Flooring Zone Inc
Form 10KSB
April 17, 2007

U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-KSB

x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1933**

For the fiscal year ended December 31, 2006

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

For the transition period from ____________ to ______________

Commission File Number 333-119234

THE FLOORING ZONE, INC.

(Name of Small Business Issuer in its charter)

NEVADA	20-0019425
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3219 Glynn Avenue, Brunswick, Georgia	31520
(Address of principal executive Offices)	(Zip Code)

Issuer s telephone number(912) 264-0505

Securities registered pursuant to section 12(b) of the Exchange Act: None

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

Check whether the Issuer (1) 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), and (2) has been subject to such filing requirements for the past 90 days. (1) Yes x No o

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this form 10-KSB or any amendment to this Form 10-KSB. o

Check if the Issuer is a shell company. (As defined in Rule 12b-2 of the Exchange Act) o

The issuer s revenue for its most recent fiscal year was: $2,325,666.

The aggregate market value of the issuer s voting stock held as of March 30, 2007 by non-affiliates of the issuer, based on the price at which the shares were sold, was approximately: $721,725.

As of March 30, 2007, the issuer had 19,569,750 shares of its $0.001 par value common stock outstanding.

Transitional Small Business Disclosure Format. Yes o No x

Documents incorporated by reference: none

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PART I

FORWARD-LOOKING STATEMENTS

This Form 10-KSB contains certain forward-looking statements. For this purpose any statements contained in this Form 10-KSB that are not statements of historical fact may be deemed to be forward-looking statements. Without limiting the foregoing, words such as *may*, *hope*, *will*, *expect*, *believe*, *anticipate*, *estimate*, or *projected* *continue* or comparable terminology are intended to identify forward-looking statements. These statements by their nature involve substantial risks and uncertainty, and actual results may differ materially depending on a variety of factors, many of which are not within our control. These factors 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, statements regarding sales growth, increases in comparable store sales, commodity price inflation and deflation, and capital expenditures. 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. 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.

Forward-looking statements are predictions and not guarantees of future performance or events. The forward-looking statements are based on current industry, financial and economic information, which we have assessed but which by its nature is dynamic and subject to rapid and possibly abrupt changes. Our actual results could differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business.

ITEM 1. DESCRIPTION OF BUSINESS

We filed our Articles of Incorporation on May 5, 2003. On May 13, 2003, pursuant to a Share Exchange Agreement, we acquired all of the outstanding common stock of The Flooring Zone of Georgia, Inc., in exchange for 38,125,000 shares of our common stock. The Flooring Zone of Georgia, Inc., was founded in 2000, and had been operating in the retail floorcovering industry since its inception. We currently own and operate one retail flooring store located in southern Georgia. Our executive offices are located in our Georgia store located at 3219 Glynn Avenue, Brunswick, Georgia 31520. Our telephone number at that location is (912) 264-0505.

Retail Floorcovering Industry

Our management believes that no single retailer accounts for more than a 5% market share of total annual industry revenues. The industry is characterized by a large number of small

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local and regional companies and a small number of national chains, such as The Home Depot, and organizations such as Carpet One and Carpet Max, which principally operate as buying groups offering their members economies of scale in the purchasing of floorcovering products.

History of The Flooring Zone

Early Development. Our subsidiary, The Flooring Zone of Georgia, Inc., was founded in June 2000 with the strategy of developing a full service floorcovering retail operation. Through our subsidiary we initiated our present strategy of providing low-cost product sourcing and advanced specialty retailing capabilities. We have focused on establishing relationships with leading carpet suppliers to negotiate favorable purchasing terms. In addition, we seek to develop product mix, distribution, merchandising, advertising, and promotion, sales training and store operations strategies and resources designed to increase store sales volume and profitability.

