. Consequently the exclusive distributorship agreement and corresponding stock options were cancelled. The Company accounted for the cancellation of the stock options in accordance with FAS No. 123 similar to a forfeiture of stock options and reversed $2,480,200 of the stock compensation expense previously recorded in 2002. Had the Company accounted for the cancellation of the stock options correctly, it would have reversed the stock-based compensation expense of $54,080 that was recorded in the first quarter ended March 31, 2003.

The following presents the effect on the Company's previously issued financial statements for the six months ended June 30, 2004 and 2003, and the year ended December 31, 2003.

Balance sheet as at June 30, 2004 -

	PREVIOUSLY REPORTED	INCREASE (DECREASE)
Capital in excess of par value	$ 7,499,305)	$ (223,800)
Accumulated deficiency	(1,675,812)	223,800

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Statement of operations for the six months ended June 30, 2004 -

	PREVIOUSLY REPORTED	INCREASE (DECREASE)
Deficit, beginning	$ (1,097,662)	$ 223,800
Deficit, ending	(1,675,812)	223,800

Statement of operations for the three months ended June 30, 2004 -

	PREVIOUSLY REPORTED	INCREASE (DECREASE)
Deficit, beginning	$ (1,348,523)	$ 223,800
Deficit, ending	(1,675,812)	223,800

Statement of operations for the six months ended June 30, 2003 -

	PREVIOUSLY REPORTED	INCREASE (DECREASE)
Expenses	$ 974,108)	$ 54,080
Income (loss) before other item and income tax	(127,448)	(54,080)
Income (loss) before income tax	(23,202)	(54,080)
Net income (loss)	(49,296)	(54,080)
Net income (loss) per share	0.00	(0.01)
Deficit, beginning	3,100,974	(2,704,000)
Deficit, ending	3,150,270	(2,649,920)

Statement of cash flows for the six months ended June 30, 2003 -

	PREVIOUSLY REPORTED	INCREASE (DECREASE)
Net income (loss)	$ (49,296)	$ (54,080)
Stock option compensation	110,670	54,080

Statement of operations for the three months ended June 30, 2003 -

	PREVIOUSLY REPORTED	INCREASE (DECREASE)
Deficit, beginning	$ (2,920,193)	$ 2,649,920
Deficit, ending	(3,150,270)	2,649,920

Balance sheet as at December 31, 2003 -

	PREVIOUSLY REPORTED	INCREASE (DECREASE)
Capital in excess of par value	$ 7,306,613	$ (223,800)
Accumulated deficiency	(1,097,662)	223,800

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Item 2. Management's Discussion and Analysis or Plan of Operation.

OVERVIEW

Flexible Solutions International, Inc. ("we," "us," and "our") develops, manufactures and markets specialty chemicals which slow down the evaporation of water. Our initial product, HEAT$AVR(R), is marketed for use in swimming pools and spas where its use, by slowing the evaporation of water, allows the water to retain a higher temperature for a longer period of time and thereby reduces the energy required to maintain the desired temperature of the water in the pool. Our newest product, WATER$AVR(R), is marketed for water conservation in irrigation canals, aquaculture, and reservoirs where its use slows down water loss due to evaporation. We also make and sell dispensers which automate the deployment of our chemical products.

During the three months ended June 30, 2004, we experienced a net loss of $327,289, as compared to a net loss of $230,077 for the three months ended June 30, 2003. The loss resulted from a continued loss from operations including wages, travel and overhead in our WATER$AVR(R) products division required by our worldwide sales effort, startup expenses for our new ECO$AVR(TM) marketing office in Richmond, British Columbia, and a large increase in depreciation ($175,595 for the three months ended June 30, 2004, as compared to $8,116 for the three months ended June 30, 2003) resulting from the acquisition of depreciable assets from the bankruptcy estate of Donlar Corporation ("Donlar") on June 9, 2004. Our gross profit margin increased from 38.2% for the three months ended June 30, 2003 to 80.8% for the three months ended June 30, 2004. This ratio was positively affected by the increased efficiency in our Calgary factory, the increase in revenue per unit sold resulting from taking over the distribution of the ECO$AVR(TM) residential swimming pool product and the addition of some low-cost sales from our new NanoChem division.

