FII INTERNATIONAL INC
Form 10QSB
August 11, 2006

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2006

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________________to_________________

Commission file number 000-50662

FII INTERNATIONAL INC.
(Exact name of small business issuer as specified in its charter)

Incorporated in the State of Nevada	98-0377768
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Id. No.)

1100 Melville Street, 6th Floor, Vancouver, British Columbia, V6E 4A6, Canada
(Address of principal executive offices)

604-696-1060
(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

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

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Outstanding at August 10, 2006
Common Stock - $0.001 par value	9,000,000

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

FII INTERNATIONAL INC.
(a development stage company)

BALANCE SHEETS

	June 30, 2006	Decemb
		(A
ASSETS		
CURRENT ASSETS		
Cash	$ 456	$
Inventory	1,370	
	$ 1,826	$
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 3,129	$
Due to related party (Note 5)	12,382	
	15,511	
COMMITMENTS AND CONTINGENCIES (Notes 1 and 3)		
STOCKHOLDERS' DEFICIT)		
Capital stock (Note 4)		
Common stock, $0.001 par value, 200,000,000 shares authorized 9,000,000 common shares issued and outstanding (2005 - 9,000,000)	9,000	
Additional paid in capital	20,589	
Deficit accumulated during the development stage	(43,274)	
	(13,685)	
	$ 1,826	$

The accompanying notes are an integral part of
these interim financial statements

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FII INTERNATIONAL INC.
(a development stage company)

INTERIM STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ende[d] Jun[e 30,] 20[05]
GENERAL AND ADMINISTRATIVE EXPENSES				
Office and general	$ 69	$ 434	$ 69	$
Professional fees	1,480	1,173	3,368	
Regulatory and filing fees	180	225	280	
Travel and trade shows	2,463	--	2,463	
Website development costs	--	--	--	
NET LOSS	$ (4,192)	$ (1,832)	$ (6,180)	$
BASIC AND DILUTED NET LOSS PER SHARE	$ (0.00)	$ (0.00)	$ (0.00)	$
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	9,000,000	7,755,556	9,000,000	7,3

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FII INTERNATIONAL INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE PERIOD FROM MAY 3, 2002 (INCEPTION) TO JUNE 30, 2006

	Common Shares Number	Common Shares Amount	Additional Paid in Capital	A[...] D[...]
Balance, May 3, 2002	--	$ --	$ --	
Issued for option agreement - June 10, 2002	2,000,000	2,000	--	
Issued for cash at $0.005 per share - June 18, 2002	5,000,000	5,000	20,000	
Net loss	--	--	--	
Balance, December 31, 2002	7,000,000	7,000	20,000	
Net loss	--	--	--	
Balance, December 31, 2003	7,000,000	7,000	20,000	
Net loss	--	--	--	

Balance, December 31, 2004	7,000,000	7,000	20,000
Issued on settlement of debt and asset acquisition - May 27, 2005 (Notes 3 and 4)	2,000,000	2,000	589
Net loss	--	--	--
Balance, December 31, 2005 (Audited)	9,000,000	9,000	20,589
Net loss	--	--	--
Balance, June 30, 2006 (Unaudited)	9,000,000	$9,000	$20,589

The accompanying notes are an integral part of
these interim financial statements

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FII INTERNATIONAL INC.
(A DEVELOPMENT STAGE COMPANY)
INTERIM STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30, 2006	2005	Cumulat May 3 (incep Jun 20
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (6,180)	$ (4,852)	$(41
Adjustments to reconcile net loss to net cash used in operating activities:			
Accrued interest	--	89	
Changes in prepaid expenses	--	150	
Changes in accounts payable	(2,333)	(38)	3
Changes in inventory	(1,370)	--	(1
NET CASH FLOWS USED IN OPERATING ACTIVITIES	(9,883)	(4,651)	(39
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds on sale of common stock	--	--	25
Related party advances	9,707	5,175	14
NET CASH FLOWS FROM FINANCING ACTIVITIES	9,707	5,175	39
INCREASE (DECREASE) IN CASH	(176)	524	
CASH, BEGINNING OF THE PERIOD	632	1,842	
CASH, END OF THE PERIOD	$ 456	$ 2,366	$

Supplemental disclosures:

Cash paid for:

Interest	$ --	$ --	$
Taxes	$ --	$ --	$

OTHER NON-CASH FINANCING AND INVESTING ACTIVITIES: Refer to Notes 3 and 4.

