

Edgar Filing: MEDIA COMMUNICATIONS GROUP INC - Form 10QSB

MEDIA COMMUNICATIONS GROUP INC  
Form 10QSB  
November 14, 2001

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-QSB

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

For the Quarterly Period Ended September 30, 2001

Commission File Number 001-15977

FLOOR DECOR, INC.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
Incorporation or organization)

13-4051167  
(IRS Employer  
Identification No.)

6001 Powerline Road, Fort Lauderdale, Florida  
(Address of Principal Executive Offices)

33309  
(Zip Code)

(954) 351-9833  
(Registrant's telephone number, including area code)

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.

Yes  No

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

Class	Outstanding as of November 2, 2001
-----	-----
Common Stock, Par Value \$0.001 per share	54,236,664

1

FLOOR DECOR, INC.  
Form 10-QSB for the Quarter Ended September 30, 2001

INDEX

Part I.	FINANCIAL INFORMATION	Page
	Item 1. Financial Statements	

Edgar Filing: MEDIA COMMUNICATIONS GROUP INC - Form 10QSB

Condensed Consolidated Balance Sheets (unaudited) as of September 30, 2001 and December 31, 2000.....	3
Condensed Consolidated Statements of Operations (unaudited) for the three and nine months ended September 30, 2001 and for the period from July 3, 2000 (inception) through September 30, 2000.....	4
Condensed Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2001 and for the period from July 3, 2000 (inception) through September 30, 2000.....	5
Notes to Condensed Consolidated Financial Statements (unaudited).....	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.....	11
Part II. OTHER INFORMATION	
Items 1-3. Not applicable.....	17
Item 4. Submission of Matters to a Vote of Security Holders....	17
Item 5. Other Information.....	18
Item 6. Not applicable.....	18
Signatures.....	18

2

Part I. Item 1.

Floor Decor, Inc. and Subsidiary  
Condensed Consolidated Balance Sheet

	September 30, 2001 (Unaudited)	Dece
	-----	
Assets		
Current Assets		
Accounts receivable	\$ 70,904	\$
Other receivables	14,933	
Inventories	590,661	
Prepaid expenses	35,808	
	-----	
Total current assets	712,306	
Property and Equipment, net	144,839	

Edgar Filing: MEDIA COMMUNICATIONS GROUP INC - Form 10QSB

Deposits and Other Assets	62,272	
	-----	
Total assets	\$ 919,417	\$
	=====	
Liabilities and Stockholders' Equity (Deficit)		
Current Liabilities		
Accounts Payable	\$ 671,946	\$
Notes payable due stockholders	1,549,212	
Accrued expenses	125,428	
Customer deposits	199,691	
	-----	
Total current liabilities	2,546,277	
	-----	
Commitments		
Stockholders' Equity (Deficit)		
Common stock, at par value	54,237	
Additional paid in capital	(58,446)	
Subscription receivable	(622)	
Accumulated deficit	(1,622,029)	
	-----	
Total Stockholders' Equity (Deficit)	(1,626,860)	
	-----	
Total liabilities and Stockholders' Equity (Deficit)	\$ 919,417	\$
	=====	

See notes to consolidated financial statements

3

Floor Decor, Inc. and Subsidiary  
Condensed Consolidated Statements of Operations  
(Unaudited)

	Three Months Ended Sept. 30, 2001	Inception Date of July 3, 2000 through Sept. 30, 2000
	-----	-----
Net Sales	\$ 1,297,555	\$ 102,920
Cost of goods sold	756,231	24,790
	-----	-----
Gross Profit	541,324	78,130
Operating Expenses		
Selling expense	348,821	47,021
General and administrative expense	435,098	233,581
	-----	-----
Total Operating Expenses	783,919	280,602

Edgar Filing: MEDIA COMMUNICATIONS GROUP INC - Form 10QSB

Operating Loss	(242,595)	(202,472)
Other income (expense)		
Other income	-	481
Interest expense	(38,635)	(5,896)
	(38,635)	(5,415)
Net loss	\$ (281,230)	\$ (207,887)
Basic and diluted net loss per common share	\$ (0.005)	\$ (0.010)
Weighted average shares outstanding (basic and diluted)	54,236,664	20,501,459

