FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10QSB/A
December 06, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB/A
(AMENDMENT NO. 1)

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2004.

|_| 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 11,819,916 shares of Common Stock, par value $0.001 per share, outstanding as of April 30, 2004.

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

FORM 10-QSB/A

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EXPLANATORY NOTE

Flexible Solutions International, Inc. ("we," "us," and "our") is filing this Quarterly Report on Form 10-QSB/A to amend and restate in its entirety its Quarterly Report on Form 10-QSB for the fiscal quarter ended March 31, 2004, which was previously filed with the Securities and Exchange Commission on May 14, 2004.

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 distribution agreement. Additional information on this restatement and its effects on our financial condition and results of operations can be found in our Notes to Unaudited Consolidated Financial Statements contained herein.

This Form 10-QSB/A does not reflect events occurring after the filing of our Form 10-QSB on May 14, 2004 or modify any of the disclosures contained therein, or in the accompanying financial statements and notes thereto, in any way other than by the amendments identified above and as set forth herein. Notwithstanding the above, and for the convenience of the reader, this entire report has been amended as a result of, and to reflect, the restatement, as well as to revise the disclosure of our management's discussion and analysis, unregistered sales of equity securities, and legal proceedings, as well as to generally reflect the current disclosure requirements of Form 10-QSB.

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

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

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-QSB/A for the quarter ended March 31, 2004 ("Quarterly Report"), including the Notes to Unaudited Consolidated Financial Statements, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, those statements relating to development of new products, our financial condition, our ability to increase distribution of our products, integration of businesses we acquire, and disposition of any of our current business. Forward-looking statements can be identified by the use of forward-looking terminology, such as "may," "will," "should," "expect," "anticipate," "estimate," "continue," "plans," "intends," or other similar terminology. These forward-looking statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is anticipated or forecasted in these forward-looking statements due to numerous factors, including, but not limited to, our ability to generate or obtain sufficient working capital to continue our operations, changes in demand for our products, the timing of customer orders and deliveries, and the impact of competitive products and pricing. In addition, such statements could be affected by general industry and market conditions and growth rates, and general domestic and international economic conditions.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
AT MARCH 31, 2004
(U.S. DOLLARS)

	MARCH 31, 2004 AS RESTATED (NOTE 4) (UNAUDITED)	DEC AS (
ASSETS		
CURRENT		
Cash and cash equivalents	$ 1,657,930	$
Short term investments	3,508,102	
Accounts receivable	127,621	
Income tax receivable	85,123	
Loan receivable	32,453	
Inventory	183,820	
Prepaid expenses	51,910	
	5,646,958	
PROPERTY AND EQUIPMENT	175,975	
INVESTMENT	303,500	
DEFERRED ACQUISITION COSTS	90,912	
	$ 6,217,346	$
LIABILITIES		
CURRENT		
Due to shareholders	$ --	$
Accounts payable and accrued liabilities	124,656	
	124,656	
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		
11,819,916 (2003: 11,794,916) common shares	11,817	
CAPITAL IN EXCESS OF PAR VALUE	7,190,225	
OTHER COMPREHENSIVE INCOME (LOSS)	15,371	
DEFICIT	(1,124,723)	
TOTAL STOCKHOLDER'S EQUITY	6,092,690	
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 6,217,346	$

- See Notes to Unaudited Consolidated Financial Statements -

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003
(U.S. DOLLARS -- UNAUDITED)

	THREE MONTHS ENDED MARC	
	2004 AS RESTATED (NOTE 4)	AS (
SALES	$ 488,110	$
COST OF SALES	305,919	
GROSS PROFIT	182,191	
OPERATING EXPENSES		
Wages	114,470	
Administrative salaries and benefits	24,847	
Advertising and promotion	7,730	
Investor relations and transfer agent fee	64,678	
Office and miscellaneous	34,590	
Rent	21,349	
Consulting	74,678	
Professional fees	36,508	
Travel	23,576	
Telecommunications	5,700	
Shipping	3,142	
Research	9,161	
Currency exchange	422	
Utilities	5,365	
Depreciation	9,952	
	436,168	
INCOME (LOSS) BEFORE INTEREST INCOME AND INCOME TAX	(253,977)	
INTEREST INCOME	3,116	
INCOME (LOSS) BEFORE INCOME TAX	(250,861)	
INCOME TAX (RECOVERY)	--	
NET INCOME (LOSS)	(250,861)	
DEFICIT, BEGINNING	(873,862)	
DEFICIT, ENDING	$ (1,124,723)	$
NET INCOME (LOSS) PER SHARE	$ (0.02)	$

