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, 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 11,787,916 shares of Common Stock, par value $0.001 per share, outstanding as of June 30, 2003.

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

FORM 10-QSB

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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, 2003, which was previously filed with the Securities and Exchange Commission on August 12, 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 August 12, 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 June 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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PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	JUNE 30, 2003 AS RESTATED (NOTE 4) (UNAUDITED)
ASSETS	
CURRENT	
Cash and cash equivalents	$ 240,786
Short-term investments	5,153,566
Accounts receivable	545,709
Income tax receivable	30,990
Loan receivable	11,909
Inventory	146,241
Prepaid expenses	101,445
	6,230,646
PROPERTY AND EQUIPMENT	154,438
INVESTMENT	303,500
	$ 6,688,583
LIABILITIES	
CURRENT	
Accounts payable and accrued liabilities	$ 63,923
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	
	11,788
CAPITAL IN EXCESS OF PAR VALUE	7,060,420
SHARE SUBSCRIPTION RECEIVABLE	(20,777)
OTHER COMPREHENSIVE INCOME (LOSS)	73,579
DEFICIT	(500,350)
TOTAL STOCKHOLDERS' EQUITY	6,624,660
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 6,688,583

- See Notes to Unaudited Consolidated Financial Statements -

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

	THREE MONTHS E
	2003
SALES	$ 661,296
COST OF SALES	408,835
GROSS PROFIT	252,461
OPERATING EXPENSES	
Wages	195,202
Administrative salaries and benefits	21,833
Advertising and promotion	13,094
Investor relations and transfer agent fee	35,547
Office and miscellaneous	4,817
Rent	23,124
Consulting	30,719
Professional fees	104,810
Travel	44,235
Telecommunications	15,838
Shipping	4,586
Research	2,173
Bad debt recovery	--
Currency exchange	46,792
Utilities	10,227
Depreciation	8,116
	561,114
INCOME (LOSS) BEFORE INTEREST INCOME AND INCOME TAX	(308,653)
INTEREST INCOME	53,978
INCOME (LOSS) BEFORE INCOME TAX	(254,675)
INCOME TAX (RECOVERY)	(24,598)
NET INCOME (LOSS)	$ (230,077)
NET INCOME (LOSS) PER SHARE	$ (0.02)
WEIGHTED AVERAGE NUMBER OF SHARES	11,709,916

- See Notes to Unaudited Consolidated Financial Statements -

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

	SIX MONTHS ENDED	
	2003 AS RESTATED (NOTE 4)	
SALES	$ 1,942,562	$
COST OF SALES	1,095,902	
GROSS PROFIT	846,660	
OPERATING EXPENSES		
Wages	333,872	
Administrative salaries and benefits	39,475	
Advertising and promotion	29,158	
Investor relations and transfer agent fee	68,667	
Office and miscellaneous	34,775	
Rent	37,522	
Consulting	136,731	
Professional fees	127,873	
Travel	78,419	
Telecommunications	24,600	
Shipping	8,278	
Research	19,704	
Bad debt recovery	--	
Currency exchange	62,959	
Utilities	10,227	
Depreciation	15,927	
	1,028,188	
INCOME (LOSS) BEFORE INTEREST INCOME AND INCOME TAX	(181,528)	
INTEREST INCOME	104,246	
INCOME (LOSS) BEFORE INCOME TAX	(77,282)	
INCOME TAX RECOVERY	26,094	
NET INCOME (LOSS)	$ (103,376)	$
NET INCOME (LOSS) PER SHARE	$ (0.01)	$
WEIGHTED AVERAGE NUMBER OF SHARES	11,677,988	

- See Notes to Unaudited Consolidated Financial Statements -

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

	SIX MONTHS ENDED
	2003 AS RESTATED (NOTE 4)
OPERATING ACTIVITIES	
Net income (loss)	$ (103,377)
Stock compensation expense	110,671
Depreciation	15,927
Changes in non-cash working capital items:	
Accounts receivable	(490,487)
Inventory	57,589
Prepaid expenses	(14,124)
Accounts payable	10,777
Income tax receivable	87,024
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(325,999)
INVESTING ACTIVITIES	
Acquisition of property and equipment	(41,799)
Purchase of short-term investments	(91,071)
Acquisition of investments	(271,000)
Loan receivable	(1,827)
CASH USED IN INVESTING ACTIVITIES	(405,697)
FINANCING ACTIVITIES	
Proceeds from issuance of common stock	325,320
Subscriptions received	(4,560)
CASH PROVIDED BY FINANCING ACTIVITIES	320,760
Effect of exchange rate changes on cash	94,933
INFLOW (OUTFLOW) OF CASH	(316,003)
Cash and cash equivalents, beginning	556,789
CASH AND CASH EQUIVALENTS, ENDING	$ 240,786

