

FLEXIBLE SOLUTIONS INTERNATIONAL INC  
Form 10-Q  
November 12, 2009

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, DC 20549  
**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

OR

TRANSITION REPORT PURSUANT TO 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

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

Commission File Number: 001-31540

**FLEXIBLE SOLUTIONS INTERNATIONAL INC.**

(Exact Name of Issuer as Specified in Its Charter)

Nevada

91-1922863

\_\_\_\_\_  
(State or other jurisdiction of incorporation or organization)

\_\_\_\_\_  
(I.R.S. Employer Identification No.)

615 Discovery St.  
Victoria, British Columbia, Canada

V8T 5G4

\_\_\_\_\_  
(Address of Issuer's Principal Executive Offices)  
Issuer's telephone number: (250) 477-9969

\_\_\_\_\_  
(Zip Code)

N/A

\_\_\_\_\_  
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) had been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One):

Edgar Filing: FLEXIBLE SOLUTIONS INTERNATIONAL INC - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Exchange Act).

Yes

No

Class of Stock

No. Shares Outstanding

Date

Common

13,962,567

November 6, 2009

---

---

**FORM 10-Q**

Index

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements.

- (a) Unaudited Consolidated Balance Sheets at September 30, 2009 and December 31, 2008.
- (b) Unaudited Consolidated Statements of Operations for the Three Months Ended September 30, 2009 and 2008.
- (c) Unaudited Consolidated Statements of Operations for the Nine Months Ended September 30, 2009 and 2008.
- (d) Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008.
- (e) Notes to Unaudited Consolidated Financial Statements for the Period Ended September 30, 2009.

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

Item 4T. Controls and Procedures.

**PART II. OTHER INFORMATION**

Item 6. Exhibits.

**SIGNATURES**

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact are forward-looking statements for the purposes of the federal and state securities laws, including, but not limited to any projections of earnings, revenue or other financials items; any statements of the plans, strategies and objectives of management for future operations; any statements concerning proposed new services or developments; any statements regarding future economic conditions or performance; any statements regarding future economic conditions or performance; any statements of belief; and any statements of assumptions underlying any of the foregoing.

Forward-looking statements may include the words may, could, will, estimate, intend, continue, believe, expect or anticipate, or similar words. These forward-looking statements present our estimates and assumptions only as of the date of this report. Except for our ongoing obligation to disclose material information as required by the federal securities laws, we do not intend, and undertake no obligation, to update any forward-looking statement.

Although we believe that the expectations reflected in any of our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in any of our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and inherent risks and uncertainties. The factors impacting these risks and uncertainties include but are not limited to:

Increased competitive pressures from existing competitors and new entrants;

Increases in interest rate or our cost of borrowing or a default under any material debt agreement;

Deterioration in general or regional economic conditions;

Adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;

Loss of customers or sales weakness;

Inability to achieve future sales levels or other operating results;

The unavailability of funds for capital expenditures; and

Operational inefficiencies in distribution or other systems.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008.

**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.**

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**At September 30, 2009**  
**(U.S. Dollars)**

	September 30, 2009 (Unaudited)	December 31, 2008
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 1,909,899	\$ 1,894,045
Accounts receivable	1,680,252	1,642,001
Inventory	2,523,355	3,591,112
Prepaid expenses	135,766	109,494
	<u>6,249,272</u>	<u>7,236,617</u>
<b>Property, plant and equipment</b>	7,150,023	5,882,223
<b>Patents</b>	223,239	204,203
<b>Long term deposits</b>	18,802	32,713
	<u>\$ 13,641,336</u>	<u>\$ 13,355,756</u>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 525,008	\$ 771,180
Current portion of long term loan	116,050	
	<u>641,058</u>	
<b>Long Term</b>		
Loans	1,859,456	1,546,836
	<u>\$ 2,500,514</u>	<u>\$ 2,318,016</u>
<b>Stockholders Equity</b>		
<b>Capital stock</b>		
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		
13,962,567 (2008: 14,062,567) common shares	13,963	14,063
<b>Capital in excess of par value</b>	16,378,582	16,259,614
<b>Other comprehensive income</b>	249,180	(244,788)
<b>Deficit</b>	(5,500,903)	(4,991,149)
	<u>11,140,822</u>	<u>11,037,740</u>
<b>Total Stockholders Equity</b>	<u>11,140,822</u>	<u>11,037,740</u>

Edgar Filing: FLEXIBLE SOLUTIONS INTERNATIONAL INC - Form 10-Q

<b>Total Liabilities and Stockholders Equity</b>	\$	13,641,336	\$	13,355,756
--	----	------------	----	------------

**Commitments and Contingencies (Notes 13 and 14)**

See Notes to Unaudited Consolidated Financial Statements

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Three Months Ended September 30, 2009 and 2008**  
**(U.S. Dollars Unaudited)**