The accompanying notes are an integral part of
these interim financial statements

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FII INTERNATIONAL INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO INTERIM FINANCIAL STATEMENTS
(UNAUDITED)

JUNE 30, 2006

NOTE 1 - NATURE OF OPERATIONS AND BASIS OF PRESENTATION

ORGANIZATION
FII International Inc. (the "Company") was incorporated under the laws of the State of Nevada on May 3, 2002. The Company, by agreement dated June 10, 2002 acquired the option to purchase and develop the domain name "fashion-international.com" in exchange for 2,000,000 restricted common shares of capital stock of the Company and $250,000 payable on or before June 9, 2004 (refer to Notes 3 and 4). The Company, through "fashion-international.com", intends to develop a fashion portal that will enable the Company to provide fashion related products and services to the global fashion industry.

GOING CONCERN
These financial statements have been prepared on a going concern basis, which implies that the Company will continue to realize its assets and discharge its liabilities in the normal course of business. The Company has been in the initial organization stage since inception and to date has not generated any operating revenues. The Company's ability to continue as a going concern is dependent on raising additional capital to fund future operations or generating net profits from its planned business operations and ultimately to attain profitable operations. The Company has accumulated losses of $43,274 since inception. The Company does not expect to satisfy its cash requirements for business operations for the next 12 months with its current cash in the bank. The Company must raise additional equity or debt funding in order to continue its business operations for the next 12 months. There is no certainty that additional funding will be available when needed. Accordingly, these factors raise substantial doubt as to the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

UNAUDITED INTERIM FINANCIAL STATEMENTS
The accompanying unaudited interim financial statements have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information and with the instructions to Form 10-QSB of

Regulation S-B. They do not include all information and footnotes required by generally accepted accounting principles in the United States for complete financial statements. However, except as disclosed herein, there have been no material changes in the information disclosed in the notes to the financial statements for the period ended December 31, 2005 included in the Company's Form 10-KSB with the Securities and Exchange Commission. The interim unaudited financial statements should be read in conjunction with those financial statements included in the Form 10-KSB. In the opinion of Management, all adjustments considered necessary for a fair presentation, consisting solely of normal recurring adjustments, have been made. Operating results for the six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION
These financial statements are presented in United States dollars and have been prepared in accordance with United States generally accepted accounting principles.

DEVELOPMENT STAGE ENTERPRISE
The Company is a development stage enterprise, as defined in Financial Accounting Standards Board Statement ("SFAS") No. 7 "Accounting and Reporting by Development Stage Enterprises". The Company is devoting all of its present efforts to securing and establishing a new business. Its planned principal operations have not commenced and accordingly, no revenue has been derived during the organizational period.

USE OF ESTIMATES AND ASSUMPTIONS
Preparation of the Company's financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

INVENTORY
Inventory consists of items for resale and is carried at the lower of cost or net realizable value.

GOODWILL AND INTANGIBLE ASSETS
The Company has adopted the provisions of SFAS No. 142, "Goodwill and Intangible Assets". Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized and will be tested for impairment annually or whenever events or circumstances indicate that the estimated fair value is less than the related carrying value as determined on a reporting unit basis. When impairment is indicated, the carrying value of the asset will be reduced accordingly.

FINANCIAL INSTRUMENTS
In accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," the Company has determined the estimated fair value of financial instruments using available market information and appropriate valuation methodologies. The carrying values of cash, accounts payable and accrued liabilities, and amounts due to related party approximate fair values due to the short-term maturity of these instruments.

