Flooring Zone Inc
Form 10QSB
October 04, 2006

United States
Securities and Exchange Commission
Washington, DC 20549

FORM 10-QSB

Quarterly Report Under Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the Quarter Ended March 31, 2006 — Commission File Number 333-119234

THE FLOORING ZONE, INC.

(Exact name of registrant as specified in its charter)

NEVADA

(State or other jurisdiction of incorporation or organization

20-0019425

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

3219 Glynn Avenue, Brunswick, Georgia 31520

(Address of principal executive offices)

(912) 264-0505

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act: None.

Securities registered pursuant to section 12(g) of the Exchange Act: Common, $0.001 par value

Check whether the Issuer filed all reports required to be filed by section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such report(s), Yes [X] No [ ]

Check whether the Issuer has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. Yes [ ] No [X]

As of September 12, 2006, we had 19,569,750 shares of our $0.001 par value, common stock outstanding.

THE FLOORING ZONE, INC.
FORM 10-QSB
TABLE OF CONTENTS

PART I -- FINANCIAL INFORMATION

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The Flooring Zone, Inc.
Condensed Consolidated Balance Sheet
March 31, 2006
(Unaudited)

ASSETS

Current assets:		
Cash	$	-
Accounts receivable, net		126,413
Inventory		376,765
Prepaid expense		4,230
Total current assets		507,408

Property & equipment, net		236,371
Other assets:		
Intangible assets, net		5,664
Deposits		6,031
Total other assets		11,695
TOTAL ASSETS	$	755,474

See accompanying notes to financial statements

2

The Flooring Zone, Inc.
Condensed Consolidated Balance Sheet-[continued]
March 31, 2006
(Unaudited)

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:		
Accounts payable	$	371,616
Bank overdraft		6,926
Line of credit-related parties		1,395,825
Customer deposits		8,500
Accrued liabilities		10,021
Current portion long-term debt		102,259
Total current liabilities		1,895,147
Long-term liabilities:		
Note payable-related party		91,400
Long-term debt		493,782
Current portion long-term debt		(102,259)
Total long-term liabilities		482,923
Total liabilities		2,378,070

Stockholders' deficit: - Note 2	
Preferred Stock, 10,000,000 shares authorized $.001 par value value: No shares issued and outstanding	-
Common stock, 100,000,000 shares authorized $.001 par value; 38,569,750 shares issued and outstanding	38,570
Additional paid in capital	608,257
Accumulated deficit	(2,269,423)
Total stockholders' deficit	(1,622,596)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 755,474

See accompanying notes to financial statements

3

The Flooring Zone, Inc.
Condensed Consolidated Statements of
Operations For the three month periods ended March 31, 2006 and 2005
(Unaudited)

	Three months ended March 31,	
	2006	2005
Revenues:		
Sales	$ 621,467	$ 858,553
Licensing Fees	-	2,500
Net revenues	621,467	861,053
Less cost of sales	496,711	482,412
Gross profit	124,756	378,641
General and administrative expenses	192,136	348,247
Net income from operations	(67,380)	30,394
Other income (expense):		
Interest Income	9	42

Interest expense	(30,765)	(20,766)
Total other income(expense)	(30,756)	(20,724)
Net income before taxes	(98,136)	9,670
Income taxes	-	-
Net income	$ (98,136)	$ 9,670
Net income(loss) per share-basic and diluted	$ (0.01)	$ 0.00
Weighted average shares outstanding - basic and diluted	38,569,750	38,455,856

See accompanying notes to financial statements

4

The Flooring Zone, Inc.
Condensed Consolidated Statements of Cash
Flows For the three month periods ended March 31, 2006 and 2005
(Unaudited)

	3/31/2006
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income (loss)	$ (98,136)
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Depreciation and amortization	5,957
Decrease (increase) in accounts receivable	2,795
Decrease (increase) in inventories	(146,158)
Decrease (increase) in prepaid expenses and deposits	-0-
Increase (decrease) in accounts payable	74,142
Increase (decrease) in bank overdraft	6,926
Increase (decrease) in accrued liabilities	(5,600)
Increase (decrease) in customer deposits	(65,560)

