FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10-Q
May 15, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended: March 31, 2013

OR

o 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 (State or other jurisdiction of incorporation or organization)	91-1922863 (I.R.S. Employer Identification No.)
615 Discovery St. Victoria, British Columbia, Canada (Address of Issuer's Principal Executive Offices)	V8T 5G4 (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) has been subject to such filing requirements for the past 90 days. Yes þ No o

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	o	Accelerated filer	o

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

Indicate by check mark whether the Registrant is a shell company (as defined in Exchange Act Rule 12b-2 of the Exchange Act). Yes o No þ

Class of Stock	No. Shares Outstanding	Date
Common	13,169,991	April 30, 2013

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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.

Forward-looking statements may include the words “may,” “could,” “will,” “estimate,” “intend,” “continue,” “believe,” “e “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:

Increased competitive pressures from existing competitors and new entrants;

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

Deterioration in general or regional economic conditions;

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

Loss of customers or sales weakness;

Inability to achieve future sales levels or other operating results;

The unavailability of funds for capital expenditures; and

Operational inefficiencies in distribution or other systems.

For a detailed description of these and other factors that could cause actual results to differ materially from those expressed in any forward-looking statement, please see “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2012.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
At March 31, 2013
(U.S. Dollars)

	March 31, 2013 (Unaudited)	December 31, 2012
Assets		
Current		
Cash and cash equivalents	$822,495	$361,867
Accounts receivable (see Note 3)	2,829,121	2,199,359
Inventory (see Note 4)	3,553,134	3,361,760
Prepaid expenses	137,286	127,009
	7,342,036	6,049,995
Long Term	6,760,506	7,185,730
Property, equipment and leaseholds (see Note 5)		
Patents (see Note 6)	191,090	200,512
Long term deposits (see Note 7)	7,740	7,893
Deferred tax asset	292,111	292,111
Total Assets	$14,593,483	$13,736,241
Liabilities		
Current		
Accounts payable and accrued liabilities	$1,157,646	$677,969
Deferred revenue	327,038	312,556
Taxes payable	(86,002)	45,998
Line of credit (see Note 8)	1,775,000	1,205,000
Current portion of long term debt (see Note 9)	313,693	318,644
	3,429,375	2,560,167
Long Term		
Loans	1,325,465	1,407,406
Total Liabilities	$4,754,840	$3,967,573
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 (December 31, 2012: 13,169,991) common shares	13,170	13,170
Capital in excess of par value	16,030,669	16,006,798
Accumulated other comprehensive income	497,772	574,829
Deficit	(6,702,968)	(6,826,129)

Total Stockholders’ Equity	9,838,643	9,768,668
Total Liabilities and Stockholders’ Equity	$14,593,483	$13,736,241
Commitments (Note 13)		

-- See Notes to Unaudited Consolidated Financial Statements --

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three Months Ended March 31, 2013 and 2012
(U.S. Dollars -- Unaudited)

	Three Months Ended March 31,	
	2013	2012
Sales	$4,504,536	$5,194,071
Cost of sales	3,158,383	3,219,897
Gross profit	1,346,152	1,974,174
Operating expenses		
Wages	452,866	388,563
Administrative salaries and benefits	210,547	130,533
Advertising and promotion	6,722	26,042
Investor relations and transfer agent fee	56,748	59,010
Office and miscellaneous	118,287	99,421
Insurance	71,458	65,013
Interest expense	9,396	34,799
Rent	45,999	47,194
Consulting	78,255	68,640
Professional fees	43,225	92,124
Travel	34,952	29,354
Telecommunications	6,822	6,750
Shipping	7,214	9,188
Research	13,211	20,165
Commissions	39,469	76,702
Currency exchange	547	6,230
Utilities	29,329	34,064
Total operating expenses	1,225,048	1,194,092
Operating income	121,105	780,082
Gain on sale on equipment	2,057	2,217
Interest income	-	361
Income before income tax	123,161	782,660
Deferred tax (recovery)	-	(10,000)
Provision for income taxes	(58,000)	(570,000)
Net income	65,161	222,660
Net income per share (basic)	$0.00	$0.02
Net income per share (diluted)	$0.00	$0.02
Weighted average number of common shares (basic)	13,169,991	13,169,991

