IPARTY CORP
Form 10-Q
August 11, 2008

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

FORM 10-Q

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

For the Quarterly Period Ended June 28, 2008

OR

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

For the Transition Period from _______________ to _______________

Commission File Number 1-15611

iPARTY CORP.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	76-0547750 (I.R.S. Employer Identification No.)
270 Bridge Street, Suite 301, Dedham, Massachusetts (Address of Principal Executive Offices)	02026 (Zip Code)

(781) 329-3952
(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o
Accelerated filer o

Non-accelerated filer o (Do not check if smaller reporting company) Smaller reporting company þ

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

As of August 6, 2008 there were 22,731,667 shares of common stock, $.001 par value, outstanding.

iPARTY CORP.
QUARTERLY REPORT ON FORM 10-Q
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Item 1. Financial Statements

iPARTY CORP.
CONSOLIDATED BALANCE SHEETS (unaudited)

	Jun 28, 2008	Dec 29, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 64,792	$ 71,532
Restricted cash	657,079	862,536
Accounts receivable	891,285	1,105,807
Inventory, net	14,045,935	13,639,531
Prepaid expenses and other assets	680,115	996,779
Total current assets	16,339,206	16,676,185
Property and equipment, net	4,243,183	4,360,123
Intangible assets, net	2,582,646	1,756,800
Other assets	207,465	183,978
Total assets	$ 23,372,500	$ 22,977,086
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,458,549	$ 4,723,370
Accrued expenses	2,960,151	2,503,752
Current portion of capital lease obligations	23,065	30,473
Current notes payable	655,701	620,706
Borrowings under line of credit	2,590,988	2,613,511
Total current liabilities	12,688,454	10,491,812
Long-term liabilities:		
Capital lease obligations, net of current portion	-	9,213
Notes payable, net of discount $238,642	3,036,793	3,271,632
Other liabilities	1,152,187	1,113,522
Total long-term liabilities	4,188,980	4,394,367
Commitments and contingencies		
Stockholders' equity:		
Convertible preferred stock - $.001 par value; 10,000,000 shares authorized,		
Series B convertible preferred stock - 1,150,000 shares authorized; 463,086 and 465,401 shares issued and outstanding at June 28, 2008 and December 29, 2007, respectively (aggregate liquidation value of $9,261,724 at June 28, 2008)	6,890,723	6,925,170
Series C convertible preferred stock - 100,000 shares authorized, issued and outstanding (aggregate liquidation value of $2,000,000 at June 28, 2008)	1,492,000	1,492,000
Series D convertible preferred stock - 250,000 shares authorized, issued and outstanding (aggregate liquidation value of $5,000,000 at June 28, 2008)	3,652,500	3,652,500
Series E convertible preferred stock - 296,666 shares authorized, issued and outstanding (aggregate liquidation value of $1,112,497 at June 28, 2008)	1,112,497	1,112,497
Series F convertible preferred stock - 114,286 shares authorized, issued and outstanding (aggregate liquidation value of $500,000 at June 28, 2008)	500,000	500,000
Total convertible preferred stock	13,647,720	13,682,167

Common stock - $.001 par value; 150,000,000 shares authorized; 22,731,667 and 22,700,655 shares issued and outstanding at June 28, 2008 and December 29, 2007, respectively	22,732	22,701
Additional paid-in capital	52,013,978	51,894,481
Accumulated deficit	(59,189,364)	(57,508,442)
Total stockholders' equity	6,495,066	8,090,907
Total liabilities and stockholders' equity	$ 23,372,500	$ 22,977,086

The accompanying notes are an integral part of these Consolidated Financial Statements.

iPARTY CORP.
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	For the three months ended		For the six months ended	
	Jun 28, 2008	Jun 30, 2007	Jun 28, 2008	Jun 30, 2007
Revenues	$ 20,103,668	$ 20,411,919	$ 36,247,756	$ 36,011,078
Operating costs:				
Cost of products sold and occupancy costs	11,612,587	11,600,874	21,595,934	21,007,648
Marketing and sales	6,176,460	6,079,698	12,026,212	11,665,772
General and administrative	1,946,634	1,989,197	3,909,799	3,872,054
Operating income (loss)	367,987	742,150	(1,284,189)	(534,396)
Interest income	244	1,747	1,920	3,481
Interest expense	(184,625)	(231,759)	(398,653)	(459,803)
Net income (loss)	$ 183,606	$ 512,138	$ (1,680,922)	$ (990,718)
Income (loss) per share:				
Basic	$ 0.00	$ 0.01	$ (0.07)	$ (0.04)
Diluted	$ 0.00	$ 0.01	$ (0.07)	$ (0.04)
Weighted-average shares outstanding:				
Basic	38,210,583	38,199,738	22,713,989	22,618,685
Diluted	38,319,767	40,054,445	22,713,989	22,618,685

