

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)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 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
(State of Incorporation)

91-1922863
(IRS Employer Identification No.)

615 DISCOVERY STREET
VICTORIA, BRITISH COLUMBIA, CANADA
(Address of Principal Executive Offices)

V8T 5G4
(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 No

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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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 11,792,916 shares of Common Stock, par value \$0.001 per share, outstanding as of September 30, 2003.

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

FORM 10-QSB/A

Index

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

- | | |
|---|---|
| (a) Unaudited Consolidated Balance Sheets at September 30, 2003. | 1 |
| (b) Unaudited Consolidated Statements of Operations for the Nine Months Ended September 30, 2003 and 2002. | 2 |
| (c) Unaudited Consolidated Statements of Operations for the Three Months Ended September 30, 2003 and 2002. | 3 |
| (d) Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2003 and 2002. | 4 |
| (e) Notes to Unaudited Consolidated Financial Statements for the Period Ended September 30, 2003. | 5 |

Item 2. Management's Discussion and Analysis or Plan of Operation. 8

Item 3. Controls and Procedures. 11

PART II. OTHER INFORMATION

Item 1. Legal Proceedings. 12

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds. 12

Item 3. Defaults Upon Senior Securities. 12

Item 4. Submission of Matters to a Vote of Security Holders. 12

Item 5. Other Information. 12

Item 6. Exhibits. 12

SIGNATURES 13

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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 September 30, 2003, which was previously filed with the Securities and Exchange Commission on November 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 November 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.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB/A for the quarter ended September 30, 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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Item 1. Financial Statements.

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
AT SEPTEMBER 30, 2003
(U.S. DOLLARS)

| | SEPTEMBER 30, 2003 AS RESTATED (NOTE 4) (UNAUDITED) |
|--|---|
| | ----- |
| ASSETS | |
| CURRENT | |
| Cash and cash equivalents | \$ 141,435 |
| Short-term investments | 5,206,178 |
| Accounts receivable | 226,218 |
| Income tax receivable | 58,000 |
| Loan receivable | 11,909 |
| Inventory | 227,292 |
| Prepaid expenses | 52,636 |
| | ----- |
| | 5,923,670 |
| PROPERTY AND EQUIPMENT | 153,275 |
| INVESTMENT | 310,125 |
| | ----- |
| | \$ 6,387,070 |
| | ----- |
| LIABILITIES | |
| CURRENT | |
| Accounts payable and accrued liabilities | \$ 65,943 |
| 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 | |
| 11,792,916 (2002: 11,570,916) common shares | 11,793 |
| CAPITAL IN EXCESS OF PAR VALUE | 7,079,563 |
| SHARE SUBSCRIPTION RECEIVABLE | (13,217) |
| OTHER COMPREHENSIVE INCOME (LOSS) | 33,068 |
| DEFICIT | (790,080) |
| | ----- |
| TOTAL STOCKHOLDERS' EQUITY | 6,321,127 |
| | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 6,387,070 |
| | ----- |

- See Notes to Unaudited Consolidated Financial Statements -

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED -- U.S. DOLLARS)

| | NINE MONTHS ENDED S | |
|---|---------------------|------------|
| | ----- | |
| | 2003 | |
| | AS RESTATED | |
| | (NOTE 4) | |
| | ----- | |
| SALES | \$ | 1,982,571 |
| COST OF SALES | | 1,130,293 |
| | | ----- |
| GROSS PROFIT | | 852,278 |
| | | ----- |
| OPERATING EXPENSES | | |
| Wages | | 408,658 |
| Administrative salaries and benefits | | 60,258 |
| Advertising and promotion | | 60,915 |
| Investor relations and transfer agent fee | | 120,273 |
| Office and miscellaneous | | 59,334 |
| Rent | | 49,153 |
| Consulting | | 176,303 |
| Professional fees | | 173,143 |
| Travel | | 120,030 |
| Telecommunications | | 36,574 |
| Shipping | | 14,687 |
| Research and development | | 61,298 |
| Bad debt expense (recovery) | | 822 |
| Currency exchange | | 20,788 |
| Utilities | | 13,938 |
| Depreciation | | 24,768 |
| | | ----- |
| | | 1,400,942 |
| | | ----- |
| INCOME (LOSS) BEFORE INTEREST INCOME AND INCOME TAX | | (548,664) |
| INTEREST INCOME | | 155,195 |
| | | ----- |
| INCOME (LOSS) BEFORE INCOME TAX | | (393,469) |
| INCOME TAX RECOVERY | | (363) |
| | | ----- |
| NET INCOME (LOSS) | \$ | (393,106) |
| | | ----- |
| NET INCOME (LOSS) PER SHARE | \$ | (0.03) |
| | | ----- |
| WEIGHTED AVERAGE NUMBER OF SHARES | | 11,715,619 |
| | | ----- |

