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FLEXIBLE SOLUTIONS INTERNATIONAL INC  
Form 10QSB  
August 12, 2003

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

FORM 10QSB

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

For the quarterly period ended June 30th 2003  
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TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number \_\_\_\_\_

FLEXIBLE SOLUTIONS INTERNATIONAL INC.

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

Nevada, USA

91-1922863

-----  
(State or other Jurisdiction of  
Incorporation or Organization)

-----  
(IRS Employer Identification No.)

2614 Queenswood Drive, Victoria, British Columbia, Canada V8N 1X5

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(Address of principal executive offices)

Issuer's Telephone Number: 250-477-9969

Securities to be registered pursuant to Section 12(b) of the Act: None  
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Securities to be registered pursuant to Section 12(g) of the Act:  
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Common Stock \$0.001 par value.

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(Title of Class)  
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State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: Common stock \$.001 par value 11,787,916 shares as of June 30th 2003.

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

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Attached hereto and incorporated herein by reference.

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

The following information contains certain forward looking statements that

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

During the three months ended June 30th 2003, the Company experienced a net after tax income (loss) of (\$230,078) as compared to income of \$22,261 for the three months ended June 30th 2002. The loss resulted from the following: a large increase in wages and travel in our Water\$avr division required by the world wide sales effort begun in late 2002, bigger expenses for professional fees including legal for the SB-2 filing, international patent prosecution and the listing on the AMEX exchange, and currency exchange adjustments resulting from the lower US\$ and the higher CA\$. Our cost of sales was severely impacted by the currency changes, rising to 61.7% from 52.8% in the year earlier period as our raw material and wage inputs are in CA\$ while our receivables are in US\$ and our prices were set in fall 2002. Some of the increased cost of sales was also due to the very high oil prices in the quarter leading to higher shipping, plastics and chemical prices. Management intends to increase prices to regain margin prior to the next sales season. Sales were flat in our swimming pool division this quarter with the Northeast suffering a second poor spring and early summer in a row. Water\$avr division had no sales in the quarter, which was expected, as the sales cycle in that product line is long and the next scheduled payment from our largest distributor occurs in Q3. The overall result was a net income (loss) of (\$230,078) for the second quarter of fiscal 2003 and a net income (loss) for the first six months of fiscal 2003 of (\$49,297).

### RESULTS OF OPERATIONS

Reference is made to Item 2, "Management's Discussion and Analysis" included in the Company's registration statement on Form 10-SB for the year ended December 31st 1999, as amended, on file with the Securities and Exchange Commission. The following analysis and discussion pertains to the Company's results of operations for the three month and six month periods ended June 30th 2003 compared to the results of operations for the three month and six month periods ended June 30th 2002, and to changes in the Company's financial condition from December 31st 2002 to June 30th 2003.

### THREE MONTHS ENDED June 30th 2003 and 2002

For the second quarter of the current fiscal year ending June 30th 2003, sales were \$661,296 compared to \$665,245 for the same quarter of the previous year. The flat sales were as a result of our distributors selling less into our primary residential markets in the Northeastern US and Eastern Canada probably due to cold weather early in the pool season leading to customers opening their pools later and requiring less of our Tropical Fish product. In the Water\$avr division record sales in the first quarter were followed by none in second as new prospects were acquired and the long governmental sales cycle was begun.

Operating expenses were \$561,114 for the second quarter, up from 232,258 for the second quarter of last year. This is as a result of increased costs related to wages, professional fees, currency translation and increased expenses for sales and marketing of our commercial pool and water conservation products. The largest increases were in the areas of wages (to 195,202 from 75,449) travel(\$44,235 from \$2,725), professional fees (\$104,810 from \$2,545), currency exchange (\$46,793 from none) and telecom (\$15,838 from \$2,677).

The net income (loss) for the quarter was represents a decrease over second quarter last year when the net income was \$22,261. The decrease in income was a result of higher cost of product sold, increased activity in all aspects of our Water\$aver division, professional fees for patents, financing documentation

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(SB-2), listing costs on the American Stock Exchange and currency exchange losses. As well, a proportion of the increased wage and administrative costs were associated with increased research and development of new products. The earnings (loss) per share (fully diluted) was (\$0.02) for the three months ended June 30th 2003 compared to \$0.00 for the three months ended June 30th 2002.

### SIX MONTHS ENDED June 30th 2003

Sales in the first six months ended June 30th 2003 were \$1,942,562 compared to \$1,041,865 for the six months ended June 30th 2002. The large increase in sales was due to much higher sales of our swimming pool products in the first 3 months of 2003 combined with the first major sale of our Water\$avr product and added to flat pool sales in the second 3 months resulted in an increase of \$900,697 for the six months ended June 30th 2003 compared to the year earlier period.