WEBSITE DEVELOPMENT COSTS
The Company accounts for website development costs in accordance with Emerging

Issues Task Force (EITF) 00-02 whereby preliminary website development costs are expensed as incurred. Upon achieving technical and financial viability and ensuring adequate resources to complete development, the Company capitalizes all direct costs relating to the website development. Ongoing costs for maintenance and enhancement are expensed as incurred. Capitalized costs will be amortized over the estimated useful life commencing upon substantial completion and commercialization of the website. To date the Company has not capitalized any web site development costs.

LOSS PER COMMON SHARE
The Company computes loss per share in accordance with SFAS No. 128, "Earnings per Share" which requires presentation of both basic and diluted earnings per share on the face of the statement of operations. Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of outstanding common shares during the period. Diluted loss per share gives effect to all dilutive potential common shares outstanding during the period including stock options and warrants, using the treasury method, and preferred stock, using the if-converted method. Dilutive loss per share excludes all potential common shares if their effect is anti-dilutive.

INCOME TAXES
The Company has adopted SFAS No. 109 "Accounting for Income Taxes" as of its inception. Pursuant to SFAS No. 109, the Company is required to compute tax asset benefits for net operating losses carried forward. Potential benefit of net operating losses have not been recognized in these financial statements because the Company cannot be assured it is more likely than not it will utilize the net operating losses carried forward in future years.

STOCK-BASED COMPENSATION
The Company has not adopted a stock option plan and has not granted any stock options. Accordingly no stock-based compensation has been recorded to date.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

RECENT ACCOUNTING PRONOUNCEMENTS

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments-an amendment of FASB Statements No. 133 and 140", to simplify and make more consistent the accounting for certain financial instruments. SFAS No. 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", to permit fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation, provided that the whole instrument is accounted for on a fair value basis. SFAS No. 155 amends SFAS No. 140, "Accounting for the Impairment or Disposal of Long-Lived Assets", to allow a qualifying special-purpose entity to hold a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS No. 155 applies to all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006, with earlier application allowed. This standard is not expected to have a significant effect on the Company's future reported financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". This statement requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable, and permits for subsequent measurement using either fair value measurement with changes in fair value reflected in earnings or the amortization and impairment requirements of

Statement No. 140. The subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value eliminates the necessity for entities that manage the risks inherent in servicing assets and servicing liabilities with derivatives to qualify for hedge accounting treatment and eliminates the characterization of declines in fair value as impairments or direct write-downs. SFAS No. 156 is effective for an entity's first fiscal year beginning after September 15, 2006. This standard is not expected to have a significant effect on the Company's future reported financial position or results of operations.

NOTE 3 - OPTION AGREEMENT

By agreement dated June 10, 2002 between the Company and Patrizia Leone-Mitchell (the "optionee"), the Company acquired the option to purchase and develop the domain name "fashion-international.com" and other related proprietary information ("Fashion-International"), in exchange for 2,000,000 restricted common shares of capital stock of the Company and an additional payment of $250,000 payable in cash on or before the end of the option term. The term of the option is for two years ended June 9, 2004. The term may be extended at the Company's option for a further year through the issuance of an additional 500,000 restricted common shares of capital stock of the Company. The Company has the right to use and improve Fashion-International, however the assets remain under control of the optionee until all option payments have been made. Effective June 7, 2004 the Company and the Optionee agreed to amend the original option term to June 9, 2005 with the further year extension through the issuance of 500,000 restricted common shares of capital stock being unchanged. The optionee is the sole director of the Company.

For accounting purposes the Company has recorded the cost of acquiring the option to purchase and develop "fashion-international.com" and other related proprietary information at a $nil value as the related vendor's cost is not determinable.

Effective May 27, 2005, the Company and the optionee entered into and Asset Purchase Agreement whereby the Company issued 2,000,000 shares of restricted common stock in exchange for the domain name "fashion-international.com" and other related proprietary information as per the original option agreement, and the settlement of the loan payable and accrued interest totalling $2,589 as described in Note 5.

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NOTE 4 - CAPITAL STOCK

The Company's authorized capitalization is 200,000,000 common shares with a par value of $0.001 per share.

Since inception, the Company has not granted any stock options or warrants and has not recorded any stock-based compensation.

