FLEXIBLE SOLUTIONS INTERNATIONAL INC
Form 10-Q
November 14, 2014

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 September 30, 2014

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 registrant as Specified in Its Charter)

Nevada	91-1922863
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

#206 – 920 Hillside Ave. Victoria, British Columbia, Canada	V8T 1Z8
(Address of Principal Executive Offices)	(Zip Code)

Registrant’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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 (Do not check if a smaller reporting company)	o	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 þ No o

Class of Stock	No. Shares Outstanding	Date
Common	13,169,991	November 1, 2014

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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 financials 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, 2013.

PART I FINANCIAL INFORMATION
Item 1. Financial Statements.

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(U.S. Dollars)

	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current		
Cash and cash equivalents	$ 300,010	$ 568,087
Accounts receivable (Note 3)	2,801,252	2,012,115
Inventory (Note 4)	3,274,635	3,061,536
Prepaid expenses	149,551	126,952
	6,525,448	5,768,690
Property, equipment and leaseholds (Note 5)	5,242,537	5,831,123
Patents (Note 6)	146,832	168,868
Long term deposits (Note 7)	4,566	4,781
Deferred tax asset	2,450,992	2,700,506
	$ 14,370,375	$ 14,473,968
Liabilities		
Current		
Accounts payable and accrued liabilities	$ 520,666	$ 570,476
Deferred revenue	6,161	13,550
Taxes payable	(276,536)	(281,202)
Short term line of credit (Note 8)	1,350,000	1,400,000
Current portion of long term debt (Note 9)	201,193	304,556
	1,801,484	2,007,380
Long Term		
Loans (Note 9)	967,425	993,274
	$ 2,768,909	$ 3,000,654
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 common shares at September 30, 2014 and December 31, 2013	13,170	13,170
Capital in excess of par value	16,204,226	16,135,953
Other comprehensive income	(32,838)	328,686
Deficit	(4,583,092)	(5,004,495)
Total Stockholders' Equity	11,610,466	11,473,314

Total Liabilities and Stockholders’ Equity	$ 14,370,375	$ 14,473,968

Commitments and contingencies (Note 13)

-- See Notes to Unaudited Consolidated Financial Statements --

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the Three Months Ended September 30, 2014 and 2013
(U.S. Dollars -- Unaudited)

	Three Months Ended September 30,	
	2014	2013
Sales	$ 3,850,514	$ 2,980,999
Cost of sales	2,524,026	2,430,190
Gross profit	1,326,488	555,809
Operating expenses		
Wages	356,021	434,333
Administrative salaries and benefits	199,281	190,462
Advertising and promotion	4,293	2,401
Investor relations and transfer agent fee	63,886	52,390
Office and miscellaneous	131,032	201,799
Insurance	76,840	78,707
Interest expense	19,686	26,869
Rent	37,529	47,540
Consulting	75,651	75,900
Professional fees	53,020	34,993
Travel	52,225	23,412
Telecommunications	7,885	8,054
Shipping	5,210	3,611
Research	23,309	23,277
Commissions	42,790	10,517
Bad debt expense	-	736
Currency exchange	(16,839)	(4,678)
Utilities	8,631	21,906
Total operating expenses	1,140,450	1,232,229
Income (loss) before other items and income tax	186,038	(681,420)
Interest income	-	2,000
Income (loss) before income tax	186,038	(679,420)
Income tax (recovery)	8,810	2,480
Net income (loss)	177,228	(681,900)
Other comprehensive income (loss)	(290,156)	71,182
Comprehensive income (loss)	(112,928)	(610,718)
Net income (loss) per share (basic and diluted)	$ 0.01	$ (0.05)
Weighted average number of common shares (basic and diluted)	13,169,991	13,169,991