Weighted average number of common shares (diluted)	13,404,141	13,403,559

-- See Notes to Unaudited Consolidated Financial Statements --

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended March 31, 2013 and 2012
(U.S. Dollars -- Unaudited)

	Three Months Ended March 31,	
	2013	2012
Net income (loss)	$65,161	$222,660
Other comprehensive income (loss)	(77,057)	111,008
Net comprehensive income (loss)	$(11,896)	$333,668
Basis income per share	0.00	0.02
Diluted income per share	0.00	0.02
Weighted average number of common shares (basic)	13,169,991	13,169,991
Weighted average number of common shares (diluted)	13,404,141	13,403,559

-- See Notes to Unaudited Consolidated Financial Statements --

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Three Months Ended March 31, 2013 and 2012
(U.S. Dollars -- Unaudited)

	Three Months Ended March 31, 2013	2012
Operating activities		
Net income (loss)	$65,161	$222,660
Stock compensation expense	23,872	32,334
Depreciation	329,199	306,548
Changes in non-cash working capital items:		
(Increase) Decrease in accounts receivable	(633,475)	(313,421)
(Increase) Decrease in inventory	(200,939)	(188,463)
(Increase) Decrease in prepaid expenses	(11,478)	(10,381)
(Increase) Decrease in deferred tax asset	-	(10,000)
Increase (Decrease) in accounts payable	542,941	51,352
Increase (Decrease) in taxes payable	(177,500)	103,000
Increase (Decrease) in deferred revenue	14,752	-
Cash provided by (used in) operating activities	(47,467)	193,629
Investing activities		
Acquisition of property and equipment	(4,741)	(7,412)
Cash provided by (used in) investing activities	(4,741)	(7,412)
Financing activities		
Short term line of credit	570,000	75,000
Loan Repayment	(51,577)	(31,801)
Cash provided by financing activities	518,423	43,199
Effect of exchange rate changes on cash	(5,587)	16,537
Inflow of cash	460,628	245,953
Cash and cash equivalents, beginning	361,867	506,905
Cash and cash equivalents, ending	$822,495	$752,858
Supplemental disclosure of cash flow information:		
Income taxes paid	$190,000	457,000
Interest paid	$27,938	$34,799

-- See Notes to Unaudited Consolidated Financial Statements --

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three Months Ended March 31, 2013
(U.S. Dollars)

1. Basis of Presentation.

These consolidated financial statements include the accounts of Flexible Solutions International, Inc. (the "Company", "we", or "our"), and its wholly-owned subsidiaries Flexible Fermentation Ltd. ("Flexible Ltd."), NanoChem Solutions Inc. ("NanoChem"), Flexible Solutions Ltd., Flexible Biomass LP, and FS Biomass 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, HEATSAVR®, 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, WATERSAVR®, 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.

These unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements. 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, 2012 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, 2013, the consolidated results of operations for the three months ended March 31, 2013 and 2012, and the consolidated statements of cash flows for the three months ended March 31, 2013 and 2012. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results to be expected for the entire fiscal year.

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.

(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 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
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

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 not capitalized interest costs. The Company has commenced depreciating its plant as construction has been completed and the plant is in use.

(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 expected future cash flows of an asset is less than its carrying value, an impairment measurement is indicated. Impairment charges are recorded to the extent that an asset's carrying value exceeds its fair value. Accordingly, actual results could vary significantly from such estimates. There were no impairment charges during the periods presented.

(f) Foreign Currency.