Total sales in the swimming pool division were less than the previous year as a result of excess product in the retail pipeline from product purchased in the quarters ended March 31, 2004 and December 31, 2003 by our former distributor working its way through the retail channels. We believe that this excess product is now in the hands of end users and residential sales will soon return to historical levels.

RESULTS OF OPERATIONS

The following analysis and discussion pertains to our results of operations for the three month and six month periods ended June 30, 2004, as compared to the results of operations for the three month and six month periods ended June 30, 2003, and to changes in our financial condition from December 31, 2003 to June 30, 2004.

THREE MONTHS ENDED JUNE 30, 2004 AND 2003

For the quarter ended June 30, 2004, sales were $547,761, as compared to $661,296 for the quarter ended June 30, 2003. The small decrease in sales was a direct result of a one-time switch in our residential swimming pool division from sales through external distribution to internal distribution by our own employees. Our previous distributor, Sun Solar Energy Technologies Inc. ("Sun Solar"), whose contract ended on February 29, 2004, preordered significant quantities of product in anticipation of the lapse of the contract. This purchase prevented us from realizing the dollar value of sales normally expected in the second quarter. Sales from our newly formed NanoChem division mitigated this somewhat and we expect that unit sales in our residential swimming pool products will return to historical levels in the quarter ending September 30, 2004.

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Operating expenses were $797,316 for the quarter ended June 30, 2004, an increase from $561,114 for the quarter ended June 30, 2003. Wages decreased from $195,202 for the quarter ended June 30, 2003 to $143,246 for the quarter ended June 30, 2004, as a result of reorganization and efficiency increases in our WATER$AVR(R) products division. We also experienced reductions in operating expenses in travel (from $44,235 for the quarter ended June 30, 2003 to $25,938 for the quarter ended June 30, 2004), in telecommunications (from $15,838 for the quarter ended June 30, 2003 to $9,014 for the quarter ended June 30, 2004) and in professional fees (from $104,810 for the quarter ended June 30, 2003 to $71,206 for the quarter ended June 30, 2004) as we gained better control of marketing costs in our WATER$AVR(R) products division. On the other hand, our costs for consulting increased to $114,138 for the quarter ended June 30, 2004, as compared to $30,719 for the quarter ended June 30, 2003, and advertising increased to $49,062 for the quarter ended June 30, 2004, as compared to $13,094 for the quarter ended June 30, 2003, as we became responsible for our own distribution of ECO$AVR(TM). Depreciation also increased from $8,116 for the quarter ended June 30, 2003 to $175,595 for the quarter ended June 30, 2004, as a result of our acquisition of depreciable assets for cash from the estate of Donlar.

Our net loss of $327,289 for the quarter ended June 30, 2004 represents an increase over our net loss of $230,077 for the quarter ended June 30, 2003. The increased loss can be attributed to the depreciation of assets acquired from the estate of Donlar. The loss per share was $0.03 for the three months ended June 30, 2004, as compared to $0.02 for the three months ended June 30, 2003.

SIX MONTHS ENDED JUNE 30, 2004 AND 2003

Sales in the six months ended June 30, 2004 were $1,035,871, as compared to $1,942,562 for the six months ended June 30, 2003. The large decrease in sales was due to the following factors. In the six months ended June 30, 2003, we had sales of $473,000 in our WATER$AVR(R) products division that did not reoccur this year because we terminated a distributor for failing to meet contractual quotas. The residential swimming pool product distributor, whose contract ended on February 29, 2004, preordered large amounts of product in the quarter ended December 31, 2003, in order to sell in the first six months of fiscal 2004. Our obligation to produce as requested shifted revenue from the first half of fiscal 2004 into fiscal 2003. Finally, our acquisition of the assets of Donlar, which assets now comprise our NanoChem division, was not complete until June 9, 2004. Therefore, only a small portion of NanoChem's sales for the three month and six month periods ended June 30, 2004 were consolidated into our sales.