-- See Notes to Unaudited Consolidated Financial Statements --

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the Nine Months Ended September 30, 2014 and 2013
(U.S. Dollars -- Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Sales	$11,950,226	$12,370,163
Cost of sales	7,914,874	8,899,830
Gross profit	4,035,352	3,470,333
Operating expenses		
Wages	1,158,137	1,355,723
Administrative salaries and benefits	597,890	604,476
Advertising and promotion	32,243	20,064
Investor relations and transfer agent fee	167,083	167,906
Office and miscellaneous	303,326	535,029
Insurance	223,757	199,999
Interest expense	72,458	82,749
Rent	138,054	139,250
Consulting	214,554	237,516
Professional fees	201,675	160,166
Travel	106,887	85,196
Telecommunications	23,070	23,790
Shipping	23,077	17,824
Research	99,851	103,432
Commissions	113,468	96,857
Bad debt expense (recovery)	-	27,961
Currency exchange	(20,988)	352
Utilities	51,888	90,191
	3,506,430	3,948,481
Income (loss) before other items and income tax	528,922	(478,148)
Gain on sale of equipment	-	2,057
Interest income	-	2,000 -
Income (loss) before income tax	528,922	(474,091)
Deferred tax (recovery)	-	-
Provision for income taxes	107,519	72,480
Net income (loss)	421,403	(546,571)
Other comprehensive income (loss)	(361,524)	(135,382
Comprehensive income (loss)	59,879	(681,953)
Net income (loss) per share (basic and diluted)	$0.03	$(0.05)
Weighted average number of common shares (basic and diluted)	13,169,991	13,169,991

-- See Notes to Unaudited Consolidated Financial Statements --

FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2014 and 2013
(U.S. Dollars -- Unaudited)

	Nine Months Ended September 30, 2014	2013
Operating activities		
Net income (loss)	$421,403	$(564,570)
Stock compensation expense	68,273	89,918
Depreciation	426,649	978,093
Changes in non-cash working capital items:		
(Increase) Decrease in accounts receivable	(820,375)	(105,882)
(Increase) Decrease in inventory	(232,604)	84,236
(Increase) Decrease in prepaid expenses	(25,981)	(52,320)
(Increase) Decrease in deferred tax assets	107519	-
Increase (Decrease) in accounts payable	(31,353)	(104,776)
Increase (Decrease) in taxes payable	-	(120,000)
Increase (Decrease) in deferred revenue	(6,865)	(48,263)
Cash provided by (used in) operating activities	(93,334)	174,436
Investing activities		
Acquisition of property and equipment	(24,594)	(82,097)
Cash provided by (used in) investing activities	(24,594)	(82,097)
Financing activities		
Short term line of credit	(50,000)	195,000
Loan repayment	(1,095,050)	(117,331)
Proceeds received from loan	1,005,967	-
Cash provided (used) by financing activities	(139,083)	77,669
Effect of exchange rate changes on cash	(11,066)	(8,911)
Inflow (outflow) of cash	(268,077)	161,097
Cash and cash equivalents, beginning	568,087	361,867
Cash and cash equivalents, ending	$300,010	$522,964
Supplemental disclosure of cash flow information:		
Income taxes paid	$-	$192,480
Interest paid	$72,638	$115,650

-- See Notes to Unaudited Consolidated Financial Statements --

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FLEXIBLE SOLUTIONS INTERNATIONAL, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Period Ended September 30, 2014
(U.S. Dollars)

1. Basis of Presentation.

These condensed consolidated interim 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. One of the Company’s products, 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 condensed consolidated interim 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, 2013 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 September 30, 2014, the consolidated results of operations for the three and nine months ended September 30, 2014 and 2013, and the consolidated statements of cash flows for the nine months ended September 30, 2014 and 2013. The results of operations for the three and nine months ended September 30, 2014 are not necessarily indicative of the results to be expected for the entire fiscal year.

2. Significant Accounting Policies.

These unaudited consolidated interim 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 three major classes of inventory: finished goods, work in progress, and raw materials. 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 cost 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 collectability 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.

(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.

(f) Foreign Currency.

The functional currency of three 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 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. 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 is 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 and nine months ended September 30, 2014 and 2013.

(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, accounts payable, 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 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 and line of credit for all periods presented approximate their respective carrying amounts due to the short term nature of these financial instruments. No interest has been imputed on the non-interest bearing loan from Agriculture Financial Services Corp. (see Note 9).