See Notes to Consolidated Financial Statements

4

Floor Decor, Inc. and Subsidiary  
Condensed Consolidated Statement of Cash Flows  
(Unaudited)

	Nine Months Ended Sept. 30, 2001	Ince Dat July Thr Sept 2
Cash Flows From Operating Activities		
Net loss	(956,525)	
Adjustments to reconcile net loss to net cash used in Operating activities:		
Depreciation	27,512	
Gain on sale of property and equipment	-	
Changes in assets and liabilities	601,194	
Net cash used in operating activities	(327,819)	
Cash Flows From Investing Activities		
Proceeds from sale of property and equipment	10,653	
Purchase of property and equipment	(44,980)	
Decrease in deposits and other assets	32,853	
Net cash used in investing activities	(1,474)	
Cash Flows From Financing Activities		
Issuance of common stock	-	
Proceeds from note payable	-	

## Edgar Filing: MEDIA COMMUNICATIONS GROUP INC - Form 10QSB

Interest on notes payable	16,084	
Advances to employees	(14,933)	
Loans and advances from stockholders	645,825	
Repayments to stockholders	(317,683)	
	329,293	
Net cash provided by financing activities		
	-	
Net change in cash		
Cash:		
Beginning	-	
	-	
Ending	\$ -	\$ -
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 103,657	\$ -
Supplemental Disclosure of Non-cash Investing and Financing Activities		
Common stock issued in exchange for subscriptions receivable	\$ 622	\$ -

See notes to consolidated financial statements

5

Floor Decor, Inc. and Subsidiary  
Notes to Consolidated Financial Statements

### Note 1. Basis of Presentation

The accompanying unaudited financial statements (except for the balance sheet at December 31, 2000, which is derived from audited financial statements) have been prepared in accordance with generally accepted accounting principles for interim financial statements and Regulation S-B of the Securities and Exchange Commission. Accordingly, they do not include all of the information required by generally accepted accounting principles for complete financial statements. In the opinion of management, these unaudited condensed consolidated financial statements reflect all material adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results of operations and statements of financial position for the interim periods presented. These results have been determined on the basis of generally accepted accounting principles and practices applied consistently with those used in the preparation of the Company's 2000 audited consolidated financial statements.

The accompanying financial statements should be read in conjunction with the Company's most recent audited consolidated financial statements and notes thereto for the year ended December 31, 2000, which were filed as an exhibit to the Company's Form 8-K/A filed with the Securities and Exchange Commission on July 24, 2001. The results of operations for the three and nine month periods ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

### Note 2. Related Party Transactions

Notes Payable to Stockholders: The Company owes a stockholder a note in the amount of \$880,066 as of September 30, 2001. The note bears interest at 10%,

## Edgar Filing: MEDIA COMMUNICATIONS GROUP INC - Form 10QSB

and is due on demand. Interest expense related to this note amounted to \$20,324 in the third quarter of 2001 and \$64,407 for the nine months ended September 30, 2001. Also, as of September 30, 2001 the Company owed a total of \$80,382 to this stockholder on a non-interest bearing note that is due on demand. This stockholder owns approximately 28.4% of the outstanding shares of the Company's common stock as of September 30, 2001.

Notes Payable to stockholders as of September 30, 2001 also include amounts owed by the Company totaling \$322,680, including \$19,680 of accrued interest, to certain stockholders of record of the Company as of September 30, 2001. The various notes that comprise this \$322,680 all bear interest at 15% and are due on demand, after May 12, 2002. Interest expense related to these notes amounted to \$11,899 for the three months ended and \$19,680 for the nine months ended September 30, 2001. The stockholders that provided the Company with these notes are stockholders of record of the Company as of September 30, 2001, but no one individual owns more than 0.06% of the outstanding shares of the Company's common stock.

6

As of September 30, 2001 the Company owed a total of \$266,084, including \$16,084 of accrued interest, in a note payable to two stockholders of record of the Company as of September 30, 2001 apart from the obligations above. The note bears interest at 10% and is due on demand. Interest expense related to this note amounted to \$6,596 in the third quarter of 2001 and \$19,157 for the nine months ended September 30, 2001. These two stockholders combined owned approximately 0.18% of the outstanding shares of the Company's common stock as of September 30, 2001. These two stockholders became stockholders of the Company on January 1, 2001 and therefore as of December 31, 2000, the note payable, in the amount of \$250,000 was classified as a note payable on that balance sheet date. The note payable was disclosed in footnotes to the December 31, 2000 financial statements as a note payable to a third party.