WEIGHTED AVERAGE NUMBER OF SHARES	11,807,801

- See Notes to Unaudited Consolidated Financial Statements -

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2004 AND 2003
(U.S. DOLLARS -- UNAUDITED)

	THREE MONTHS ENDED
	2004 AS RESTATED (NOTE 4)
OPERATING ACTIVITIES	
Net income (loss)	$ (250,861)
Stock compensation expense	66,935
Depreciation	9,952
Changes in non-cash working capital items:	
Accounts receivable	166,617
Inventory	29,118
Prepaid expenses	(15,809)
Accounts payable	(32,987)
Income tax receivable	1,120
Decrease in due to shareholders	(7,700)
Unrealized foreign exchange gain/loss	--
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(33,615)
INVESTING ACTIVITIES	
Acquisition of property and equipment	(18,338)
Purchase of short-term investments	1,525,735
Loan receivable	(14,868)
Incurred acquisition costs	(90,912)
CASH USED IN INVESTING ACTIVITIES	1,401,617
FINANCING ACTIVITIES	
Proceeds from issuance of common stock	40,500
CASH PROVIDED BY FINANCING ACTIVITIES	40,500
Effect of exchange rate changes on cash	12,348
INFLOW (OUTFLOW) OF CASH	1,420,850
Cash and cash equivalents, beginning	237,080

CASH AND CASH EQUIVALENTS, ENDING	$ 1,657,930	$
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	$ --	$
Interest received	3,116	

- See Notes to Unaudited Consolidated Financial Statements -

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED MARCH 31, 2004
(U.S. DOLLARS)

1. BASIS OF PRESENTATION.

These unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. These financial statements are condensed and do not include all disclosures required for annual financial statements. The organization and business of the Company, accounting policies followed by the Company and other information are contained in the notes to the Company's audited consolidated financial statements filed as part of the Company's December 31, 2003 Annual Report on Form 10-KSB.

In the opinion of the Company's management, these consolidated financial statements reflect all adjustments necessary to present fairly the Company's consolidated financial position at March 31, 2004, and the consolidated results of operations and the consolidated statements of cash flows for the three months ended March 31, 2004 and 2003. The results of operations for the three months ended March 31, 2004 are not necessarily indicative of the results to be expected for the entire fiscal year.

2. STOCKHOLDERS' EQUITY.

(a) The Company has previously granted stock options to consultants and has recognized consulting expense applying Statement of Financial Accounting Standard ("FAS") No. 123 using the Black-Scholes option-pricing model, which resulted in expense of $66,935.15 for the three months ended March 31, 2004.

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

		2004	
	Number of Shares	Exercise Price Per Share	
Balance, December 31, 2004	1,694,000	$ 1.00 to $ 4.25	$
Granted During the Period	--	--	

Exercised	(25,000)	$ (1.40 to $ 2.50)	
Balance, March 31, 2004	1,669,000	$ 1.00 to $ 4.25	$

3. CONTINGENCIES.

(a) On November 13, 2003, Patrick Grant filed a lawsuit in the Circuit Court of Cook County, Illinois against the Company, WaterSavr Global Solutions Inc. ("WGS"), the wholly-owned subsidiary of the Company, and Daniel B. O'Brien , the Company's Chief Executive Officer. The plaintiff claims damages for breach of contract, tortious interference with an agreement and various wrongful discharge claims. The plaintiff seeks monetary damages in excess of $1,020,000 for the breach of contract and tortious interference claims and unspecified compensatory and punitive damages in the wrongful discharge claims. The Company considers the case without merit and is planning to dispute the matter vigorously. In addition, the Company intends to file counterclaims against the plaintiff for failure

to repay financial obligations owed to the Company of almost $40,000, as well as unspecified damages arising out of the plaintiff's disclosure of confidential information to a client during his employment at WGS. No amounts have been recorded as receivable and no accrual has been made for any loss in the Company's consolidated financial statements as the outcome of the claim filed by Mr. Grant is not determinable.