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- See Notes to Unaudited Consolidated Financial Statements -

2

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED -- U.S. DOLLARS)

| | THREE MONTHS ENDED SEP | |
|---|------------------------|------------|
| | ----- | |
| | 2003 | |
| | ----- | |
| SALES | \$ | 40,009 |
| COST OF SALES | | 34,944 |
| | | ----- |
| GROSS PROFIT | | 5,065 |
| | | ----- |
| OPERATING EXPENSES | | |
| Wages | | 74,786 |
| Administrative salaries and benefits | | 20,783 |
| Advertising and promotion | | 31,757 |
| Investor relations and transfer agent fee | | 51,606 |
| Office and miscellaneous | | 24,559 |
| Rent | | 11,601 |
| Consulting | | 39,572 |
| Professional fees | | 45,270 |
| Travel | | 41,611 |
| Telecommunications | | 11,976 |
| Shipping | | 6,409 |
| Research and development | | 41,594 |
| Bad debt expense (recovery) | | 822 |
| Currency exchange | | (42,172) |
| Utilities | | 3,710 |
| Depreciation | | 8,841 |
| | | ----- |
| | | 372,725 |
| | | ----- |
| INCOME (LOSS) BEFORE INTEREST INCOME AND INCOME TAX | | (367,660) |
| INTEREST INCOME | | 50,949 |
| | | ----- |
| INCOME (LOSS) BEFORE INCOME TAX | | (316,711) |
| INCOME TAX (RECOVERY) | | (26,457) |
| | | ----- |
| NET INCOME (LOSS) | \$ | (290,254) |
| | | ----- |
| NET INCOME (LOSS) PER SHARE | \$ | (0.02) |
| | | ----- |
| WEIGHTED AVERAGE NUMBER OF SHARES | | 11,791,612 |
| | | ----- |

- See Notes to Unaudited Consolidated Financial Statements -

3

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002
(UNAUDITED -- U.S. DOLLARS)

| | NINE MONTHS ENDED SE | |
|---|----------------------|-----------|
| | ----- | |
| | 2003 | |
| | AS RESTATED | |
| | (NOTE 4) | |
| | ----- | |
| OPERATING ACTIVITIES | | |
| Net income (loss) | \$ | (393,106) |
| Stock compensation expense | | 123,078 |
| Depreciation | | 24,768 |
| Changes in non-cash working capital items: | | |
| Accounts receivable | | (170,996) |
| Inventory | | (23,462) |
| Prepaid expenses | | 34,685 |
| Accounts payable | | 12,796 |
| Income tax receivable | | 60,014 |
| | | ----- |
| CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES | | (332,223) |
| | | ----- |
| INVESTING ACTIVITIES | | |
| Acquisition of property and equipment | | (49,477) |
| Purchase of short-term investments | | (143,683) |
| Acquisition of investments | | (277,626) |
| Loan receivable | | (1,827) |
| | | ----- |
| CASH USED IN INVESTING ACTIVITIES | | (472,613) |
| | | ----- |
| FINANCING ACTIVITIES | | |
| Proceeds from issuance of common stock | | 401,058 |
| Subscriptions received | | 3,000 |
| | | ----- |
| CASH PROVIDED BY FINANCING ACTIVITIES | | 404,058 |
| | | ----- |
| Effect of exchange rate changes on cash | | (14,576) |
| | | ----- |
| INFLOW (OUTFLOW) OF CASH | | (415,354) |
| Cash and cash equivalents, beginning | | 556,789 |
| | | ----- |
| CASH AND CASH EQUIVALENTS, ENDING | \$ | 141,435 |
| | | ----- |

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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

| | | | |
|-------------------|----|---------|----|
| Income taxes paid | \$ | 58,000 | \$ |
| Interest received | | 155,196 | |
| | | ----- | |

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:

| | | | |
|--------------------------------------|----|---------|----|
| Issue of common stock for investment | \$ | 271,000 | \$ |
| | | ----- | |

- See Notes to Unaudited Consolidated Financial Statements -

4

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 FOR THE PERIOD ENDED SEPTEMBER 30, 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 September 30, 2003, and the consolidated results of operations and the consolidated statements of cash flows for the nine months ended September 30, 2003 and 2002. The results of operations for the three months ended September 30, 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 30,000 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 expense of \$12,407 for the three months ended June 30, 2003.