(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 carry-forwards. 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 September 30, 2014, 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 $1,864,746 (67%) at September 30, 2014 (December 31, 2013 - $1,473,682 or 73%).

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) Recently Adopted Accounting Pronouncements

In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210) - Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This amendment requires companies to disclose information about financial instruments that have been offset and related arrangements to enable users of the company's financial statements to understand the effect of those arrangements on the company's financial position. Companies will be required to provide both net (offset amounts) and gross information in the notes to the financial statements for relevant assets and liabilities that are offset. The guidance is effective for the Company's interim and annual periods beginning after January 1, 2013. Adoption of this amendment had no impact on the on the Company’s balance sheet or results of operations.

(s) New Accounting Pronouncements Not Yet Adopted

In April 2014, FASB issued ASU 2014-08, “Discontinued Operations”. ASC guidance was issued related to discontinued operations which changed the criteria for determining which disposals can be presented as discontinued operations and modified related disclosure requirements. The updated guidance requires an entity to only classify discontinued operations due to a major strategic shift or a major effect on an entity’s operations in the financial statements. The updated guidance will also require additional disclosures relating to discontinued operations. The update is effective prospectively for the Company’s fiscal year beginning July 1, 2015. Early application is permitted. The Company does not expect the updated guidance to have an impact on its consolidated financial position, results of operations or cash flows

In May 2014, FASB issued ASU 2014-09, “Revenue from Contracts with Customers: Topic 606”. This ASU replaces nearly all existing U.S. GAAP guidance on revenue recognition. The standard prescribes a five-step model for recognizing revenue, the application of which will require significant judgment. This standard is effective for fiscal years beginning after December 15, 2016, and for interim periods within those fiscal years. We are currently assessing the impact of the adoption of this update on our consolidated financial position, results of operations and cash flows.

In June 2014, FASB issued ASU 2014-12, “Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period”. ASC guidance was issued to update the guidance on performance stock awards. The guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period is treated as a performance condition. This standard is effective for the Company’s fiscal year beginning July 1, 2016. Early application is permitted. We are currently assessing the impact of the adoption of this update on our consolidated financial position, results of operations and cash flows.

In August 2014, FASB issued ASU 2014-15, “Presentation of Financial Statements – Going Concern”. ASC guidance was issued that explicitly requires management to assess an entity’s ability to continue as a going concern, and to provide related footnote disclosures in certain circumstances. This standard is effective for the Company’s fiscal year ending July 30, 2017, and for annual periods and interim periods thereafter. Early application is permitted. We are currently assessing the impact of the adoption of this update on our consolidated financial position, results of operations and cash flows.

3. Accounts Receivable

	September 30, 2014	December 31, 2013
Accounts receivable	$ 2,843,845	$ 2,056,964
Allowances for doubtful accounts	(42,593)	(44,849)
	$ 2,801,252	$ 2,012,115

4. Inventory

	September 30, 2014	December 31, 2013
Completed goods	$1,452,228	$1,527,563
Work in progress	129,485	34,702
Raw materials	1,692,922	1,499,271
	$3,274,635	$3,061,536

5.Property, Plant & equipment

	September 30, 2014 Cost	Accumulated Depreciation	September 30, 2014 Net
Buildings	$5,131,710	$ 2,603,662	$ 2,528,048
Computer hardware	99,140	90,093	9,047
Furniture and fixtures	26,161	22,212	3,949
Office equipment	21,273	19,369	1,904
Manufacturing equipment	5,840,142	3,644,448	2,195,694
Trailer	15,416	13,767	1,649
Technology	121,980	67,089	54,891
Land	447,355	-	447,355
	$11,703,177	$ 6,460,640	$ 5,242,537

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	December 31, 2013 Cost	Accumulated Depreciation	December 31, 2013 Net
Buildings	$ 5,233,147	$ 2,419,217	$ 2,813,930
Computer hardware	102,225	90,265	11,960
Furniture and fixtures	27,098	22,310	4,788
Office equipment	22,400	20,042	2,358
Manufacturing equipment	6,014,006	3,555,731	2,458,275
Trailer	16,233	13,992	2,241
Technology	128,442	51,377	77,065
Land	460,506	-	460,506
	$ 12,004,057	$ 6,172,934	$ 5,831,123

Amount of depreciation expense for 2014: $412,760 (2013: $963,559)

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.

