Flooring Zone Inc
Form 10QSB
November 14, 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	Commission File Number
September 30, 2006	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 November 9, 2006 we had 19,569,750 shares of our $0.001 par value, common stock outstanding.

THE FLOORING ZONE, INC.
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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

The Flooring Zone, Inc.
Condensed Consolidated Balance Sheet
September 30, 2006
(Unaudited)

ASSETS

Current assets:	
Cash	$ 32,137
Accounts receivable, net	142,639
Inventory	303,164
Prepaid expense	4,230
Total current assets	482,170
Property & equipment, net	224,964
Other assets:	
Intangible assets, net	5,158
Deposits	6,031
Total other assets	11,189
TOTAL ASSETS	$ 718,323

See accompanying notes to financial statements

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The Flooring Zone, Inc.
Condensed Consolidated Balance Sheet-[continued]
September 30, 2006
(Unaudited)

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities:	
Accounts payable	$ 255,008
Related party loans	1,604,925
Customer deposits	42,366
Accrued liabilities	11,415
Current portion long-term debt	102,259
Total current liabilities	2,015,973
Long-term liabilities:	
Note payable-related party	71,928
Long-term debt	474,133
Current portion long-term debt	(102,259)
Total long-term liabilities	443,802
Total liabilities	2,459,775
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; 19,569,750 shares issued and outstanding	19,570
Additional paid in capital	627,257
Accumulated deficit	(2,388,279)
Total stockholders' deficit	(1,741,452)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 718,323

See accompanying notes to financial statements

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The Flooring Zone, Inc.
Condensed Consolidated Statements of
Operations For the three month and nine month periods ended
September 30, 2006 and 2005.
(Unaudited)

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine m… Sep… 2006
Revenues:			
Sales	$ 639,151	$ 788,714	$ 2,034,7
Licensing Fees	-	-	
Net revenues	639,151	788,714	2,034,7
Less cost of sales	417,403	669,427	1,521,4
Gross profit	221,748	119,287	513,2
General and administrative expenses	208,995	310,856	587,1
Net income (loss) from operations	12,753	(191,569)	(73,9
Other income (expense):			
Interest expense	(55,755)	(18,712)	(143,0
Total other income(expense)	(55,755)	(18,712)	(143,0
Net income (loss) before taxes	(43,002)	(210,281)	(216,9
Income taxes	-	-	
Net income (loss)	$ (43,002)	$ (210,281)	$ (216,9
Income (loss) per share-basic and diluted	$ (0.01)	$ (0.01)	$ (0.
Weighted average shares outstanding- basic and diluted	19,569,750	38,560,572	31,095,4

See accompanying notes to financial statements

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The Flooring Zone, Inc.
Condensed Consolidated Statements of Cash Flows
For the nine month periods ended September 30, 2006 and 2005
(Unaudited)

	9/30/2006
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income (loss)	$ (216,992)
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Depreciation and amortization	17,871
Decrease (increase) in accounts receivable	(13,431)
Decrease (increase) in inventories	(72,557)
Decrease (increase) in prepaid expenses	-
Increase (decrease) in accounts payable	(42,466)
Increase (decrease) in accrued liabilities	(4,206)
Increase (decrease) in customer deposits	(31,694)
Net cash used in operating activities	(363,475)
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	399,200
Net borrowing(payments) on long term debt	(67,870)
Proceeds from the issuance of common stock (less costs)	-
Net cash provided by financing activities	331,330
NET INCREASE IN CASH	32,145
CASH AT BEGINNING OF PERIOD	64,282
CASH AT END OF PERIOD	$ 32,137
SUPPLEMENTAL DISCLOSURES	
Cash paid for interest	$ 143,103
Cash paid for income taxes	-

See accompanying notes to financial statements

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The Flooring Zone, Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2006

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 September 30, 2006. 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 and nine months ended September 30, 2006 and 2005 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 and nine months ended June 30, 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 nine months of fiscal year 2006 and no previous stock option grants which vested during the first nine 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 nine months ended September 30, 2005 would have been adjusted to the following pro forma amounts:

	9/30/2005
Net income, as reported	$ (200,113)
Compensation cost under fair value-based accounting method, net of tax	-
Net income, pro forma	$ (200,113)
Net income per share-basic and diluted:	
As reported	$ (0.01)
Pro forma	$ (0.01)

The Flooring Zone, Inc.
Notes to Condensed Consolidated Financial Statements
September 30, 2006
(Unaudited)

Note 2 INVENTORY

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

	9/30/06
Flooring material	303,164
Total	$ 303,164

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 $2,388,279, and a negative working capital of $1,533,803. 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.