	Three Months Ended September 30,	
	2009	2008
<b>Sales</b>	\$ 2,448,994	\$ 2,097,351
<b>Cost of sales</b>	1,476,046	1,111,547
<b>Gross profit</b>	972,948	985,804
<b>Operating expenses</b>		
Wages	343,656	330,657
Administrative salaries and benefits	107,627	99,162
Advertising and promotion	6,576	13,612
Investor relations and transfer agent fee	29,874	24,238
Office and miscellaneous	159,854	138,957
Insurance	49,026	59,675
Interest expense	19,741	1,445
Rent	65,859	66,517
Consulting	42,565	53,645
Professional fees	58,152	28,000
Travel	34,807	23,179
Telecommunications	9,319	7,929
Shipping	11,672	6,412
Research	8,300	7,219
Commissions	8,510	20,899
Currency exchange	91,147	(40,072)
Utilities	16,762	279
	1,063,447	841,753
<b>Income (loss) before other items and income tax</b>	(90,499)	144,051
<b>Interest income</b>		378
<b>Income (loss) before income tax</b>	(90,499)	144,429
<b>Income tax</b>	71,183	
<b>Net income (loss)</b>	(161,682)	144,429
<b>Net income (loss) per share (basic and diluted)</b>	\$ (0.01)	\$ 0.01
<b>Weighted average number of common shares</b>	13,962,567	14,057,567

See Notes to Unaudited Consolidated Financial Statements

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Nine Months Ended September 30, 2009 and 2008**  
**(U.S. Dollars Unaudited)**

	Nine Months Ended September 30,	
	2009	2008
<b>Sales</b>	\$ 7,381,301	\$ 8,518,441
<b>Cost of sales</b>	5,058,024	5,087,051
<b>Gross profit</b>	2,323,277	3,431,390
<b>Operating expenses</b>		
Wages	1,023,809	936,412
Administrative salaries and benefits	290,038	271,272
Advertising and promotion	49,835	82,193
Investor relations and transfer agent fee	39,393	112,269
Office and miscellaneous	332,066	330,232
Insurance	124,769	162,210
Interest expense	47,431	3,407
Rent	187,211	201,627
Consulting	120,676	141,498
Professional fees	171,919	94,407
Travel	97,438	91,197
Telecommunications	23,749	26,858
Shipping	33,125	29,626
Research	21,025	75,001
Commissions	57,867	102,470
Bad debt expense (recovery)	(695)	482
Currency exchange	98,342	(63,496)
Loss on sale of equipment		29,048
Utilities	43,850	4,856
	2,761,848	2,631,569
<b>Income (loss) before other items and income tax</b>	(438,571)	799,821
<b>Interest income</b>		2,405
<b>Income (loss) before income tax</b>	(438,571)	802,226
<b>Income tax (recovery)</b>	71,183	
<b>Net income (loss)</b>	(509,754)	802,226
<b>Net income (loss) per share (basic and diluted)</b>	\$ (0.04)	\$ 0.06
<b>Weighted average number of common shares</b>	14,028,313	14,057,567

See Notes to Unaudited Consolidated Financial Statements





**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Nine Months Ended September 30, 2009 and 2008**  
**(U.S. Dollars Unaudited)**

	Nine Months Ended September 30,	
	2009	2008
<b>Operating activities</b>		
Net income (loss)	\$ (509,754)	\$ 802,226
Stock compensation expense	198,875	248,097
Depreciation	301,595	341,433
Judgment from lawsuit	(80,000)	
Changes in non-cash working capital items:		
(Increase) Decrease in accounts receivable	(38,251)	(734,044)
(Increase) Decrease in inventory	1,067,756	(1,391,756)
(Increase) Decrease in prepaid expenses	(26,307)	13,722
Increase (Decrease) in accounts payable	(246,172)	76,131
Increase (Decrease) in deferred revenue		(9,870)
<b>Cash provided by (used in) operating activities</b>	<b>667,742</b>	<b>(654,061)</b>
<b>Investing activities</b>		
Long term deposits	13,911	13,711
Development of patents	(19,036)	10,358
Acquisition of property and equipment	(1,569,395)	(2,223,788)
<b>Cash provided by (used in) investing activities</b>	<b>(1,574,520)</b>	<b>(2,199,719)</b>
<b>Financing activities</b>		
Loan	428,670	359,947
<b>Cash provided by financing activities</b>	<b>428,670</b>	
Effect of exchange rate changes on cash	493,962	(192,239)
<b>Inflow (outflow) of cash</b>	<b>15,854</b>	<b>(2,686,072)</b>
Cash and cash equivalents, beginning	1,894,045	3,355,854
<b>Cash and cash equivalents, ending</b>	<b>\$ 1,909,899</b>	<b>\$ 669,782</b>
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 47,431	\$ 3,407

See Notes to Unaudited Consolidated Financial Statements



**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

1. Basis of Presentation.

These unaudited consolidated financial statements of Flexible Solutions International, Inc (the Company ) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. These financial statements are condensed and do not include all disclosures required for annual financial statements. The organization and business of the Company, accounting policies followed by the Company and other information are contained in the notes to the Company s audited consolidated financial statements filed as part of the Company s December 31, 2008 Annual Report on Form 10-K. This quarterly report should be read in conjunction with the annual report.

In the opinion of the Company s management, these consolidated financial statements reflect all adjustments necessary to present fairly the Company s consolidated financial position at September 30, 2009, and the consolidated results of operations and the consolidated statements of cash flows for the nine months ended September 30, 2009 and 2008. The results of operations for the three and nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the entire fiscal year.

These consolidated financial statements include the accounts of Flexible Solutions International, Inc. (the Company ), and its wholly-owned subsidiaries Flexible Solutions, Ltd. ( Flexible Ltd. ) and NanoChem Solutions Inc. All inter-company balances and transactions have been eliminated.