Like most small independent floorcovering retailers we face distinct competitive disadvantages and challenges, including limited purchasing power for products and services, lack of consumer product knowledge, and ineffective asset management, merchandising, selling and store-management techniques. We are significantly smaller than the larger floorcovering retailers who may enjoy better economies of scale. We attempt to compensate for this by providing, quality customer service and a personal touch, which can be lost when dealing with the larger floorcovering retailers.

Our operating strategies are designed to capitalize on competitive advantages available to the smaller retailer, such as providing excellent customer services and involvement in the local community, while attempting to develop and maintain advantageous buying power and implement professional retailing practices.

Business Strategy

The principal elements of our business strategy are as follows:

Full-service Retail Formats. A central aspect of our business strategy is the development of a retail format that targets a specific segment of the floorcovering market. Our floorcovering stores offer customers a full range of floorcovering products directly and floorcovering services, including ordering, measuring, delivery and installation through third parties. Our stores typically offer discount floorcovering products held in inventory at the store. We maintain relationships with several floorcovering installers who can provide installation services to our customers. We hope to target both the customer primarily concerned with product selection, quality and customer service, and the customer primarily concerned with price.

Purchasing. We strive to obtain competitive pricing, delivery terms and merchandising programs through good working relationships with floorcovering manufacturers.

Enjoyable Shopping Experience. We are committed to making shopping for floorcovering products a pleasant experience through the employment of well-trained, knowledgeable and courteous sales associates.

Multiple Product Categories. We offer a full range of floorcovering products, including broadloom carpets, area rugs, hardwood floorings, ceramic tiles and vinyl floorings, available in both private and branded labels. Multiple product categories allow us to respond to changes in consumer demand. Our focus on multiple floorcovering products results in decreased carpet sales as a percentage of total retail sales.

Growth Strategy. We do not anticipate expanding our store locations until such time as cash flow from operations and market conditions so justify.

Opening of New Stores. If and when we expand, we intend to expand within our existing markets or into contiguous new markets and will attempt to cluster our stores within a market in order to achieve management and operating efficiencies and to enhance our name recognition.

Company Operations

We provide our retail floorcovering stores with products, services and trained personnel that we believe are top quality. Our resources include purchasing and distribution, merchandising, advertising and promotion, management and sales training and management information systems, as described below.

Purchasing and Distribution. We seek to purchase high-quality products and services at competitive prices. A substantial portion of the floorcovering products purchased by or through our Company are shipped directly by the supplier to our retail store or our warehouse. Our store generally maintains minimal inventory, which predominantly consists of product samples. Our warehouse allows us to make opportunistic purchases from carpet mills at substantially discounted prices. We are also able to offer special purchases to customers, including purchases of mill drops (discontinued lines) and excess mill inventory that are occasionally made available to us at discounted prices. We also make available on an ongoing basis remnant packages and short roll packages which can be as small as 10 and as large as 1,000 remnants at a time. Our ability to purchase and inventory private-label products and specials in our warehouse creates the opportunity for increased revenues and margins and lower pricing to the customer. We have relationships with many vendors within the industry. While we have preferred vendors from whom we purchase a majority of our products, because of our numerous relationships within the industry, we do not believe that we are dependent upon any one vendor for product purchases. Nor do we believe that the loss of any single vendor would have a long-term material adverse effect on our operating results or financial position.

Product Mix and Merchandising. We offer a full range of floorcovering products from key suppliers, including Shaw, Mohawk Industries, Beaulieu of America, DuPont and AlliedSignal for proprietary carpet fiber, Armstrong World Industries and Congoleum for vinyl flooring, Bruce Hardwood Floors (a division of Triangle Pacific) for hardwood flooring and Dal-Tile for ceramic tile. Each of these suppliers is a leader in its respective floorcovering category. Our suppliers also include niche carpet, vinyl, hardwood and ceramic tile producers, as well as leading manufacturers and importers of room-size area rugs.