Other Receivables: As of September 30, 2001 the Company was owed a total of \$14,933 from four employees. The Company from time to time advances nominal amounts of money to its employees for personal reasons. The advances do not bear interest and are due on demand.

### Note 3. Income Tax Matters

The Company has net operating losses as of September 30, 2001 for federal income tax purposes of approximately \$960,000. Any future benefit to be realized from these net operating losses is dependent upon the Company earning sufficient future taxable income during the periods that the carryforwards are available. Due to this uncertainty, the Company has not recognized any deferred tax benefits relating to the net operating loss carryforward and has offset the deferred tax asset with a valuation allowance in the amount of \$320,000.

### Note 4. Net Loss per Common Share

Basic earnings per share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed using the weighted average number of common shares and potential common shares outstanding during the period. Potential common shares are excluded from the computation if their effect is antidilutive. Pro forma basic loss per common share was computed using 54,236,664 shares, for both the three-month and nine-month periods ending September 30, 2001, the weighted average number of common shares outstanding for both periods. Pro forma basic loss per common

## Edgar Filing: MEDIA COMMUNICATIONS GROUP INC - Form 10QSB

share was computed using 20,501,459 shares, for the period beginning on July 3, 2000, the inception date of the Company, through September 30, 2000, the weighted average number of pro forma common shares outstanding for the period. This number of shares outstanding was computed as follows:

7

Number of Floor Decor shares outstanding for the entire period of July 3, 2000 through September 30, 2000	378
Number of Floor Decor shares outstanding at the time of the reverse merger on May 22, 2001 that were converted into shares of the new Public Company	1,000
Conversion ratio	37.80%
Number of shares outstanding after the May 22, 2001 reverse merger was effected	54,236,664
Calculated Number of Floor Decor shares outstanding for the entire period of July 3, 2000 through September 30, 2000 as effected for the reverse merger on May 22, 2001	20,501,459

Since the Company had a loss for all periods presented, basic and diluted loss per common share are equal.

### Note 6. Stockholders' Equity

From the date of inception, July 3, 2000, through December 31, 2000 Floor Decor had 1,000 shares of common stock authorized and 378 shares issued and outstanding. The Company issued an additional 622 shares of common stock on January 1, 2001 at a cost of \$1 per share. The total amount owed for the 622 shares is in subscriptions receivable as of September 30, 2001. As a result of these additional shares being issued, the Company had 1,000 shares of common stock authorized and 1,000 shares issued and outstanding prior to the reverse merger (as described below) on May 22, 2001.

On May 22, 2001, a purchasing group led by A.J. Nassar acquired 21,900,000 shares of the common stock of Media Communications Group, Inc. ("MCGI") to become the owner of approximately 40% of the issued and outstanding common stock of MCGI pursuant to an agreement including the merger of Floor Decor into a newly formed wholly owned subsidiary of the Company. Prior to the acquisition of Floor Decor, MCGI was a "public shell" company, with no significant operations or assets. The acquisition of Floor Decor was accounted for as a reverse acquisition. Under a reverse acquisition, Floor Decor is treated for accounting purposes as having acquired MCGI and the historical financial statements of Floor Decor become the historical financial statements of MCGI. In accounting for the reverse acquisition, the equity of Floor Decor, as the surviving company is recapitalized. Also, upon the closing of the reverse acquisition an obligation to an original MCGI vendor for \$4,931 was assumed.

8

To recapitalize Floor Decor as a result of the reverse merger with only an exchange of shares, additional paid in capital as of September 30, 2001 includes:

## Edgar Filing: MEDIA COMMUNICATIONS GROUP INC - Form 10QSB

Calculation of Floor Decor additional paid in capital:		
Sept. 30, 2001 common stock of 54,236,664		
At a par value of \$0.001	\$	(54,237)
Common stock of 1,000 shares prior to Reverse merger		722
Vendor Obligation		(4,931)
		-----
Recapitalization to additional paid-in capital	\$	(58,446)
		=====

At a special meeting of stockholders on July 31, 2001, the stockholders of the Company voted in favor of the adoption of the Company's 2001 Employee Stock Option Plan ("The Plan"). The total number of shares of common stock available for grant under the Plan is 8,000,000 shares. As of November 1, 2001, no employees had been granted options under the Plan.