The functional currency of one of the Company's subsidiaries is the Canadian Dollar. The translation of the Canadian Dollar to the reporting currency of the U.S. Dollar is performed for assets and liabilities using exchange rates in effect at the balance sheet date. Revenue and expense transactions are translated using average exchange rates prevailing during the year. Translation adjustments arising on conversion of the financial statements from the 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 the Statement of Comprehensive Income.

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.

Deferred revenues consist of products sold to distributors with payment terms greater than the Company's customary business terms due to lack of credit history or operating in a new market in which the Company has no prior experience. The Company defers the recognition of revenue until the criteria for revenue recognition have been met, and payments become due or cash is received from these distributors.

(h) Stock Issued in Exchange for Services.

The Company's common stock issued in exchange for services is valued at 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. Shares are issued from treasury upon exercise of stock options.

(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.

(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, 2013 and 2012.

(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.

Estimates and underlying assumptions are reviewed at each period end. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates include assumptions and estimates relating to the asset impairment analysis, share-based payments and warrants, valuation allowances for deferred income tax assets, determination of useful lives of property, plant and equipment, and the valuation of inventory.

(m) Financial Instruments.

The fair market value of the Company’s financial instruments comprising cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities, and short term line of credit 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.

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

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

Level 3 – Unobservable inputs that are supported by little or no market activity which is 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 and short term line of credit 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. Legal fees associated with loss contingencies are expensed as incurred.

(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 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, 2013, 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.

(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 Company's three primary customers totaled $1,688,763 (60%) at March 31, 2013 (December 31, 2012 - $1,648,428 or 75%).

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 February 2013, the FASB issued Accounting Standards update (ASU) 2013-02, Comprehensive Income (Topic 220). The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. Substantially all of the information that this update requires already is required to be disclosed elsewhere in the financial statements under U.S. GAAP. However, the new requirement about presenting information about amounts reclassified out of accumulated other comprehensive income and their corresponding effect on net income will present, in one place, information about significant amounts reclassified and, in some cases, cross-references to related footnote disclosures. Currently, this information is presented in different places throughout the financial statements. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. Adoption of this ASU did not have a material impact on the Company's financial position or results of operations.

3. Accounts Receivable

	March 31, 2013	December 31, 2012
Accounts receivable	$ 2,841,940	$ 2,212,448
Allowances for doubtful accounts	(12,819)	(13,089)
	$ 2,829,121	$ 2,199,359

The Company has pledged $303,696 (2012 – $69,410) of the above listed accounts receivable as collateral for the Flexible Solutions Ltd. loan from AFSC (see Note 9b).

4. Inventory

	March 31, 2013	December 31, 2012
Completed goods	$ 1,834,165	$ 1,740,186
Work in progress	49,116	31,593
Raw materials	1,669,853	1,589,981
	$ 3,553,134	$ 3,361,760

5. Property, Plant & equipment

	March 31, 2013 Cost	Accumulated Depreciation	March 31, 2013 Net
Buildings	$ 5,327,721	$ 2,197,580	$ 3,130,141
Computer hardware	105,100	88,944	16,156
Furniture and fixtures	27,972	22,128	5,844
Office equipment	23,451	20,519	2,932
Manufacturing equipment	5,964,818	2,936,103	3,028,715
Trailer	16,994	13,894	3,100
Technology	134,466	33,616	100,850
Land	472,768	—	472,768
	$ 12,073,290	$ 5,312,784	$ 6,760,506

	December 31, 2012 Cost	Accumulated Depreciation	December 31, 2012 Net
Buildings	$ 5,372,327	$ 2,122,396	$ 3,249,931
Computer hardware	106,457	88,811	17,646
Furniture and fixtures	28,385	22,155	6,230
Office equipment	23,946	20,795	3,151
Manufacturing equipment	6,039,836	2,725,324	3,314,512
Trailer	17,353	13,930	3,423
Technology	137,308	27,461	109,847
Truck	11,951	9,512	2,439
Land	478,551	—	478,551
	$ 12,216,114	$ 5,030,384	$ 7,185,730

Amount of depreciation expense for three months ended March 31, 2013: $323,874 (2012: $303,492).