The Company was incorporated May 12, 1998 in Nevada. The Company and its subsidiaries develop, manufacture and market specialty chemicals which slow down the evaporation of water. The Company s primary product, HEAT\$AVR®, 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. Another product, WATER\$AVR®, is marketed for water conservation in irrigation canals, aquaculture, and reservoirs where its use slows down water loss due to evaporation. In addition to the water conservation products, the Company also manufactures and markets water-soluble chemicals utilizing thermal polyaspartate biopolymers (referred to as TPAs ), which are beta-proteins manufactured from the common biological amino acid, L-aspartic. TPAs can be formulated to prevent corrosion and scaling in water piping within the petroleum, chemical, utility and mining industries. TPAs are also used as proteins to enhance fertilizers in improving crop yields and as additives for household laundry detergents, consumer care products and pesticides.

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

Pursuant to a purchase agreement dated May 26, 2004, the Company acquired the assets of Donlar Corporation ( Donlar ) on June 9, 2004 and created a new company, NanoChem Solutions Inc. as the operating entity for such assets. The purchase price of the transaction was \$6,150,000 with consideration being a combination of cash and debt. Under the purchase agreement and as part of the consideration, the Company issued a promissory note bearing interest at 4% to Donlar 's largest creditor to satisfy \$3,150,000 of the purchase price. This note was paid June 2, 2005 and upon payment, all former Donlar assets that were pledged as security were released from their mortgage. The remainder of the consideration given was cash.

The following table summarizes the estimated fair value of the assets acquired at the date of acquisition (at June 9, 2004):

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

There was no goodwill or other intangible assets, except certain patents recorded at nil fair value, acquired as a result of the acquisition. The acquisition costs assigned to property and equipment include all direct costs incurred by the Company to purchase the Donlar assets. These costs included due diligence fees paid to outside parties investigating and identifying the assets, legal costs directly attributable to the purchase of the assets, plus applicable transfer taxes. These costs have been assigned to the individual assets based on their proportional fair values and will be amortized based on the rates associated with the related assets.

**2. SIGNIFICANT ACCOUNTING POLICIES.**

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States applicable to a going concern and reflect the policies outlined below.

(a) *Cash and Cash Equivalents.*

The Company considers all highly liquid investments purchased with an original or remaining maturity of less than three months at the date of purchase to be cash equivalents. Cash and cash equivalents are maintained with several financial institutions.

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

(b) *Inventories and Cost of Sales*

The Company has three major classes of inventory: finished goods, work in progress, and raw materials and supplies. In all classes, inventory is valued at the lower of cost or market. Cost is determined on a first-in, first-out basis. Cost of sales includes all expenditures incurred in bringing the goods to the point of sale. Inventory costs and costs of sales include direct costs of the raw material, inbound freight charges, warehousing costs, handling costs (receiving and purchasing) and utilities and overhead expenses related to the Company's manufacturing and processing facilities.

In 2004, the FASB issued SFAS No. 151, *Inventory Costs*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. This standard requires that such items be recognized as current-period charges. The standard also establishes the concept of *normal capacity* and requires the allocation of fixed production overhead to inventory based on the normal capacity of the production facilities. Any unallocated overhead must be recognized as an expense in the period incurred. This standard is effective for inventory costs incurred starting January 1, 2006. The adoption of this standard did not have a material impact on the Company's financial position, results of operations or cash flows for 2008 or 2009.

(c) *Allowance for Doubtful Accounts*

The Company provides an allowance for doubtful accounts when management estimates collectibility is uncertain. Accounts receivable are continually reviewed to determine which, if any, accounts are doubtful of collection. In making the determination of the appropriate allowance amount, the Company considers current economic and industry conditions, relationships with each significant customer, overall customer credit-worthiness and historical experience.

(d) *Property, Equipment and Leaseholds.*

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

Computer hardware	30% Declining balance
Automobile	30% Declining balance
Trade show booth	30% Declining balance
Furniture and fixtures	20% Declining balance
Manufacturing equipment	20% Declining balance
Office equipment	20% Declining balance
Building and improvements	10% Declining balance

Depreciation is recorded at half for the year the assets are first purchased. Property and equipment are written down to net realizable value when management determines there has been a change in circumstances which indicates its carrying amount may not be recoverable. No write-downs have been necessary to date.

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

(e) *Impairment of Long-Lived Assets.*

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company reviews long-lived assets, including, but not limited to, property and equipment, patents and other assets, for impairment annually or whenever events or changes in circumstances indicate the carrying amounts of assets may not be recoverable. The carrying value of long-lived assets is assessed for impairment by evaluating operating performance and future undiscounted cash flows of the underlying assets. If the sum of the expected future cash flows of an asset is less than its carrying value, an impairment measurement is indicated. Impairment charges are recorded to the extent that an asset's carrying value exceeds its fair value. Accordingly, actual results could vary significantly from such estimates. There were no impairment charges during the periods presented.

(f) *Investments.*

Investment in corporations subject to significant influence and investments in partnerships are recorded using the equity method of accounting. On this basis, the Company's share of income and losses of the corporations and partnerships is included in earnings and the Company's investment therein adjusted by a like amount. Dividends received from these entities reduce the investment accounts. Portfolio investments not subject to significant influence are recorded using the cost method.

The fair value of a cost method investment is not estimated if there are no identified events or changes in circumstances that may have a significant adverse effect on the fair value of the investment.

The Company currently does not have any investments that require use of the equity method of accounting.