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

| | 2003 | |
|-------------------------|---------------------|--------------------------------|
| | Number of Shares | Exercise Price Per Share |
| Balance, March 31, 2003 | 3,620,800 | \$ 0.25 to \$ 5.50 |

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| | | |
|---------------------------|-----------|--------------------|
| Granted During the Period | 2,000 | \$ 4.25 |
| Exercised | (5,000) | \$ 0.25 to \$ 2.28 |
| Balance, June 30, 2003 | 3,617,800 | \$ 0.25 to \$ 5.50 |

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

3. SUBSEQUENT EVENTS.

On October 9, 2003, the Company announced the modification of the distribution agreement with Ondeo Nalco Company ("Ondeo"). Ondeo fell short of sales targets to maintain exclusive distributorship of WATER\$AVR(R), opening other avenues for the Company to pursue key markets internally. This resulted in the return of two million incentive stock options, which will be accounted for in the next quarter.

5

4. 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

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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 nine months ended September 30, 2003, the nine months ended September 30, 2002, the three months ended September 30, 2003 and the year ended December 31, 2002:

6

Balance sheet as at September 30, 2003 -

| | Previously Reported | Increase (Decrease) |
|--------------------------------|------------------------|------------------------|
| Capital in excess of par value | \$ 9,729,483 | \$ (2,649,920) |
| Accumulated deficiency | (3,440,000) | 2,649,920 |

Statement of operations for the nine months ended September 30, 2003 -

| | Previously Reported | Increase (Decrease) |
|---|------------------------|------------------------|
| Expenses | \$ 1,346,862 | \$ 54,080 |
| Income (loss) before other item and income tax | (494,584) | (54,080) |
| Income (loss) before income tax | (339,389) | (54,080) |
| Net income (loss) | (339,026) | (54,080) |
| Net income (loss) per share | (0.03) | -- |

Statement of cash flows for the nine months ended September 30, 2003 -

| | Previously Reported | Increase (Decrease) |
|-------------------|------------------------|------------------------|
| Net income (loss) | \$ (339,026) | \$ (54,080) |

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| | | |
|---------------------------|--------|--------|
| Stock option compensation | 68,998 | 54,080 |
|---------------------------|--------|--------|

Statement of operations for the nine months ended September 30, 2002 -

| | Previously Reported | Increase (Decrease) |
|---|------------------------|------------------------|
| Expenses | \$ 3,381,707 | \$ (2,704,000) |
| Income (loss) before other item and income tax | (2,886,584) | 2,704,000 |
| Income (loss) before income tax | (2,871,363) | 2,704,000 |
| Net income (loss) | (2,871,363) | 2,704,000 |
| Net income (loss) per share | (0.27) | 0.25 |

Statement of cash flows for the nine months ended September 30, 2002 -

| | Previously Reported | Increase (Decrease) |
|---------------------------|------------------------|------------------------|
| Net income (loss) | \$ (2,871,363) | \$ 2,704,000 |
| Stock option compensation | 2,844,758 | (2,704,000) |

Statement of operations for the three months ended September 30, 2002 -

| | Previously Reported | Increase (Decrease) |
|---|------------------------|------------------------|
| Expenses | \$ 2,865,049 | \$ (2,704,000) |
| Income (loss) before other item and income tax | (2,864,574) | 2,704,000 |
| Income (loss) before income tax | (2,849,353) | 2,704,000 |
| Net income (loss) | (2,806,010) | 2,704,000 |
| Net income (loss) per share | (0.25) | 0.24 |

7

Statement of operations for the three months ended September 30, 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

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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.

For the three months ended September 30, 2003, we experienced a net loss of \$290,254, as compared to a net loss of \$102,010 for the three months ended September 30, 2002. As in the quarter ended September 30, 2002, the end of the swimming pool season in the Northeastern parts of the United States and Canada reduces demand for our products and results in low production requirements for the third quarter, which resulted in revenue of \$40,009 for the quarter ended September 30, 2003, as compared to revenue of \$55,257 for the quarter ended September 30, 2002. In addition, we increased our expenditures in the sales and marketing of our WATER\$AVR(R) product line, as well as for production equipment development. Finally, we produced an accurate amount of product in the quarters ended March 31, 2003 and June 30, 2003 as a percentage of annual sales and, therefore, did not have to carry high production rates into the quarter ended September 30, 2002.

