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 MARCH 31, 2003.

|_| 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 11,671,916 shares of Common Stock, par value $0.001 per share, outstanding as of March 31, 2003.

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 March 31, 2003, which was previously filed with the Securities and Exchange Commission on May 14, 2003.

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 May 14, 2003 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.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB/A for the quarter ended March 31, 2003 ("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.

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PART I   FINANCIAL INFORMATION

Item 1. Financial Statements.

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
AT MARCH 31, 2003
(U.S. DOLLARS)

		MARCH 31, 2003 AS RESTATED (NOTE 3) (UNAUDITED)	
ASSETS			
CURRENT			
Cash	$	405,492	$
Short-term investment		5,112,762	
Accounts receivable		706,593	
Income tax recoverable		86,775	
Loan receivable		10,964	
Inventory		104,016	
Prepaid expenses		76,454	
		6,503,056	
PROPERTY AND EQUIPMENT		132,981	
INVESTMENT		32,500	
	$	6,668,537	$
LIABILITIES			
CURRENT			
Accounts payable	$	158,216	$
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			
11,691,916 and 11,570,916		11,671	
CAPITAL IN EXCESS OF PAR VALUE		6,761,311	
SHARE SUBSCRIPTION RECEIVABLE		(16,217)	
OTHER COMPREHENSIVE INCOME (LOSS)		23,829	
ACCUMULATED DEFICIENCY		(270,273)	
TOTAL STOCKHOLDERS' EQUITY		6,510,321	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	6,668,537	$

- See Notes to Unaudited Consolidated Financial Statements -

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002
(U.S. DOLLARS -- UNAUDITED)

	THREE MONTHS ENDED MARC	
	2003 AS RESTATED (NOTE 3)	
SALES	$ 1,281,266	$
COST OF SALES		
(Exclusive of depreciation shown separately below)	687,067	
GROSS PROFIT	594,199	
OPERATING EXPENSES		
Wages	138,670	
Professional fees	23,063	
Office	46,022	
Consulting (note 2)	95,764	
Travel	34,184	
Administration salaries and benefits	17,642	
Research and development	17,531	
Currency exchange	16,167	
Rent	14,398	
Subcontracting	10,248	
Telecommunications	8,762	
Shipping	3,692	
Stock promotion and transfer agent fee	33,120	
Bad debt expense (recovery)	--	
Depreciation	7,811	
	467,074	
INCOME BEFORE OTHER ITEM AND INCOME TAX	127,125	
INTEREST INCOME	50,268	
INCOME BEFORE INCOME TAX	177,393	
INCOME TAX	50,692	
NET INCOME	$ 126,701	$
NET INCOME PER SHARE	$ 0.01	$
DILUTED INCOME PER SHARE	$ 0.01	$

WEIGHTED AVERAGE NUMBER OF SHARES	11,610,138	
DILUTIVE EFFECTS OF OPTIONS	2,716,200	
WEIGHTED AVERAGE NUMBER OF SHARES WITH DILUTION	14,326,338	

- See Notes to Unaudited Consolidated Financial Statements -

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE PERIOD ENDED MARCH 31, 2003
(U.S. DOLLARS -- UNAUDITED)

	Shares	Par Value	Capital in Excess of Par value As Restated (Note 3)	Share Subscription Receivable	Accumulat Earning (Deficien As Restat (Note 3
BALANCE, DECEMBER 31, 1999	9,131,316	$ 9,131	$ 163,653	$ --	$ 76,
Translation adjustment	--	--	--	--	
Net income	--	--	--	--	138,
BALANCE, DECEMBER 31, 2000	9,131,316	$ 9,131	$ 163,653	$ --	$ 215,
SHARES ISSUED FOR					
Cash (October and December	9,500	9	4,116	--	
Services (January, July and November	132,000	132	139,868	--	
Stock option compensation	--	--	256,076	--	
Translation adjustment	--	--	--	--	
Net loss	--	--	--	--	(233,
BALANCE, DECEMBER 31, 2001	9,272,816	$ 9,272	$ 563,713	$ --	$ (18,
UNAUDITED INFORMATION					
Issued for cash					
Private placement	1,828,600	1,829	5,998,271	--	
Exercise of stock options	439,500	439	150,686	--	
Services	30,000	30	44,370	--	
Share issue costs	--	--	(250,000)	--	
Share subscription	--	--	--	(33,000)	
Payment of subscription Receivable	--	--	--	16,783	
Stock option compensation	--	--	117,608	--	
Translation adjustment	--	--	--	--	
Net loss, period ended September 30, 2002	--	--	--	--	(378,
BALANCE, SEPTEMBER 30, 2002	11,570,916	$ 11,570	$ 6,624,648	$ (16,217)	$ (396,