(g) *Foreign Currency.*

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

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

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

(h) *Revenue Recognition.*

Revenue from product sales is recognized at the time the product is shipped since title and risk of loss are transferred to the purchaser upon delivery to the carrier. Shipments are made F.O.B. shipping point. The Company recognizes revenue when there is persuasive evidence of an arrangement, delivery has occurred, the fee is fixed or determinable, collectibility is reasonably assured and there are no significant remaining performance obligations. When significant post-delivery obligations exist, revenue is deferred until such obligations are fulfilled. To date there have been no such significant post-delivery obligations.

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

(i) *Stock Issued in Exchange for Services.*

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

(j) *Stock-based Compensation.*

In December 2004, the Financial Accounting Standards Board ( FASB ) issued revised SFAS No. 123(R), *Share-Based Payment*, which replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, which superseded APB Opinion No. 25, *Accounting for Stock Issued to Employees*. FAS No. 123(R) requires the cost of all share-based payment transactions to be recognized in an entity's financial statements, establishes fair value as the measurement objective and requires entities to apply a fair-value-based measurement method in accounting for share-based payment transactions. SFAS No. 123(R) applies to all awards granted, modified, repurchased or cancelled after July 1, 2005, and unvested portions of previously issued and outstanding awards. The Company adopted this statement for its first quarter starting January 1, 2006 and will continue to evaluate the impact of adopting this statement.

Prior to 2006, the Company adopted the disclosure provisions of SFAS No. 123 for stock options granted to employees and directors. The Company disclosed on a supplemental basis, the pro-forma effect of accounting for stock options awarded to employees and directors, as if the fair value based method had been applied, using the Black-Scholes option-pricing model. The Company has always recognized the fair value of options granted to consultants.



**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

(k) *Comprehensive Income.*

Other comprehensive income refers to revenues, expenses, gains and losses that under generally accepted accounting principles are included in comprehensive income, but are excluded from net income as these amounts are recorded directly as an adjustment to stockholders equity. The Company's other comprehensive income is primarily comprised of unrealized foreign exchange gains and losses.

(l) *Income (Loss) Per Share.*

Income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding. Diluted loss per share is computed by giving effect to all potential dilutive options that were outstanding during the year. For the periods ended June 30, 2009 and 2008, all outstanding options were anti-dilutive.

(m) *Use of Estimates.*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and would impact the results of operations and cash flows.

(n) *Financial Instruments.*

The fair market value of the Company's financial instruments comprising cash, accounts receivable, accounts payable and accrued liabilities were estimated to approximate their carrying values due to immediate or short-term maturity of these financial instruments. The Company maintains cash balances at financial institutions which at times, exceed federally insured amounts. The Company has not experienced any material losses in such accounts.

The Company is exposed to foreign exchange and interest rate risk to the extent that market value rate fluctuations materially differ from financial assets and liabilities, subject to fixed long-term rates.

The Company is exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments. Credit exposure is minimized by dealing with only credit worthy counterparties. Accounts receivable for the three primary customers total \$1,172,819 (70%) as at September 30, 2009 (2008 - \$961,931 or 61%).

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

(o) *Contingencies*

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed.

(p) *Recent Accounting Pronouncements*

Business Combinations

In December 2007, the FASB issued SFAS 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, preacquisition contingencies, transaction costs, in-process research and development, and restructuring costs. In addition, under SFAS 141R, changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS 141R is effective for fiscal periods beginning after December 15, 2008. The Company adopted SFAS 141R on July 1, 2009.

Non-Controlling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, Non-Controlling Interests in Consolidated Financial Statements—an amendment of Accounting Research Bulletin No. 51 (SFAS 160), which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the non-controlling interest, changes in a parent's ownership interest and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. The Statement also establishes reporting requirements that provide sufficient disclosures that clearly identify and distinguish between the interests of the parent and the

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

interests of the non-controlling owners. SFAS 160 is effective for fiscal periods beginning after December 15, 2008. The Company adopted SFAS 160 in July 2009. Adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*. It requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This statement is effective for financial statements issued for fiscal periods beginning after November 15, 2008. The Company adopted SFAS 161 in July 2009. Adoption of this standard is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). This statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in accordance with GAAP. With the issuance of this statement, the FASB concluded that the GAAP hierarchy should be directed toward the entity and not its auditor, and reside in the accounting literature established by the FASB as opposed to the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 69, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*. The Company has evaluated the new statement and has determined that it will not have a significant impact on the determination or reporting of the Company's financial results.

Subsequent Events

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, which establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. The pronouncement requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, whether that date represents the date the financial statements were issued or were available to be issued. SFAS 165 is effective with interim and annual financial periods ending after June 15, 2009. The Company adopted SFAS 160 in July 2009. Management has evaluated the impact of the adoption of SFAS 165 and it has had no impact the Company's results of operations, financial position or cash flows.

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

Accounting for Transfers of Financial Assets

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets* an amendment of FASB Statement ( SFAS 166 ). SFAS No. 166 is intended to establish standards of financial reporting for the transfer of assets and transferred assets to improve the relevance, representational faithfulness, and comparability. SFAS 166 was established to clarify derecognition of assets under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. SFAS No. 166 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009. The Company adopted SFAS 166 in July 1 2009. The Company has determined that the adoption of SFAS No. 166 will have no impact on its consolidated financial statements.