Our operating expenses were $1,233,484 for the six months ended June 30, 2004, an increase from $1,028,188 for the six months ended June 30, 2003. Our increased operating expenses are a result of increased depreciation, advertising, consulting fees, investor relations, research and development and expansion of sales and marketing for commercial swimming pool products and water conservation products.

Our net loss for the six months ended June 30, 2004 was $578,150, as compared to a net loss of $103,376 for the six months ended June 30, 2003. The loss was due to reduced sales in our WATER$AVR(R) products and swimming pool divisions, combined with the reduced interest income resulting from using capital to purchase assets and the large increase in depreciation resulting from substituting depreciable assets for cash. Cost of goods sold decreased to 39.7% for the six months ended June 30, 2004, as compared to 56.4% for the six months ended June 30, 2003, as our swimming pool products factory became more efficient and our price per unit increased. The loss per share was $0.05 for the six months ended June 30, 2004, as compared to $0.01 for the six months ended June 30, 2003.

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LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2004, we had working capital of $279,772, which represented a decrease of $5,752,679 as compared to our working capital as of December 31, 2003. The decrease was entirely related to our purchase of assets from the bankruptcy estate of Donlar that closed on June 9, 2004. We used $3,000,000 in cash from our working capital and signed a promissory note for a further $3,150,000 that is set against current assets because it has a term of less than one year as of this Quarterly Report. The note is due on June 9, 2005.

We have no external sources of liquidity in the form of credit lines from banks.

We believe that our available cash will be sufficient to fund our working capital requirements through December 31, 2004. We further believes that available cash will be sufficient to implement our expansion plans. We have no investment banking agreements in place and there is no guarantee that we will be able to raise capital in the future should that become necessary.

RESTATEMENT OF FINANCIAL STATEMENTS

The accompanying financial statements have been restated to revise certain stock-based compensation expense. In October 2005, while completing a registration statement for securities issued in the second quarter of 2005, we determined that certain disclosures made in connection with our stock-based compensation expense required adjustment. In September 2002, we entered into a distribution agreement with Ondeo Nalco Company ("Ondeo") whereby Ondeo agreed to serve as the exclusive distributor of our WATER$AVR(R) products for so long as Ondeo maintained a certain threshold sales level as defined in the agreement. As consideration for signing the agreement, Ondeo was granted an option to purchase 2,000,000 shares of our common stock. Half of the option for one million shares was exercisable immediately at an exercise price of $4.25 for each common share. The remaining half of the option for 1,000,000 shares was exercisable after certain threshold sales targets were achieved at a price of $5.50 for each common share.

In determining the stock-based compensation expense for the nine months ended September 30, 2002, we expensed the entire fair value of the stock option believing that the option fully vested upon the signing of the agreement. In our October 2005 review, however, we determined that: (i) first, as stated above, half of the option to purchase 1,000,000 shares of common stock did not vest and was not exercisable until the threshold sales target had been met, which would not be until five years after the signing of the distribution agreement; and (ii) second, we did not consider Emerging Issues Task Force ("EITF") No. 96-18, Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services; EITF No. 00-18, Accounting Recognition for Certain Transactions involving Equity Instruments Granted to Other Than Employees; and EITF No. 01-9, Accounting for Consideration Given by a Vendor to a Customer.

During the three months ended March 31, 2003, Ondeo achieved the first threshold sales target, and accordingly, we should have recorded a corresponding stock-based compensation expense of $54,080. However, since the entire stock-based compensation expense had been recorded in the September 30, 2002 interim financial statements and in the year ended December 31, 2002, we did not record any additional stock-based compensation expense as a result of the attained first threshold level.

In the fourth quarter of the year ended December 31, 2003, we determined that Ondeo was not going to attain the minimum sales targets stipulated in the agreement. Consequently, the agreement and corresponding stock option was cancelled. We accounted for the cancellation of the stock option in accordance with Statement of Financial Accounting Standard No. 123 similar to a forfeiture of stock

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options and reversed $2,480,200 of the stock compensation expense previously recorded in fiscal 2002. Had we accounted for the cancellation of the stock option correctly, we would have reversed the amended stock-based compensation expense of $54,080 that was recorded in the first quarter ended March 31, 2003.