SHARES ISSUED FOR CASH					
Exercise of stock options	101,000	101	38,399	--	
Stock option compensation	--	--	98,264	--	
Translation adjustment	--	--	--	--	
Net income	--	--	--	--	126,
BALANCE, MARCH 31, 2003	11,671,916	$ 11,671	$ 6,761,311	$ (16,217)	$ (270,

- See Notes to Unaudited Consolidated Financial Statements -

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2003 AND 2002
(U.S. DOLLARS -- UNAUDITED)

	THREE MONTHS ENDED MARC	
	2003 AS RESTATED (NOTE 3)	2
OPERATING ACTIVITIES		
Net income	$ 126,701	$
Adjustment to reconcile net income to net cash, provided by operating activities		
Stock option compensation	98,264	
Depreciation	7,811	
Accrued interest income	(50,267)	
Changes in non-cash working capital		
Accounts receivable	(651,371)	
Inventory	99,814	
Prepaid expenses	10,867	
Accounts payable	105,070	
Income tax receivable	31,239	
Unrealized foreign exchange gain (loss)	37,277	
CASH USED IN OPERATING ACTIVITIES	(184,595)	
INVESTING ACTIVITIES		
Acquisition of property and equipment	(12,226)	
Note receivable	--	
Loan receivable	(882)	
CASH USED IN INVESTING ACTIVITIES	(13,108)	
FINANCING ACTIVITIES		
Proceeds from issuance of common stock	38,500	
Effect of exchange rate changes on cash	7,906	

OUTFLOW OF CASH	(151,297)	
Cash, beginning of period	556,789	
CASH, ENDING	$ 405,492	$

- See Notes to Unaudited Consolidated Financial Statements -

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2003
(U.S. DOLLARS)

1. BASIS OF PRESENTATION.

These unaudited consolidated financial statements 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, 2002 Form 10-KSB.

In the opinion of the Company's management, these consolidated financial statements reflect all adjustments necessary to present fairly the Company's consolidated financial position at March 31, 2003, and the consolidated results of operations and the consolidated statements of cash flows for the three months ended March 31, 2003 and 2002. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results to be expected for the entire fiscal year.

2. STOCKHOLDERS' EQUITY.

(a) During the period, the Company granted 50,000 stock options to consultants and has recognized consulting expense applying Statement of Financial Accounting Standard ("FAS") No. 123 using the Black-Scholes option-pricing model, which resulted in consulting expense of $20,625 for the three months ended March 31, 2003. Additional consulting expense of $21,059 has also been recognized on the 75,000 stock options granted on December 31, 2002, which have a vesting period of one year.

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

	Number of Shares	2003 Exercise Price Per Share	Weighted Average Exercise Price
Balance, December 31, 2002	3,671,800	$0.25 to $5.50	$ 3.79
Granted during the period	50,000	$3.25	3.25
Exercised	(101,000)	$0.25 to $1.50	(0.38)

Balance, March 31, 2003	3,620,800	$0.25 to $5.50	$ 3.79

The Company applies Accounting Principles Board ("APB") Opinion No. 25 and related interpretations in accounting for its stock options granted to employees, and accordingly, compensation expense of $2,500 was recognized as wages expense for the three months ended March 31, 2003. Had compensation expense been determined as provided in FAS No. 123 using the Black-Scholes option-pricing model, the pro-forma effect on the Company's net income and per share amounts for the three months ended March 31, 2003 would have been as follows:

Net income, as reported	$ 126,701
Net income, pro-forma	$ 33,958
Net income per share, as reported	$ 0.01
Net income per share, pro-forma	$ 0.01

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

Expected life (years)	5 years
Interest rate	3%
Volatility	36.55%
Dividend yield	0

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

3. 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 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 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 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 three months ended March 31, 2003 and the year ended December 31, 2002:

Balance sheet as at March 31, 2003 -

	Previously Reported	Increase (Decrease)	
Capital in excess of par value	$ 9,411,231	$ (2,649,920)	$
Accumulated deficiency	(2,920,193)	2,649,920	

Statement of operations for the three months ended March 31, 2003 -

	Previously Reported	Increase (Decrease)
Expenses	$ 412,994	$ 54,080
Income (loss) before other item and income tax	181,205	(54,080)
Income (loss) before income tax	231,473	(54,080)
Net income (loss)	180,781	(54,080)
Net income (loss) per share	0.02	(0.01)

Statement of cash flows for the three months ended March 31, 2003 -

	Previously Reported	Increase (Decrease)
Net income (loss)	$ 180,781	$ (54,080)
Stock option compensation	44,184	54,080

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Balance sheet as at December 31, 2002 -

	Previously Reported	Increase (Decrease)
Capital in excess of par value	$ 9,328,648	$ (2,704,000)
Accumulated deficiency	(3,100,974)	2,704,000

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 first quarter of fiscal 2003, gross sales increased $904,646, as compared to the first quarter of fiscal 2002. The increase was a result of increased production and sales in our swimming pool division as well as the first significant revenue generated by our WATER$AVR(R) product division. During the first quarter of fiscal 2003, we experienced an increase in net income of $105,680, as compared to the first quarter of fiscal 2002. The increase in net income was the result of the increase in revenue referred to above.