SFAS 167

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ( SFAS No. 167 ). SFAS No. 167 eliminates the exception to consolidate a qualifying special-purpose entity, changes the approach to determining the primary beneficiary of a variable interest entity and requires companies to more frequently re-assess whether they must consolidate variable interest entities. Under the new guidance, the primary beneficiary of a variable interest entity is identified qualitatively as the enterprise that has both (a) the power to direct the activities of a variable interest entity that most significantly impact the entity s economic performance, and (b) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. SFAS No. 167 will become effective for the Company s fiscal 2011 year-end and interim reporting periods thereafter. The Company does not expect SFAS No. 167 to have a material impact on its financial statements.

FASB Accounting Standards Codification

In July 2009, the FASB issued SFAS No. 168, *FASB Accounting Standards Codification* ( SFAS 168 ), as the single source of authoritative nongovernmental U.S. generally accepted accounting principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards are superseded as described in SFAS 168. All other accounting literature not included in the Codification is non-authoritative. Management is currently evaluating the impact of the adoption of SFAS 168 but does not expect the adoption of SFAS 168 to impact the Company s financial statements.

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

Accounting for Convertible Debt Instruments

In May 2008, the FASB issued FSP No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ( FSP 14-1 ). FSP 14-1 applies to convertible debt instruments that, by their stated terms, may be settled in cash (or other assets) upon conversion, including partial cash settlement, unless the embedded conversion option is required to be separately accounted for as a derivative under FASB Statement No. 133. Convertible debt instruments within the scope of FSP 14-1 are not addressed by the existing APB 14. FSP 14-1 would require that the liability and equity components of convertible debt instruments within the scope of FSP 14-1 be separately accounted for in a manner that reflects the entity's nonconvertible debt borrowing rate. This will require an allocation of the convertible debt proceeds between the liability component and the embedded conversion option (i.e., the equity component). The difference between the principal amount of the debt and the amount of the proceeds allocated to the liability component would be reported as a debt discount and subsequently amortized to earnings over the instrument's expected life using the effective interest method. FSP APB 14-1 is effective July 1, 2009 and will be applied retroactively to all periods presented. Adoption of this standard is not expected to have a material impact on the Company's financial statements.

**3. ACCOUNTS RECEIVABLE**

	<u>2009</u>	<u>2008</u>
Accounts receivable	\$ 1,690,798	\$ 1,672,772
Allowances for doubtful accounts	(10,546)	(30,771)
	<u>\$ 1,680,252</u>	<u>\$ 1,642,001</u>

**4. INVENTORY**

	<u>2009</u>	<u>2008</u>
Completed goods	\$ 1,663,161	\$ 2,394,723
Work in progress	45,104	56,036
Raw materials	815,090	1,140,353
	<u>\$ 2,523,355</u>	<u>\$ 3,591,112</u>

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

**5. PROPERTY, PLANT & EQUIPMENT**

	<b>September 30, 2009</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Buildings	\$ 4,147,647	\$ 1,335,553	\$ 2,812,094
Building Improvements	964,352		964,352
Computer hardware	82,695	60,034	22,661
Furniture and fixtures	25,823	14,963	10,860
Office equipment	21,569	16,308	5,261
Manufacturing equipment	4,284,988	1,560,992	2,723,996
Trailer	26,072	10,248	15,824
Technology	127,595		127,595
Trade show booth	8,116	6,833	1,283
Truck	11,105	3,790	7,315
Land	458,782		458,782
	\$ 10,158,744	\$ 3,008,721	\$ 7,150,023

	<b>December 31, 2008</b>		
	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
Buildings	\$ 4,017,334	\$ 1,187,408	\$ 2,829,926
Building improvements	502,847		502,847
Computer hardware	78,121	50,962	27,159
Furniture and fixtures	19,884	11,875	8,009
Office equipment	29,396	21,262	8,134
Manufacturing equipment	3,335,089	1,402,423	1,932,666
Trailer	23,040	4,996	18,044
Leasehold improvements	23,665	19,378	4,287
Technology	112,759		112,759
Trade show booth	7,172	5,709	1,463
Truck	9,814	1,472	8,342
Land	428,587		428,587
	\$ 8,587,708	\$ 2,705,485	\$ 5,882,223

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

Amount of depreciation expense for the nine months ended September 30, 2009: \$301,595 (2008: \$341,433)

The following carrying amount of capital assets held by Flexible Solutions Ltd. serves as collateral for the AFSC loan (see Note 8):

Land	\$ 259,689
Building	984,609
Building improvements	964,352
Manufacturing equipment	2,091,022
Trailer	15,824
Truck	7,316
Trade show booth	1,283
Technology	127,595

**6. PATENTS**

Patents are amortized over their legal life of 17 years.

Patents with a cost of \$73,388 are not subject to amortization as of September 30, 2009 since the patents are still in the process of being approved.

<b>September 30, 2009</b>			
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Patents	\$ 247,644	\$ 24,405	\$ 223,239

  

<b>December 31, 2008</b>			
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Net</b>
Patents	\$ 218,209	\$ 14,009	\$ 204,203

Amount of depreciation for nine months ended September 30, 2009 - \$8,995 (2008 - \$2,051)

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

Estimated depreciation expense over the next five years is as follows:

2009	\$ 11,995
2010	11,995
2011	11,995
2012	11,995
2013	11,995

**7. LONG TERM DEPOSITS**

The Company has reclassified certain security deposits to better reflect their long term nature. Long term deposits consist of damage deposits held by landlords and security deposits held by various vendors.