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 and nine months ended September 30, 2006 and 2005. This discussion should be read in conjunction with the financial statements and financial statement footnotes included in this registration statement.

Forward-Looking Statements

Certain statements of our expectations contained herein, including, but not limited to statements regarding sales growth, 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, consumer confidence, our ability to negotiate favorable terms with suppliers, unanticipated weather conditions and the impact of competition. 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.

Results of Operations

Comparison of the three months ended September 30, 2006 and 2005.

During the three months ended September 30, 2006, we realized a net loss of $43,002, or $0.01 per share compared to a net loss of $210,281, or $0.01 per share during the three months ended September 30, 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. In the current fiscal year we have experienced a shift in our traditional customer mix. To date this 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 within the industry. While we realize smaller margins on products sold to contractors, we believe such decreases in net revenue are being 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 stores.

During the three months ended September 30, 2006 average retail product prices were fairly constant, although prices for supplies such as carpet pad, glue, etc., are approximately 10% higher as compared to the same quarter of 2005. Despite higher retail prices for supplies, overall we realized a 19% decrease in revenue from product sales. This decrease in revenue from product sales in the three months ended September 30, 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. It is also affected by fluctuations in the prices we pay for the floor covering products we sell. 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. Contractors, on the other hand, 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 third fiscal quarter of 2006, was $221,748, an 86% increase compared to the third fiscal quarter of 2005. As discussed above, during the three months ended September 30, 2006 we realized a 19% decrease in revenues compared to the three months ended September 30, 2007. During the same time frame, we reduced costs of sales nearly 38%. The decrease in revenue we realized in the current fiscal year was more than offset by the reduction in cost of sales. Cost of sales as a percentage of net revenues decreased from 85% during the third quarter 2005 to 65% during the third quarter 2006. This decrease in cost of sales is attributable to several factors. During the current fiscal year, we have made a conscious effort to hire better subcontractors who install with fewer problems and more efficiently. We have sought to improve our relationships with vendors and to reduce our accounts payable to obtain better pricing for inventory. We have limited the discounts given to customers. Finally, we have realized some reduction in cost of sales resulting from decreasing fuel prices

General and Administrative Expenses

General and administrative expenses for the three months ended September 30, 2006, decreased $101,861, or 33% to $208,995 compared to the three months ended September 30, 2005. As a percentage of sales revenue general and administrative expenses decreased to 33% during the quarter ended September 30, 2006, compared to 39% during the quarter ended September, 30, 2005. During the three months ended September 30, 2006 and 2005, general and administrative costs consisted of:

	Three Months Ended	
	September 30, 2006	September 30, 2005
Salaries & benefits costs	$ 88,858	$ 133,803
Advertising & display costs	2,319	24,211
Occupancy costs & utilities	78,294	84,018
Legal & accounting costs	5,000	5,697
Other	34,524	63,127
	$ 208,995	$ 310,856

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The 34% reduction in salaries and benefits costs in the three months ended September 30, 2006 compared to the same three month period 2005 is primarily 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 salaries and benefits throughout the balance of 2006.

During the quarter ended September 30, 2006, advertising and display costs decreased by 90% 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 second quarter 2006 compared to the same quarter 2005, decreased 7% as a result of the closing of the St. Mary's store. We had an increase in waste services because in previous periods we shared these costs with a neighbor. This arrangement no longer exists. We expect these costs to remain constant in the upcoming quarters.