Net cash used in operating activities	(225,634)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	-
Net cash used in investing activities	-
CASH FLOWS FROM FINANCING ACTIVITIES	
Net borrowing(payments) on line of credit-related party	190,100
Net borrowing(payments) on long term debt	(28,748)
Proceeds from the issuance of common stock	-0-
Net cash provided by financing activities	161,352
NET INCREASE (DECREASE) IN CASH	(64,282)
CASH AT BEGINNING OF PERIOD	64,282
CASH AT END OF PERIOD	$ -
SUPPLEMENTAL DISCLOSURES	
Cash paid for interest	$ 30,765
Cash paid for income taxes	-

See accompanying notes to financial statements

The Flooring Zone, Inc.
Notes to Condensed Consolidated Financial Statements
March 31, 2006
(Unaudited)

Note 1 ORGANIZATION AND INTERIM FINANCIAL STATEMENTS

Organization - The Flooring Zone, Inc. (the "Company) is a corporation organized under the laws of the State of Nevada on May 5, 2003. The company's business operations provide for full-service retail floor covering products and services.

Interim financial statements - The accompanying condensed consolidated financial statements are unaudited and have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles for complete financial statements generally accepted in the United States of America. In the opinion of management, the accompanying consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of March 31, 2006 and 2005. There has not been any change in the significant accounting policies of The Flooring Zone, Inc. for the periods presented. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results for a full-year period. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2005 filed with the Securities and Exchange Commission (the "SEC").

Stock based compensation - On January 1, 2006, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123R, "Share-Based Payment," using the modified prospective method. However, for the three months ended March 31, 2006, the Company's results of operations do not reflect any compensation expense because the Company had no new stock options granted under its stock incentive plans during the first three months of fiscal year 2006 and no previous stock option grants which vested during the first three months of fiscal year 2006.

Prior to the first quarter of fiscal year 2006, the Company accounted for its stock-based employee compensation arrangements in accordance with the provisions and related interpretations of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Had compensation cost for stock-based compensation been determined consistent with SFAS No. 123R, the net loss and net loss per share for the three months ended March 31, 2005 would have been adjusted to the following pro forma amounts:

Note 1 ORGANIZATION AND INTERIM FINANCIAL STATEMENTS - (continued)

Net income, as reported	$ 9,763
Compensation cost under fair value-based accounting method, net of tax	-
Net loss, pro forma	9,763
Net loss per share-basic and diluted:	
As reported	$ 0.00
Pro forma	$ 0.00

Note 2 INVENTORY

Inventories are stated at lower of cost or market and consist of the following:

		3/31/06
Flooring material		376,765
	Total	$ 376,765

Note 3 GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the financial statements, the Company has an accumulated deficit of $2,269,423, and a negative working capital of $1,387,739. These factors raise substantial doubt about the Company's ability to continue as a going concern.

Management plans include obtaining additional debt financing to cover the shortfalls in revenue and allowing the Company to begin purchasing inventory at a discount, and making changes in operations to reduce expenses. The Company may also seek additional equity financing through the sale of its shares, although the Company currently has no commitments for additional equity financing and there is no guarantee that the Company can obtain equity financing on acceptable terms or at all. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Flooring Zone, Inc.
Notes to Condensed Consolidated Financial Statements
March 31, 2006
(Unaudited)

Note 4 COMMON STOCK/SUBSEQUENT EVENT

In November 2005, Jimmy Lee resigned as the Company's President, CEO and director. Mr. Lee returned his 19,000,000 shares of the Company's common stock. In return the Company agreed to remove his name from all debt and personal guarantees. As of March 31, 2005 the Company had received the stock certificate but had not yet canceled it because Mr. Lee's name had not been completely removed from all debt. The 19,000,000 shares are showing as issued and outstanding in these financial statements. Subsequent to the quarter end the Company did remove Mr. Lee's name from all debt of the Company and canceled the stock certificates.

