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 SEPTEMBER 30, 2002.

|_| 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 11,568,416 shares of Common Stock, par value $0.001 per share, outstanding as of September 30, 2002.

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

FORM 10-QSB/A

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EXPLANATORY NOTE

Flexible Solutions International, Inc. ("we," "us," and "our") is filing this Quarterly Report on Form 10-QSB/A to amend and restate in its entirety its Quarterly Report on Form 10-QSB for the fiscal quarter ended September 30, 2002, which was previously filed with the Securities and Exchange Commission on November 14, 2002.

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

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

This Form 10-QSB/A does not reflect events occurring after the filing of our Form 10-QSB on November 14, 2002 or modify any of the disclosures contained therein, or in the accompanying financial statements and notes thereto, in any way other than by the amendments identified above and as set forth herein. Notwithstanding the above, and for the convenience of the reader, this entire report has been amended as a result of, and to reflect, the restatement, as well as to revise the disclosure of our management's discussion and analysis, unregistered sales of equity securities, and legal proceedings, as well as to generally reflect the current disclosure requirements of Form 10-QSB.

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

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

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB/A for the quarter ended September 30, 2002 ("Quarterly Report"), including the Notes to Unaudited Consolidated Financial Statements, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, those statements relating to development of new products, our financial condition, our ability to increase distribution of our products, integration of businesses we acquire, and disposition of any of our current business. Forward-looking statements can be identified by the use of forward-looking terminology, such as "may," "will," "should," "expect," "anticipate," "estimate," "continue," "plans," "intends," or other similar terminology. These forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is anticipated or forecasted in these forward-looking statements due to numerous factors, including, but not limited to, our ability to generate or obtain sufficient working capital to continue our operations, changes in demand for our products, the timing of customer orders and deliveries, and the impact of competitive products and pricing. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions.

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

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
AT SEPTEMBER 30, 2002
(U.S. DOLLARS)

		SEPTEMBER 30, 2002 AS RESTATED (NOTE 3) (UNAUDITED)
ASSETS		
CURRENT		
Cash and cash equivalents	$	5,969,446
Accounts receivable		75,419
Income tax receivable		72,298
Loan receivable		9,585
Note receivable		--
Inventory		163,193
Prepaid expenses		19,488
		6,309,429
PROPERTY AND EQUIPMENT		111,717
TOTAL ASSETS	$	6,421,146
LIABILITIES		
CURRENT		
Accounts payable	$	31,606
Income tax payable		--
		31,606
STOCKHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized		
50,000,000 Common shares with a par value of $0.001 each		
1,000,000 Preferred shares with a par value of $0.01 each		
Issued and outstanding		
11,568,416 and 9,272,816 Common shares		11,568
CAPITAL IN EXCESS OF PAR VALUE		6,602,775
SHARE SUBSCRIPTION RECEIVABLE		(19,990)
OTHER COMPREHENSIVE LOSS		(18,921)
DEFICIT		(185,892)
TOTAL STOCKHOLDERS' EQUITY		6,389,540
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	6,421,146

-- See Notes to Unaudited Consolidated Financial Statements -

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001
(U.S. DOLLARS -- UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS END
	2002 AS RESTATED (NOTE 3)	2001	2002 AS RESTATED (NOTE 3)
SALES	$ 55,257	$ 148,177	$ 1,089,164
COST OF SALES (Exclusive of depreciation)	54,782	67,358	594,041
GROSS PROFIT	475	80,819	495,123
OPERATING EXPENSES			
Consulting (note 2)	--	--	32,608
Wages	28,880	33,820	248,933
Professional fees	37,478	17,131	67,283
Office	16,898	5,089	60,943
Rent	16,788	5,624	46,356
Stock promotion and transfer agent fee	15,510	(6,406)	41,156
Travel	13,608	8,900	24,023
Subcontracting	7,958	11,330	23,667
Administrative salaries and benefits	5,202	18,802	77,228
Currency exchange	4,797	--	20,205
Shipping	3,462	1,846	9,087
Telephone	2,124	1,322	7,074
Utilities	1,953	--	4,159
Bad debt expense	1	--	(350
Commission	--	694	--
Depreciation	6,390	3,400	15,335
	161,049	101,552	677,707
INCOME (LOSS) BEFORE OTHER ITEM AND INCOME TAX	(160,574)	(20,733)	(182,584
INTEREST INCOME	15,221	--	15,221
INCOME (LOSS) BEFORE INCOME TAX	(145,353)	(20,733)	(167,363
INCOME TAX (RECOVERY)	(43,343)	7,827	--
NET INCOME (LOSS)	$ (102,010)	$ (28,560)	$ (167,363