The accompanying notes are an integral part of these Consolidated Financial Statements.

iPARTY CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the six months ended Jun 28, 2008	Jun 30, 2007
Operating activities:		
Net loss	$ (1,680,922)	$ (990,718)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,026,102	843,498
Deferred rent	38,665	88,565
Non cash stock based compensation expense	80,949	30,438
Non cash warrant expense	106,407	102,275
Changes in operating assets and liabilities:		
Accounts receivable	214,522	314,675
Inventory	(406,404)	(1,705,849)
Prepaid expenses and other assets	446,752	(295,837)
Accounts payable	1,735,179	1,951,181
Accrued expenses and other liabilities	456,399	(534,915)
Net cash provided by (used in) operating activities	2,017,649	(196,687)
Investing activities:		
Acquisition of retail stores and non-compete agreement	(1,350,000)	-
Purchase of property and equipment	(568,183)	(305,163)
Net cash used in investing activities	(1,918,183)	(305,163)
Financing activities:		
Net borrowings under line of credit	(22,523)	313,444
Principal payments on notes payable	(302,119)	(314,783)
Decrease in restricted cash	205,457	113,562
Principal payments on capital lease obligations	(16,621)	(329,910)
Deferred financing costs	29,600	22,899
Proceeds from exercise of stock options	-	1,277
Net cash used in financing activities	(106,206)	(193,511)
Net decrease in cash and cash equivalents	(6,740)	(695,361)
Cash and cash equivalents, beginning of period	71,532	760,376
Cash and cash equivalents, end of period	$ 64,792	$ 65,015
Supplemental disclosure of non-cash financing activities:		
Conversion of Series B convertible preferred stock to common stock	$ 34,447	$ 14,800

The accompanying notes are an integral part of these Consolidated Financial Statements.

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iPARTY CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 28, 2008
(Unaudited)

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES:

Interim Financial Information

The interim consolidated financial statements as of June 28, 2008 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial reporting. These consolidated statements are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments and accruals) necessary to present fairly the consolidated balance sheets, consolidated operating results, and consolidated cash flows for the periods presented in accordance with generally accepted accounting principles. The consolidated balance sheet at December 29, 2007 has been derived from the audited consolidated financial statements at that date. Operating results for the Company on a quarterly basis may not be indicative of the results for the entire year due, in part, to the seasonality of the party goods industry. Historically, higher revenues and operating income have been experienced in the second and fourth fiscal quarters, while the Company has generated losses in the first and third quarters. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with the rules and regulations of the SEC. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements, and accompanying notes, included in the Company's Annual Report on Form 10-K, for the year ended December 29, 2007.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary after elimination of all significant intercompany transactions and balances.

Revenue Recognition

Revenues include the selling price of party goods sold, net of returns and discounts, and are recognized at the point of sale. The Company estimates returns based upon historical return rates and such amounts have not been significant.

Concentrations

The Company purchases its inventory from a diverse group of vendors. Five suppliers account for approximately 49% of the Company's purchases of merchandise for the six months ended June 28, 2008, but the Company does not believe that it is overly dependent upon any single source for its merchandise, often using more than one vendor for similar kinds of products. The Company entered into a Supply Agreement with its largest supplier on August 7, 2006. The Supply Agreement had a ramp-up period during 2006 and 2007 and, for five years beginning with calendar year 2008, requires the Company to purchase on an annual basis merchandise equal to the total number of stores open during such calendar year, multiplied by $180,000. The Supply Agreement provides for penalties in the event the Company fails to attain the annual purchase commitment that would require the Company to pay the difference between the purchases for that year and the annual purchase commitment for that year. The Company is not aware of any reason or circumstance that would prevent the minimum purchase amount commitments under the Supply Agreement from being met.

Accounts receivable primarily represent amounts due from credit card companies and vendors for inventory rebates. Management does not provide for doubtful accounts as such amounts have not been significant to date; the

Company does not require collateral.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents. Cash equivalents consist primarily of store cash funds and daily store receipts in transit to our concentration bank and are carried at cost.