	September 30, 2014 Cost	Accumulated Amortization	September 30, 2014 Net
Patents	$236,772	$ 89,940	$146,832

	December 31, 2013 Cost	Accumulated Amortization	December 31, 2013 Net
Patents	$249,284	$ 80,416	$168,868

Decrease in 2014 cost was due to currency conversion. 2014 cost in Canadian dollars - $265,102 (2013 - $265,102 in Canadian dollars).

Amount of amortization for 2014 - $13,889 (2013 - $14,534)

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

2014	$ 18,092
2015	18,092
2016	18,092
2017	18,092
2018	18,092

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.

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	September 30, 2014	December 31, 2013
Long term deposits	$ 4,566	$ 4,781

8. Short-Term Line of Credit

In April 2014, the Company signed a new agreement with Harris Bank to replace the expiring credit line. The revolving line of credit was increased to an aggregate amount of up to the lesser of (i) $3,000,000, or (ii) 75% of eligible domestic accounts receivable and certain foreign accounts receivable plus 40% of inventory. The loan has an annual interest rate of 3.75%.

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. As of September 30, 2014, Company was in compliance with all loan covenants.

To secure the repayment of any amounts borrowed under the Revolving Line of Credit, the Company granted to the Bank a security interest in substantially all of the assets of NanoChem Solutions Inc., exclusive of intellectual property assets.

Short-term borrowings outstanding under the Revolving Line as of September 30, 2014 were $1,350,000 (December 31, 2013 - $1,400,000).

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 Company had borrowed $910,801in Canadian funds (US$813,254) as of September 30, 2014 on an unsecured basis (December 31, 2013 – CDN$910,801; US$856,335). The balance owing at September 30, 2014 was $182,160 in Canadian funds (US$162,651); (December 31, 2013 - $364,320CDN; US$342,534). The repayment schedule is as follows:

Amount Due (in CDN funds)	Payment Due Date
$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 April 1, 2015. The borrowing balance as December 31, 2013 was $1,016,056 in Canadian funds (US$955,296). The Company had pledged the assets of the Taber, AB building, including equipment, inventory and accounts receivable as collateral, as well as signed a promissory note guaranteeing the amount of the loan. The Company repaid this loan in full in September 2014.

(c) In September 2014, NanoChem Solutions Inc. signed a US$1,005,967 promissory note with Harris Bank with a rate of prime plus 0.5% to be repaid over 5 years with equal monthly installments plus interest. This money was used to retire the AFSC debt and make the December 2014 payment on the AAFC loan.

The Company has committed to the following repayments:

2014	$	50,298
2015	$	201,193
2016	$	201,193
2017	$	201,193
2018	$	201,193
2019	$	150,895

	September 30, 2014	December 31, 2013
Continuity		
Balance, beginning of period	$1,297,830	1,726,050
Plus: Proceeds from loan	1,005,967	-
Less: Payments on loan	932,675	307,833
Effect of exchange rate	(202,304)	(120,387)
Balance, end of period	$1,168,818	$1,297,830
Outstanding balance at:		
a) Long term debt – AAFC	$162,651	$342,534
b) Long term debt – AFSC	-	955,296
c) Long term debt – Harris	1,005,967	-
Long term debt	$1,168,618	$1,297,830
Less: current portion	(201,193)	(304,556)
Balance	$967,425	$993,274

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 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 date of 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 options is 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, 2013 and the nine month period ended September 30, 2014:

	Number of shares	Exercise price per share	Weighted average exercise price
Balance, December 31, 2012	999,000	$ 1.50 – 2.45	$ 1.96
Granted	233,000	$ 1.21 – 1.50	$ 1.27
Cancelled or expired	(68,000)	$ 3.60	$ 3.60
Balance, December 31, 2013	1,164,000	$ 1.21 – 2.45	$ 1.73
Granted	227,000	$ 1.00 – 1.21	$ 1.01
Cancelled or expired	(113,000)	$ 2.25	$ 2.25
Balance, September 30, 2014	1,278,000	$ 1.00 – 2.45	$ 1.56
Exercisable, September 30, 2014	936,000	$ 1.21 – 2.45	$ 1.68

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

	2014	2013
Expected life – years	5.0	5.0
Interest rate	0.78 %	0.36 – 0.65 %
Volatility	58 %	51 – 63 %
Dividend yield	— %	— %
Weighted average fair value of options granted	$ 0.36	$ 0.36 – 0.38

During the nine months ended September 30, 2014 the Company granted 100,000 options to consultants that resulted in $12,356 in expenses this quarter. During the same period, 127,000 options were granted to employees, resulting in $9,205 in expenses this quarter. Options granted in previous quarters resulted in additional expenses in the amount of $1,871 for consultants and $3,456 for employees during the quarter ended September 30, 2014. No stock options were exercised during the period.

During the nine months ended September 30, 2013 the Company granted 55,000 options to consultants that resulted in $4,157 in expenses this quarter. During the same period, 178,000 options were granted to employees, resulting in $27,960 in expenses this quarter. Options granted in previous quarters resulted in additional expenses in the amount of $3,609 for consultants and $6,438 for employees during the quarter ended September 30, 2013. No stock options were exercised during the period.

11. Capital Stock.

There was no stock activity for the nine months ended September 30, 2014.

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 ("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.

Nine months ended September 30, 2014:

	EWCP	BPCA	Total
Revenue	$ 792,235	$ 11,157,991	$ 11,950,226
Interest revenue	-	-	-
Interest expense	30,162	42,296	72,458
Depreciation and amortization	283,808	142,841	426,649
Segment profit (loss)	(1,088,679)	1,518,892	430,213
Segment assets	3,771,914	1,617,455	5,389,369
Expenditures for segment assets	6,215	18,379	24,594

Nine months ended September 30, 2013:

	EWCP	BPCA	Total
Revenue	$ 592,081	$ 11,778,082	$ 12,370,163
Interest revenue	1	1,999	2,000
Interest expense	37,594	45,155	82,749
Depreciation and amortization	813,573	164,520	978,093
Segment profit (loss)	(2,273,828)	1,727,257	(546,571)
Segment assets	4,512,436	1,796,756	6,309,192
Expenditures for segment assets	82,097	-	82,097

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

	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Canada	$ 382,307	$ 540,554
United States and abroad	11,567,919	11,829,609
Total	$ 11,950,226	$ 12,370,163

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The Company's property, equipment, leasehold and patents are located in Canada and the United States as follows:

	September 30, 2014	December 31, 2013
Canada	$ 3,771,914	$ 4,258,075
United States	1,617,455	1,741,916
Total	$ 5,389,369	$ 5,999,991

Three customers accounted for $7,278,612 (61%) of sales made during the nine months ended September 30, 2014 (2013 - $7,402,615 or 60%).

13. Commitments.

The Company is committed to minimum rental payments for property and premises aggregating approximately $21,870 over the term of two leases, the last expiring on September 30, 2015.

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

2014	$11,423
2015	$10,447

14. Comparative Figures.

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

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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 Company's second class of products, 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. TPA's 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 and nine months ended September 30, 2013 are discussed below:

Nine Months ended September 30, 2014

Item	Increase (I) or Decrease (D)	Reason
Sales		
EWCP products	I	The addition of a new customer.
BPCA products	D	The European economic situation pressured sales for the period.
Gross Profit, as a % of sales	I	Lower oil prices reduced aspartic acid costs.
Wages	D	Reduced since the Taber plant is not in operation
Office and miscellaneous	D	Reduced since the Taber plant is not in operation
Commissions	I	Commissionable sales increased against uncommissionable sales.