### Note 7. Business Considerations

Since July 3, 2000, the date of inception of Floor Decor, Inc. the goal of the Company has remained the same; to combine its rollout of new "Big Box" floor covering superstores with an acquisition strategy of flooring contractors supplying the homebuilder trade. From July 3, 2000 through December 31, 2000, the Company incurred net losses of approximately \$665,000 due to the costs associated with the store openings and the operating costs of new stores without the corresponding revenues. For the third quarter ended September 30, 2001 the losses approximated \$281,000 and for the nine months ended September 30, 2001, the losses approximated \$957,000. The Company had negative cash flows from operating activities of approximately \$67,000 for the quarter ended September 30, 2001 and \$328,000 for the nine months ended September 30, 2001 compared to negative cash flows from operating activities of approximately \$555,000 for the inception date of July 3, 2000 through September 30, 2000. Management attributes this improvement in cash flow for the quarter ended September 30, 2001 of \$488,000 as compared to the period of July 3, 2000 (inception) through September 30, 2000, to the increased sales from the maturation of its "Big Box" superstore.

While the Company's cash flows from operations have improved from December 31, 2000, the downturn in new orders in September of this quarter has strained the Company's cash flow. If the Company is not able to generate positive net cash flows from operations then additional capital will be needed. In the past, additional capital was always provided by certain principal shareholders who have funded the Company through loans as needed. In addition, in late October the Company borrowed \$100,000 from a third party. The downturn in sales in September 2001 is believed to be primarily the result of the tragic events of September 11, 2001. The Company continually monitors operating costs and will take steps to reduce these costs to improve cash flow from operations if necessary. The Company is continually seeking sources of new capital to aid the implementation of its business plan. However, there can be no assurance that additional capital or other form of financing will be available, or if available on terms reasonably acceptable to the Company.



Item 2.

FLOOR DECOR, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS

This report on Form 10-QSB contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 23E of the Securities Act of 1934, as amended. These statements relate to future events or future financial performance. Any statements contained in this report that are not statements of historical fact may be deemed to be forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential" or "continue," or the negative of such terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. Moreover, neither the Company, nor any other entity, assumes responsibility for the accuracy and completeness of the forward-looking statements. The Company is under no obligation to update any of the forward-looking statements after the filing of this Form 10-QSB to conform such statements to actual results or to changes in the Company's expectations.

The following discussion should be read in conjunction with the Company's financial statements, related notes and the other financial information appearing elsewhere in this Form 10-QSB. Readers are also urged to carefully review and consider the various disclosures made by the Company which attempt to advise interested parties of the factors which affect the Company's business, including without limitation, the disclosures made under the caption "Certain Factors That May Affect Future Performance."

INTRODUCTION

Floor Decor, Inc. currently operates a "big box superstore" in Fort Lauderdale, Florida and the Company intends on developing a chain of "big box superstores" that offers a wide selection of floor coverings including carpet, area rugs, wood, and laminates at discount prices to both commercial accounts and consumers. The Company's initial store, based in Fort Lauderdale is over 50,000 sq. ft. and stocks an extensive product line including over 5,000 area rugs and 1,000,000 sq. ft. of other floor coverings. The Company's business strategy is to grow rapidly by acquiring existing dealers that traditionally have only sold to the commercial homebuilder trade. These acquired businesses will be consolidated into Floor Decor's superstore format that also caters to the general public. The Company is continually seeking sources of new capital to aid the implementation of this business plan. The Company also expects to develop

the decorator trade by continuing to offer commissions and other incentives via its professional member program.