The Company uses controlled disbursement banking arrangements as part of its cash management program. Outstanding checks, which were included in accounts payable, totaled $1,705,180 at June 28, 2008 and $329,756 at December 29, 2007. The increase in outstanding checks as of June 28, 2008 is due to the timing of payments made in June 2008 compared to the timing of payments made in December 2007.

Restricted cash represents funds on deposit established for the benefit of and under the control of Wells Fargo Retail Finance II, LLC, the Company's lender under its line of credit, and constitutes collateral for amounts outstanding under the Company's line of credit.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short-term nature of these instruments. The fair value of borrowings under the Company's line of credit approximates carrying value because the debt bears interest at a variable market rate. The fair value of the capital lease obligations approximates the carrying value. The fair value of the notes payable approximates the carrying value. The fair value of the warrants issued in 2006 was determined by using the Black-Scholes model (volatility of 108%, interest of 4.73% and expected life of five years). The fair value of the warrants issued in 2008 was also determined by using the Black-Scholes model (volatility of 101%, risk free rate of 3.21% and expected life of five years).

Inventories

Inventories consist of party supplies and are valued at the lower of moving weighted-average cost or market. Inventory has been reduced by an allowance for obsolete and excess inventory, which is based on management's review of inventories on hand compared to estimated future sales. The Company records vendor rebates, discounts and certain other adjustments to inventory, including freight costs, and these amounts are recognized in the income statement as the related goods are sold.

The activity in the allowance for obsolete and excess inventory is as follows:

	Six months ended Jun 28, 2008	Twelve months ended Dec 29, 2007
Beginning balance	$ 969,859	$ 1,079,814
Increases to reserve	190,000	263,847
Write-offs against reserve	(27,760)	(373,802)

Ending balance	$	1,132,099	$	969,859

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Income Taxes

The Company adopted the provisions of Financial Accounting Standards Board (“FASB”) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (“FIN 48”) on December 31, 2006. At the adoption date and as of June 28, 2008, the Company had no material unrecognized tax benefits and no adjustments to liabilities, retained earnings or operations were required.

Net Income (Loss) per Share

Net income (loss) per basic share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding. The common share equivalents of Series B-F are required to be included in the calculation of net income (loss) per basic share in accordance with EITF Consensus 03-6, Participating Securities and the Two-Class Method under SFAS No. 128, which supersedes EITF Topic D-95, Effect of Participating Convertible Securities on the Computation of Basic Earnings Per Share. Since the preferred stockholders are entitled to participate in dividends when and if declared by the Board of Directors on the same basis as if the shares of Series B-F were converted to common stock, the application of EITF 03-6 has no effect on the amount of income (loss) per basic share of common stock. For periods with net losses, the Company does not allocate losses to Series B-F preferred stock.

Net income (loss) per diluted share under EITF 03-6 is computed by dividing net income (loss) by the weighted average number of common shares outstanding, plus the common share equivalents of Series B-F preferred stock on an if-converted basis, plus the common share equivalents of the “in the money” stock options and warrants as computed by the treasury method. For the periods with net losses, the Company excludes those common share equivalents since their impact would be anti-dilutive.

As of June 28, 2008, there were 28,500,554 potential additional common share equivalents outstanding, which were not included in the calculation of diluted net loss per share for the six months then ended because their effect would be anti-dilutive. These included 15,478,916 shares upon the conversion of immediately convertible preferred stock, 2,083,334 shares upon the exercise of a warrant with an exercise price of $0.475 per share, 528,210 shares upon the exercise of warrants with a weighted average exercise price of $3.79 per share, 100,000 shares upon the exercise of warrants with a weighted average exercise price of $1.50 per share and 10,310,094 shares upon the exercise of stock options with a weighted average exercise price of $0.59 per share.

Stock option compensation expense

On January 1, 2006, the Company adopted the Financial Accounting Standards Board (“FASB”) Statement No. 123(R), Share-Based Payments, using the modified prospective method. Under this method, stock based compensation expense is recognized for new grants beginning in 2006 and any unvested grants prior to the adoption of Statement No. 123(R). Prior to fiscal 2006, the Company accounted for share-based payments to employees using the Accounting Principles Board (“APB”) Opinion No. 25, Accounting for Stock Issued to Employees, and the disclosure-only provisions of Statement No. 123, Accounting for Stock-Based Compensation. Because the Company granted stock options to employees at exercise prices equal to fair market value on the date of grant, no stock based compensation cost was recognized for option grants in periods prior to fiscal 2006.