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

This discussion summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the three months ended March 31, 2006 and 2005. This discussion should be read in conjunction with the financial statements and financial statement footnotes included in this quarterly report.

Forward-Looking Statements

Certain statements of our expectations contained herein, including, but not limited to statements regarding sales growth, new stores, increases in comparable store sales, commodity price inflation and deflation, and capital expenditures constitute "forward-looking statements." Such statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations. These risks and uncertainties include but are not limited to, fluctuations in and the overall condition of the U.S. economy, stability of costs and availability of sourcing channels, conditions affecting new store development, our ability to implement new technologies and processes, our ability to attract, train, and retain highly-qualified associates, unanticipated weather conditions and the impact of competition and regulatory and litigation matters. Undue reliance should not be placed on such forward-looking statements, as such statements speak only as of the date on which they are made.

General

The Flooring Zone, Inc. is a Nevada corporation organized on May 5, 2003, to operate full service retail floorcovering stores. We have a wholly-owned subsidiary, The Flooring Zone of Georgia, Inc. The Georgia corporation was formed in 2000, by the founders of The Flooring Zone, Inc., and was established to develop our business concept in the retail floorcovering industry. Through our subsidiary we operate two retail stores. We have stores in Brunswick, Georgia and Yulee, Florida. We also maintain administrative offices and warehouse facilities in Brunswick, Georgia.

During the fourth quarter 2005, we completed a registered public offering for the primary purpose of raising funds to expand our store locations into new markets in the southeastern United States. Unfortunately, we were unsuccessful in raising sufficient funds to warrant expansion into other markets at this time. Therefore, we have been focusing our efforts on increasing sales at our current locations and reducing our expenses and debt load with a goal to operate the Company profitably. At this time, we do not have plans to expand to other markets. We do not plan to revisit the issue of expansion until such time as market conditions so justify and we can either fund expansion from revenue and profits from operations or we receive a firm commitment for the funding we would need to expand. We neither have, nor are we currently seeking such a commitment.

Results of Operations

For the three months ended March 31, 2006 and 2005

We have incurred a net loss of $98,136 through the first quarter of 2006, compared to net income of $9,670 during the same quarter of 2005.

Revenues

We generate revenue primarily from the sale of flooring products. We sell flooring products to two groups - retail customers and contractors. Retail customers generally pay higher prices for product than contractors. Historically, about 60% to 70% of our product sales have been to retail customers. We believe we are experiencing a shift in our traditional customer mix. During the current fiscal year, contractors have accounted for approximately 50% of our product sales. We believe this shift in our customer mix is, at least, partially due to Mr. Carroll taking a more active role in the day-to-day operations of the Company following his appointment as CEO. Mr. Carroll has been involved in the construction industry in Georgia for a number of years and we believe the increase in product sales to contractors has resulted from his relationships in the industry. While we realize smaller margins on products sold to contractors, we believe such decreases in net revenue will be partially offset by decreases in other expenses, including advertising and display costs. Contractors, unlike most retail customers, represent routine repeat business. Contractors buy product often and in larger quantities than do retail customers. As our customer mix shifts to a higher percentage of contractor sales we have and may continue to decrease our advertising and display expenses as we decrease our need to constantly drive new retail customers to our stores.

During the first quarter of 2006 average retail product prices were fairly constant, although we did raise increase prices for supplies such as carpet pad, glue, etc., approximately 10% higher as compared to the same quarter of 2005. Despite higher retail prices for supplies, overall we realized a 28% decrease in revenue from product sales. This decrease in revenue from product sales in the first three months of 2006 is primarily the result of the closing of our St. Mary's store. As discussed above, another contributing factor to our decreased revenue from sales is the shift in our customer mix because contractors typically pay lower prices for product than do retail customers. We expect that revenue from product sales will continue to be lower throughout the rest of the 2006 fiscal year as compared to the 2005 fiscal year because of the closing of the St. Mary's store.