In light of the above, the net effect of the adjustments to the financial statements is as follows:

1. Approximately $2,704,000 in stock compensation expense recorded in September 2002 has been reversed;

2. Approximately $54,080 in stock-based compensation expense has been recorded in the quarter ended March 31, 2003, as Ondeo met the first sales threshold under the agreement;

3. Approximately $54,080 in stock-based compensation expense has been reversed in the year ended December 31, 2003, as Ondeo failed to meet subsequent sales thresholds under the agreement, resulting in the cancellation of the stock option;

4. As stated above, we recorded a stock-based compensation expense of $2,704,000 in December 2002. As a result of canceling the stock option, we previously recorded a recovery of $2,480,000 of stock compensation expense at December 31, 2003. This $2,480,000 recovery has been reversed, in conjunction with the reversal of $2,704,000 in stock compensation expense originally

recorded; and

5. For the periods ended March 31, 2004 to June 30, 2005, the net effect of these adjustments is to decrease capital in excess of par value by approximately $223,800 and increase retained earnings by approximately $223,800.

We are presently unaware of any evidence that the restatements described above are due to any material noncompliance by us, as a result of misconduct, with any financial reporting requirement under the federal securities laws. Our audit committee of the board of directors is working with our management and our accountants to assure that we are taking the appropriate approach to resolving the issues related to the restatements, as well as any further issues that may be identified during the course of its review.

Item 3. Controls and Procedures.

Disclosure 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 Securities and Exchange Commission ("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 Quarterly Report, 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

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concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiaries) that is required to be included in our periodic reports.

The prior accounting treatment of our stock-based compensation expense was done in consultation and in accordance with the advice of our independent accountants. Accordingly, management does not believe that this restatement of our Quarterly Report indicates or results from a material weakness with respect to our disclosure controls and procedures or our internal controls over financial reporting.

Changes in Internal Control Over Financial Reporting

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.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

On May 28, 2004, Sun Solar filed a lawsuit in the Federal Court of

Canada, against us, Flexible Solutions, Ltd., our wholly-owned subsidiary, and our Chief Executive Officer, Daniel B. O'Brien. Sun Solar is seeking: (a) a declaration that the trademark Tropical Fish is available for use by Sun Solar; (b) injunctive relief against our further use of the Tropical Fish trademark; and (c) monetary damages exceeding $7,000,000 for the alleged infringement by us, Flexible Solutions, Ltd. and Mr. O'Brien of the Tropical Fish trademark, as well as any other "confusingly similar trademarks" or proprietary trade dresses. No amounts have been recorded as receivable in our consolidated financial statements and no amounts have been accrued as potential losses as the outcome of this claim is not determinable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the quarter ended June 30, 2004, our employees and consultants exercised options to purchase 12,000 shares of our common stock, for an aggregate exercise price of $17,000.00. The capital raised from these exercises was used for working capital purposes.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

On May 26, 2004, we held our 2004 Annual Meeting of Shareholders in Victoria, British Columbia. The results of voting on the three proposals before the shareholders are presented below:

(a) The following directors were elected at the Annual Meeting with a majority of the outstanding shares voting "FOR" their election to the board of directors: Daniel B. O'Brien, Dr. Robert N. O'Brien, Dale Friend, John Bientjes, and Eric Hodges.

(b) The proposal to ratify the selection of the firm Cinnamon Jang Willoughby & Company, an independent registered public accounting firm, to serve as our auditors for the year ending December 31, 2004, was passed with a majority of the outstanding shares voting "FOR" the proposal.

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(c) The proposal to ratify the granting of certain stock option compensation to our employees, directors and executive officers was passed with a majority of the outstanding shares voting "FOR" the proposal.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are attached hereto and filed herewith:

NUMBER	DESCRIPTION
31.1	Certification of Principal Executive Officer Pursuant to ss.302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to ss.302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. ss.1350 and ss.906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. ss.1350 and ss.906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

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

Dated: December 5, 2005.

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.

By:/s/ DANIEL B. O'BRIEN

Name: Daniel B. O'Brien
Title: President and Chief Executive Officer