The Company opened its "big box superstore" in Fort Lauderdale, Florida in the fall of 2000 and in May of 2001 completed a reverse merger with Media

## Edgar Filing: MEDIA COMMUNICATIONS GROUP INC - Form 10QSB

Communications Group, Inc. Prior to the acquisition of Floor Decor, Media Communications Group was a "public shell" company, with no significant operations or assets. The acquisition of Floor Decor was accounted for as a reverse acquisition. Under a reverse acquisition, Floor Decor is treated for accounting purposes as having acquired MCGI and the historical financial statements of Floor Decor become the historical financial statements of MCGI. Therefore, all references to the historical activities of the Company refer to the historical activities of Floor Decor

The Company generates revenues from the sales of floor coverings including carpet, area rugs, wood, and laminates. Revenues from the installation of flooring products are recognized when the installation process is complete.

The Company has only a limited operating history upon which an evaluation of the Company and its prospects can be based. As of September 30, 2001, the Company had an accumulated deficit of approximately \$1,622,000. The limited operating history of the Company makes its future results of operations difficult to predict. In addition, the Company's operating results may fluctuate significantly in the future as a result of a variety of factors such as the opening of new "big box superstores" and the assimilation of the strategically acquired existing dealers that traditionally have only sold to the commercial homebuilder trade. These acquired businesses will have to be consolidated into Floor Decor's superstore format that also caters to the general public.

### RESULTS OF OPERATIONS

The Company had very limited operations during the period from its inception, July 3, 2000 through September 30, 2000. The Company had a single small retail store opened for business prior to September 30, 2000 and this store was closed later in the year 2000. This retail store sold products to customers but did not offer installation services for any products sold. All products sold from this location were purchased at a liquidation sale at costs that were lower than market value at the time of purchase resulting in an unusually high gross margin percentage. For these reasons all comparisons in this section are to the results of operations for the prior three-month period in 2001.

As an aid to reviewing the Company's results of operations for the three and nine months ended September 30, 2001, the following table sets forth the financial information as a percentage of net sales and as a percent of change when the three months ended September 30, 2001 are compared to the prior three-month period and not the same period in the prior year for the aforementioned reasons:

12

	Three Months Ended Sept. 30, 2001	Three Months Ended June 30, 2001
Net sales	100.00%	100.00%
Cost of goods sold	58.28%	52.62%
Gross profit	41.72%	47.38%

## Edgar Filing: MEDIA COMMUNICATIONS GROUP INC - Form 10QSB

Operating expenses		
Selling expense	26.88%	27.61%
General and administrative expense	33.53%	65.94%
	-----	-----
Total operating expense	60.42%	93.55%
	-----	-----
Operating loss	-18.70%	-46.17%
	-----	-----
Interest expense	-2.98%	-4.95%
	-----	-----
Net loss before income taxes	-21.67%	-51.12%
Income taxes	0.00%	0.00%
	-----	-----
Net loss	-21.67%	-51.12%
	=====	=====

\* Calculated as the percentage of change in the September 30, 2001 operating results as compared to the June 30, 2001 operating results

Net Sales: The Company's net sales increased by 74.32% to \$1,297,555 in the three months ended September 30, 2001 from \$744,360 in the three months ended June 30, 2001. Sales for the nine months ended September 30, 2001 were \$2,649,056. This quarter over quarter increase in sales was primarily due the improved sales and maturation of the Company's "big box superstore" located in Fort Lauderdale, Florida. The Company achieved this significant increase in quarter over quarter sales despite the month of September accounting for only 25% of the quarter's sales. The Company encountered an anticipated weaker beginning to the month of September due to the "back to school season" and then the events of September 11, 2001 lead to a significant downturn in new orders for the remainder of the month. This resulted in not only September's revenue being less than the other months in the quarter, but also a decrease in deferred revenue, classified as customer deposits on the Company's balance sheet, of 42% or \$144,000. Because of this decrease in customer deposits the Company anticipates revenue for October 2001 to approximate the revenue for September 2001.

13

The Company receives partial deposits on orders from its customers, but does not recognize the revenue on any orders until the installation process is complete.