Gross Profit

Our gross profit is directly affected by our costs of sales. Cost of sales includes all direct costs of floor coverings, materials used in installation and installation labor. As with revenues, our cost of sales and gross profit are directly affected by changes in the percentage of products sold to retail customers versus contractors. As discussed above, the prices we can charge contractors are lower than the prices we can charge retail customers therefore, our profit margin on product sales to retail customers is greater. Moreover, we often realize profit from providing installation services to retail

customers. Conversely, contractors typically use their own subcontractors to install the floor covering products they purchase. These subcontractors provide the materials used in installation and the installation labor.

Gross profit during the three months ended March 31, 2006 was $124,756, 67% lower than the $378,641 gross profits realized during the three months ended March 31, 2005. During the first three months of 2006, we realized a 28% decrease in net revenue. We also realized a 3% increase in cost of sales during the first quarter 2006 compared to the first quarter 2005. As a result of decreased revenue and increasing prices we pay for product, cost of products sold, cost of sales as a percentage of net revenues increased from 56% during the first quarter 2005 to 80% during the first quarter 2006. During the quarter we also revisited certain previously completed jobs to perform repair work that was performed at our expense, which resulted in an increase to our costs of product sold, with no corresponding increase to revenue.

For the reasons detailed above, as our customer mix continues to shift to a higher percentage of contractors, we anticipate cost of sales will continue to represent a higher percentage of net revenues than it has historically. As discussed above, however, we believe this decrease in margins can be at least partially offset by decreases in other expenses such as advertising and display costs and salaries and benefits.

General and Administrative Expenses

Comparison of the three months ended March 31, 2006 and 2005

General and administrative expenses for the three months ended March 31, 2006, decreased $156,111, or 45% to $192,136 compared to the three months ended March 31, 2005, and as a percentage of sales revenue decreased from 40% to 30% during the three months ended March 31, 2005 and 2006. During the three months ended March 31, 2006 and 2005, general and administrative costs consisted of:

	Three Months Ended	
	March 31, 2006	March 31, 2005
Salaries & benefits costs	$ 77,775	$ 129,881
Advertising & display costs	10,431	21,350
Occupancy costs & utilities	64,113	77,120
Legal & accounting costs	8,998	27,500
Other	30,819	92,396
	$ 192,136	$ 348,247

The 40% reduction in salaries and benefits costs in the three months ended March 31, 2006 compared to 2005 is the result of a reduction in our work force. This reduction in our work force resulted from the closing of our St. Mary's store and a reduction in our retails sales and accounts payable departments. In anticipation of expansion, we had hired more retail sales and

accounts payable personnel than we needed to operate our current locations. With the decision not to expand at the current time, we laid off several persons. We do not expect significant additional changes in salaries and benefits throughout the balance of 2006.

During the three months ended March 31, 2006, advertising and display costs decreased by 51% compared to the same period of 2005. As explained above, this decrease is primarily attributable to the closing of our St. Mary's store. We anticipate the advertising and display costs will continue at lower rates during the balance of the 2006 fiscal year as a result of closing of the St. Mary's store and as a result of reduced marketing costs as we focus more attention on product sales to contractors rather than retail buyers

Occupancy costs and utilities during the three months ended March 31, 2006 compared to the same period of 2005, decreased 17% as a result of the closing of the St. Mary's store. We expect these costs to remain relatively constant in the upcoming quarters.

Legal and accounting costs decreased 67% to $8,998 during the three month period ended March 31, 2006 compared to the three month period ended March 31, 2005. We believe this decrease in legal and accounting costs is more an issue of timing than a reflection of any long-term reduction in legal and accounting costs and we expect legal and accounting costs to continue at levels consistent with or higher than the amounts incurred during the prior fiscal year.

