

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

FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10-Q
May 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from _____ to _____

Commission File Number: 001-31540

FLEXIBLE SOLUTIONS INTERNATIONAL INC.

(Exact Name of Issuer as Specified in Its Charter)

Nevada

91-1922863

(State or other jurisdiction of incorporation or organization)

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

615 Discovery St.
Victoria, British Columbia, Canada

V8T 5G4

(Address of Issuer's Principal Executive Offices)

(Zip Code)

Issuer's telephone number: (250) 477-9969

N/A

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

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

Yes

No

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

Large accelerated filer

Accelerated filer

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

Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

Yes

No

Class of Stock	No. Shares Outstanding	Date
----- Common	----- 13,169,991	----- April 30, 2011

FORM 10-Q

Index

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

(a) Unaudited Consolidated Balance Sheets at March 31, 2011 and December 31, 2010.

(b) Unaudited Consolidated Statements of Operations for the Three Months Ended March 31, 2011 and 2010.

(c) Unaudited Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010.

(d) Notes to Unaudited Consolidated Financial Statements for the Period Ended March 31, 2011.

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

Item 4 and 4T. Controls and Procedures.

PART II. OTHER INFORMATION

Item 6. Exhibits.

SIGNATURES

i

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

- o Increased competitive pressures from existing competitors and new entrants;
- o Increases in interest rates or our cost of borrowing or a default under any material debt agreement;
- o Deterioration in general or regional economic conditions;
- o Adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations;
- o Loss of customers or sales weakness;
- o Inability to achieve future sales levels or other operating results;
- o The unavailability of funds for capital expenditures; and
- o Operational inefficiencies in distribution or other systems.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010.

ii

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
At March 31, 2011
(U.S. Dollars)

	March 31, 2011 (Unaudited)	December 31, 2010
	-----	-----
Assets		
Current		
Cash and cash equivalents	\$ 525,709	\$ 2,763,420

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

Accounts receivable	3,124,584	1,198,939
Inventory	2,529,348	2,539,190
Prepaid expenses	158,984	192,269
	-----	-----
	6,338,625	6,693,819
Property, equipment and leaseholds	8,222,659	7,867,672
Patents	227,832	225,180
Long term deposits	8,087	7,895
Deferred tax asset	199,000	199,000
	-----	-----
	\$14,996,203	\$14,993,565
	=====	=====
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 619,806	512,380
Deferred revenue	304,975	250,000
Taxes payable	940,000	620,000
Current portion of long term debt	127,273	122,726
	-----	-----
	1,992,054	1,505,106
Long Term		
Loans	2,230,479	2,206,075
	-----	-----
	4,222,533	3,711,181
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		
13,169,991 (2010: 13,962,567) common shares	13,170	13,963
Capital in excess of par value	15,645,509	16,638,227
Other comprehensive income	681,555	554,865
Deficit	(5,566,564)	(5,924,671)
	-----	-----
Total Stockholders' Equity	10,773,670	11,282,384
	-----	-----
Total Liabilities and Stockholders' Equity	\$14,996,203	\$14,993,565
	=====	=====
Commitments (Note 13)		

-- See Notes to Unaudited Consolidated Financial Statements --

1

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2011 and 2010
(U.S. Dollars -- Unaudited)

	Three Months Ended March 31,	
	-----	-----
	2011	2010
	-----	-----
Sales	\$ 4,357,467	\$3,384,846

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

Cost of sales	2,573,948	1,852,532
	-----	-----
Gross profit	1,783,519	1,532,314
	-----	-----
Operating expenses		
Wages	470,838	377,153
Administrative salaries and benefits	93,614	84,355
Advertising and promotion	37,610	28,774
Investor relations and transfer agent fee	25,824	23,496
Office and miscellaneous	97,335	100,206
Insurance	56,098	50,616
Interest expense	19,281	18,742
Rent	44,665	41,183
Consulting	30,691	33,227
Professional fees	44,931	41,611
Travel	32,650	25,503
Telecommunications	8,908	9,772
Shipping	8,119	5,868
Research	14,115	18,855
Commissions	66,658	42,384
Bad debt expense (recovery)	-	-
		5,253
Currency exchange	12,923	10,284
Utilities	41,152	30,359
	-----	-----
Total operating expenses	1,105,412	947,641
	-----	-----
Operating income (loss)	678,107	584,673
Interest income	-	-
	-----	-----
Income (loss) before income tax	678,107	584,673
	-----	-----
Provision for income taxes	(320,000)	(69,000)
	-----	-----
Net income (loss)	358,107	515,673
	-----	-----
Net income (loss) per share (basic and diluted)	\$ 0.03	\$ 0.04
	-----	-----
Weighted average number of common shares	13,592,698	13,962,567
	-----	-----