(b) 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 return of 100,000 shares of the Company's common stock and repayment of a $25,000 loan, which were provided to defendants for investment banking services consisting of securing a $5 million loan and a $25 million stock offering. Such services were not performed and in the proceeding, the Company seeks return of such shares after defendant's failure to both return the shares voluntarily and repay the note. On May 7, 2003, the Company obtained an injunction freezing the transfer of the shares. The proceeding is still in a discovery phase. On the date of issuance, the share transaction was recorded as shares issued for services at fair market value, a value of $0.80 per share. No amounts have been recorded as receivable in the Company's consolidated financial statements as the outcome of this claim is not determinable.

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

In October 2005, while completing a registration statement for securities issued in the second quarter of 2005, the Company determined that certain disclosures made in connection with its stock-based compensation expense required adjustment. In September 2002, the Company entered into a distribution agreement with Ondeo 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 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

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September 30, 2002 interim financial statements and in the year ended December 31, 2002, the Company did not record any additional stock-based compensation expense as a result of the attained first threshold level.

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

The following presents the effect on the Company's previously issued financial statements for the three months ended March 31, 2004 and 2003, and the year ended December 31, 2003:

Balance sheet as at March 31, 2004 -

	Previously Reported	Increase (Decrease)	
Capital in excess of par value	$ 7,414,025	$ (223,800)	$
Accumulated deficiency	(1,348,523)	223,800	

Statement of operations for the three months ended March 31, 2004 -

	Previously Reported	Increase (Decrease)
Deficit, beginning	$ (1,097,662)	$ (223,800)
Deficit, ending	(1,348,523)	223,800

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

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

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

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

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Balance sheet as at December 31, 2003 -

	Previously Reported	Increase (Decrease)
Capital in excess of par value	$ 7,306,613	(223,800)
Accumulated deficiency	(1,097,662)	223,800

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.

For the three months ended March 31, 2004, we experienced a loss of $250,861, as compared to net income of $126,701 for the three months ended March 31, 2003. We increased expenditures in the areas of WATER$AVR(R) product sales and marketing, as well as in investor relations. In addition, we regained the distribution of our residential swimming pool products and, as a result, added personnel, office space, equipment and marketing resources during the quarter.

RESULTS OF OPERATIONS

The following analysis and discussion pertains to our results of operations for the three month periods ended March 31, 2004, as compared to the results of operations for the three month periods ended March 31, 2003, and to changes in our financial condition from December 31, 2003 to March 31, 2004.

THREE MONTHS ENDED MARCH 31, 2004 AND 2003

For the three months ended March 31, 2004, sales were $488,110, as compared to $1,281,266 for the three months ended March 31, 2003. This decrease in sales is the result of a decrease in sales of our Tropical Fish product, which occurred because our former exclusive distributor, Sun Solar Energy Technologies ("Sun Solar") continued to make sales to its customers of our Tropical Fish product after we terminated the relationship with Sun Solar. In addition, we experienced a reduction in sales in our WATER$AVR(R) product line division. During the quarter ended March 31, 2004, we changed the name of our residential swimming pool product from Tropical Fish to ECO$AVR(R) and have decided to distribute this product in-house. The product launch is scheduled for May 2004. We also had $479,000 in WATER$AVR(R) product sales to Ondeo Nalco Company ("Ondeo") in the quarter ended March 31, 2003 that were not repeated in the quarter ended March 31, 2004. In addition, the last shipment of our Tropical Fish product to Sun Solar ($108,000) was delayed through the quarter end and shipped on April 1, 2004. These items account for all of the quarter over quarter revenue change.

Our cost of sales for the quarter ended March 31, 2004 was $305,919, a decrease from $687,067 for the quarter ended March 31, 2003. This represents an increase from 54% to 63% as a result of lower

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sales without an equivalent reduction in costs. This reduction can be attributed to the lack of WATER$AVR(R) product sales and consequent lower raw material input costs. The largest increases were in the area of consulting costs in connection with the overseas sales of our WATER$AVR(R) product line ($74,678 in the quarter ended March 31, 2004, as compared to $106,012 in the quarter ended March 31, 2003). In addition, professional fees increased from $23,063 in the quarter ended March 31, 2003 to $36,508 in the quarter ended March 31, 2004, in connection with an increase in fees payable to outside counsel for litigation-related services, and investor relations fees increased to $64,678 in the quarter ended March 31, 2004, as compared to $33,120 in the quarter ended

March 31, 2003, as a result of increased efforts to raise awareness in the investing community. There were also decreases in the areas of wages ($114,470 in the quarter ended March 31, 2004, as compared to $138,670 in the quarter ended March 31, 2003), research and development ($9,161 in the quarter ended March 31, 2004, as compared to $17,531 in the quarter ended March 31, 2003), and travel-related costs ($23,576 in the quarter ended March 31, 2004, as compared to $34,184 in the quarter ended March 31, 2003). These decreases are related to the closing of the separate office housing personnel for our WATER$AVR(R) product line in Illinois, laying off non-performing sales staff and relocating such office to Victoria, British Columbia.