Other costs decreased 67% during the three months ended March 31, 2005 compared to three months ended March 31, 2005, as we continued our efforts to control expenses. We anticipate other costs will to remain fairly constant in upcoming quarters.

Net Loss

For the reasons disclosed above, during the three months ended March 31, 2006 we realized a net loss of $98,136 compared to net income of $9,670 during the three months ended March 31, 2005. We expect that net loss will decrease in upcoming quarters.

Liquidity and Capital Resources

Our capital resources have consisted of revenues from operations, funds raised through the sale of our common stock and debt. During the fourth quarter 2005 we completed a public offering of our securities pursuant to an effective SB-2 registration statement. The funds raised in the SB-2 have since been used to fund our operations. As shown in our financial statements, we have an accumulated deficit of $2,269,423, and negative working capital of $1,387,739. These factors raise substantial doubt about our ability to continue as a going concern.

We have been working to obtain additional debt financing to cover the shortfalls in revenue and to allow us to begin purchasing inventory at a discount. As noted above, we have also been making changes in operations to reduce expenses. We may also seek additional equity financing through the sale of our shares, although we currently have no commitments for additional equity financing and there is no guarantee that we can obtain equity financing on acceptable terms or at all.

During the first quarter 2006 and 2005 cash was primarily used to fund operations. See below for additional discussion and analysis of cash flow.

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
Net cash used in operating activities	$(225,634)	$(193,450)
Net cash used in investing activities	$ -	$ -
Net cash provided by financing activities	$ 161,352	$ 172,130
	$ (64,282)	$ (21,320)

NET INCREASE (DECREASE) IN CASH

As discussed herein, during the three months ended March 31, 2006 compared to the three months ended March 31, 2005 product sales decreased leading to a change from net income of $9,670 during the first quarter 2005 to a net loss of $98,136 during the first quarter 2006. During the three months ended March 31, 2006, inventory has increased $146,158 and customer deposits have decreased $65,600 combined with a net loss of $98,136, these reductions in cash from operations were only partially offset by increases in accounts payable of $74,142 and an increase of bank overdrafts of $6,926. Net cash used in operating activities during the three months ended March 31, 2006 was 17% higher than net cash used in operating activities during the three months ended March 31, 2005. This increase in cash used in operating activities during the three months ended March 31, 2006 was largely the result of circumstances explained above.

We used no net cash in investing activities to acquire property or equipment during the first quarter 2006 or the first quarter 2005.

Net cash provided from financing activities was $161,352 during the three months ended March 31, 2006 compared to $172,130 during the three months ended March 31, 2005, a 6% decrease. During the three months ended March 31, 2006, however, cash provided from financing activities primarily came from borrowing on a line of credit extended by a related party. By contrast, during the three months ended March 31, 2005 cash provided from financing activities primarily came from the sale of our equity securities in our registered public offering.

At March 31, 2006 and 2005 we had cash on hand of $0 and $68,772, respectively.

13

Summary of Material Contractual Commitments

The following table lists our significant commitments as of March 31, 2006.

			Payments Due by Fiscal Year	
Contractual Commitments	Total	2006	2007	2008
Lines of Credit-Related Party	$1,395,825	$1,395,825	$ --	$ --
Note Payable-Related Party	91,400	40,027	51,373	--
Note Payable	477,042	25,562	47,344	50,515
Capital Leases	16,674	7,855	8,819	--
Operating Leases	724,649	109,933	149,338	152,170
TOTAL	$2,705,590	$1,579,202	$ 256,874	$ 202,685

Off-Balance Sheet Financing Arrangements

As of March 31, 2006 we had no off-balance sheet financing arrangements.

Critical Accounting Policies

Revenue Recognition

We recognize revenues in accordance with the Securities and Exchange Commission, Staff Accounting Bulletin (SAB) number 104, "Revenue Recognition in Financial Statements." SAB 104 clarifies application of U.S. generally accepted accounting principles to revenue transactions. Accordingly, revenue is recognized when an order has been received, the price is fixed and determinable, the order is shipped and installed, collection is reasonably assured and we have no significant obligations remaining. Licensing fees are royalties paid to us for licensing the use of the name The Flooring Zone. The royalties range from 1-2% of the licensee's commercial sales volume.

