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FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10QSB
May 14, 2004

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

FORM 10QSB

QUARTERLY REPORT UNDER 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 EXCHANGE ACT

FLEXIBLE SOLUTIONS INTERNATIONAL INC.

(Exact name of small business issuer as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization)

91-1922863

(IRS Employer Identification No.)

2614 Queenswood Dr. Victoria BC Canada V8N 1X5

(Address of principal executive offices)

(250) 477 - 9969

(Issuer's telephone number)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be
filed by Section 12,13 or 15(d) of the Exchange Act after the distribution of
securities under a plan confirmed by a court. Yes No

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:

Common stock \$.001 par value 11,819,916 shares as of April 30, 2004

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

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Attached hereto and incorporated herein by reference.

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

	MARCH 31 2004	DECEMBER 2003
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 1,657,930	\$ 23
Short term investments	3,508,102	5,03
Accounts receivable	127,621	29
Income tax receivable	85,123	8
Loan receivable	32,453	1
Inventory	183,820	21
Prepaid expenses	51,910	3
	5,646,958	5,91
PROPERTY AND EQUIPMENT	175,975	16
INVESTMENT	303,500	30
DEFERRED ACQUISITION COSTS	90,912	
	\$ 6,217,346	\$ 6,38
LIABILITIES		
CURRENT		
Due to shareholders	\$ -	\$
Accounts payable and accrued liabilities	124,656	15
	124,656	16
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	1
CAPITAL IN EXCESS OF PAR VALUE	7,414,025	7,30
OTHER COMPREHENSIVE INCOME (LOSS)	15,371	
DEFICIT	(1,348,523)	(1,09

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TOTAL STOCKHOLDER'S EQUITY	6,092,690	6,22

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 6,217,346	\$ 6,38

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

	THREE MONTHS ENDED MARCH 31	
	2004	2003

SALES	\$ 488,110	\$ 1,281,266
COST OF SALES	305,919	687,067

GROSS PROFIT	182,191	594,199

OPERATING EXPENSES		
Wages	114,470	138,670
Administrative salaries and benefits	24,847	17,642
Advertising and promotion	7,730	-
Investor relations and transfer agent fee	64,678	33,120
Office and miscellaneous	34,590	46,022
Rent	21,349	14,398
Consulting	74,678	51,932
Professional fees	36,508	23,063
Travel	23,576	34,184
Telecommunications	5,700	8,762
Shipping	3,142	3,692
Research	9,161	17,531
Currency exchange	422	16,167
Utilities	5,365	-
Depreciation	9,952	7,811

	436,168	412,994

INCOME (LOSS) BEFORE INTEREST INCOME AND INCOME TAX	(253,977)	181,205
INTEREST INCOME	3,116	50,268

INCOME (LOSS) BEFORE INCOME TAX	(250,861)	231,473
INCOME TAX (RECOVERY)	-	50,692

NET INCOME (LOSS)	\$ (250,861)	\$ 180,781

DEFICIT, BEGINNING	(1,097,662)	(3,100,974)

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DEFICIT, ENDING	(1,348,523)	(2,920,193)
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NET INCOME (LOSS) PER SHARE	\$ (0.02)	\$ 0.02
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WEIGHTED AVERAGE NUMBER OF SHARES	11,807,801	11,610,138
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FLEXIBLE SOLUTIONS INTERNATIONAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE QUARTERS ENDED MARCH 31, 2004 AND 2003
(UNAUDITED - U.S. DOLLARS)

	QUARTERS ENDED MARCH 31	
	2004	2003

OPERATING ACTIVITIES		
Net income (loss)	\$ (250,861)	\$ 1
Stock compensation expense	66,935	
Depreciation	9,952	

Changes in non-cash working capital items:		
Accounts receivable	166,617	(7
Inventory	29,118	
Prepaid expenses	(15,809)	
Accounts payable	(32,987)	1
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)	(1
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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	(
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FINANCING ACTIVITY		
Proceeds from issuance of common stock	40,500	

CASH PROVIDED BY FINANCING ACTIVITIES	40,500	
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Effect of exchange rate changes on cash	12,348	
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INFLOW (OUTFLOW) OF CASH	1,420,850	(1
Cash and cash equivalents, beginning of period	237,080	5

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CASH AND CASH EQUIVALENTS, END OF PERIOD \$ 1,657,930 \$ 4