-- See Notes to Unaudited Consolidated Financial Statements --

2

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2011 and 2010
(U.S. Dollars -- Unaudited)

	Three Months Ended March	
	31,	
	2011	2010
	-----	-----
Operating activities		
Net income (loss)	\$ 358,107	\$ 515,673
Stock compensation expense	36,839	28,186

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

Depreciation	81,153	86,738
Changes in non-cash working capital items:		
(Increase) Decrease in accounts receivable	(1,916,725)	(565,878)
(Increase) Decrease in inventory	24,899	(180,130)
(Increase) Decrease in prepaid expenses	34,666	3,630
Increase (Decrease) in accounts payable	110,908	(40,167)
Increase (Decrease) in taxes payable	320,000	69,000
Increase (Decrease) in deferred revenue	54,975	-
	-----	-----
Cash provided by (used in) operating activities	(895,178)	(429,588)
	-----	-----
Investing activities		
Acquisition of property and equipment	(287,698)	(76,320)
	-----	-----
Cash provided by (used in) investing activities	(287,698)	(76,320)
	-----	-----
Financing activities		
Loan	(30,758)	-
Purchase of common stock	(1,030,349)	-
	-----	-----
Cash provided (used) by financing activities	(1,061,107)	-
	-----	-----
Effect of exchange rate changes on cash	6,272	15,688
	-----	-----
Inflow (outflow) of cash	(2,237,711)	(490,220)
Cash and cash equivalents, beginning	2,763,420	2,126,150
	-----	-----
Cash and cash equivalents, ending	\$ 525,709	\$1,635,930
	-----	-----
Supplemental disclosure of cash flow information:		
Income taxes paid	\$ -	\$ 69,000
Interest paid	\$ 19,281	\$ 18,742
	-----	-----

-- See Notes to Unaudited Consolidated Financial Statements --

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Period Ended March 31, 2011
(U.S. Dollars)

1. BASIS OF PRESENTATION.

These unaudited consolidated financial statements of Flexible Solutions International, Inc (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. These financial statements are condensed and do not include all disclosures required for annual financial statements. The

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

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, 2010 Annual Report on Form 10-K. This quarterly report should be read in conjunction with such annual report.

In the opinion of the Company's management, these consolidated financial statements reflect all adjustments necessary to present fairly the Company's consolidated financial position at March 31, 2011, and the consolidated results of operations and the consolidated statements of cash flows for the three months ended March 31, 2011 and 2010. The results of operations for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the entire fiscal year.

These consolidated financial statements include the accounts of Flexible Solutions International, Inc. (the "Company"), and its wholly-owned subsidiaries Flexible Solutions, Ltd. ("Flexible Ltd.") and NanoChem Solutions Inc. All inter-company balances and transactions have been eliminated. The Company was incorporated May 12, 1998 in the State of Nevada and had no operations until June 30, 1998.

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

2. SIGNIFICANT ACCOUNTING POLICIES.

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

(a) Cash and Cash Equivalents.

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

4

(b) Inventories and Cost of Sales

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

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

and purchasing) and utilities and overhead expenses related to the Company's manufacturing and processing facilities.

(c) Allowance for Doubtful Accounts

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

(d) Property, Equipment and Leaseholds.

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

Computer hardware	30% Declining balance
Automobile	30% Declining balance
Trade show booth	30% Declining balance
Furniture and fixtures	20% Declining balance
Manufacturing equipment	20% Declining balance
Office equipment	20% Declining balance
Building and improvements	10% Declining balance
Leasehold improvements	Straight-line over lease term

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

Costs capitalized on self-constructed assets classified as plant under construction, include contracted costs and supplies, but do not capitalize interest costs. The Company does not commence depreciating its plant under construction until it becomes operational.

(e) Impairment of Long-Lived Assets.