NET INCOME (LOSS) PER SHARE	$ (0.01)	$ (0.00)	$ (0.02
WEIGHTED AVERAGE NUMBER OF SHARES	11,448,128	9,233,816	10,555,256

-- See Notes to Unaudited Consolidated Financial Statements --

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE PERIOD ENDED SEPTEMBER 30, 2002
(U.S. DOLLARS -- UNAUDITED)

	SHARES	PAR VALUE	CAPITAL IN EXCESS OF PAR VALUE AS RESTATED (NOTE 3)	SHARE SUBSCRIPTION RECEIVABLE	ACCUMULA EARNING (DEFICIEN AS RESTA (NOTE 3
BALANCE, DECEMBER 31, 1998	9,131,316	$ 9,131	$ 163,653	--	$ (2
Translation adjustment	--	--	--	--	
Net income	--	--	--	--	10
BALANCE, DECEMBER 31, 1999	9,131,316	9,131	163,653	--	7
Translation adjustment	--	--	--	--	
Net income	--	--	--	--	13
BALANCE, DECEMBER 31, 2000	9,131,316	9,131	163,653	--	21
SHARES ISSUED FOR					
Cash (October and December	9,500	9	4,116	--	
Services (January, July and November)	132,000	132	139,868	--	
Stock option compensation	--	--	256,076	--	
Translation adjustment	--	--	--	--	
Net loss	--	--	--	--	(23
BALANCE, DECEMBER 31, 2001	9,272,816	9,272	563,713	--	(1
Issued for cash					
Private placement	2,151,600	2,152	6,064,948	--	
Exercise of stock options	114,000	114	33,386	--	
Services	30,000	30	44,370	--	
Share issue costs	--	--	(200,000)	--	
Share subscription	--	--	--	(33,000)	
Payment of subscriptions receivable	--	--	--	13,010	
Stock option compensation	--	--	96,358	--	
Translation adjustment	--	--	--	--	
Net loss, period ended September 30, 2002	--	--	--	--	(16

BALANCE, SEPTEMBER 30, 2002	11,568,416	$ 11,568	$ 6,602,775	$ (19,990)	$ (18

- See Notes to Unaudited Consolidated Financial Statements -

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001
(U.S. DOLLARS -- UNAUDITED)

	NINE MONTHS ENDED SEPTE	
	2002 AS RESTATED (NOTE 3)	2
OPERATING ACTIVITIES		
Net income (loss)	$ (167,363)	$
Adjustments to reconcile net income (loss) to net cash, provided by operating activities		
Stock option compensation	96,358	
Non-cash services	44,400	
Depreciation	15,335	
Changes in non-cash working capital		
Accounts receivable	(29,045)	
Inventory	18,505	
Prepaid expenses	39,803	
Accounts payable	11,014	
Income tax receivable	(90,406)	
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(61,399)	
INVESTING ACTIVITIES		
Acquisition of property and equipment	(54,299)	
Note receivable	9,225	
Loan receivable	(69)	
CASH USED IN INVESTING ACTIVITIES	(45,143)	
FINANCING ACTIVITIES		
Proceeds from issuance of common stock	5,867,600	
Subscriptions received	13,010	
CASH PROVIDED BY FINANCING ACTIVITIES	5,880,610	
Effect of exchange rate changes on cash	4,921	

INFLOW OF CASH	5,778,989	
Cash and cash equivalents, beginning	190,457	
CASH AND CASH EQUIVALENTS, ENDING	$ 5,969,446	$
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS		
Issue of common stock for service	$ 44,400	$

- See Notes to Unaudited Consolidated Financial Statements -

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2002
(U.S. DOLLARS)

1. BASIS OF PRESENTATION.

These unaudited amended 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 Quarterly Report on Form 10-QSB for the period ended September 30, 2002.

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, 2002 and December 31, 2001, and the consolidated results of operations and the consolidated statements of cash flows for the nine months ended September 30, 2002 and 2001. The results of operations for the nine months ended September 30, 2002 are not necessarily indicative of the results to be expected for the entire fiscal year.

2. STOCKHOLDERS' EQUITY.

(a) During the period, pursuant to the 2002 option plan, the Company granted an option to purchase a total of 2,000,000 shares of the Company's common stock at an exercise price of $4.25 per share as to 1,000,000 shares and $5.50 per share as to an additional 1,000,000 shares that will expire September 1, 2007.