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Income taxes paid \$ - \$
 Interest received 3,116

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 PERIODS ENDED MARCH 31
 (U.S. DOLLARS)
 (UNAUDITED)

1. BASIS OF PRESENTATION

These unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 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 nine 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) During the prior periods, the Company granted stock options to consultants and have recognized consulting expense applying SFAS 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	Exercise
		of Shares	Price
			Per Share

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Balance, December 31, 2004	1,694,000	\$ 1.00 to \$ 4.25
Granted During the Period	0	0
Exercised	(25,000)	\$ (1.40 to \$ 2.50)

Balance, March 31, 2004	1,669,000	\$ 1.00 to \$ 4.25

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 PERIODS ENDED MARCH 31ST 2004
 (U.S. DOLLARS)
 (UNAUDITED)

3. CONTINGENCIES:

a) The company has been named as a plaintiff in a lawsuit filed in the state of Illinois by a former employee. In November 2003, an ex-employee, Patrick Grant filed suit against Flexible Solutions in Cook County Circuit Court, Cook County IL, claiming wrongful dismissal and seeking return of options rights or cash. The company believes these allegations are without merit and intends to vigorously defend against them.

b) The company is plaintiff in a lawsuit demanding return of the share certificate of 100,000 shares of stock originally given to the defended as payment in advance for services. The services for which the advance was given were never performed or given to the company, and the company therefore received no consideration or value for such advance. Return of the share certificate for 100,000 shares was demanded within ten (10) days, namely August 22, 2001, however, to date remains unreturned.

On date of issue, January 4, 2001, the share transaction was recorded as shares issued for services at fair market value, a value of \$0.80 per share.

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ITEM 2. MANagements DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information contains certain forward-looking statements that anticipate future trends or events. These statements are based on certain assumptions that may prove to be erroneous and are subject to certain risks including but not limited to the risks of increased competition in the Company's industry and other risks detailed in the Company's Securities and Exchange Commission filings. Accordingly, actual results may differ, possibly materially, from the predictions contained herein.

For the three months ended March 31, 2004, the Company experienced a loss of \$250,861 as compared to a profit of \$180,781 for the three months ended March 31, 2003. The Company increased expenditures in the areas of WATER\$AVR sales and marketing as well as investor relations. In addition, the Company regained the distribution of its residential pool products and added personnel, office space, equipment and marketing resources during the quarter.

RESULTS OF OPERATIONS

Reference is made to Item 2, "Management's Discussion and Analysis" included in the Company's registration statement on Form 10-SB for the year ended December 31st 1999, as amended, and the Company's 10K-SB for the years ended Dec. 31st 2002 and 2003 on file with the Securities and Exchange Commission. The following analysis and discussion pertains to the Company's results of operations for the three months ended March 31 2004, compared to the results of operations for the three month ended March 31, 2003, and to changes in the Company's financial condition from December 31st 2003 to March 31, 2004.

THREE MONTHS ENDED MARCH 31ST 2004 AND 2003

For the first quarter of the current fiscal year ending March 31st, 2004, sales were \$488,110 compared to \$1,281,266 for the same quarter of the previous year. This decrease in sales is a result of pre-sold Tropical Fish to our former exclusive distributor, SunSolar and reduced sales in the Water\$avr division. We have changed the name of our residential pool product to Ecosavr and have taken the distribution in house, based out of Richmond BC. The product launch is scheduled for May 2004. There were \$479,000 in Water\$avr sales to Ondeo Nalco in first quarter 2003 that were not repeated in 2004 and the last shipment of Tropical Fish to our former distributor (\$108,000) was delayed through the quarter end and shipped on April 1st. These two items account for all of the quarter over quarter revenue change.

Cost of sales was \$305,919 for the first quarter, down from \$687,067 for the first quarter of last year. Reduction can be attributed to the lack of W\$ sales and consequent lower raw material input costs. The largest real increases were in the area of consulting (\$74,678 from \$51,932) for overseas sales of W\$. Professional fees increased to (\$55,920 from \$23,063) and investor relations increased to (\$64,678 from \$33,120) to accommodate increased efforts to raise awareness of the Company in the investing community. There were decreases in the areas of wages, (\$114,470 from \$138,670) research (\$9,161 from \$17,531) and travel (\$23,576 from \$34,184) these decreases are related to closing the WaterSavr Global office in Illinois, laying off non-performing sales staff and relocating head office to Victoria BC.