In accordance with FASB Codification Topic 360, "Property, Plant and Equipment (ASC 360)", the Company reviews long-lived assets, including, but not limited to, property and equipment, patents and other assets, for impairment annually or whenever events or changes in circumstances indicate the carrying amounts of assets may not be recoverable. The carrying value of long-lived assets is assessed for impairment by evaluating operating performance and future undiscounted cash flows of the underlying assets. If the sum of the expected future cash flows of an asset is less than its carrying value, an impairment measurement is indicated. Impairment charges are recorded to the extent that an asset's carrying value exceeds its fair value. Accordingly, actual results could vary significantly from such estimates. There were no impairment charges during the periods presented.

5

(f) Foreign Currency.

The functional currency of one of the Company's subsidiaries is the

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

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

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

(g) Revenue Recognition.

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

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

(h) Stock Issued in Exchange for Services.

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

(i) Stock-based Compensation.

The Company recognizes compensation expense for all share-based payments, in accordance with FASB Codification Topic 718, Compensation -- Stock Compensation, (ASC 718). Under the fair value recognition provisions of ASC 718, the Company recognizes share-based compensation expense, net of an estimated forfeiture rate, over the requisite service period of the award.

The fair value at grant date of stock options is estimated using the Black-Scholes-Merton option-pricing model. Compensation expense is recognized on a straight-line basis over the stock option vesting period based on the estimated number of stock options that are expected to vest.

(j) Comprehensive Income.

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

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

(k) Income (loss) Per Share.

Basic earnings (loss) per share is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding in the period. Diluted earnings (loss) per share are calculated giving effect to the potential dilution of the exercise of options and warrants. Common equivalent shares, composed of incremental common shares issuable upon the exercise of stock options and warrants are included in diluted net income per share to the extent that these shares are dilutive. Common equivalent shares that have an anti-dilutive effect on net income per share have been excluded from the calculation of diluted weighted average shares outstanding for the three months ended March 31, 2011 and 2010.

(l) Use of Estimates.

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

(m) Financial Instruments.

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

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

(n) Fair Value of Financial Instruments

In August 2009, an update was made to Fair Value Measurements and Disclosures -- "Measuring Liabilities at Fair Value." This update permits entities to measure the fair value of liabilities, in circumstances in which a quoted price in an active market for an identical liability is not available, using a valuation technique that uses a quoted price of an identical liability when traded as an asset, quoted prices for similar liabilities or similar liabilities when traded as assets or the income or market approach that is consistent with the principles of Fair Value Measurements and Disclosures. Effective upon issuance, the Company has adopted this guidance with no material impact to the Company's consolidated financial statements.

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs described below, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

- o Level 1 - Quoted prices in active markets for identical assets or liabilities

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

- o Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other

7

inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- o Level 3 -- Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities for all periods presented approximate their respective carrying amounts due to the short term nature of these financial instruments. Long term debt relates to borrowings from governmental entities and as such no interest has been imputed on the non-interest bearing loan.

(o) Contingencies

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

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

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

(p) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance so that the assets are recognized only to the extent that when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized.

Per FASB ASC 740 "Income taxes" under the liability method, it is the

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

Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. At March 31, 2011, the Company believes it has appropriately accounted for any unrecognized tax benefits. To the extent the Company prevails in matters for which a liability for an unrecognized benefit is established or is required to pay amounts in excess of the liability, the Company's effective tax rate in a given financial statement period may be affected. Interest and penalties associated with the Company's tax positions are recorded as Interest Expense.

8

(q) Risk Management

The Company's credit risk is primarily attributable to its account receivables. The amounts presented in the accompanying consolidated balance sheets are net of allowances for doubtful accounts, estimated by the Company's management based on prior experience and the current economic environment. The Company is exposed to credit-related losses in the event of non-performance by counterparties to the financial instruments. Credit exposure is minimized by dealing with only credit worthy counterparties. Accounts receivable for the three primary customers totals \$1,615,743 (52%) as at March 31, 2011 (2010 - \$702,486 or 59%).

The credit risk on cash and cash equivalents is limited because the Company limits its exposure to credit loss by placing its cash and cash equivalents with major financial institutions.

The Company is not exposed to significant interest rate risk to the extent that the long term debt maintained from the foreign government agencies is subject to a fixed rate of interest.