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

	2002	
	Number of Shares	Exercise Price Per Share

Balance, June 30, 2002	1,640,800	$ 0.25 to $ 3.70	$
Granted during the period	1,000,000	$4.25	
Granted during the period	1,000,000	$5.50	
Exercised	(114,000)	$ 0.25 to $0.30	
Balance, September 30, 2002	3,526,800	$ 0.25 to $5.50	$

The Company applies Accounting Principles Board ("APB") Opinion No. 25 and related interpretations in accounting for its stock options granted to employees, and accordingly, compensation expense of $21,250 was recognized as wages expense for the nine months ended September 30, 2002. Had compensation expense been determined as provided in Statement of Financial Accounting Standards ("SFAS") No. 123 using the Black-Scholes option-pricing model, the pro-forma effect on the Company's net loss and per share amounts for the nine months ended September 30, 2002 would have been as follows:

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Net loss, as reported	$
Net loss, pro-forma	$
Net loss per share, as reported	$
Net loss per share, pro-forma	$

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

Expected life (years)	
Interest rate	
Volatility	
Dividend yield	

(c) During the period, the Company issued common stock as follows:

	Number of Shares	Total
Private placement	1,428,600	$ 5,000,10
Exercise of stock options	114,000	33,50

During the quarter ended September 30, 2002, the Company completed a private placement whereby 1,428,600 shares of common stock were issued at a price of $3.50 per share to independent third parties.

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

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

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

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Recognition for Certain Transactions involving Equity Instruments Granted to Other Than Employees; and EITF No. 01-9, Accounting for Consideration Given by a Vendor to a Customer.

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

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

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

The following presents the effect on the Company's previously issued financial statements for the quarter ended September 30, 2002:

Balance sheet at September 30, 2002:

	Previously Reported	Increase (Decrease)
Capital in excess of par value	$ 9,306,775	$ (2,704,000)
Accumulated deficiency	(2,889,892)	2,704,000

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

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

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

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

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

		Previously Reported		Increase (Decrease)
Net income (loss)	$	(2,871,363)	$	2,704,000
Stock option compensation		2,800,358		(2,704,000)

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

OVERVIEW

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

During the quarter ended September 30, 2002, we recorded two significant events. On July 25, 2002, we closed a private placement of 1,428,600 shares at the price of $3.50 per share for gross proceeds of $5,000,100 and net proceeds of $4,800,100. As a result of this financing and exercise of options during the period, a net total of $5,880,610 in cash was provided by financing activities. On September 1, 2002, we signed a distribution agreement with Ondeo Nalco Company ("Ondeo") of Naperville, Illinois. The agreement assigns Ondeo exclusive sales rights for our new product WATER$AVR(R) in the North American municipal market and in the world mining markets, excluding India and Pakistan. The term of the agreement is five years, and provides for sales totaling $25 million over the term of the agreement. Ancillary to the distribution agreement, we granted Ondeo an option to purchase one million shares of our common stock at an exercise price of $4.25 per share and an option to purchase one million shares of our common stock at an exercise price of $5.50 per share. These options have been recorded as consultant expenses in the quarter at a cost of $nil. If the options are exercised, we will receive $9,750,000 in cash to our treasury as the exercise price.

For the quarter ended September 30, 2002, we experienced a net after-tax loss of $102,010, as compared to a net after-tax loss of $28,560 for the quarter ended September 30, 2001. As in the quarter ended September 30, 2001, the end of the Northeastern United States swimming pool season reduces demand for our products in the usual cyclical manner. This year, the sales season in the Northeast United States and Eastern Canada was severely affected by unseasonably cold weather, which led decreased demand for our products. This was followed by extremely hot weather, decreasing the demand for our

products and resulting in very low production requirements in the third quarter and revenue of $55,257 for the quarter ended September 30, 2002, as compared to $148,177 in the quarter ended September 30, 2001. In addition, we increased expenditures in the areas of WATER$AVR(R) sales and marketing and production equipment development.

Finally, we improved our production estimates in the first and second quarters of 2002 as a percentage of annual sales, and therefore did not have to carry high production rates as far into the third quarter of 2002 as was the case in the third quarter of 2001. As a result, our swimming pool product distributor is carrying a much lower quantity of inventory as of September 30, 2002, as compared to September 30, 2001.

RESULTS OF OPERATIONS

The following analysis and discussion pertains to our results of operations for the three month and nine month periods ended September 30, 2002, as compared to the results of operations for the three month and nine month periods ended September 30, 2001, and to changes in our financial condition from December 31, 2001 to September 30, 2002.

THREE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

For the third quarter of the current fiscal year ended September 30, 2002, sales were $55,257, compared to $148,177 for the same quarter of the previous year. The decrease in sales was caused by poor weather in the beginning of the Northeast United States pool season followed by extremely hot weather, both of which reduced the demand for our products.