	<u>2009</u>	<u>2008</u>
Long term deposits	\$ 18,802	\$ 32,713

**8. LONG TERM DEBT**

Flexible Solutions Ltd. has received a non-interest bearing loan from the Department of Agriculture and Agri-Food Canada (AAFC). Eligible for up to \$1,000,000 CDN, the Company has drawn \$624,103 CDN (\$582,912US) as of September 30, 2009. The loan is unsecured.

If the full amount is drawn, the repayment schedule is as follows:

<u>Amount Due (in CDN funds)</u>	<u>Payment Due Date</u>
\$200,000	January 1, 2012
\$200,000	January 1, 2013
\$200,000	January 1, 2014
\$200,000	January 1, 2015
\$200,000	January 1, 2016

Flexible Solutions Ltd. has also received a 5% simple interest loan from Agriculture Financial Services Corp. (AFSC). Eligible for up to \$2,000,000 Canadian funds, the Company has drawn \$1,491,000 CDN (\$1,392,594 US) as of September 30, 2009. The Company only has to make interest payments until May 1, 2010 and then must pay down the principal in equal payments until May 1, 2014. The Company has pledged the assets of the Taber, AB building, including equipment, inventory and accounts receivable, as collateral as well as signed a promissory note guaranteeing the amount of the loan.



**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

**9. STOCK OPTIONS**

The Company has a stock option plan ( Plan ). The purpose of this Plan is to provide additional incentives to key employees, officers, directors and consultants of the Company and its subsidiaries in order to help attract and retain the best available personnel for positions of responsibility and otherwise promoting the success of its business activities. It is intended that options issued under this Plan constitute non-qualified stock options. The general terms of awards under the option plan are that 100% of the options granted will vest the year following the grant. The maximum term of options granted is 5 years.

The Company may issue stock options and stock bonuses for shares of its common stock to provide incentives to directors, key employees and other persons who contribute to the success of the Company. The exercise price of all incentive options are issued for not less than fair market value at the date of grant.

The following table summarizes the Company's stock option activity for the years ended December 31, 2007, 2008 and the period ended September 30, 2009:

	<u>Number of shares</u>	<u>Exercise price per share</u>	<u>Weighted average exercise price</u>
Balance, December 31, 2006	2,126,740	\$1.40 - \$4.60	\$ 3.44
Granted	235,700	\$1.50 - \$3.60	\$ 2.35
Exercised	(163,000)	\$1.50 - \$3.25	\$ 1.77
Cancelled or expired	(287,000)	\$3.00 - \$4.40	\$ 3.93
Balance, December 31, 2007	1,912,440	\$3.00 - \$4.60	\$ 3.38
Granted	203,000	\$3.60	\$ 3.60
Cancelled or expired	(204,740)	\$3.00 - \$4.60	\$ 3.74
Balance, December 31, 2008	1,910,700	\$3.00 - 4.55	\$ 3.38
Granted	122,000	\$2.25	\$ 2.25
Cancelled or expired	(318,000)	\$3.50 - 4.55	\$ 3.67
Balance, September 30, 2009	1,714,700	\$2.25 - \$3.85	\$ 3.24

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

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

	<u>2009</u>	<u>2008</u>
Expected life years	5.0	5.0
Interest rate	1.14%	2.27%
Volatility	65%	99%
Dividend yield	%	%
Weighted average fair value of options granted	\$ 1.00	\$ 1.15

During the nine months ended September 30, 2009 the Company granted 61,000 options to consultants that resulted in \$46,038 in expenses this quarter. During the same period, 61,000 options were granted to employees, resulting in \$46,038 in expenses. Options granted in previous years resulted in additional expenses in the amount of \$35,674 for consultants and \$71,122 for employees during the nine months ended September 30, 2009. No stock options were exercised during this period.

During the nine months ended September 30, 2008 the Company granted 46,000 options to consultants that resulted in \$39,717 in expenses this period. During the same period, 37,000 options were granted to employees, resulting in \$31,947 in expenses this period. An additional 120,000 options were granted to two key employees with special vesting requirements. Once the vesting requirements have been met, the Company will recognize the expense associated with these options. Options granted in previous years resulted in additional expenses in the amount of \$61,275 for consultants and \$115,158 for employees during the nine months ended September 30, 2008. No stock options were exercised during the period.

#### **10. WARRANTS**

On April 14, 2005, the Company announced that it had raised \$3,375,000 pursuant to a private placement. The investors in this offering purchased 900,000 shares of the Company's common stock at a per-share price of \$3.75, together with warrants to purchase up to 900,000 additional shares of the Company's common stock. The warrants expired on July 31, 2009 and were exercisable at a price of \$4.50 per share.

On June 8, 2005, the Company announced that it had raised an additional \$327,750 pursuant to a private placement. An investor purchased 87,400 shares of the Company's common stock at a per share price of \$3.75, together with a warrant to purchase up to 87,400 additional shares of the Company's common stock. The warrants expired on July 31, 2009 and were exercisable at a price of \$4.50 per share.

In May 2007 the Company closed a \$3,042,455 private placement with institutional investors. The Company sold 936,140 units at a price of \$3.25 per unit. Each unit consisted of one share of common stock and one-half warrant with a three year term and an exercise price of

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

\$4.50 per share. The Company also issued 21,970 warrants with the same terms for investment banking services related to this transaction.