Under Statement No. 123(R), the Company uses the Black-Scholes option pricing model to determine the fair value of stock based compensation. The Black-Scholes model requires the Company to make several subjective assumptions, including the estimated length of time employees will retain their vested stock options before exercising them (“expected term”), and the estimated volatility of the Company’s common stock price over the expected term, which is based on historical volatility of the Company’s common stock over a time period equal to the expected term. The

Black-Scholes model also requires a risk-free interest rate, which is based on the U.S. Treasury yield curve in effect at the time of the grant, and the dividend yield on the Company's common stock, which is assumed to be zero since the Company does not pay dividends and has no current plans to do so in the future. Changes in these assumptions can materially affect the estimate of fair value of stock based compensation and consequently, the related expense recognized on the consolidated statement of operations. Under the modified prospective method, stock based compensation expense is recognized for new grants beginning in the fiscal year ended December 30, 2006 and any unvested grants prior to the adoption of Statement No. 123(R). The Company recognizes stock based compensation expense on a straight-line basis over the vesting period of each grant.

The stock based compensation expense recognized by the Company was:

	For the three months ended		For the six months ended	
	Jun 28, 2008	Jun 30, 2007	Jun 28, 2008	Jun 30, 2007
Stock Based Compensation Expense	$ 38,843	$ 19,546	$ 80,949	$ 30,438

Stock based compensation expense is included in general and administrative expense and had no impact on cash flow from operations and cash flow from financing activities for the six months ended June 28, 2008.

On September 26, 2007, the Board of Directors, acting on the recommendation of the Compensation Committee, extended the expiration date on options to purchase 970,087 shares of the Company's common stock held by a former officer for an additional six months following his termination date, making the expiration date August 15, 2008. As a result, additional stock based compensation of $14,569, representing the change in the fair value of these options immediately before and after this modification, was recorded as of September 26, 2007 as required by Statement No. 123(R).

Under the Company's Amended and Restated 1998 Incentive and Nonqualified Stock Option Plan (the "1998 Plan") options to acquire 11,000,000 shares of common stock may be granted to officers, directors, key employees and consultants. The exercise price for qualified incentive options cannot be less than the fair market value of the stock on the grant date and the exercise price of nonqualified options can be fixed by the Board. Options to purchase the Company's common stock under the 1998 Plan have been granted to employees, directors and consultants of the Company at fair market value at the date of grant. Generally, the options become exercisable over periods of up to four years, and expire ten years from the date of grant.

The Company granted options for the purchase of an aggregate of 200,000 shares of common stock to a key employee and each of the four independent members of the Board of Directors on June 4, 2008 at an exercise price of $0.29 per share. Similarly, the Company granted options for the purchase of an aggregate of 1,350,000 shares of common stock to key employees and each of the four independent members of the Board of Directors on June 6, 2007 at an exercise price of $0.42 per share. The weighted-average fair market value using the Black-Scholes option pricing model of the options granted on June 4, 2008 was $0.22 per share, and was $0.33 per share for the options granted on June 6, 2007. The fair market value of the stock options at the date of the grant was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	For the three months ended		For the six months ended	
	Jun 28, 2008	Jun 30, 2007	Jun 28, 2008	Jun 30, 2007
Risk-free interest rate	3.21%	4.94%	3.21%	4.94%
Expected volatility	101.2%	102.6%	101.2%	102.6%
Weighted average expected life (in years)	5.0	5.0	5.0	5.0
Expected dividends	0.00%	0.00%	0.00%	0.00%

A summary of the Company's stock options is as follows:

	Number of Stock Options	Weighted Average Exercise Price	Price Range	Weighted Average Remaining Life (Years)	Aggregate Intrinsic Value
Outstanding - December 29, 2007	10,130,594	$ 0.59	$ 0.13 - $ 4.25		
Granted	200,000	0.29	0.29 - 0.29		
Expired/Forfeited	(20,500)	0.57	0.20 - 0.69		
Exercised	-	-	- - -		
Outstanding - June 28, 2008	10,310,094	$ 0.59	$ 0.13 - $ 4.25	4.0	$ 10,749
Exercisable - June 28, 2008	9,194,392	$ 0.61	$ 0.13 - $ 4.25	3.4	$ 10,749
Available for grant - June 28, 2008	254,645				

The following table summarizes information for options outstanding and exercisable at June 28, 2008:

	Outstanding			Exercisable	
Price Range	Number of Stock Options	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
$ 0.13 - $ 0.20	137,750	3.1	$ 0.18	137,750	$ 0.18
0.21 - 0.30	3,988,682	2.7	0.25	3,788,682	0.25
0.31 - 0.50	2,468,027	6.8	0.39	1,558,150	0.37
0.51 - 1.00	3,074,435	4.2	0.78	3,068,610	0.78
1.01 - 3.50	541,200	1.1	2.33	541,200	2.33
3.51 - 4.25	100,000	1.5	4.14	100,000	4.14
Total	10,310,094	4.0	$ 0.59	9,194,392	$ 0.61

The remaining unrecognized stock based compensation expense related to unvested awards at June 28, 2008, was $323,993 and the period of time over which this expense will be recognized is 4.0 years.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and are depreciated on the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance and repairs are charged to operations as incurred. A listing of the estimated useful life of the various categories of property and equipment is as follows:

Asset Classification	Estimated Useful Life
Leasehold improvements	Lesser of term of lease or 10 years
Furniture and fixtures	7 years
Computer hardware and software	3 years
Equipment	5 years

Intangible Assets

On August 15, 2007, the Company entered into an Asset Purchase Agreement to purchase two franchised Party City Corporation retail stores in Lincoln, Rhode Island and Warwick, Rhode Island, in exchange for aggregate consideration of $1,350,000 plus up to $400,000 for associated inventory. On January 2, 2008, the Company completed the purchase of the two stores. The aggregate consideration paid was $1,350,000 plus approximately $195,000 for associated inventory. Funding for the purchase was obtained from the Company's existing line of credit with Wells Fargo Retail Finance. The stores were converted into iParty stores immediately following the closing of the transaction.

Intangible assets consist primarily of (i) the values of two non-compete agreements acquired in conjunction with the purchase of retail stores in 2006 and 2008, and (ii) the values of retail store leases acquired in those transactions. These assets have been accounted for at fair value as of their respective acquisition dates using significant other observable inputs, or Level 2 criteria, specified by SFAS No. 157 (see Fair Value Measurements section below).

The first non-compete agreement, from Party City Corporation and its affiliates, covers Massachusetts, Maine, New Hampshire, Vermont, Rhode Island, and Windsor and New London counties in Connecticut, and expires in 2011. The second non-compete agreement was acquired in connection with the Company's purchase in January 2008 of the two party supply stores in Lincoln and Warwick, Rhode Island described above. It covers Rhode Island for five years from the date of closing and the rest of New England for three years. Both non-compete agreements have an estimated life of 60 months and are subject to certain terms and conditions in their respective acquisition agreements.

The occupancy valuations relate to acquired retail store leases for stores in Peabody, Massachusetts (estimated life of 90 months), Lincoln, Rhode Island (estimated life of 79 months) and Warwick, Rhode Island (estimated life of 96 months). Intangible assets also include legal and other transaction costs incurred related to the purchase of the Peabody, Lincoln and Warwick stores.

Intangible assets as of June 28, 2008 and December 29, 2007 were:

		Jun 28, 2008		Dec 29, 2007
Non-compete agreements	$	2,358,540		1,688,346
Occupancy valuations		944,716		449,716
Other		157,855		182,048
Intangible assets		3,461,111		2,320,110
Less: accumulated amortization		(878,465)		(563,310)
Intangible assets, net	$	2,582,646	$	1,756,800

Amortization expense for these intangible assets was:

	For the three months ended				For the six months ended			
	Jun 28, 2008		Jun 30, 2007		Jun 28, 2008		Jun 30, 2007	
Amortization expense	$	162,394	$	114,498	$	315,154	$	228,996

The amortization expense for the non-compete agreement and other intangible assets is included in general and administrative expense in the Consolidated Statement of Operations. The amortization expense for occupancy valuation is included in cost of products sold and occupancy costs in the Consolidated Statement of Operations.

Future amortization expense related to these intangible assets as of June 28, 2008 is:

Year		Amount
2008	$	315,154
2009		630,308
2010		630,308
2011		489,612
2012		292,638
Thereafter		224,626
Total	$	2,582,646

Accounting for the Impairment of Long-Lived Assets

In accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company reviews each store for impairment indicators whenever events and changes in circumstances suggest that the carrying amounts may not be recoverable from estimated future store cash flows. The Company's review considers store operating results, future sales growth and cash flows. During the third quarter of 2007, the Company decided to close its stores in North Providence, Rhode Island and Auburn, Massachusetts at the end of their lease terms, which expired on January 31, 2008. No material impairment costs were incurred as a result of that decision. As of June 28, 2008, the Company does not believe that any of its assets are impaired.

Notes Payable

Notes payable