Operating expenses were $161,049 for the quarter ended September 30, 2002, an increase from $101,552 for the third quarter ended September 30, 2001. This increase is a result of increased expenditures for the sales and marketing of our WATER$AVR(R) product line and the development of advanced production machinery used for the manufacture of our products. The largest increases were in the areas of office and factory rent (33,686) and professional fees ($37,478). The net loss for the quarter ended September 30, 2002 was $102,010, an increase from the third quarter ended September 30, 2001, when the net loss was $28,560. The increased loss was almost entirely related to non-cash option expenses, as the cash flow statement shows only $61,399 in cash consumed by operations. Cost of sales increased to 99% for the quarter ended September 30, 2002 from 48% for the quarter ended September 30, 2001, as a result of lower sales without concurrent reduction in costs.

The earnings per share was ($0.01) for the quarter ended September 30, 2002, compared to $0.00 for the quarter ended September 30, 2001.

NINE MONTHS ENDED SEPTEMBER 30, 2002 AND 2001

Sales in the nine months ended September 30, 2002 were $1,089,164, as compared to $1,307,649 for the nine months ended September 30, 2001. The reduction was the result of decreased demand for our products caused by poor weather in the Northeastern United States and Eastern Canada.

Our operating expenses were $677,707 for the nine months ended September 30, 2002, an increase from $290,105 for the nine months ended September 30, 2001. This increase is a result of increased expenditures for the sales and marketing of our WATER$AVR(R) product line and the addition of employees and their related costs in connection with increased manufacturing and distribution of our products.

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Our net income for the nine months ended September 30, 2002 was ($167,363), as compared to a net income of $232,249 for the nine months ended September 30, 2001.

Our decrease in income was due to the decrease in sales compared to the year earlier period and the related costs to develop our products and operate as a public reporting company.

Our earnings per share were ($0.02) for the nine month period ended September 30, 2002, as compared to ($0.03) for the nine month period ended September 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

We sold 400,000 shares at a price of $2.50 per share in the second quarter for net proceeds of $950,000 and 1,428,600 shares at $3.50 per share for net proceeds of $4.8 million in the quarter ended September 30, 2002. This, in addition to other paid up capital, resulted in cash on hand of $5,939,446.

As of September 30, 2002, we had working capital of $6,277,823, which represented an increase of $5,819,962 as compared to the working capital as of December 31, 2001. The increase was a result of the financings concluded during the nine months ended September 30, 2002.

We have no external sources of liquidity in the form of credit lines from banks. We believe that our available cash will be sufficient to fund our working capital requirements through December 31, 2003. We also believe that available cash will be sufficient to implement our expansion plans. We have no investment banking agreements in place and there is no guarantee that we will be able to raise capital in the future should that become necessary.

RESTATED 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 whereby Ondeo agreed to serve as the exclusive distributor of our WATER$AVR(R) products for so long as Ondeo maintained a certain threshold sales level as defined in the agreement. As consideration for signing the agreement, Ondeo was granted an option to purchase 2,000,000 shares of our common stock. Half of the option for one million shares was exercisable immediately at an exercise price of $4.25 for each common share. The remaining half of the option for 1,000,000 shares was exercisable after certain threshold sales targets were achieved at a price of $5.50 for each common share.

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

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

In the fourth quarter of the year ended December 31, 2003, we determined that Ondeo was not going to attain the minimum sales targets stipulated in the agreement. Consequently, the agreement and corresponding stock option was cancelled. We accounted for the cancellation of the stock option in accordance with Statement of Financial Accounting Standard No. 123 similar to a forfeiture of stock 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 July 2002, we issued 1,428,600 shares of restricted common stock for gross proceeds of $5,000,100 and net proceeds of $4,800,100, in an offering exempt from registration under 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 and was invested in a certificate of deposit with compounding daily interest of 4.03% that matures on September 11, 2005.

During the quarter ended September 30, 2002, our employees exercised options to purchase a total of 114,000 shares of our common stock, for an aggregate exercise price of $33,500. The capital raised from these exercises was used for working capital purposes and was invested in a certificate of deposit with compounding daily interest of 4.03% that matures on September 11, 2005.

During the quarter ended September 30, 2002, we issued two options to purchase a total of 2,000,000 shares of our common stock pursuant to the terms of a product distribution agreement. The first option for 1,000,000 shares contains an exercise price of $4.25 per share and has a term of five years.

The second option for 1,000,000 shares contains an exercise price of $5.50 per share and has a term of five years.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are attached hereto and filed herewith:

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

SIGNATURES

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

Dated: December 5, 2005.

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.

By:/s/ DANIEL B. O'BRIEN

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