Operating expenses for the Company were \$974,108 for the six months ended June 30th 2003 up from \$387,565 for the six months ended June 30th 2002. The increase in operating expenses are a result of increased salaries, wages, professional fees, travel, telecom and research and development and expansion of sales and marketing for commercial pool products and water conservation products.

The net income (loss) for the six months ended June 30th 2003 was (\$49,297) compared to a net income of \$43,282 for the six months ended June 30th 2002. The decrease in income was due to the increase in expenses related to new product research, development and marketing. The US\$ dropped versus the CA\$ for the entire six month period and this had the effect of increasing our input costs for product manufactured in Canada for our swimming pool division increasing our cost of goods sold to 56% from 42% in the year earlier period. International uncertainty drove oil prices to very high levels throughout the period, further adding to shipping and utility costs as well as increasing the cost of plastic and chemicals used in our pool products.

The earnings per share (fully diluted) was \$0.00 for the six month period ended June 30th 2003 compared to \$0.00 for the six month period ended June 30th 2002.

### LIQUIDITY AND CAPITAL RESOURCES

As of June 30th 2003 the Company had working capital of \$6,166,723, which represented an increase of \$126,116 as compared to the working capital of December 31st 2002. The increase was a result of operating earnings and interest income from the six month period ending June 30th 2003.

The Company has no external sources of liquidity in the form of credit lines from banks.

Management believes that its available cash will be sufficient to fund the Company's working capital requirements through December 31st 2003. Management further believes that available cash will be sufficient to implement the Company's expansion plans. No investment banking agreements are in place and there is no guarantee that the Company will be able to raise capital in the future should that become necessary.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS:

The Company does not have any derivative financial instruments as of June 30th 2003. However, the Company is exposed to interest rate risk.

The Company's interest income and expense are most sensitive to changes in the general level of U.S. and Canadian interest rates. In this regard, changes in U.S. and Canadian interest rates affect the interest paid on the Company's cash

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equivalents as well as the interest paid on debt.

## FOREIGN CURRENCY RISK

The Company operates primarily in Canada. Therefore, the Company's business and financial condition is sensitive to currency exchange rates or any other restriction imposed on its currency.

## PART II - OTHER INFORMATION

- ITEM 1. LEGAL PROCEEDINGS - None
- ITEM 2. CHANGES IN SECURITIES - 116,000 common shares were issued during the quarter.
- ITEM 3. DEFAULT UPON SENIOR SECURITIES - None
- ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS - None
- ITEM 5. OTHER INFORMATION - None
- ITEM 6. REPORTS ON FORM 8-K - None

## SIGNATURES

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

FLEXIBLE SOLUTIONS INTERNATIONAL INC.  
(Registrant)

Dated: August 11th 2003  
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/s/ DAN O'BRIEN  
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Dan O'Brien, President and Director

FLEXIBLE SOLUTIONS INTERNATIONAL INC.  
Consolidated Balance Sheets  
June 30th, 2003  
(UNAUDITED - U.S. DOLLARS)

	JUNE 30 2003	DECEMBER 31 2002
Assets		
Current		
Cash and cash equivalents	\$ 240,786	\$ 556,789
Short term investments	5,153,566	5,062,495
Accounts receivable	545,709	55,222
Income tax receivable	30,990	118,014
Loan receivable	11,909	10,082
Inventory	146,241	203,830
Prepaid expenses	101,445	87,321

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	6,230,646	6,093,753
Property and Equipment	154,438	128,566
Investment	303,500	32,500
	\$6,688,583	\$6,254,819
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 63,923	\$ 53,146
Stockholders' Equity		
Captial Stock		
Authorized		
50,000,000 Common shares with a par value of \$0.001 each		
1,000,000 Preferred shares with a par value of \$0.01 each		
Issued and Outstanding		
11,787,916 (2002: 11,570,916) common shares	11,788	11,570
Captial in Excess of Par Value	9,710,340	9,328,648
Share Subscription Receivable	(20,777)	(16,217)
Other Comprehensive Income (Loss)	73,579	(21,354)
Deficit	(3,150,270)	(3,100,974)
Total Stockholder's Equity	6,624,660	6,201,673
Total Liabilites and Stockholder's Equity	\$6,688,583	\$6,254,819