Legal and accounting costs remained relatively constant during the three months ended September 30, 2006 and the three months ended September 30, 2005. We anticipate legal and accounting costs to continue at levels consistent with or higher than the third quarter 2006 as we begin to incur legal and accounting costs in connection with our ongoing public reporting obligations.

Other costs decreased 45% during the quarter ended September 30, 2006 as compared to the quarter ending September 30, 2005 as we continued our efforts to control expenses. We anticipate other costs will to remain fairly constant in upcoming quarters.

Net Income from Operations

For the reasons discussed above, we realize net income from operations during the three months ended September 30, 2006 of $12,753 compared to a net loss from operations during the three months ended September 30, 2005 of $191,569. 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 realize net income from operations.

Interest Expense

As a result of carrying additional debt due to prior year losses and in an effort to improve its relationships with its vendors and to take advantage of vendor discounts, the Company carried more debt during the quarter ended September 30, 2006 than during the quarter ended September 30, 2005. During the third fiscal quarter 2006, the Company recognized interest expense of $55,755, which represents a 198% increase in interest expense compared to the third fiscal quarter 2005.

For the nine months ended September 30, 2006 and 2005

We incurred a net loss of $216,992, or $0.01 per share through the nine months ended September 30, 2006, compared to a net loss of $200,113, or $0.01 per share during the nine months ended September 30, 2005.

Revenues

During the first nine months of fiscal 2006 average retail product prices were fairly constant, although we increased prices for supplies such as carpet pad, glue, etc., approximately 10% higher as compared to the same period of 2005. Despite higher retail prices for supplies, overall we have realized a 21% decrease in revenue from product sales. This decrease in revenue from product sales in the first three quarters 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

Gross profit during the first nine months of 2006 was $513,231, 37% lower than the $814,639 gross profits realized during the first nine months of 2005. During the first nine months of 2006, we realized a 21% decrease in net revenue. We also realized a 14% decrease in cost of sales during the first nine months of 2006 compared to the first nine months of 2005. Through the first nine months of fiscal 2006, cost of sales as a percentage of net revenues increased to 75%. By comparison, during the nine months ended September 30, 2005, cost of sales as a percentage of net revenue was 68%. While we have made efforts to control costs in hopes of offsetting some of the reduction in net revenue during the nine months ended September 30, 2006, decreases in cost of sales were insufficient to offset the decrease in net revenue. As discussed above, we have made a conscious effort to hire better subcontractors who install product with fewer problems and more efficiently. We have sought to improve our relationships with vendors and to reduce our accounts payable to obtain better pricing for inventory. We have limited the discounts given to customers, and we have realized some reduction in cost of sales resulting from decreasing fuel prices. We will continue this course of action as we seek to realize a gross profit in future periods.

General and Administrative Expenses

General and administrative expenses for the nine months ended September 30, 2006, decreased $364,985, or 38% to $587,175 compared to the nine months ended September 30, 2005, and as a percentage of sales revenue it decreased from 37% during the nine months ended September 30, 2005 to 29% for the nine months ended September 30, 2005. During the nine months ended September 30, 2006 and 2005, general and administrative costs consisted of:

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	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Salaries & benefits costs	$ 235,349	$ 383,949
Advertising & display costs	18,325	73,647
Occupancy costs & utilities	212,263	235,010
Legal & accounting costs	29,505	41,505
Other	91,733	218,049

	$ 587,175	$ 952,160

The 39% reduction in salaries and benefits costs in the nine months ended September 30, 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 salaries and benefits throughout the balance of 2006.

During the nine months ended September 30, 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 and a reduction in advertising as our traditional customer mix continues to shift to focus more attention on product sales to contractors rather than retail buyers.

Occupancy costs and utilities during the nine months ended September 30, 2006 compared to the same period of 2005, decreased by 10%. This decrease was the result of a decrease in occupancy and utility costs as a result of the closing of the St. Mary's store, which decreases were partially offset by increased waste services costs because in previous periods we shared these costs with a neighbor. We expect occupancy and utilities costs to remain relatively constant in the upcoming quarters.