The following carrying amount of capital assets held by Flexible Solutions Ltd. serves as collateral for the AFSC loan. (See Note 9b):

Land	$273,675
Building	885,232
Building improvements	938,671
Manufacturing equipment	2,638,217
Trailer	3,100
Technology	100,850

6. Patents

In fiscal 2005, the Company started the patent process for additional WATER$AVR® products. Patents associated with these costs were granted in 2006 and they have been amortized over their legal life of 17 years.

	March 31, 2013 Cost	Accumulated Amortization	March 31, 2013 Net
Patents	$ 260,948	$ 69,858	$ 191,090

	December 31, 2012 Cost	Accumulated Amortization	December 31, 2012 Net
Patents	$ 266,680	$ 65,939	$ 200,512

Decrease in 2013 cost was due to currency conversion. 2013 cost in Canadian dollars - $265,102 (2012 - $265,102 in Canadian dollars).

Amount of depreciation for 2013 - $5,325 (2012 - $3,056)

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

2013	$21,136
2014	21,136
2015	21,136
2016	21,136
2017	21,136

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.

	March 31, 2013	December 31, 2012
Long term deposits	$ 7,740	$ 7,893

8. Short-Term Line of Credit

On February 28, 2011, the Company entered into a Business Loan Agreement (the Revolving Line of Credit Agreement) with Harris Bank (the Bank). The Revolving Line of Credit Agreement provides for a secured working capital-based revolving line of credit (the “Revolving Line”) in an aggregate amount of up to the lesser of (i) $1,500,000, or (ii) 75% of eligible domestic accounts receivable and certain foreign accounts receivable plus 40% of inventory. Amounts advanced under the Revolving Line bear interest at an annual rate equal to the lender’s prime rate plus 0.75%. Interest on the Revolving Line is due monthly.

The Revolving Line of Credit contains customary affirmative and negative covenants, including the following: compliance with laws, provision of financial statements and periodic reports, payment of taxes, maintenance of inventory and insurance, maintenance of operating accounts at the Bank, the Bank’s access to collateral, formation or acquisition of subsidiaries, incurrence of indebtedness, dispositions of assets, granting liens, changes in business, ownership or business locations, engaging in mergers and acquisitions, making investments or distributions and affiliate transactions. The covenants also require that the Company maintain a minimum ratio of qualifying financial assets to the sum of qualifying financial obligations.

To secure the repayment of any amounts borrowed under the Revolving Line, the Company granted to the Bank a security interest in substantially all of its assets of NanoChem Solutions Inc., which assets do not include its intellectual property assets.

In March 2012, the Company signed a new agreement with Harris Bank. The revolving line of credit was increased to an aggregate amount of up to the lesser of (i) $5,000,000, or (ii) 75% of eligible domestic accounts receivable and certain foreign accounts receivable plus 40% of inventory. As well, the Company obtained a further credit line of $1,400,000 with a secured loan. Both loans are at an annual interest rate of 3.75%.

Short-term borrowings outstanding under the Revolving Line as of March 31, 2013 were $1,775,000 (December 31, 2012 - $1,205,000) and there were no amounts outstanding on the secured loan.

9. Long Term Debt

(a) Flexible Solutions Ltd. has received a non-interest bearing, unsecured loan from the Department of Agriculture and Agri-Food Canada (“AAFC”). Eligible for up to $1,000,000 in Canadian funds,. the balance owing at March 31, 2013 was $546,481 in Canadian funds (US$537,901); (December 31, 2012 - $546,481CDN; US$549,268). The repayment schedule is as follows:

Amount Due (in CDN funds)	Payment Due Date
$182,160	December 31, 2013
$182,160	December 31, 2014
$182,161	December 31, 2015

(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 in Canadian funds, the Company had originally borrowed $1,491,000 in Canadian funds. The Company was required to make interest payments until May 1, 2010 and then started to pay down the principal in equal payments until May 1, 2014. The borrowing balance as March 31, 2013 was $1,118,822 in Canadian funds (US$1,101,257). The borrowing balance as December 31, 2012 was $1,170,811 in Canadian funds (US$1,176,782). The Company has pledged the assets of the Taber, AB building, including 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.