The following table summarizes the Company's warrant activity for the three years ended December 30, 2009:

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2006	987,400	\$ 4.50	\$ 4.50
Granted	490,040	\$ 4.50	\$ 4.50
Exercised			
Cancelled			
<hr/>			
Balance, December 31, 2007	1,477,440	\$ 4.50	\$ 4.50
Granted			
Exercised			
Cancelled			
Balance, December 31, 2008	1,477,440	\$ 4.50	\$ 4.50
<hr/>			
Granted			
Exercised			
Cancelled/Expired	987,400	\$ 4.50	\$ 4.50
Balance, September 30, 2009	490,040	\$ 4.50	\$ 4.50

**11. CAPITAL STOCK.**

The Company did not issue any shares of its common stock during the nine months ended September 30, 2009. The Company cancelled 100,000 shares during the nine months ended September 30, 2009. See Note 14.

**12. SEGMENTED, SIGNIFICANT CUSTOMER INFORMATION AND ECONOMIC DEPENDENCY.**

The Company operates in two segments:

(a) Development and marketing of two lines of energy and water conservation products (as shown under the column heading EWCP below), which consists of a (i) liquid swimming pool blanket which saves energy and water by inhibiting evaporation from the pool surface, and (ii) food-safe powdered form of the active ingredient within the liquid blanket and which is designed to be used in still or slow moving drinking water sources.

(b) Manufacture of biodegradable polymers (BCPA's) used by the petroleum, chemical, utility and mining industries to prevent corrosion and scaling in water piping. This product can also be used in detergents to increase biodegradability and in agriculture to increase crop yields by enhancing fertilizer uptake.

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

The accounting policies of the segments are the same as those described in Note 2, *Significant Accounting Policies*. The Company evaluates performance based on profit or loss from operations before income taxes, not including nonrecurring gains and losses and foreign exchange gains and losses.

The Company's reportable segments are strategic business units that offer different, but synergistic products and services. They are managed separately because each business requires different technology and marketing strategies.

Nine months ended September 30, 2009:

	EWCP	BPCA	Total
Revenue	\$ 686,811	\$ 6,694,490	\$ 7,381,301
Interest revenue			
Interest expense	43,695	3,736	47,431
Depreciation and amortization	39,712	261,883	301,595
Segment profit (loss)	(1,130,656)	620,902	(509,754)
Segment assets	4,701,236	2,672,026	7,373,262
Expenditures for segment assets	1,564,173	24,258	1,588,431

Nine months ended September 30, 2008:

	EWCP	BPCA	Total
Revenue	\$ 980,431	\$ 7,538,010	\$ 8,518,441
Interest revenue	1,696	709	2,405
Interest expense	550	2,857	3,407
Depreciation and amortization	40,176	301,257	341,433
Segment profit (loss)	(1,027,410)	1,829,636	802,226
Segment assets	3,255,934	3,007,054	6,262,988
Expenditures for segment assets	2,187,236	36,552	2,223,788

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

Sales by territory:

	<u>2009</u>	<u>2008</u>
Canada	\$ 276,488	\$ 226,632
United States and abroad	7,104,813	8,291,809
<b>Total</b>	<b>\$ 7,381,301</b>	<b>\$ 8,518,441</b>

The Company's long-lived assets are located in Canada and the United States as follows:

	<u>2009</u>	<u>2008</u>
Canada	\$ 4,701,236	\$ 3,176,775
United States	2,672,026	2,909,651
<b>Total</b>	<b>\$ 7,373,262</b>	<b>\$ 6,086,426</b>

Three customers accounted for \$4,559,009 (62%) of sales made in the nine months ended September 30, 2009 (2008 - \$4,083,436 or 48%).

**13. COMMITMENTS.**

The Company is committed to minimum rental payments for property and premises aggregating approximately \$394,987 over the term of three leases, the last expiring on July 31, 2014.

Commitments in each of the next five years are approximately as follows:

2010	85,776
2011	85,776
2012	70,839
2013	73,713
2014	44,380

**14. CONTINGENCIES.**

On May 1, 2003, the Company filed a lawsuit in the Supreme Court of British Columbia, Canada, against John Wells and Equity Trust, S.A. seeking the return of 100,000 shares of the its common stock and the repayment of a \$25,000 loan which were provided to the defendants for investment banking services. The services were not performed and in the proceedings the Company sought the return of the shares and the repayment of the loan. On the date of issuance, the transaction was recorded as shares issued for services at a fair market value of \$0.80 per share. On April 30, 2009 the Supreme Court of British Columbia ruled in favor of the Company

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**For the Period Ended September 30, 2009**  
**(U.S. Dollars)**

and ordered Equity Trust S.A. to return the 100,000 shares and repay the loan with interest (\$30,514US). The Company has reversed the expense recorded for the shares in the nine months ended September 30, 2009.

On July 23, 2004, the Company filed a lawsuit in the Circuit Court of Cook County, Illinois against Tatko Biotech Inc. ( Tatko ). The action arose from a Joint Product Development Agreement with Tatko in which the Company agreed to invest \$10,000 toward the product development venture and granted to Tatko 100,000 shares of the Company s restricted common stock. In return, Tatko granted the Company a five-year option to purchase 20% of Tatko s outstanding capital stock. Tatko refused to collaborate on the agreement and the Company filed the lawsuit to have the court declare that Tatko was not entitled to the 100,000 shares of the Company s common stock. On January 4, 2008, the lawsuit was dismissed pursuant to an agreement by Tatko to treat the Joint Product Development Agreement as void. As a result of the dismissal of the lawsuit and the agreement of the parties, the 100,000 shares of restricted stock will be returned or cancelled.