Our merchandising strategies address effective store layout, fixtures, signage, product mix, and cross-selling techniques designed to increase sales closing performance, average transaction size, sales per square foot of retail space, and gross margins. Store interiors provide easy-to-locate presentation of floorcovering samples, organized by product line, in an attractive and brightly lit interior. In addition, we provide conference rooms where contractors and interior designers can meet with their clients to discuss flooring options.

Advertising and Promotion. We believe advertising and promotion are important to our success. Therefore, we budget a percentage of revenues for advertising campaigns. These campaigns include radio, print and direct mail promotions. To promote our products we also offer our low price guarantee If you find a local competitor selling your new first quality carpet for less money we will double the difference. We also hold one day Private Sales events at each of our retail stores twice a year. Our Private Sales events are conducted by direct mail invitation with coordinated manufacturer s participation.

Management and Sales Training. Our training program focuses on developing professional sales and leadership skills and team building concepts. Our training methodology incorporates a turnkey training and diagnostics system that provides our retail store with competent and skilled professional personnel.

In addition, our management has ongoing training to keep our employees informed about the latest floorcovering information such as new technology, new products, merchandising, available specials and design trends.

Management Information Systems. Our store utilizes a point-of-sale software system for tracking consumer demographics and purchasing patterns and other data to integrate store operations into a central information system we spent several years developing in-house.

Credit. Through a national bank we offer consumer credit packages.

Store Operations

Retail Operations. We generate revenue through sales of floorcovering products to consumers and other customers. Our store caters primarily to consumers seeking a variety of high-quality products and customer service. Consumers make purchase selections from floor samples, and the order is usually delivered from our local warehouse or hub, or direct from the manufacturer. We have established relationships with several local contractors to subcontract installation. Our store is supported by the full range of services provided by manufacturers, including merchandising and sales promotion programs, high quality advertising, our own integrated information systems, and professionally trained management and sales personnel. Our customers include homeowners, designers, homebuilders and commercial contractors. We are not dependent on one or a few major customers. Our stores compete with other independent retailers, industry franchisees and a small number of national chains, including The Home Depot.

We believe that the Flooring Zone concept utilized in our store is visually appealing and provides an enjoyable shopping experience for our customers. Our layout is professionally designed to include eye-catching signage, bright lighting, a conferencing area and departmentalized product displays. We use floor samples to display the full range of our available products, with separate areas dedicated to carpet, area rugs, hardwood flooring, vinyl flooring and ceramic tiles.

Competition

We compete with other floorcovering retailers in our market area. Competition in the retail floorcovering market is intense due to the significant number of retailers in operation. In addition, large retailers have entered the market and provide significant competition, including Home Depot, Inc.

Trademarks, Service Marks, Trade Names and Commercial Symbols

We have registered marks with the U.S. Trademark Office including: The Flooring Zone and Save A Comma. At this time, we know of no infringing uses that could materially affect the use of our service marks, logos or slogans in any state in which stores are or are proposed to be located. We are not the owner or licensee of any patents or copyrights.

Employees

As of the date of this report we employ five persons on a full-time basis, including three persons at our retail operation and two persons at our corporate office. No employee is a party to any collective bargaining agreement. We believe we have satisfactory relations with our employees. We do not anticipate the need to hire additional personnel at this time. To date our operations have not been interrupted by strikes or work stoppages. We have managed to maintain turnover of our work force at a low level. With the ongoing labor market monitoring, we believe that future new labor requirements can be satisfied and there is no significant risk of labor shortage.

ITEM 2. DESCRIPTION OF PROPERTY

Our principal executive offices, retail store and warehouse are located in leased office space located at 3219 Glynn Avenue, Brunswick, Georgia 31520. We believe this space will be adequate for our needs through the term of our existing lease, which expires December 31, 2012. Our lease payment during 2007 is approximately $7,650 per month.