During the year ended December 31, 2005, in connection with the Asset Purchase Agreement described in Note 3, the Company issued 2,000,000 shares of restricted common stock for the acquisition of certain assets and the settlement of loans payable and accrued interest totalling $2,589. The shares were recorded at the carrying value of the debt settled as the acquired assets were recorded at a $nil value as the related party vendor's cost was not determinable.

NOTE 5 - RELATED PARTY TRANSACTIONS

Effective January 21, 2005, the sole director of the Company loaned $2,500 to the Company. The loan was payable on demand and was secured by a promissory note bearing interest at an annual rate of 8% compounding monthly. The Company had the option, at any time, to convert the balance of the outstanding principal and accrued interest into restricted shares of the Company's common stock at a price of $0.10 per share. During the year ended December 31, 2005, the loan and accrued interest totalling $2,589 was settled as described in Notes 3 and 4.

During the six month period ended June 30, 2006, an officer of the Company incurred expenses on behalf of the Company totalling $9,707 (June 30, 2005 - $2,675). At June 30, 2006 an amount of $12,382 (December 31, 2005 - $2,675) was owing to this officer. Amounts owing are unsecured, non-interest bearing and without specific terms of repayment.

NOTE 6 - INCOME TAXES

There were no temporary differences between the Company's tax and financial bases that result in deferred tax assets or liabilities, except for the Company's net operating loss carry-forwards amounting to approximately $41,000 at June 30, 2006, which may be available to reduce future year's taxable income. These carry-forwards will expire, if not utilized, commencing in 2022. Management believes the realization of the benefits from this deferred tax assets appears uncertain due to the Company's limited operating history and continuing losses. Accordingly a full, deferred tax asset valuation allowance has been provided and no deferred tax asset benefit has been recorded.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION.

THE FOLLOWING PRESENTATION OF MANAGEMENT'S DISCUSSION AND ANALYSIS OF FII INTERNATIONAL INC. SHOULD BE READ IN CONJUNCTION WITH THE FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION INCLUDED HEREIN.

FII is a start-up, development stage company and has not yet generated or realized any revenues from its business operations. FII raised $25,000 from our Reg S non-public offering in June 2002. Those funds have been used to pay for our organizational costs and the costs of its registration statement and its ongoing operating costs.

On January 21, 2005, FII borrowed $2,500 from its president, Patrizia Leone-Mitchell. These funds were used for working capital and for accounting and filing fees.

During the six month period ended June 30, 2006, an officer of the Company incurred expenses on behalf of the Company totaling $9,707 (June 30, 2005 - $2,675). At June 30, 2006 an amount of $12,383 (December 31, 2005 - $2,675) was owing to this officer. Amounts owing are unsecured, non-interest bearing and without specific terms of repayment.

From inception to June 30, 2006, FII had a loss of $43,274. This represented an increase of $6,180 in losses since December 31, 2005, which were a result of (a) an increase of $3,368 in professional fees, (b) an increase of $280 for regulatory and filing fees, (c) an increase of $2,463 in travel and trade shows, and (d) an increase of $69 in general office expenses and

Operating expenses increased by $2,360 from $1,832 for the three-month period ended June 30, 2005 to $4,192 for the three-month period ended June 30, 2006. The increase in operating expenses was primarily due to (a) an increase of $307 for professional fees, (b) an increase of $2,463 in travel and trade shows, (c) a decrease of $45 for regulatory and filing fees, and (d) a decrease of $365 in office and general expenses.

LIMITED OPERATING HISTORY; NEED FOR ADDITIONAL CAPITAL

There is no historical financial information about FII upon which to base an evaluation of its performance. FII is a development stage company and has not generated any revenues from operations. FII cannot guarantee it will be successful in its business operations. FII's business is subject to risks inherent in the establishment of a new business enterprise, including limited capital resources, possible delays in the development of its services, and possible cost overruns due to price and cost increases in services. FII will continue to allocate the expenditures of its resources in very timely and measured manner. FII will not continue with expenditures if management thinks FII will be unable to complete the designated task. FII will require further equity financing to provide for some of the capital required to implement future development of the website and operations.