In order to manage its exposure to foreign exchange risks, the Company is closely monitoring the fluctuations in the foreign currency exchange rates and the impact on the value of cash and cash equivalents, accounts receivable, and accounts payable.

(r) Recent Accounting Pronouncements

In December 2010, the FASB issued ASU No. 2010-29, -Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (-ASU 2010-29). The amendments in this ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplementary pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of ASU 2010-29 on January 1, 2011 did not have a material impact on the Company's Consolidated Financial Statements.

In December 2010, the FASB issued ASU No. 2010-28, -Intangibles - Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (-ASU 2010-28). For reporting units with zero or negative carrying amounts, this ASU requires that an entity perform Step 2 of the goodwill impairment test if it is more likely

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

than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of ASU 2010-28 on January 1, 2011 did not have an impact on the Company's Consolidated Financial Statements.

9

3. ACCOUNTS RECEIVABLE

	2011	2010
Accounts receivable	\$3,138,422	\$1,212,428
Allowances for doubtful accounts	(13,838)	(13,489)
	\$3,124,584	\$1,198,939

The Company has pledged \$350,748 of the above listed accounts receivable as collateral for the Flexible Solutions Ltd. loan from AFSC (see Note 8b).

4. INVENTORIES

	2011	2010
Completed goods	\$1,204,443	\$1,354,578
Works in progress	75,511	142,824
Raw materials	1,249,394	1,041,788
	\$ 2,529,348	\$2,539,190

5. PROPERTY, PLANT & EQUIPMENT

	2011 Cost	Accumulated Depreciation	2011 Net
Buildings	\$3,216,859	\$1,607,905	\$1,608,954
Plant under construction and equipment	5,346,283	--	5,346,283
Computer hardware	102,391	75,967	26,424
Furniture and fixtures	28,907	19,511	9,396
Office equipment	24,573	19,772	4,801
Manufacturing equipment	2,397,907	1,813,384	584,523
Trailer	28,790	18,828	9,962
Technology	140,901	-	140,901
Trade show booth	8,962	8,134	828
Truck	12,263	7,539	4,724
Land	485,863	-	485,863
	\$11,936,699	\$3,571,040	\$8,222,659

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

	2010 Cost	Accumulated Depreciation	2010 Net
Buildings	\$3,216,859	\$1,566,462	\$1,650,397
Plant under construction and equipment	4,922,148	--	4,922,148
Computer hardware	100,733	72,557	28,176
Furniture and fixtures	28,391	18,654	9,737
Office equipment	23,954	19,028	4,926
Manufacturing equipment	2,392,162	1,772,207	619,955
Trailer	28,0654	17,566	10,498
Technology	137,349	--	137,349
Trade show booth	8,736	7,863	873
Truck	11,954	6,975	4,979
Land	478,634	--	478,634
	\$11,348,985	\$3,481,313	\$7,867,672

10

Amount of depreciation expense for 2011: \$81,153 (2010: \$83,806)

As of March 31, 2011, the following capitalized costs pertaining to our new plant in Taber, Alberta are classified as Plant Under Construction and Equipment and include contracted costs and supplies, but do not include capitalized interest costs. The Company will not begin depreciating the Plant and Equipment until it becomes operational.

	2011	2010
Building	1,090,972	1,063,471
Building improvements	1,116,492	1,085,613
Manufacturing equipment	3,117,387	2,773,064
Technology	140,901	137,349
	5,487,184	5,059,497

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

Land	\$ 286,770
Building	1,090,972
Building improvements	1,116,492
Manufacturing equipment	3,185,982
Trailer	9,962
Truck	4,725
Trade show booth	828
Technology	140,901

6. PATENTS

In fiscal 2005, the Company started the patent process for additional

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

WATER\$AVR(R) products. Patents associated with these costs were granted in 2006 and they have been amortized over their legal life of 17 years.

Of the patents costs listed below, \$81,042 (2010 - \$79,582) are not subject to amortization as of March 31, 2011, as the patents are still in the process of being approved.

	2011 Cost	Accumulated Amortization	2011 Net
Patents	\$273,408	\$ 45,575	\$227,832

	2010 Cost	Accumulated Amortization	2010 Net
Patents	\$266,530	\$ 41,350	\$225,180

Increase in 2011 cost was due to currency conversion. 2011 cost in Canadian dollars - \$265,102 (2010 - \$265,102 in Canadian dollars).