Sales in the three and nine month periods ended September 30, 2001 and the three-month period ended June 30, 2001 are shown by product category as follows:

Three Months Ended Sept. 30, 2001	Three Months Ended June 30, 2001	Nine M End Sept. 30
-----	-----	-----

(in thousands)

(in thou

## Edgar Filing: MEDIA COMMUNICATIONS GROUP INC - Form 10QSB

Carpet	\$	254.4	\$	181.6	\$
Wood		169.1		56.9	
Laminates		178.6		153.5	
Tile		201.2		85.2	
Area Rugs		82.6		60.5	
Installation / Labor		330.5		177.6	
Other		81.2		29.1	
-----					
Total Sales	\$	1,297.7	\$	744.4	\$
=====					

Gross Profits: Gross profit increased to \$541,000 for the three months ended September 30, 2001 as compared to \$353,000 for the three months ended June 30, 2001. Gross profit for the nine months ended September 30, 2001 was \$1,181,000 or 44.6% of sales. Gross Profit margins for the three months ended September 30, 2001 were 41.7% as compared to 47.4% for the three months ended June 30, 2001. The gross margin percentage was impacted by several substantial sales that were made in the third quarter to commercial accounts at significantly lower margins. This was the first period in which the Company sold any of its products into this sales channel.

The gross profit margins for the Company's products depend on a number of factors, such as the degree of competition in the market for its products, the product mix, material costs, sales channel, and the costs to install its products. In addition, gross profit margins on the Company's different product categories differ. Accordingly, the Company's gross profit can vary from quarter to quarter.

Sales and Marketing Expenses: Sales and marketing expenses for the three months ended September 30, 2001 were \$349,000 as compared to \$206,000 for the three months ended June 30, 2001. Sales and marketing expenses were \$727,000 for the nine months ended September 30, 2001. The Company increased its advertising expenditures by approximately \$117,000 in the third quarter from the second quarter this year. Advertising expense as a percentage of sales was 14.83% for the second quarter. For the

14

quarter ended September 30, 2001 it increased to 16.78%. This increase in advertising is believed to have helped the increase in sales for the quarter. As the store matures, advertising expense as a percentage of sales is anticipated to decrease. The Company intends to continue to expand its sales and marketing efforts as it develops its chain of "big box superstores" in future periods.

General and Administrative Expenses: General and administrative expenses for the three months ended September 30, 2001 were \$435,000 as compared to \$491,000 for the three months ended June 30, 2001. General and administrative expenses for the nine months ended September 30, 2001 were \$1,306,000. General and administrative expenses, as a percentage of sales, decreased to 33.5% in the third quarter of 2001 from 65.9% in the second quarter of 2001. This was a decrease of \$56,000. General and administrative expenses, as a percentage of sales, for the nine months ended September 30, 2001 were 49.3%. A significant reason for the G & A expenditures being a high percentage of sales are the costs associated with being a public company, primarily fees for accounting, legal, and professional services. The Company incurred costs during the third quarter this year that were not in the second quarter related to holding a special

## Edgar Filing: MEDIA COMMUNICATIONS GROUP INC - Form 10QSB

meeting of stockholders and to analyzing a potential acquisition. The Company anticipates an increase in its general and administrative expenses in future periods in order to continue to expand its infrastructure, assimilate its acquisitions, and open new "big box superstores". However, the Company anticipates that its sales will increase at a faster rate than its general and administrative expenses, resulting in these expenditures decreasing as a percentage of sales in future periods. The Company, as stated in its business plan, intends on acquiring existing dealers that traditionally have only sold to the commercial homebuilder trade to incorporate into the chain of "big box superstores" the Company intends on opening.

Other Expenses: Other Expenses for the three months ended September 30, 2001 were \$38,600 as compared to \$37,000 for the three months ended June 30, 2001. Other expenses for the nine months ended September 30, 2001 were \$103,600. Other expenses consisted of interest expense on loans to stockholders.

### LIQUIDITY AND CAPITAL RESOURCES

In the nine months ended September 30, 2001, the Company's working capital decreased by \$935,000. This decrease was represented by increases in accounts receivable of \$12,000, inventory of \$65,000, and in prepaid expenses and other current assets of \$22,000. These were offset by increases in accounts payable of \$456,000, in accrued expenses and other current liabilities of \$90,000, and in customer deposits/deferred revenue of \$159,000. Also, in the nine months ended September 30, 2001 the amounts due stockholders decreased by \$36,000 and the Company received \$303,000 in notes from other stockholders.