FII has no assurance that future financing will be available to it on acceptable terms. If financing is not available on satisfactory terms, FII may be unable to continue, develop or expand its operations. However, if equity financing is available to FII on acceptable terms, it could result in additional dilution to existing shareholders.

RESULTS OF OPERATIONS

FROM INCEPTION ON MAY 3, 2002

On May 27, 2005, FII entered into an asset purchase agreement with Patrizia Leone-Mitchell, the sole director and the president of FII. Pursuant to the terms and conditions of the asset purchase agreement FII acquired all of Ms. Leone-Mitchell's right, title and interest in all of the assets related to FII's business, including the domain name www.fashion-international.com. Also, Ms. Leone-Mitchell agreed to forgive the loan payable and accrued interest totaling $2,589 owed to her by FII as a result of the loan Ms. Leone-Mitchell made to FII on January 21, 2005. As consideration for the assets and the forgiveness of the debt, FII issued Ms. Leone-Mitchell two million restricted shares of FII's common stock.

Also, on May 27, 2005, FII and Ms. Leone-Mitchell agreed to cancel the option agreement dated June 10, 2002 and the amending agreement dated June 7, 2004 pursuant to the terms and conditions of the asset purchase agreement. Pursuant to the terms of the option agreement, FII had the option to acquire the same assets from Ms. Leone Mitchell at a cost of two million restricted Common

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Capital Shares at a price of $0.005 per share and a lump sum payment of $250,000. The term of the option agreement was extended for an additional 12 months in accordance with the terms and conditions of the amending agreement.

FII acquired all of Patrizia Leone-Mitchell's right, title and interest in all of the assets related to FII's business and previously optioned under the option agreement, including the domain name www.fashion-international.com, pursuant to the terms and conditions of the asset purchase agreement. FII determined the purchase price of the assets to be the carrying value of the debt settled as the acquired assets were recorded at $NIL value as the related party vendor's cost was not determinable. See Exhibit 10.1 - Option Agreement and Exhibit 10.4 - Asset Purchase Agreement for more details.

As of June 30, 2006, FII had an accumulated deficit of $43,274.

Since inception, the proceeds raised in FII's June 2002 non-public offering have paid for the costs of its organization and registration with the SEC and operating costs; the $2,500 loan from FII's president as well as the $12,382 advanced by an officer of FII have paid for ongoing operating expenses. Those costs include legal fees for incorporation and organization; fees paid to its auditors; regulatory and filing fees; and website development costs. The costs of organization from inception to June 30, 2006 were $41,274. The costs are based upon FII's out-of-pocket cost, i.e. the amount of money it has to pay for the services.

LIQUIDITY AND CAPITAL RESOURCES

As of the date of this quarterly report, FII has yet to generate any revenues from its business operations.

FII issued 2,000,000 shares of common stock at a deemed price of $0.001 per share through a Section 4(2) offering in June 2002. This was accounted for as a consideration paid for the right, title and interest FII acquired in the assets pursuant to the option agreement.

Also, FII issued another 5,000,000 Common Capital Shares through a Reg S offering in June 2002 at the offering price of $0.005 per share.

As of December 31, 2005, FII's total assets were $632 and its total liabilities were $8,137. As of June 30, 2006, FII's total assets were $1,826 and its total liabilities were $15,511. The increase in the assets was a direct result of an increase of $1,370 in inventory. The increase in total liabilities is a result of a decrease of $2,333 in accounts payable and accrued liabilities and an increase of $9,707 in amounts due to a related party.

PLAN OF OPERATION FOR THE NEXT TWELVE MONTHS

FII has not generated any revenues from its business operations since inception.

FII will not be able to satisfy its working capital requirements for the next twelve months. Accordingly, it will need to raise additional working capital to continue its operations. FII anticipates funding its working capital needs for the next twelve months through the equity capital markets and private financings; however, no assurance can be given that FII will be able to raise sufficient cash to meet these cash requirements.