Our operating expenses were $436,168 for the three months ended March 31, 2004, a marginal decrease from $467,074 for the three months ended March 31, 2003. Our loss for the quarter ended March 31, 2004 of $250,861, was a significant decrease from the profit of $126,701 for the quarter ended March 31, 2003. This loss was caused by decreased sales in our WATER$AVR(R) product division, combined with continued efforts to close new direct sales of our WATER$AVR(R) product in Asia and the United States. Our loss per share was $0.02 for the three months ended March 31, 2004, as compared to a profit of $0.01 for the three months ended March 31, 2003.

LIQUIDITY AND CAPITAL RESOURCES

As of March 31, 2004, we had cash on hand of $1,657,930, which represents an increase as compared to our cash on hand of $405,492 for the quarter ended March 31, 2003. As of March 31, 2004, we had working capital of $5,522,302, which represented a decrease in comparison to our working capital of $5,752,679 for the period ended December 31, 2003. This decrease was a result of operational costs incurred to market our WATER$AVR(R) product line during the three months ended March 31, 2004. We have no external sources of liquidity in the form of credit lines from banks.

Our management believes that our available cash will be sufficient to fund our working capital requirements through December 31, 2004. Our management further believes that available cash will be sufficient to implement our expansion plans. No investment banking agreements are in place and there is no guarantee that we will be able to raise capital in the future should that become necessary.

RESTATEMENT OF FINANCIAL STATEMENTS

The accompanying financial statements have been restated to revise certain stock-based compensation expense. In October 2005, while completing a registration statement for securities issued in the second quarter of 2005, we determined that certain disclosures made in connection with our stock-based compensation expense required adjustment. In September 2002, we entered into a distribution agreement with Ondeo 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.

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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.

On November 13, 2003, Patrick Grant, an ex-employee, filed a lawsuit in the Circuit Court of Cook County, Illinois against us, WaterSavr Global Solutions Inc. ("WGS"), our wholly-owned subsidiary, and Daniel B. O'Brien, our Chief Executive Officer. The plaintiff claims damages for breach of contract, tortious interference with an agreement and various wrongful discharge claims. The plaintiff seeks monetary damages in excess of $1,020,000 for the breach of contract and tortious interference claims and unspecified compensatory and punitive damages in the wrongful discharge claims. We consider the case to be without merit and are planning to dispute the matter vigorously. In addition, we intend to file counterclaims against the plaintiff for failure to repay financial obligations owed to us of almost $40,000, as well as unspecified damages arising out of the plaintiff's disclosure of confidential information to a client during his employment at WGS. No amounts have been recorded as receivable and no accrual has been made for any loss in our consolidated financial statements as the outcome of the claim filed by the plaintiff is not yet determinable.

On May 1, 2003, we filed a lawsuit in the Supreme Court of British Columbia, Canada, against John Wells and Equity Trust, S.A. seeking the return of 100,000 shares of our common stock and the repayment of a $25,000 loan, which were provided to the defendants for investment banking services consisting of securing a $5 million loan and a $25 million stock offering. Such services were not performed and in the proceeding we seek return of such shares after defendant's failure to both return the shares voluntarily and repay the note. On May 7, 2003, we obtained an injunction freezing the transfer of the shares. The proceeding is still in a discovery phase. On the date of issuance, the share transaction was recorded as shares issued for services at fair market value, a value of $0.80 per share. No amounts have been recorded as receivable in our consolidated financial statements as the outcome of this claim is not yet determinable.

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

During the quarter ended March 31, 2004, our employees exercised options to purchase a total of 15,000 shares of our common stock, for an aggregate exercise price of $21,000.00. In addition, during the quarter ended March 31, 2004, our non-employee consultants exercised options to purchase a total of 10,000 shares of our common stock, for an aggregate exercise price of $19,500.00. The capital raised from these exercises was used for working capital purposes.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

The following exhibits are attached hereto and filed herewith:

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

SIGNATURES

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

Dated: December 5, 2005.

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.

By: /s/ DANIEL B. O'BRIEN

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