**15. SUBSEQUENT EVENTS.**

None.

**16. COMPARATIVE FIGURES.**

Certain of the comparative figures have been reclassified to conform with the current year s presentation.

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

The Company develops, manufactures and markets specialty chemicals that slow the evaporation of water. The Company also manufactures and markets biodegradable polymers which are used in the oil, gas and agriculture industries.

**Results of Operations**

The Company has two product lines:

Energy and Water Conservation products. The Company's HEAT\$AVR® product is used in swimming pools and spas. The product forms a thin, transparent layer on the water's surface. The transparent layer slows the evaporation of water, allowing the water to retain a higher temperature for a longer period of time and thereby reducing the energy required to maintain the desired temperature of the water. WATER\$AVR®, a modified version of HEAT\$AVR®, can be used in reservoirs, potable water storage tanks, livestock watering ponds, canals, and irrigation ditches.

BCPA products. The second product, TPAs (i.e. thermal polyaspartate biopolymers), are biodegradable polymers used by the petroleum, chemical, utility and mining industries to prevent corrosion and scaling in water piping. This product can also be used in detergents to increase biodegradability and in agriculture to increase crop yields by enhancing fertilizer uptake.

Material changes in the Company's Statement of Operations for the periods presented are discussed below:

Nine Months Ended September 30, 2009

<u>Item</u>	<u>Increase (I) or Decrease (D)</u>	<u>Reason</u>
Sales		
BCPA products	D	Reduced demand in the detergent sector and lower oil extraction levels.
Gross Profit	D	Lower sales.
Wages	I	Increased number of employees and annual wage increases.
Investor relations and transfer agent fees	D	One time reversal of \$80,000 as shares were cancelled by the Supreme Court of British Columbia as per Note 14 to the Financials.
Insurance	D	Credit allocated from overpayment in four previous quarters.

Edgar Filing: FLEXIBLE SOLUTIONS INTERNATIONAL INC - Form 10-Q

Interest expense	I	Interest payments on the Agriculture Financial Services Corp loan did not start until the fall of 2008.
Professional fees	I	The year end audit fee has been allocated to each fiscal quarter rather than expensing the audit expenses in the fourth quarter.
Research	D	Decreased as one project was completed and no new projects were identified.
Commissions	D	Decreased sales.
Loss on sale of equipment	D	One time sale which occurred in the prior period. No equipment was sold during the current nine- month period.
Utilities	I	Increased research and development energy use at the Company's facility in Alberta.

Quarter Ended September 30, 2009

<u>Item</u>	<u>Increase (I) or Decrease (D)</u>	<u>Reason</u>
Sales BWCP products	I	Return to traditional levels of ordinary sales along with some customers increasing their inventory levels.
Wages	I	Increase of employees and annual wage increases.
Admin salaries and benefits	I	Increase of employees and annual wage increases.
Office and misc	I	Various costs associated with the start up of the new facility have been allocated to this account. Once the facility is operational, these costs will be allocated to overhead.
Interest expense	I	Interest payments on the Agriculture Financial Services Corp loan did not start until the fall of 2008.
Professional fees	I	The year-end audit fee has been allocated to each fiscal quarter rather than expensing the audit fee in the fourth quarter.
Commissions	D	Decreased sales.
Utilities	I	Increased research and development energy use at the Taber facility.



**Capital Resources and Liquidity**

The Company's sources and uses of funds are directly obtainable from the Consolidated Statement of Cash Flows included as part of the financial statements filed with this report.

The Company has sufficient cash resources to meet its future commitments and cash flow requirements for the coming year. As of September 30, 2009 working capital was \$5,724,264 (2008 - \$5,481,845) and the Company has no substantial commitments that require significant outlays of cash over the coming fiscal year.

The Company is committed to minimum rental payments for property and premises aggregating approximately \$394,987 over the term of three leases, the last expiring on July 31, 2014.

Commitments in each of the next five years are approximately as follows:

2010	85,776
2011	85,776
2012	70,839
2013	73,713
2014	44,380

See Note 2 to the financial statements included as part of this report for a description of the Company's significant accounting policies and recent accounting pronouncements.

**Item 4T. CONTROLS AND PROCEDURES**

Our Principal Executive and Financial Officer has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this report, and in his opinion our disclosure controls and procedures are effective at the reasonable assurance level to ensure that information is adequately disclosed.

There were no changes in our internal controls over financial reporting that occurred during the fiscal quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting as discussed above.

**PART II OTHER INFORMATION**

**Item 6. Exhibits.**

<u>Number</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of the registrant. (1)
3.2	Bylaws of the registrant. (1)
31.1	Certification of Principal Executive Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Principal Financial Officer Pursuant to §302 of the Sarbanes-Oxley Act of 2002.*
32	Certification of Principal Executive and Financial Officer Pursuant to 18 U.S.C. §1350 and §906 of the Sarbanes-Oxley Act of 2002.*

---

\* Filed with this report.

(1) Incorporated by reference to the Company's Registration Statement on Form 10-SB (SEC File. No. 000-29649) filed February 22, 2000.

**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.

November 12, 2009

**FLEXIBLE SOLUTIONS INTERNATIONAL, INC.**

By: /s/ Daniel B. O Brien

\_\_\_\_\_  
Name: Daniel B. O Brien

Title: President, Chief Executive Officer and  
Chief Financial and Accounting Officer

28

---