Management plans to improve FII's cash flows and operating results by raising additional capital through private placements of stock and private loans. FII cannot ensure, however, that these plans will be successful. Management may decide that FII can no longer pursue its original business plan and may be required to look at other possible business opportunities. There is no guarantee that there will be any other possible business opportunities available to FII, nor any guarantee of what type of industry that the business opportunity might be involved in, nor the financial resources required by a possible business opportunity.

FII is not currently conducting any research and development activities other than the development of its website. It does not anticipate conducting such activities in the near future.

While financial resources are available, FII will continue to develop a collection of fashion goods that consumers and retailers can purchase through the FII website in "The Collection" section. Currently, there are several

manufacturers in the USA that focus on providing fashion collections that are readily available. FII added further merchandise to "The Collection" in provide a broader selection of goods for sale. FII anticipates that as "The Collection" section expands and potential sales of merchandise will generate increased revenue opportunities for FII. In addition, management anticipates that "The Collection" section at the www.fashion-international.com website will increase the number of users to the fashion portal which will assist in the possibility of increasing revenue opportunities from the existing products and service available at the website.

However, until FII is able to generate any revenue it will be required to raise additional working capital. At any point, if FII finds that it does not have adequate working capital to complete an identified task, FII may have to suspend its operations and attempt to raise more working capital so it can proceed There is no guarantee that additional working capital will be available to the company.

INTERNAL AND EXTERNAL SOURCES OF LIQUIDITY

FII has funded its operations principally from its June 2002 non-public offering and from the January 21, 2005, $2,500 loan from Patrizia Leone-Mitchell. See Exhibit 10.3 - Loan Agreement and Promissory Note for more details. Also, during the three month period ended June 30, 2006, an officer of FII incurred expenses on behalf of FII totaling $8,382 (June 30, 2005 - $2,675). At June 30, 2006 an amount of $12,382 (June 30, 2005 - $2,675) was owing to this officer. Amounts owing are unsecured, non-interest bearing and without specific terms of repayment.

INFLATION

FII does not believe that inflation will have a material impact on its future operations.

UNCERTAINTIES RELATING TO FORWARD-LOOKING STATEMENTS

This Form 10-QSB Quarterly Report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be identified by their use of words like "plans", "expect", "aim", "believe", "projects", "anticipate", "intend", "estimate", "will", "should", "could" and other expressions that indicate future events and trends. All statements that address expectations or projections about the future, including statements about FII's strategy for growth, product development, market position, expenditures and financial results are forward-looking statements.

Forward-looking statements in this Form 10-QSB include statements regarding (1) expectation that revenue will increase during fiscal 2006; (2) expectation participant base increasing; (3) expectation of future operating expenses increasing; (4) expectation that the expansion of participant base will cause wages, marketing and promotional costs to increase; (5) expectation that working capital needs for fiscal 2006 will be funded through the equity capital markets and private financings; (6) expectation that an increase in participants will lead to hiring of additional employees or independent contractors; (7) expectation of future developments of content, features, and services to be provided on the website; (8) uncertainty of utilizing deferred tax assets; and (9) expectation that inflation will not have a material impact on future operations. All forward-looking statements are made as of the date of filing of this Form 10-QSB and FII disclaims any duty to update such statements.

Certain parts of this Form 10-QSB may contain "forward-looking statements" within the meaning of the Securities Exchange Act of 1934 based on current managements expectations. Actual results could differ materially from those in the forward looking statements due to a number of uncertainties including, but not limited to, those discussed in this section. Factors that could cause future results to differ from these expectations include general economic conditions, particularly related to demand the features and services offered on FII's website; changes in business direction or strategy; competitive factors (including competitors introducing superior services); pricing pressure (including competitors offering similar services at lower prices); inability to attract, develop or retain technical, consulting, managerial, agents, or independent contractors; and changes in participant's tastes. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives requires the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and accordingly, no opinion is expressed on the achievability of those forward-looking statements. No assurance can be given that any of the assumptions relating to the forward-looking statements specified in the following information are accurate, and FII assumes no obligation to update any such forward-looking statements.

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ITEM 3. CONTROLS AND PROCEDURES.