ITEM 3. LEGAL PROCEEDINGS

We are involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our financial position. However, an unfavorable outcome in these claims could result in a possible judgment against us of as much as $10,000. Together with our legal counsel, we have determined that there is a possibility of loss in these legal proceedings, but consider such losses to be possible and not probable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE

OF SECURITIES HOLDERS

No matters were submitted to a vote of our shareholders during the fiscal year ended December 31, 2006.

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES

On April 12, 2007 we were notified that the NASD had approved our common stock for trading on the Over-the-Counter Bulletin Board. We have been assigned the symbol FZON. Prior to April 12, 2007 our securities were not traded publicly. There is no assurance that a trading market will develop, or, if developed, that it will be sustained. Our shareholders may, therefore, find it difficult to resell their securities. Furthermore, our shares are not marginable and it is unlikely that a lending institution would accept our common stock as collateral for a loan.

During the quarter ended December 31, 2006 we sold no shares that were not registered under the Securities Act of 1933.

Of our 19,569,750 common shares currently outstanding, 143,450 are free-trading the balance of the shares have been held for more than one year and would be eligible for resale in compliance with the provisions of Rule 144, subject to the volume and other limitations of Rule 144.

As of March 30, 2007, we had 107 shareholders of record.

Dividends

We have not declared a cash dividend on any class of common equity in the last three fiscal years. There are no restrictions on our ability to pay cash dividends, other than state law that may be applicable; those limit the ability to pay out all earnings as dividends. Our board of

directors does not anticipate paying any dividends in the foreseeable future; it intends to retain the earnings that could be distributed, if any, for the operations.

Repurchases of Equity Securities

During the quarter ended December 31, 2006, we did not repurchase any of our equity securities.

Securities for Issuance Under Equity Compensation Plans

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in columns (a)) (c)
Equity compensation plans approved by security holders	-0-	$0.00	455,000
Equity compensation plans not approved by security holders	-0-	$0.00	-0-
Total	-0-	$0.00	455,000

On May 13, 2003 we adopted The Flooring Zone, Inc., 2003 Stock Incentive Plan (the Plan). The Plan allow us to grant options to our key employees, officers, directors, consultants, advisors and sales representatives to purchase up to 500,000 shares of its $.001 par value restricted common stock at an exercise price to be determined by the Stock Option Committee of the board at the time of grant.

On June 18, 2003 we granted options under the Plan to 26 employees to purchase an aggregate of 45,000 shares of our common stock at an exercise price of $1.25. The options vested immediately and expired on June 18, 2005. Between June 20, 2003 and September 30, 2003 all of the options were exercised.

There are currently no options, warrants or rights outstanding under the Plan.

ITEM 6. MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF

OPERATIONS AND FINANCIAL CONDITION

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

Going Concern

The *Report of Independent Registered Public Accounting Firm* contains an opinion that we will need additional working capital to service our debt and fund our planned activities, which raises substantial doubt about our ability to continue as a going concern. We have not generated sufficient revenue from operations to meet our operating expenses, have accumulated a deficit of $3,002,667 since inception and have a negative working capital of $1,219,346. This raises substantial doubt about our ability to continue as a going concern. To continue operations, we will need to obtain additional funding. This funding may be sought by means of private equity or debt financing. We currently have no commitments from any party to provide funding and there is no way to predict when, or if, any such funding could materialize. There is no assurance that we will be successful in obtaining additional funding on attractive terms or at all. If we are unsuccessful in obtaining additional funding, we may be unable to continue operations as we have insufficient working capital necessary to meet its expenses and service our debt.