The Company has committed to the following repayments:

2013	$140,220
2014	$77,900

	March 31, 2013	December 31, 2012
Continuity		
Balance, January 1	$ 1,726,050	1,976,992
Less: Payments on loan	51,567	310,384
Effect of exchange rate	(35,325)	59,442
Balance	$ 1,639,158	$ 1,726,050
Outstanding balance at:		
a) Long term debt – AAFC	$ 537,901	$ 549,268
b) Long term debt – AFSC	1,101,257	1,176,782
Long term debt	$ 1,639,158	$ 1,726,050
Less: current portion	(313,693)	(318,644)
Balance	$ 1,325,465	$ 1,407,406

10. 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 promote 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 grant.

The following table summarizes the Company’s stock option activity for the year ended December 31, 2012 and the three month period ended March 31, 2013:

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2011	1,193,700	$ 1.50 - 3.60	$ 2.04
Granted	94,000	$ 2.00 – 2.22	$ 2.14
Cancelled or expired	(288,700)	$ 1.50 – 3.60	$ 2.35
Balance, December 31, 2012	999,000	$ 1.21 – 2.45	$ 1.96
Granted	183,000	$ 1.21	$ 1.21
Cancelled or expired	(68,000)	$ 3.60	$ 3.60
Balance, March 31, 2013	1,114,000	$ 1.21 – 2.45	$ 1.74
Exercisable, March 31, 2013	714,000	$ 1.50 – 2.45	$ 1.92

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

	2013	2012
Expected life – years	5.0	5.0
Interest rate	0.36 %	0.36 – 0.38 %
Volatility	51.0 %	51 – 58%
Dividend yield	-- %	-- %
Weighted average fair value of options granted	$ 0.38	$ 0.38

During the three months ended March 31, 2013 the Company granted 55,000 options to consultants that resulted in $4,150 in expenses. During the same period, 128,000 options were granted to employees, resulting in $9,674 in expenses this quarter. Options granted in previous quarters resulted in additional expenses in the amount of $3,609 for consultants and $6,437 for employees during the quarter ended March 31, 2013. No stock options were exercised during the period.

During the three months ended March 31, 2012 the Company granted 28,000 options to consultants that resulted in $5,015 in expenses this quarter. During the same period, 61,000 options were granted to employees, resulting in $10,568 in expenses this quarter. Options granted in previous quarters resulted in additional expenses in the amount of $7,230 for consultants and $9,544 for employees during the quarter ended March 31, 2012. No stock options were exercised during the period.

11. Capital Stock.

There was no stock activity for the period ended March 31, 2013.

12. Segmented, Significant Customer Information and Economic Dependency.

The Company operates in two segments:

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

(b) Manufacture of biodegradable polymers and chemical additives used within the petroleum, chemical, utility and mining industries to prevent corrosion and scaling in water piping (as shown under the column heading "BPCA" below). These chemical additives are also manufactured for use in laundry and dish detergents, as well as in products to reduce levels of insecticides, herbicides and fungicides.

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, 2013:

	EWCP	BPCA	Total
Revenue	$ 288,939	$ 4,215,597	$ 4,504,536
Interest revenue	-	-	-
Interest expense	(4,599)	13,995	9,396
Depreciation and amortization	274,359	54,840	329,199
Segment profit (loss)	(705,198)	770,359	65,161
Segment assets	5,045,160	1,906,436	6,951,596
Expenditures for segment assets	4,741	-	4,741

Three months ended March 31, 2012:

	EWCP	BPCA	Total
Revenue	$ 274,822	$ 4,919,249	$ 5,194,071
Interest revenue	352	9	361
Interest expense	15,673	19,126	34,799
Depreciation and amortization	243,458	63,090	306,548
Segment profit (loss)	(710,161)	932,821	222,660
Segment assets	6,099,484	2,135,692	8,235,176
Expenditures for segment assets	7,412	-	7,412

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

	Three months ended March 31, 2013	Three months ended March 31, 2012
Canada	$ 207,680	$ 419,073
United States and abroad	4,296,856	4,774,998
Total	$ 4,504,536	$ 5,194,071

The Company’s long-lived property and equipment, and patents are located in Canada and the United States as follows:

	March 31, 2013	December 31, 2012
Canada	$ 5,045,160	$ 5,424,966
United States	1,906,436	1,961,276
Total	$ 6,951,596	$ 7,386,242

Three customers accounted for $2,694,248 (60%) of sales made in the period (2012 - $2,987,686 or 58%).

13. Commitments.

The Company is committed to minimum rental payments for property and premises aggregating approximately $158,872 over the term of three leases, the last expiring on July 31, 2014.

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

2013	111,901
2014	46,971

14. Comparative Figures.

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

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Overview

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

Results of Operations

The Company has two product lines:

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

BCPA products - The second product, 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, 2013 compared to the same period in the prior year are discussed below:

Three Months Ended March 31, 2013

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	D	Decrease was the result of slower uptake of the agriculture product in Q1 which may have been caused by the 2012 drought in the central US.
Gross Profit, as a % of sales	D	Start of production at Taber plant increased depreciation; high oil prices increased aspartic acid costs.
Wages	I	To ensure employee retention and increase the sales force in anticipation of future increased sales.

Item	Increase (I) or Decrease (D)	Reason
Administrative salaries and benefits	I	To encourage employee retention.
Office and Miscellaneous	I	Construction admin costs are now allocated to general admin costs now that the plant is operational.
Professional fess	D	Reduced litigation resulted in reduced professional fees.
Commissions	D	Uncommissioned sales increased against commissioned sales.

Capital Resources and Liquidity

The Company’s sources and (uses) of cash for the three months ended March 31, 2013 and 2012 are shown below:

	2013	2012
Cash provided (used) by operations	(47,467)	193,629
Construction of plant in Taber, AB	(7,148)	(9,854)
Sale (purchases) of equipment	2,407	2,442
Repayment of loans	(51,577)	(31,801)
Borrowings from line of credit	570,000	75,000
Changes in exchange rates	(5,587)	16,357

In 2012, the Company completed the construction of its plant in Taber, Alberta. The plant is being used to manufacture aspartic acid which is the major component of TPAs. Presently the Company buys most of its aspartic acid from China where the base raw material is oil. The Company's plant in Taber uses sugar as the base raw material. Once the Alberta plant reaches full production, the Company expects that it will still import some aspartic acid from China, however, 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 has sufficient cash resources to meets its future commitments and cash flow requirements for the coming year. As of March 31, 2013 working capital was $3,912,660 (December 31, 2012 - $3,489,827) 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 $158,872 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:

2013	111,901
2014	46,971

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Other than as disclosed above, the Company does not anticipate any capital requirements for the twelve months ending December 31, 2013.

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 reasonable likely to result in, its 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 commitments or arrangements from any person to provide it with any equity capital.

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

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 effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2013. 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, 2013.

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, 2013. 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, 2013 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS.

On June 29, 2011, WaterSavr Singapore Pte. Ltd., a former distributor of the Company's WATERSAVR product, initiated an arbitration proceeding with the American Arbitration Association in New York, NY asserting multiple claims. On November 5, 2012, the Company received written notice from the International Center for Dispute Resolution of the American Arbitration Association ("AAA") that it has terminated the proceedings initiated by WaterSavr Singapore. This proceeding was terminated without any liability on the part of the Company.

ITEM 6. EXHIBITS.

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

* Filed with this report.

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

SIGNATURES

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

	Flexible Solutions International, Inc.	
May 15, 2013	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