DISCLOSURE CONTROLS AND PROCEDURES

Patrizia Leone-Mitchell, FII's Chief Executive Officer, and Sean Mitchell, FII's Chief Financial Officer have evaluated the effectiveness of FII's disclosure controls and procedures (as such term is defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this quarterly report (the "Evaluation Date"). Based on such evaluation, they have concluded that, as of the Evaluation Date, FII's disclosure controls and procedures are effective in alerting FII on a timely basis to material information required to be included in its reports filed or submitted under the Exchange Act.

CHANGES IN INTERNAL CONTROLS

During the quarter of the fiscal year covered by this report, there were no changes in FII's internal controls or, to the FII's knowledge, in other factors that have materially affected, or are reasonably likely to materially affect, these controls and procedures subsequent to the date FII carried out this evaluation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

FII is not a party to any pending legal proceeding and to the best of FII's knowledge, none of FII's assets is the subject of any pending legal proceedings.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

During the quarter of the fiscal year covered by this report, (i) FII did not modify the instruments defining the rights of its shareholders, (ii) no rights of any shareholders were limited or qualified by any other class of securities, and (iii) FII did not sell any unregistered equity securities.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

During the quarter of the fiscal year covered by this report, no material default has occurred with respect to any indebtedness of FII. Also, during this quarter, no material arrearage in the payment of dividends has occurred.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matter was submitted to a vote of security holders through the solicitation of proxies or otherwise, during the first quarter of the fiscal year covered by this report.

ITEM 5. OTHER INFORMATION.

During the quarter of the fiscal year covered by this report, FII reported all information that was required to disclosed in a report on Form 8-K.

ITEM 6. EXHIBITS.

(A) INDEX TO AND DESCRIPTION OF EXHIBITS.

All Exhibits required to be filed with the Form 10-QSB are incorporated by reference to FII's previously filed Form SB-2 and Form 10-KSB's and Form 10-QSB's.

Exhibit	Description
3.1	Corporate Charter filed as an Exhibit to FII's registration statement on Form SB-2 filed on August 15, 2002, and incorporated herein by reference.
3.2	Articles of Incorporation filed as an Exhibit to FII's registration statement on Form SB-2 filed on August 15, 2002, and incorporated herein by reference.
3.3	Bylaws filed as an Exhibit to FII's registration statement on Form SB-2 filed on August 15, 2002, and incorporated herein by reference.
10.1	Option Agreement dated June 10, 2002, between FII International Inc. and Patrizia Leone-Mitchell filed as an attached exhibit to FII's Form SB-2 filed on October 16, 2002, and incorporated herein by reference.
10.2	Amending Agreement to the Option Agreement dated June 7, 2004, between FII International Inc. and Patrizia Leone-Mitchell filed as an Exhibit to FII's Form 10-QSB filed on August 16, 2004, and incorporated herein by reference.
10.3	Loan Agreement and Promissory Note dated January 21, 2005 between FII International Inc. and Patrizia Leone-Mitchell filed as an Exhibit to FII's Form 10-KSB filed on March 31, 2005, and incorporated herein by reference.
10.4	Asset Purchase Agreement dated May 27, 2005 between FII International Inc. and Patrizia Leone-Mitchell filed as an Exhibit to FII's Form 8-K Current Report filed on May 31, 2005 and incorporated herein by reference.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Code of Ethics filed as an attached exhibit to FII's Form 10-KSB filed on March 30, 2004, and incorporated herein by reference.
99.2	Audit Committee Charter filed as an attached exhibit to FII's Form 10-KSB filed on March 30, 2004, and incorporated herein by reference.
99.3	Disclosure Committee Charter filed as an attached exhibit to FII's Form 10-KSB filed on March 30, 2004, and incorporated herein by reference.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, FII International Inc. has caused this report to be signed on its behalf by the undersigned duly authorized person.

FII INTERNATIONAL INC.

By: /s/ Patrizia Leone-Mitchell

Name: Patrizia Leone-Mitchell
Title: Director and CEO

Dated: August 10, 2006

By: /s/ Sean Mitchell

Name: Sean Mitchell
Title: CFO

Dated: August 10, 2006