Amount of depreciation for 2011 - \$2,932 (2010 - \$2,932)

11

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

2011	\$	11,865
2012		11,865
2013		11,865
2014		11,865
2015		11,865

7. LONG TERM DEPOSITS

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

	2011	2010
Long term deposits	\$ 8,087	\$ 7,895

8. LONG TERM DEBT

(a) Flexible Solutions Ltd. has received a non-interest bearing loan from the Department of Agriculture and Agri-Food Canada ("AAFC"). Eligible for up to \$1,000,000 Canadian funds, the Company had an outstanding balance of \$910,801 in Canadian funds (\$939,400 US) as of March 31, 2011, on an unsecured basis. If the full amount is borrowed, the repayment schedule is as follows:

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

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

(b) Flexible Solutions Ltd. has also received a 5% simple interest loan from Agriculture Financial Services Corp. ("AFSC"). Eligible for up to \$2,000,000 Canadian funds, the Company had an outstanding balance of \$1,375,172 in Canadian funds (\$1,418,352 US) as of March 31, 2011. The Company was required to make interest payments until May 1, 2010 and then effective May 1, 2010 equal monthly payments of principal and interest of \$15,829 in Canadian funds (\$16,325 US) until May 1, 2014. The Company has pledged its building in Taber, Alberta, as well as equipment, inventory and accounts receivable (see Notes 3 and 5) as collateral, as well as signed a promissory note guaranteeing the amount of the loan.

Continuity:

Balance at December 31, 2009	\$	2,285,314
Less: loan repayment		(75,642)
Effect of exchange rate		119,129

Balance at December 31, 2010	\$	2,328,801
Less: loan repayment		(30,757)
Effect of exchange rate		59,708

Balance at March 31, 2011	\$	2,357,752
		=====

12

Outstanding balance at:	2011	2010
a) Long term debt - AAFC	\$ 939,400	\$ 915,719
b) Long term debt - AFSC	1,418,352	1,413,082
	-----	-----
Long term debt	\$ 2,357,752	\$2,328,801
Less current portion	(127,273)	(122,726)
	-----	-----
	\$ 2,230,479	\$2,206,075
	=====	=====

9. STOCK OPTIONS

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

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

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

grant.

The following table summarizes the Company's stock option activity for the years ended December 31, 2009, 2010 and the period ended March 31, 2011:

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2008	1,910,700	\$3.00-\$4.55	\$3.38
Granted	122,000	\$2.25	\$2.25
Cancelled or expired	(204,740)	\$3.00-\$4.60	\$3.74
Balance, December 31, 2009	1,546,700	\$2.25-\$3.85	\$3.25
Granted	315,000	\$1.50-\$2.25	\$1.87
Cancelled or expired	(25,000)	\$1.50-\$3.85	\$1.97
Balance, December 31, 2010	1,836,700	\$1.50-\$3.60	\$3.03
Granted	358,000	\$1.50-\$2.00	\$1.61
Cancelled or expired	1,134,000	\$1.90-\$3.60	\$3.20
Balance, March 31, 2011	1,060,700	\$1.50-\$3.60	\$2.38
Exercisable, March 31, 2011	611,700	\$1.50-\$3.60	\$2.85

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

	2011	2010
Expected life - years	5.0	5.0
Interest rate	1.8%	1.4 - 2.49%
Volatility	62%	60%
Dividend yield	--%	--%
Weighted average fair value of options granted	\$0.39-0.50	\$0.29-0.70

13

During the three months ended March 31, 2011 the Company granted 196,000 options to consultants that resulted in \$13,550 in expenses this quarter. During the same period, 162,000 options were granted to employees, resulting in \$17,317 in expenses this quarter. Options granted in previous quarters resulted in additional expenses in the amount of \$5,971 for employees during the quarter ended March 31, 2011. No stock options were exercised during the period.

During the three months ended March 31, 2010 the Company granted 61,000 options to consultants that resulted in \$5,008 in expenses this quarter. During the same period, 94,000 options were granted to employees, resulting in \$7,021 in expenses this quarter. Options granted in previous quarters resulted in additional expenses in the amount of \$5,285 for consultants and \$10,871 for employees during the quarter ended March 31, 2010. No stock options were exercised during the period.