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Income taxes paid	$ 78,378	$
Interest received	104,246	

SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:

Issue of common stock for investment	$ 271,000	$

- See Notes to Unaudited Consolidated Financial Statements -

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 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 June 30, 2003, and the consolidated results of operations and the consolidated statements of cash flows for the six months ended June 30, 2003 and 2002. The results of operations for the six months ended June 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 have 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. Additional consulting expense of $41,324 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:

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

Granted During the Period	30,000	$ 4.25	
Exercised	(16,000)	$ 0.25 to $ 2.28	
Balance, March 31, 2004	3,364,800	$ 0.25 to $ 5.50	$

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

3. INVESTMENTS.

On May 31, 2003, the Company issued 100,000 shares of its common stock to acquire an option to purchase a 20% interest in the privately-held Tatko Biotechnology Inc. ("Tatko"). Tatko's patented azo-spirillum crop enhancement products complement the Company's own patented technologies. The cost of this investment has been recorded based on the fair market value of the common stock of the Company at the date of the acquisition and the option expires on June 1, 2008.

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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 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.

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The following presents the effect on the Company's previously issued financial statements for the six months ended June 30, 2003 and the year ended December 31, 2002:

Balance sheet as at June 30, 2003 -

	Previously Reported	Increase (Decrease)	
Capital in excess of par value	$ 9,710,340	$ (2,649,920)	$
Accumulated deficiency	(3,150,270)	2,649,920	

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)	

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

	Previously Reported	Increase (Decrease)	
Net income (loss)	$ (49,296)	$ (54,080)	$
Stock option compensation	56,951	54,080	

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	

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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, 2003, we experienced a net after tax income (loss) of ($230,077), as compared to income of $22,261 for the three months ended June 30, 2002. The loss resulted from the following: (a) an increase in wages and travel-related costs in connection with our WATER$AVR(R) product division required by the worldwide sales effort that we began in late 2002, (b) greater expenses for professional fees, including legal fees for the filing of our Registration Statement on Form SB-2, (c) an increase in costs resulting from international patent prosecution and the listing of our common stock on the American Stock Exchange, and (d) currency exchange adjustments resulting from the lower U.S. Dollar and the higher Canadian Dollar. Our cost of sales was greatly impacted by these currency exchange adjustments, rising to 61.7% for the three months ended June 30, 2003 from 52.8% in prior year's period, as our raw material and wage inputs are accounted for in Canadian Dollars while our receivables are in accounted for in U.S. Dollars, and our product prices were determined in fall 2002. Part of the increase in cost of sales was also due to the increase in oil prices in the quarter ended June 30, 2003, leading to higher shipping, plastics and chemical prices. Our management intends to increase prices to regain margin prior to the next sales season. Our sales were largely unchanged in our swimming pool division the three months ended June 30, 2003, as a result of a second poor spring and early summer in the Northeastern part of the United States and Canada. Our WATER$AVR(R) product division achieved no sales in the quarter ended June 30, 2003, which was expected, as the sales cycle in that product line is long and the next scheduled payment from our largest distributor is expected occur in the third quarter of 2003. The overall result was a net income (loss) of ($230,077) for the quarter ended June 30, 2003 and a net income (loss) of ($103,376) for the six months ended June 30, 2003.

RESULTS OF OPERATIONS

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

THREE MONTHS ENDED JUNE 30, 2003 AND 2002

For the quarter ended June 30, 2003, sales were $661,296, as compared to $665,245 for the quarter ended June 30, 2002. The largely unchanged sales were a result of our distributors selling less of our swimming pool product into our primary residential markets in the Northeastern parts of the United States and Canada, which was due to cold weather early in the swimming pool season. In addition, our WATER$AVR(R) products division recorded no sales in the quarter ended June 30, 2003.