We record accounts receivable for sales which have been delivered but for which money has not been collected. An allowance for doubtful accounts is provided for accounts deemed potentially uncollectible based on analysis and aging of accounts. For customer purchases or deposits paid in advance, we record a liability until products are shipped or installed.

Merchandise Inventory

We record inventory at the lower of cost or market, cost being determined on a first-in, first-out method. We do not believe our merchandise inventories are subject to significant risk of obsolescence in the near-term, and we have the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions.

Vendor Funds

We receive funds from vendors in the normal course of business for purchase-volume-related rebates. Our accounting treatment for these vendor-provided funds is consistent with Emerging Issues Task Force (EITF) 02-16 "Accounting by a Customer (Including a Reseller) for Certain Consideration Received From a Vendor." Under EITF 02-16, purchase volume rebates should be treated as a reduction of inventory cost, unless they represent a reimbursement of specific, incremental and identifiable costs incurred by the customer to sell the vendor's product. The purchase volume rebates that we receive do not meet the specific, incremental and identifiable criteria in EITF 02-16. Therefore, they are treated as a reduction in the cost of inventory and we recognize these funds as a reduction of cost of sales when the inventory is sold.

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123R, Share-based Payment. This standard is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS No. 123R requires the measurement of the cost of employees services received in exchange for an award of the entity's equity instruments based on the grant-date fair value of the award. The cost will be recognized over the period during which an employee is required to provide service in exchange for the award. No compensation cost is recognized for equity instruments for which employees do not render service. The Company adopted SFAS No. 123R on January 1, 2006, which requires stock-based compensation expense to be recognized against earnings for the portion of outstanding unvested awards that vest during the period, based on the grant date fair value of those awards calculated using a Black-Scholes pricing model under SFAS 123. The Company is currently evaluating to what extent the entity's equity instruments will be used in the future for employees services and the transition provisions of this standard; therefore, the impact to the Company's financial statements of the adoption of SFAS No. 123R cannot be predicted with certainty.

Item 3. Controls and Procedures

Our principal executive officers and our principal financial officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Such officers have concluded (based upon their evaluations of these controls and procedures as of the end of the period covered by this report) that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by it in this report is accumulated and communicated to management, including the Certifying Officers as appropriate, to allow timely decisions regarding required disclosure.

The Certifying Officers have also indicated that there were no significant changes in the Company's internal controls over financial reporting or other factors that could significantly affect such controls subsequent to the date of their evaluation, and there were no significant deficiencies and material weaknesses.

Management, including the Certifying Officers, does not expect that the Company's disclosure controls or its internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. The design of any systems of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected.

PART II - OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

No instruments defining the rights of the holders of any class of registered securities have been materially modified, limited or qualified during the quarter ended September 30, 2005.

During the quarter, we sold no shares that were not registered under the Securities Act of 1933.

Item 5. Other Information

On April 21, 2006, Mr. Steven Nichols resigned as our Chief Financial Officer. Mr. Nichols' resignation was not the result of any disagreement with the Company on any matter relating to the Company's operations, policies or practices.

Our board of directors has not yet determined who it will appoint to replace Mr. Nichols as the Company's Chief Financial Officer. Until such time as the board appoints a new Chief Financial Officer, Michael Carroll will assume those responsibilities on an interim basis.

Item 6. Exhibits

Exhibits. The following exhibits are included as part of this report:

Exhibit 31.1 Certification of Principal Executive Officer

	Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32.1	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

THE FLOORING ZONE, INC.

October 2, 2006 /s/ Michael Carroll

Michael Carroll, Chief Executive Officer

October 2, 2006 /s/ Michael Carroll

Michael Carroll, Chief Financial Officer

17