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The loss for the quarter was \$250,861, a significant increase from first quarter last year when there was a profit of 180,781. The increased loss was caused by decreased sales in the Water\$avr division combined with continued efforts to close new direct sales of W\$ in Asia and the USA. Cost of sales increased from 53 to 62% as a result of lower sales without an equivalent reduction in costs.

The loss per share was \$0.02 for the three months ended March 31, 2004 compared to a profit of \$0.02 for the three months ended March 31, 2003.

Sales in the three months ended March 31, 2004 were \$488,110 compared to \$1,281,266 for the three months ended March

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31, 2003. The 62% decrease was a result of the timing in sales in our swimming pool division and lack of significant sales in the W\$ division. Our previous exclusive distributor ordered significant product ahead of spring sales in the 4th quarter of 2003 and a shipping delay caused \$108,000 in another order to be recognized in the 2nd quarter 2004 rather than Q1.

Operating expenses for the Company were \$436,168 for the three months ended March 31, 2004 up marginally from \$412,994 for the three months ended March 31, 2003. The net income for the three months ended March 31, 2004 was (\$250,861) compared to a net income of \$180,781 for the three months ended March 31, 2003.

LIQUIDITY AND CAPITAL RESOURCES

The Company had cash on hand of \$1,657,930 as of the end of the quarter.

As of March 31, 2004 the Company had working capital of \$5,646,958 as compared to working capital of 5,918,022 on December 31st 2003. The decrease was a result of operational costs incurred to market Water\$avr during the 3 months ended March 31, 2004 and the six months ended Dec 31st 2003.

The Company has no external sources of liquidity in the form of credit lines from banks. Management believes that its available cash will be sufficient to fund the Company's working capital requirements through December 31st 2004. Management further believes that available cash will be sufficient to implement the Company's expansion plans. No investment banking agreements are in place and there is no guarantee that the Company will be able to raise capital in the future should that become necessary.

ITEM 3. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-14(c). The Company's disclosure controls and procedures are designed to provide a reasonable level of assurance of reaching the Company's desired disclosure control objectives. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The Company's

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certifying officer has concluded that the Company's disclosure controls and procedures are effective in reaching that level of assurance.

PART II - OTHER INFORMATION

- Item 1. Legal proceedings
In November 2003, an ex-employee, Patrick Grant filed suit against Flexible Solutions in Cook County Circuit Court, Cook County IL, claiming wrongful dismissal and seeking return of options rights or cash. Management considers the case without merit and is disputing the suit vigorously.
- Item 2. Changes in Securities
No options were granted to employees during the period. 5,000 options were exercised by consultant employees during the period for proceeds to the Company of \$12,500. 20,000 options were exercised by employees' during the period for proceeds to the Company of \$28,000
- Item 3. Default upon Senior Securities - None
- Item 4. Submission of Matters to a Vote of Securities Holders - None

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- Item 5. Other Information - None
- Item 6.(b) Reports on Form 8-K
March 9, 2004

LIST OF EXHIBITS

- #1 Un-audited Financial Statements - Attached
- #13 Form 10-KSB Dec 31st 2004 - incorporated by reference
- #31 Section 2 page 4
- #32 Section 2 page 6

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FLEXIBLE SOLUTIONS INTERNATIONAL INC.
(Registrant)

Dated: May 10, 2004

/s/ Dan O'Brien, President and Director

EXHIBIT 31

I, Dan O'Brien, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Flexible Solutions International Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial

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information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

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b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 10, 2004

/s/ Dan O'Brien

CEO and CFO

EXHIBIT 32

CERTIFICATION PURSUANT TO
18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Flexible Solutions International Inc. on form 10-Q for the period ended Mar 31st 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dan O'Brien, Chief

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Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes -Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dan O'Brien

Dan O'Brien
CEO, May 10, 2004

CERTIFICATION PURSUANT TO
18 U.S.C. 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Flexible Solutions International Inc. (the Company) on form 10-Q for the period ended Mar 31st 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dan O'Brien, Chief Financial Officer of the Company, certify pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(b) of the Securities Exchange Act of 1934; and

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2. The information contained in the Report fairly represents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dan O'Brien

Dan O'Brien
CFO, May 10, 2004