Operating expenses were $561,114 for the quarter ended June 30, 2003, an increase from $232,258 for the quarter ended June 30, 2002. This increase in operating expenses is a result of increased costs related to higher costs for products sold, increased professional fees for patent prosecution, professional fees and costs in connection with the filing of our Registration Statement on Form SB-2, and currency exchange losses in connection with the changes in the proportionate values of the U.S. Dollar versus the Canadian Dollar. The largest increases were in the areas of wages ($195,202 for the quarter ended June 30, 2003, as compared to $75,449 for the quarter ended June 30, 2002), travel ($44,235 for the quarter ended June 30, 2003, as compared to $2,725 for the quarter ended June 30, 2002), professional fees ($104,810 for the quarter ended June 30, 2003, as compared to $2,545 for the quarter ended June 30, 2002), currency exchange ($46,792 for the quarter ended June 30, 2003, as compared to nil for the quarter ended June 30, 2002), and telecommunications expenses ($15,838 for the quarter ended June 30, 2003, as compared to $2,677 for the quarter ended June 30, 2002).

Our net income (loss) for the quarter ended June 30, 2003 was ($230,077), which represents a decrease over the comparable period for the quarter ended June 30, 2002 when our net income was $22,261. The decrease in income was the result of higher costs for products sold, increased activity in all aspects of our WATER$AVR(R) products division, increased professional fees for patent prosecution, professional fees and costs in connection with the filing of our Registration Statement on Form SB-2, costs for the listing of our common stock on the American Stock Exchange, and currency exchange losses in connection with the changes in the proportionate values of the U.S. Dollar versus the Canadian Dollar. In addition, a proportion of the increased wage and administrative costs were associated with increased research and development for our new products.

Our earnings (loss) per share (fully diluted) was ($0.02) for the three months ended June 30, 2003, as compared to $0.00 for the three months ended June 30, 2002.

SIX MONTHS ENDED JUNE 30, 2003 AND 2002

Sales in the first six months ended June 30, 2003 were $1,942,562, as compared to $1,041,865 for the six months ended June 30, 2002. The increase in sales is attributable to greater demand for our swimming pool products in the first three months of 2003, combined with the first major sale of our WATER$AVR(R) product, which is tempered by largely unchanged swimming pool sales in the second three months of 2003, all of which resulted in an increase of $900,697 for the six months ended June 30, 2003, as compared to the period ended June 30, 2002.

Our operating expenses were $1,028,188 for the six months ended June 30, 2003, an increase of $640,623 from $387,565 for the six months ended June 30, 2002. The increase in operating expenses is a result of increased salaries, wages, professional fees, travel-related expenses, telecommunications

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expenses, and research and development expenses, as well as the expansion of sales and marketing for our commercial swimming pool products and water conservation products.

Our net income (loss) for the six months ended June 30, 2003 was ($103,376), as compared to a net income of $43,282 for the six months ended June 30, 2002. The decrease in income was due to the increase in expenses related to our new product research, development and marketing. In addition, the U.S. Dollar dropped in comparison to the Canadian Dollar for the entire six month period and this has had the effect of increasing our input costs for product manufactured in Canada, which has increased our cost of goods sold to 56% for the six months ended June 30, 2003 as compared to 42% for the six months ended June 30, 2002. International uncertainty drove oil prices to greater levels throughout the period as well, further increasing our shipping and utility costs, as well as increasing the cost of plastics and chemicals used in our swimming pool products.

Our earnings (loss) per share (fully diluted) was ($0.01) for the six month period ended June 30, 2003, as compared to $0.00 for the six month period ended June 30, 2002.

LIQUIDITY AND CAPITAL RESOURCES

As of June 30, 2003, we had working capital of $6,166,723, which represented an increase of $126,116, as compared to our working capital position for the period ended December 31, 2002. The increase in working capital was a result of operating earnings and interest income from the six month period ending June 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 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.

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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.

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

In the quarter ended June 30, 2003, we issued 16,000 shares of our common stock to consultants for an aggregate sales price of $15,280.00 in an offering exempt from registration from the federal securities laws under Rule 506 of Regulation D of the Securities Act of 1933, as amended. The capital raised in this financing was used for working capital purposes.

On May 31, 2003, we issued 100,000 shares of our common stock to acquire an option to purchase a 20% interest in the privately-held Tatko Biotechnology Inc. ("Tatko"). Tatko's patented azo-spirillum crop enhancement products complement our own patented technologies. The cost of this investment has been recorded based on the fair market value of our common stock at the date of the acquisition and the option we hold expires on June 1, 2008.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

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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