Results of Operations

Our business plan when we commenced operations was to build a network of company-owned retail stores throughout the southeastern United States beginning in Georgia and Florida and spreading from the smaller markets where our existing stores were located into larger, more profitable markets. Based on that business model, we spent a great deal of time and effort developing infrastructure and personnel to support a much larger network of stores than we had at the time. We had planned to fund the first phase of our expansion into several larger markets through a public offering of our equity securities. We undertook this public offering during 2005. The public offering, which closed in September 2005, however, did not provide sufficient funds to implement our business plan. As a result, during the latter part of 2005 and throughout 2006 we have undertaken various measures to consolidate our operations and to reduce redundant staffing and unnecessary infrastructure in an effort to control costs, decrease losses and move the Company toward profitability. While these efforts have led to decreased sales volumes and revenue during fiscal 2006 we have also realized decreases in expenses and net loss, and but for the cancellation of 19,000,000 shares outstanding common stock during 2006, we would have realized a smaller net loss per share during the 2006 fiscal year than we did during fiscal 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. During 2006 we experienced a shift in our traditional customer mix. During 2006 contractors 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 within the industry. While we realize smaller margins on products sold to contractors, we believe such decreases in net revenue are being at least partially offset by decreases in other expenses, including advertising and display costs. Unlike most retail customers, contractors 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 store.

During the 2006 fiscal year average retail product prices were fairly constant, although we increased prices for supplies such as carpet pad, glue, etc., approximately 10% as compared to fiscal 2005. Despite higher retail prices for supplies, overall we realized a 24% decrease in revenue from product sales. This reduction in revenue from product sales during fiscal 2006 is the result of selling less product, partly as a result of the closing of our St. Mary s store. Also, during November 2006, we closed our store in Yulee, Florida. This also contributed to the reduction in sales volume during 2006. 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.

As a result of the closing of our Yulee store in November 2006, we anticipate that sales volume and correspondingly revenue will be lower in 2007 than in 2006. We closed the Yulee store because it was under-performing. While the closing of the Yulee store will result in lower revenue, we believe we will realize a significant decrease in expenses that will more than offset the lost revenue.

Gross Profit

Our gross profit is directly affected by our cost of sales. Cost of sales includes all direct costs of floor coverings and materials used in installation. Our cost of sales and gross profits are directly affected by changes in the percentage of products sold to retail customers versus contractors. 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 typically also realize profit from the sale of materials used in installation. Contractors typically use their own subcontractors to install the floor covering products they purchase. Some subcontractors will provide their own materials for installation rather than purchase it from us.

Cost of sales during fiscal 2006 was 23% lower than during fiscal 2005. This decrease in cost of sales corresponds to the 24% decrease in net revenues from sales. As a percentage of net revenues, cost of sales was 91% during 2006, which was virtually unchanged from 2005.

At the end of the 2006 fiscal year and to begin the 2007 fiscal year we took several steps to decrease our cost of sales as a percentage of revenue and to hopefully improve our margins. We have negotiated agreements with several new vendors to supply our hardwood and tile needs. Under these agreements will be able to purchase hardwood and tile products at lower cost that we were paying during 2006. We also increased our retail prices to our customers for most flooring products by an average of 10%. We believe these steps should lead to improved gross margins on product sales.

General and Administrative Expenses

General and administrative expenses for the year ended December 31, 2006, decreased $496,615, or 36% to $872,882 compared to the year ended December 31, 2005, and as a percentage of sales revenue decreased from 45% during the year ended December 31, 2005, to 38% during the year ended December 31, 2006. During the twelve months ended December 31, 2006 and 2005, general and administrative costs consisted of:

	Year ended	
	December 31, 2006	December 31, 2005
Salaries & benefits costs	$ 391,047	$ 576,802
Advertising & display costs	22,057	86,807
Occupancy costs & utilities	259,155	356,053
Legal & accounting costs	58,286	79,385
Other	142,337	270,450
Total	$ 872,882	$ 1,369,497

The 33% reduction in salaries and benefits costs during 2006 is the result of a reduction in our work force from the closing of our St. Mary s store, as well as reductions in our retail sales, installation and accounts payable departments. As discussed above, 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. At this time we do not anticipate additional reductions to our workforce. Nor do we anticipate an increase in our workforce until such time as revenue from operations, need and market conditions justifies expansion of our operations. We anticipate, however that salaries and benefits costs will be lower in fiscal 2007 as a result of closing our Yulee store.