Legal and accounting costs decreased 29% to $29,505 during the nine month period ended September 30, 2006 compared to the nine month period ended September 30, 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 58% to $91,733 during the nine month period ended September 30, 2006 compared to the nine month period ended September 30, 2005 as we continued our efforts to control expenses. We anticipate other costs will to remain fairly consistent with those experienced in the current fiscal year in upcoming quarters.

Net Loss from Operations

For the reasons disclosed above, during the nine months ended September 30, 2006 we realized a net loss from operations of $73,944 compared to a net loss of $137,521 during the first nine months of 2005. While we expect net losses to decrease in upcoming quarters, we do expect to continue to realize net losses through the balance of the current fiscal year.

Interest Expense

As a result of the Company carrying more debt during the nine months ended September 30, 2006, the Company recognized interest expense of $143,048, which represents a 129% increase in interest expense compared to the nine months ended Septembers 30, 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 $2,388,279, and negative working capital of $1,533,803. These factors raise substantial doubt about our ability to continue as a going concern.

During the current fiscal quarter we realized net income from operations before interest payments. As noted above, we have also been making changes in operations to reduce expenses and improve our margins. We have been working to obtain additional debt financing to help cover shortfalls in revenue. We may also seek additional equity financing through the sale of our shares as we deem appropriate, 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 nine months of 2006 and 2005 cash was primarily used to fund operations. See below for additional discussion and analysis of cash flow.

	Nine Months Ended	
	September 30, 2006	September 30, 2005
Net cash used in operating activities	($363,475)	($343,448)
Net cash used in investing activities	-	($7,748)
Net cash provided by financing activities	$331,330	$284,131
NET INCREASE (DECREASE) IN CASH	$ 32,137	$ 23,027

As discussed herein, during the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005 product sales decreased leading to a reduction in net income of $16,879, from a net loss of $200,113. In addition to the reduction in cash from operating activities resulting from the net loss of $216,992, we also realized decreases in accounts payable, accrued liabilities and customer deposits and an in increase in accounts receivable. These factors resulted in an increase in net cash used in operating activities of $20,027 during the nine months ended September 30, 2006 as compared to the nine months ended September 30, 2005.

We used $0 net cash in investing activities during the nine months ended September 30, 3006. By comparison, we spent $7,748 to acquire equipment during the first nine months of 2005.

Net cash provided from financing activities was $331,330 during the nine months ended September 30, 2006 compared to $284,131 during the nine months ended September 30, 2005, a 17% increase. During the current year we have borrowed $399,200 from a related party, through the first nine months of fiscal 2005, we had borrowed $210,361. During the nine months ended September 30, 2006 we repaid $67,870 in long term debt compared to $127,823 during the first nine months of 2005. During the first nine months of 2005 $201,593 of the cash provided from financing activities came from the sale of our equity securities. By contrast, during the nine months ended September 30, 2006, cash flow from financing activities was the result of borrowing on a line of credit extended by a related party.

At September 30, 2006 and 2005, we had cash on hand of $32,137 and $23,027, respectively.

Summary of Material Contractual Commitments

The following table lists our significant commitments as of September 30, 2006.

		Payments Due by Fiscal Year			
Contractual Commitments	Total	2006	2007	2008	2009
Related Party Loans	1,604,925	1,604,925	--	--	--
Note Payable-Related Party	71,928	20,555	51,373	--	--
Notes Payable	474,133	22,593	47,344	50,575	353,621
Capital Leases	11,156	2,377	8,819	--	--
Operating Leases	657,160	42,444	149,338	152,170	155,098
TOTAL	$2,819,302	$1,692,854	$256,874	$202,745	$508,719

Off-Balance Sheet Financing Arrangements

As of September 30, 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.

Item 3. Controls and Procedures

Evaluation of Disclosure 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 our 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. Based on this evaluation, our Certifying Officers have concluded that our disclosure controls and procedures are effective as of September 30, 2006.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting during the quarter ended September 30, 2006 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

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.

November 13, 2006 /s/ Michael Carroll

Michael Carroll, Chief Executive Officer

November 13, 2006 /s/ Michael Carroll

Michael Carroll, Chief Financial Officer