Three months ended September 30, 2014

Item	Increase (I) or Decrease (D)	Reason
Sales		
EWCP products	I	Order expected in Q2 was received in Q3 along with the addition of a new customer.
BPCA products	I	Q3 2013 was low due to an oil platform shutdown that did not occur in Q3 2014.
Gross Profit, as a % of sales	I	Lower oil prices reduced aspartic acid costs.
Wages	D	Reduced since the Taber plant is not in operation.
Office and miscellaneous	D	Reduced since the Taber plant is not in operation.
Commissions	I	Commissionable sales increased against uncommissionable sales.

Three customers accounting for 57% of our sales during the three months ended September 30, 2014 and 61% of our sales during the nine months ended September 30, 2014. The amount of revenue attributable to each customer is shown below.

Customer	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
A	$1,335,736	$677,520	$3,459,694	$3,511,928
B	$862,543	$892,558	$2,976,584	$2,655,163
C	-	-	$842,337	$1,235,524
D	-	$305,238	-	-
E	$292,250	-	-	-

Customers with balances greater than 10% of our receivables as of September 30, 2014 and 2013 are shown below:

	September 30, 2014	2013
Company A	1,073,763	726,284
Company B	594,483	773,328

In 2007, we began construction of a plant in Taber, AB, Canada. The plant came online during 2012 and we began depreciating the plant and related equipment effective January 2012.

The plant was designed to manufacture aspartic acid which is the major component of TPAS. Previously, we bought aspartic acid from China where the base raw material is oil. The plant uses sugar as the base raw material. We believe that using aspartic acid manufactured from sugar would reduce our raw material costs, reduce price fluctuations generated by oil prices and reduce shipping costs.

In February 2014, we suspended production of aspartic acid at our Taber plant. The suspension was due to the fact that since construction of the plant began in 2008, economic conditions in Alberta and worldwide have changed significantly. In particular, plant operating costs increased and the price of aspartic acid derived from oil is less than forecast.

Although we continue to believe in the technical and economic viability of using sugar in the aspartic acid process that we have pioneered, we are unable to fund the equipment and personnel increases needed to reach break-even levels on our own. Accordingly, a partner is required to build on the technical successes achieved to date and reach profitable production levels.

While we are actively seeking a partner to complete process development, staffing at the Taber plant has been reduced to levels needed to maintain the intellectual property and the process equipment we have developed.

We expect that the suspension of the operations at the Taber plant will save us approximately $800,000 per year in plant operating costs and general and administrative expenses.

Other factors that will most significantly affect future operating results will be:

- the sale price of crude oil which is used in the manufacture of aspartic acid we import from China. Aspartic acid is a key ingredient in our BCPA product;
- activity in the oil and gas industry, as we sell our BCPA product to oil and gas companies; and
- drought conditions, since we also sell our BCPA product to farmers.

Other than the foregoing we do not know of any trends, events or uncertainties that have had, or are reasonably expected to have, a material impact on our revenues or expenses.

Capital Resources and Liquidity

The Company's sources and (uses) of cash for the nine months ended September 30, 2014 and 2013 are shown below:

	2014	2013
Cash provided by (used by) operations	(92,334)	174,436
Purchases of equipment	(24,594)	(82,097)
Advances from (repayments of) short term line of credit	(50,000)	195,000
Repayment of loans	(1,095,050)	(117,331)
Advances from loans	1,005,967	-
Changes in exchange rates	(12,066)	(8,911)

The Company has sufficient cash resources to meets its future commitments and cash flow requirements for the coming year. As of September 30, 2014 working capital was $4,723,964 (December 31, 2013 - $3,761,310) 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 $21,870 over the term of two leases, the last expiring on September 30, 2015.

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

2014	$11,423
2015	$10,447

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Other than as disclosed above, the Company does not anticipate any capital requirements for the twelve months ending September 30, 2015.

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 September 30, 2014. 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 September 30, 2014.

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 September 30, 2014. 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 September 30, 2014 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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 §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.

November 14, 2014	By:	/s/ Daniel B. O'Brien Daniel B. O'Brien President and Principal Executive Officer

November 14, 2014	By:	/s/ Daniel B. O'Brien Daniel B. O'Brien President and Principal Executive Officer