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

10. WARRANTS

On April 14, 2005, the Company announced that it had raised \$3,375,000 pursuant to a private placement. The investors in this offering purchased 900,000 shares of the Company's common stock at a per-share price of \$3.75, together with warrants to purchase up to 900,000 additional shares of the Company's common stock. The warrants originally had a 4 year term and were exercisable at a price of \$4.50 per share.

On June 8, 2005, the Company announced that it had raised an additional \$327,750 pursuant to a private placement. An investor purchased 87,400 shares of the Company's common stock at a per share price of \$3.75, together with a warrant to purchase up to 87,400 additional shares of the Company's common stock. The warrants originally had a 4 year term and were exercisable at a price of \$4.50 per share.

In February 2009, the Company amended the warrants granted in 2005 to a per share exercise price of \$4.00 and extended the exercise term until July 31, 2009.

In May 2007 the Company closed a \$3,042,455 private placement with institutional investors. The Company sold 936,140 units at a price of \$3.25 per unit. Each unit consisted of one share of common stock and one-half warrant with a three year term and an exercise price of \$4.50 per share. The Company also issued 21,970 warrants with the same terms for investment banking services related to this transaction.

In February 2010, the Company amended the warrants granted in 2007 to a per share exercise price of \$3.00 and extended the exercise term until December 31, 2010.

The following table summarizes the Company's warrant activity for the three years ended December 30, 2010 (no subsequent activity):

	Number of Shares	Exercise price per share	Weighted average exercise price
	-----	-----	-----
Balance December 31, 2007 and 2008	1,477,440	\$ 4.50	\$ 4.50
Granted	-	-	-
Exercised	-	-	-
Cancelled/Expired	987,400	\$ 4.50	\$ 4.50
	-----	-----	-----
Balance December 31, 2009	490,040	\$ 3.00	\$ 3.00
Granted			
Exercised			
Cancelled/Expired	490,040	\$ 3.00	\$ 3.00
	-----	-----	-----
Balance December 31, 2010 and March 31, 2011	-	-	-

14

11. CAPITAL STOCK.

On February 16, 2011 the Company repurchased and cancelled 792,576 shares of common stock for \$1.30 per share, for a total of \$1,030,349.

12. SEGMENTED, SIGNIFICANT CUSTOMER INFORMATION AND ECONOMIC DEPENDENCY.

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

The Company operates in two segments:

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

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

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

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

Three months ended March 31, 2011:

	EWCP	BCPA	Total
Revenue	\$411,317	\$3,946,150	\$ 4,357,467
Interest revenue	-	-	-
Interest expense	19,281	-	19,281
Depreciation and amortization	10,807	70,346	81,153
Segment profit (loss)	(470,252)	828,359	358,107
Segment assets	5,857,849	2,364,810	8,222,659
Expenditures for segment assets	270,329	17,369	287,698

15

Three months ended March 31, 2010:

	EWCP	BCPA	Total
Revenue	\$280,800	\$3,104,046	\$ 3,384,846
Interest revenue	-	-	-
Interest expense	17,794	948	18,742
Depreciation and amortization	11,278	75,460	86,738
Segment profit (loss)	(413,520)	929,193	515,673
Segment assets	5,180,735	2,520,733	7,701,468
Expenditures for segment assets	75,876	444	76,320

The sales generated in the United States and Canada are as follows:

	2011	2010
	-----	-----

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

Canada	\$ 205,766	\$ 165,914
United States and abroad	4,151,701	3,218,932
Total	\$4,357,467	\$3,384,846

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

	2011	2010
Canada	\$6,226,649	\$5,675,065
United States	2,223,842	2,417,787
Total	\$8,450,491	\$8,092,852

Three customers accounted for \$2,506,107 (64%) of sales made in the period (2010 - \$2,025,581 or 59%).

13. COMMITMENTS.

The Company is committed to minimum rental payments for property and premises aggregating approximately \$333,119 over the term of three leases, the last expiring on July 31, 2014.

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

2011	123,587
2012	78,563
2013	81,750
2014	49,219

14. COMPARATIVE FIGURES.

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

16

Item 2. Management's Discussion and Analysis of Results of Operation and Financial Condition.