FLEXIBLE SOLUTIONS INTERNATIONAL INC.  
Consolidated Statements of Operations  
Three Months Ended June 30, 2003 and 2002  
(UNAUDITED - U.S. DOLLARS)

	THREE MONTHS ENDED JUNE 30	
	2003	2002
Sales	\$ 661,296	\$ 665,245
Cost of Sales	408,835	351,048
Gross Profit	252,461	314,197
Operating Expenses		
Wages	195,202	75,449
Administrative salaries and benefits	21,833	47,012
Advertising and promotion	13,094	3,054
Investor relations and transfer agent fee	35,547	54,477
Office and miscellaneous	4,817	9,799
Rent	23,124	13,665
Consulting	30,719	9,642

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Professional fees	104,810	2,545
Travel	44,235	2,725
Telecommunications	15,838	2,677
Shipping	4,586	2,434
Research	2,173	-
Bad debt recovery	-	64
Currency exchange	46,792	-
Utilities	10,227	4,290
Depreciation	8,116	4,425
	561,114	232,258
Income (Loss) Before Interest Income and Income Tax	(308,653)	81,939
Interest Income	53,978	-
Income (Loss) Before Income Tax	(254,675)	81,939
Income Tax (Recovery)	(24,598)	59,678
Net Income (Loss)	\$ (230,078)	\$ 22,261
Net Income (Loss) Per Share	\$ (0.02)	\$ -
Weighted Average Number of Shares	11,709,916	9,893,728

FLEXIBLE SOLUTIONS INTERNATIONAL INC.  
Consolidated Statements of Operations  
Six Months Ended June 30, 2003 and 2002  
(UNAUDITED - U.S. DOLLARS)

	SIX MONTHS ENDED JUNE 30	
	2003	2002
Sales	\$1,942,562	\$1,041,865
Cost of Sales	1,095,902	538,458
Gross Profit	846,660	503,407
Operating Expenses		
Wages	333,872	107,204
Administrative salaries and benefits	39,475	72,026
Advertising and promotion	29,158	3,054
Investor relations and transfer agent fee	68,667	58,297
Office and miscellaneous	34,775	38,948
Rent	37,522	29,437
Consulting	82,651	15,677
Professional fees	127,873	29,497
Travel	78,419	10,336
Telecommunications	24,600	4,934
Shipping	8,278	5,598
Research	19,704	-

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Bad debt recovery	-	(346)
Currency exchange	62,959	-
Utilities	10,227	4,290
Depreciation	15,927	8,613
	974,108	387,565
Income (Loss) Before Interest Income and Income Tax	(127,448)	115,842
Interest Income	104,246	-
Income (Loss) Before Income Tax	(23,202)	115,842
Income Tax Recovery	26,094	72,560
Net Income (Loss)	\$ (49,297)	\$ 43,282
Net Income (Loss) Per Share	\$ (0.00)	\$ -
Weighted Average Number of Shares	11,677,988	9,645,601

FLEXIBLE SOLUTIONS INTERNATIONAL INC.  
Consolidated Statements of Cash Flows  
For the Six Months Ended June 30, 2003 and 2002  
(UNAUDITED - U.S. DOLLARS)

	SIX MONTHS ENDED JUNE 30	
	2003	2002
OPERATING ACTIVITIES		
Net income (loss)	\$ (49,297)	\$ 43,282
Stock compensation expense	56,591	-
Depreciation	15,927	8,613
Changes in non-cash working capital items:		
Accounts receivable	(490,487)	(203,913)
Inventory	57,589	53,648
Prepaid expenses	(14,124)	22,386
Accounts payable	10,777	45,702
Income tax receivable	87,024	(4,629)
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(325,998)	(34,911)
INVESTING ACTIVITIES		
Acquisition of property and equipment	(41,799)	(12,073)
Purchase of short-term investments	(91,071)	-
Acquisition of investments	(271,000)	(913,307)
Loan receivable	(1,827)	(4,356)
CASH USED IN INVESTING ACTIVITIES	(405,697)	(929,736)
FINANCING ACTIVITY		
Proceeds from issuance of common stock	325,319	1,141,609
Subscriptions received	(4,560)	-
CASH PROVIDED BY FINANCING ACTIVITIES	320,760	1,141,609

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Effect of exchange rate changes on cash	94,933	6,646
INFLOW (OUTFLOW) OF CASH	(316,003)	183,608
Cash and cash equivalents, beginning of period	556,789	190,457
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 240,786	\$ 374,065
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	\$ 78,378	\$ 29,704
Interest received	104,246	-
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTIONS:		
Issue of common stock for investment	\$ 271,000	\$ -