RESULTS OF OPERATIONS

The following analysis and discussion pertains to our results of operations for the three and nine month periods ended September 30, 2003, as compared to the results of operations for the three and nine month periods ended September 30, 2002, and to changes in our financial condition from December 31, 2002 to September 30, 2003.

THREE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

For the three months ended September 30, 2003, we achieved sales of \$40,009, as compared to \$55,257 for the quarter ended September 30, 2002. These results were as expected because our third fiscal quarter is typically our slowest quarter as most sales to the residential pool market are completed by the end of second quarter each year.

Our operating expenses were \$372,725 for the quarter ended September 30, 2003, an increase from \$161,049 in the quarter ended September 30, 2002. We continued to increase spending on sales and marketing for our WATER\$AVR(R) product line and we increased our spending on advanced production machinery. The largest real increases were in the areas of wages (\$74,786 for the quarter ended

8

September 30, 2003, as compared to \$28,880 in the quarter ended September 30, 2002), advertising and promotion (\$31,757 for the quarter ended September 30, 2003, as compared to \$8,976 in the quarter ended September 30, 2002), investor relations and transfer agent fees (\$51,606 for the quarter ended September 30, 2003, as compared to \$15,510 in the quarter ended September 30, 2002), travel (\$41,611 for the quarter ended September 30, 2003, as compared to \$13,608 in the quarter ended September 30, 2002), and research and development (from \$61,298 in the quarter ended September 30, 2003, as compared to nil in the quarter ended September 30, 2002). These increases were primarily related to promoting, developing and marketing our new WATER\$AVR(R) products. Additional personnel were hired for these purposes and travel-related costs increased in order to promote our products throughout North America and around the world.

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Our net loss for the quarter ended September 30, 2003 was \$290,254, an increase from \$102,010 in the quarter ended September 30, 2002. Our cost of sales decreased to 87% for the quarter ended September 30, 2003, as compared to 99% in the quarter ended September 30, 2002, as a result of lower sales with a concurrent larger reduction in costs.

Our net loss per share was \$0.02 for the quarter ended September 30, 2003, as compared to a net loss of \$0.01 for the quarter ended September 30, 2002.

NINE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

Sales in the nine months ended September 30, 2003 were \$1,982,571, as compared to \$1,089,164 for the nine months ended September 30, 2002. This 82% increase was a result of the increase in sales in our swimming pool division in the first two quarters combined with our first significant sales from our WATER\$AVR(R) product line.

Our operating expenses for the nine months ended September 30, 2003 were \$1,400,942, as compared to \$677,707 for the nine months ended September 30, 2002. The cash increase in operating expenses was a result of increases in sales and marketing costs for WATER\$AVR(R) product line.

Our net loss for the nine months ended September 30, 2003 was \$393,106, as compared to a net loss of \$167,363 for the nine months ended September 30, 2002. Our cash flow (loss) from operations decreased substantially to (\$332,223) in the nine months ended September 30, 2003, as compared to (\$61,399) in the nine months ended September 30, 2002, as costs related to the sales and marketing of our WATER\$AVR(R) product line increased.

Our net loss per share for the nine months ended September 30, 2003 was \$0.03, as compared to \$0.02 for the nine months ended September 30, 2002.

LIQUIDITY AND CAPITAL RESOURCES

We have cash on hand of \$5,347,613 as of September 30, 2003. In addition, for the quarter ended September 30, 2003, we had working capital of \$5,857,728, as compared to working capital of \$6,040,607 as of December 31, 2002. The decrease was a result of operational costs incurred in the sales and marketing of our WATER\$AVR(R) product line during the nine months ended September 30, 2003. We have no external sources of liquidity in the form of credit lines from banks.

Our management believes that our available cash will be sufficient to fund our working capital requirements through December 31, 2003. Our management further believes that available cash will be sufficient to implement our expansion plans. No investment banking agreements are 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

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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 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;

10

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

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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.

11

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

From time to time we are involved in litigation incidental to the

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conduct of our business. While the outcome of lawsuits and other proceedings against us cannot be predicted with certainty, in the opinion of management, no such lawsuits, either individually or in the aggregate, are expected to have a material effect on our financial position or results of operations.

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

During the quarter ended September 30, 2003, our employees exercised options to purchase 5,000 shares of our common stock, for an aggregate exercise price of \$7,000.00. 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.

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.

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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