Overview

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

Results of Operations

The Company has two product lines:

Energy and Water Conservation products - The Company's HEAT\$AVR(R) product is used in swimming pools and spas. The product forms a thin, transparent layer on the water's surface. The transparent layer slows the evaporation of water, allowing the water to retain a higher temperature for a longer period of time

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

and thereby reducing the energy required to maintain the desired temperature of the water. WATER\$AVR(R), a modified version of HEAT\$AVR(R), can be used in reservoirs, potable water storage tanks, livestock watering ponds, canals, and irrigation ditches.

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

Material changes in the Company's Statement of Operations for the three months ended March 31, 2011 are discussed below:

Three Months Ended March 31, 2011

Item	Increase (I) or Decrease (D)	Reason
Sales		
EWCP products	I	Increase in customer inventory to more normal level has resulted in greater sales.
BPCA products	I	Increased sales across all market verticals due to increased success in sales activity.
Gross Profit	I	Increased sales.
Wages	I	Increased sales.
Administrative salaries and benefits	I	Increased sales.
Commissions	I	Increased sales for the quarter resulted in higher commissions.

17

Utilities	I	Increased work at the Taber plant has required increased used of energy. Once the facility is operational, these costs will be allocated to overhead.
-----------	---	---

Capital Resources and Liquidity

The Company's sources and (uses) of cash for the three months ended March 31, 2011 and 2010 are shown below:

	2011	2010
Cash used by operations	(895,178)	(429,588)
Construction of plant in Taber, AB	(270,329)	(75,876)
Purchases of equipment	(17,369)	(444)
Repayment of loans	(30,758)	-
Purchase of common stock	(1,030,349)	
Changes in exchange rates	6,272	15,688

In February 2011, the Company purchased 792,576 shares of its common stock from unrelated third parties. The shares were acquired in privately negotiated

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

transactions for a total purchase price of \$1,030,349. None of the share were acquired in open market transactions.

In 2007, the Company began construction of a plant in Taber Alberta. The plant will be used to manufacture aspartic acid which is the major component of TPAs. Presently the Company buys its aspartic acid from China where the base raw material is oil. The Company's plant in Taber will use sugar as the base raw material. Although the Company expects that it will still import some aspartic acid from China, using aspartic acid manufactured by its plant from sugar will reduce its raw material costs, reduce price fluctuations generated by oil prices and reduce shipping costs.

The Company expects that the Taber plant will begin commercial production in 2011 and expects to spend approximately another \$200,000 before commercial production begins.

The Company has sufficient cash resources to meets its future commitments and cash flow requirements for the coming year. As of March 31, 2011 working capital was \$3,376,569 (2010 - \$5,188,713) and the Company has no substantial commitments that require significant outlays of cash over the coming fiscal year.

The Company is committed to minimum rental payments for property and premises aggregating approximately \$333,119 over the term of three leases, the last expiring on July 31, 2014.

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

2011	123,587
2012	78,563
2013	81,750
2014	49,219

18

Other than as disclosed in this report, the Company does not know of any trends, demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, the Company's liquidity increasing or decreasing in any material way.

Other than as disclosed in this report, the Company does not know of any significant changes in its expected sources and uses of cash.

The Company does not have any lines of credit or similar financing arrangements.

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

19

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the direction and with the participation of our management, including our Principal Executive and Financial Officer, we conducted an evaluation of the

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

effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2011. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our periodic reports with the Securities and Exchange Commission 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 and 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 desired disclosure control objectives. Based on the evaluation, our Principal Executive and Financial Officer concluded that these disclosure controls and procedures are effective as of March 31, 2011.

Changes in Internal Control over Financial Reporting

Our management, with the participation of our Principal Executive and Financial Officer, evaluated whether any change in our internal control over financial reporting occurred during the three months ended March 31, 2011. Based on that evaluation, it was concluded that there has been no change in our internal control over financial reporting during the three months ended March 31, 2011 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

20

PART II

Item 6. Exhibits.

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

* Filed with this report.

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

21

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.

May 16, 2011

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

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.

By: /s/ Daniel B. O'Brien

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

By: /s/ Daniel B. O'Brien

Name: Daniel B. O'Brien
Title: Principal Financial and
Accounting Officer