15

The Company incurred operating losses in 2000, and in the first nine months of 2001. These operating losses caused cash flow from operations to be (\$956,000) and (\$328,000) in the period from July 3, 2000 (inception date) through December 31, 2000 and for the nine months ended September 30, 2001, respectively. The improvement in cash flow from operations can be attributed to the improved sales and maturation of the Company's "big box superstore" located in Fort Lauderdale, Florida. Not only did revenues improve in the first nine months of 2001, but also customer deposits improved as well. However customer deposits decreased in the latter part of the quarter as new orders decreased in the month of September. While the Company's cash flows from operations have improved from December 31, 2000, the downturn in new orders in September of this quarter has strained the Company's cash flow and if the Company is not able to generate positive net cash flows from operations then additional capital will be needed. In the past this capital was always provided by certain principal shareholders who have funded the Company through loans as needed. In late October the Company borrowed \$100,000 from a third party.

This downturn is believed to be the result of the tragic events of September 11, 2001. While the Company anticipates returning to the sales levels it was at in July and August by the beginning of 2002, there can be no assurance sales will increase to the prior levels. The Company continually monitors operating costs and will take steps to reduce these costs to improve cash flow from operations if necessary. The Company is continually seeking sources of new capital to aid the implementation of its new business plan. However, there can be no assurance that additional capital or other form of financing will be available, or if available on terms reasonably acceptable to the company.

Although there can be no assurances that the Company will become profitable in the last quarter of 2001, management believes that cash generated from operations, as supplemented by capital from shareholders as necessary, will be sufficient to meet its liquidity and capital needs for the next twelve

## Edgar Filing: MEDIA COMMUNICATIONS GROUP INC - Form 10QSB

months. However, if the Company continues to experience the reduced sales levels of September 2001 in future months, the Company's liquidity could become strained. . In such event, the Company would be required to take appropriate steps to reduce operating expenses to improve cash flows but which could have a further adverse impact on sales or to seek additional financing which may not be available on terms acceptable to the Company.

The Company currently evaluates and will continue to evaluate acquisitions of businesses, whose products or customers are complementary to the Company's business, as stated in the Company's business plan. In the event that the Company pursues one or more acquisitions, the Company's cash flow from operations may be utilized to finance a portion or all of such acquisitions and additional sources of liquidity such as debt or equity financing may be required for such acquisitions or to meet working capital needs. There can be no assurance that additional capital beyond the amounts forecasted by the Company will not be required nor that any such required capital will be available on terms acceptable to the Company, if at all, at such time or times as required by the Company.

16

### Part II.

#### FLOOR DECOR, INC. OTHER INFORMATION

#### Item 1. Legal Proceedings

Not applicable

#### Items 2. Changes in Securities and Use of Proceeds

Not applicable.

#### Item 3. Defaults Upon Senior Securities

Not applicable

#### Item 4. Submission of Matters to a Vote of Security Holders

At the Special Meeting of Stockholders of the Company held on July 31, 2001, the stockholders approved (i) an amendment to the Company's Certificate of Incorporation to change the name of the Company to Floor Decor, Inc. from Media Communications Group, Inc. and (ii) the adoption of the Floor Decor, Inc. 2001 Stock Option Plan.

With respect to the amendment to the Company's Certificate of Incorporation to change the name of the Company to Floor Decor, Inc. from Media Communications Group, Inc., the voting was as follows:

For	Against	Withheld	Non-Voted
41,565,400	0	180,400	12,490,864

With respect to the adoption of the Floor Decor, Inc. 2001 Stock Option Plan.

For	Against	Withheld	Non-Voted
40,424,200	1,010,000	311,600	12,490,864

Item 5. Other Information

On November 6, 2001 the Company announced that Mr. Michael McConvery has resigned as CFO of the Company to pursue other interests. On November 8, 2001 the Company announced the appointment of Richard Libutti to the position of interim Chief Financial Officer. Mr. Libutti currently serves as CFO for Banyan Capital Markets, who the Company has retained to provide it with investment banking and strategic development services to accelerate the growth of its carpet and flooring "Big Box Superstore" concept in select markets.

Item 6. Exhibits and Reports on Form 8-K

Not applicable

SIGNATURES

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

FLOOR DECOR, INC.

/s/ \_\_\_\_\_  
Alvin J. Nassar

Chief Executive Officer

November 14, 2001