During the year ended December 31, 2006, we decreased our advertising and display costs by 75% 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 with the closing of our Yulee store in November 2006, and our increased focus on product sales to contractors, that our advertising and display costs will continue to be lower in 2007.

Occupancy costs and utilities during the year ended December 31, 2006, compared to the same period of 2005, decreased 27% as a result of closing our St. Mary s store. With the closing of our Yulee store, we anticipate occupancy costs and utilities will be even lower in 2007.

Legal and accounting costs decreased 27% during the year ended December 31, 2006 compared to the year ended December 31, 2005. In connection with our public offering during 2005 we experienced higher legal costs. We expect legal and accounting expenses to increase in the 2007 fiscal year.

Other costs decreased 47% during the 2006 fiscal year as compared to the 2005 fiscal year as we continued our efforts to control expenses. We anticipate other costs will to remain fairly constant in fiscal 2007.

Net Loss from Operations

For the reasons discussed above, we realized a net loss from operations during the twelve months ended December 31, 2006 of $643,871 compared to a net loss from operations during the twelve months ended December 31, 2005 of $1,103,828. We believe that if product sales remain constant or improve and we are able to continue to reduce costs and expenses we will continue to reduce net losses from operations as we work to achieve profitability.

Interest Expense

As a result of our unsuccessful public offering, we have had to finance cash flow shortfalls through borrowing and lines of credit. This resulted in the Company carrying more debt in 2006 than in 2005. During fiscal 2006 we recognized interest expense of $187,509, which represents a 100% increase in interest expense compared to 2005.

Net Loss

Our net loss in fiscal 2006 was $831,380 compared to $1,197,754 in fiscal 2005. As discussed above, this decrease in net loss is primarily the result of decreased product sales even in the presence of a decrease in the costs of goods sold and general and administrative expenses in 2006 compared to 2005.

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 $3,002,667, and negative working capital of $1,219,346. 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. As noted above, these factors raise substantial doubt about our ability to continue as a going concern.

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

	Fiscal 2006	Fiscal 2005
Net cash used in operating activities	$ (777,847)	$ (1,227,371)
Net cash from investing activities	$ 45,020	$ (7,748)
Net cash provided by financing activities	$ 694,025	$ 1,209,309
NET INCREASE/(DECREASE) IN CASH	$ (38,802)	$ (25,810)

As discussed herein, during fiscal 2006 compared to fiscal 2005, product sales, cost of sales and general and administrative expenses decreased leading to a decrease in net loss of $366,374 to $831,380. In addition to the reduction in cash from operating activities resulting from the net loss, we also realized decreases in accounts payable and customer deposits. These decreases were partially offset by decreases in inventory and accounts receivable as we made a conscious effort to reduce amounts owed to vendors in an effort to improve our relations and hopefully the pricing we receive from the vendors we work with.

During fiscal 2006, we received $74,813 from the sale of the assets of our Yulee store. We engaged in no similar sale of assets during 2005. During 2006 we purchased additional equipment for $29,793. By comparison in 2005, we purchased $7,748 worth of equipment for our stores. As a result, investing activities provided $45,020 to the Company, by comparison in 2005, we used $7,448 in investing activities.

Net cash provided from financing activities was $694,025 during the twelve months ended December 31, 2006 compared to $1,209,309 during the twelve months ended December 31, 2005. During the 2006 fiscal year we repaid $305,725 on a line of credit with a related party and $347,861 in long-term debt. By comparison in 2005 we borrowed $1,178,725 on the line of credit from a related party and made payments on long-term debt totaling $251,516. It is important to note that during fiscal 2005 we also realized cash from financing activities of $282,100 from the public offering of our equity securities. By contrast, during fiscal 2006, we borrowed $1,347,611 in long-term debt.

At December 31, 2006 and 2005, we had cash on hand of $25,480 and $64,282, respectively.

Summary of Material Contractual Commitments

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