RESULTS OF OPERATIONS

The following analysis and discussion pertains to our results of operations for the three month period ended March 31, 2003, as compared to the results of operations for the three month period ended March 31, 2002.

THREE MONTHS ENDED MARCH 31, 2003 AND 2002

For the quarter ended March 31, 2003, sales increased approximately 240% to $1,281,266, as compared to $376,620 for the same quarter of the previous year. We experienced a higher volume of sales during the quarter ended March 31, 2003 because our "Tropical Fish" product continued to gain market share, we increased sales of our HEAT$AVR(R) product to the commercial pool sector, and our new WATER$AVR(R) product had its first significant quarter of revenue. Our management expects that these trends will continue in the future.

Our general and administrative expenses were $467,074 for the quarter ended March 31, 2003, an increase from $155,307 for the quarter ended March 31, 2002. This increase was the result of the continued growth in both our WATER$AVR(R) product division and our HEAT$AVR(R) product division. Notable increases included: (a) an increase in wages to $138,670 for the quarter ended March 31, 2003, as compared to $31,755 for the quarter ended March 31, 2002, resulting directly from new employees in our WATER$AVR(R) product division and an increase of employees at our Alberta, Canada factory that allowed for increased production of our products; (b) an increase in office costs for the quarter ended March 31, 2003 to $46,022, as compared to $29,149 for the quarter ended March 31, 2002, a result of the acquisition of new office space for our WATER$AVR(R) product division; (c) an increase in travel-related expenses for the quarter ended March 31, 2003 to $34,184, as compared to $7,611 for the quarter ended March 31, 2002, a result of increased worldwide sales efforts in the WATER$AVR(R) products division; (d) an increase in research and development expenses to $17,531 for the quarter ended March 31, 2003, as compared to nil for the quarter ended March 31, 2002, a result of breaking out the category; (e) an increase in currency exchange for the quarter ended March 31, 2003 to $16,167, as compared to nil for the quarter ended March 31, 2002, for the same reasons; (f) an increase in telecommunications charges for the quarter ended March 31, 2003 to $8,762, as compared to $2,257 for the quarter ended March 31,

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2002, as a result of the general increase in corporate activity and consulting, and (g) an increase in consulting expenses of $95,764 for the quarter ended March 31, 2003, as compared to nil for the quarter ended March 31, 2002, as a result of expensing options granted to consultants (this is a non-cash expense generated for accounting requirements).

Our management attributes the increase in general and administrative expenses to the fact that we have expanded our manufacturing and sales activities for our entire product line. Excluding the non-cash option expense, our operating costs increased approximately 139% for the quarter ended March 31, 2003 to $467,074, as compared to $155,307 for the quarter ended March 31, 2002, while revenue increased approximately 254%.

Net income for the quarter ended March 31, 2003 was $126,701, which represents an approximate increase of 603% over the quarter ended March 31, 2002, when net income was $21,021. As stated earlier, the increase in net income was due to an increase in sales of all our product lines and increased sales in our WATER$AVR(R) products division.

Our earnings per share were $0.01 (basic) and $0.01 (fully diluted) for the quarter ended March 31, 2003, as compared to $0.00 (basic) and $0.00 (fully diluted) for the quarter ended March 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2003, we had working capital of $6,344,840, which represented an increase of $5,810,013 as compared to our working capital position of $534,827 for the quarter ended March 31, 2002. The increase in working capital was due to net financings of $5,750,000 in April and July 2002 through the private placement of shares of our common stock, capital realized from the exercise of stock options in the twelve months prior to March 31, 2003, and the positive cash flow from operations over the prior twelve month period.

For the quarter ended March 31, 2003, our accounts receivable and inventory represented approximately 12.5% of our current assets and both continue to turn over at acceptable rates.

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

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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 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 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.

In December 2001, we filed a lawsuit in the Supreme Court of British Columbia, Canada, against John Wells and Equity Trust, S.A. seeking the return of 100,000 shares of our common stock and the 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 we are seeking the return of such shares after defendant's failure to both return the shares voluntarily and repay the note. Since the filing of the suit, we have 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.

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

During the quarter ended March 31, 2003, our employees exercised options to purchase a total of 31,000 shares of our common stock, for an aggregate exercise price of $21,000.00. The capital raised from these exercises was used for working capital purposes.

During the quarter ended March 31, 2003, our non-employee consultants exercised options to purchase a total of 70,000 shares of our common stock, for an aggregate exercise price of $17,500.00. 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.

None.

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.

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