NEXT INC/TN
Form 10-Q
April 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

[X]

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarterly Period Ended March 2, 2007

OR

[ ]

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-25247

NEXT, INC.

(Exact name of small business issuer as specified in its charter)

Delaware	**95-4675095**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7625 Hamilton Park Drive, Suite 12

Chattanooga, Tennessee 37421

(Address and zip code of principal executive offices)

Registrant s telephone number, including area code: **(423) 296-8213**

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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [X]

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

As of April 6, 2007 there were 18,493,852 shares of the registrant s common stock issued and outstanding.

NEXT, INC.

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Part I FINANCIAL INFORMATION

Item 1.

Financial Statements

NEXT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

		March 2, 2007 (unaudited)		December 1, 2006 (audited)
Assets				
Current assets:				
Cash	$	80,987	$	80,700
Accounts receivable, net of allowance for doubtful accounts and contractual allowances of $138,520 and $235,876, respectively		3,052,677		6,705,812
Notes receivable		33,707		37,707
Inventories		3,753,632		4,026,565
Prepaid expenses		331,942		373,183
Other current assets		14,178		449,081
Deferred taxes, current		400,000		400,000

Total current assets		7,667,123		12,073,048
Property, plant and equipment, net		2,598,084		2,662,838
Goodwill		4,369,825		4,369,825
Notes receivable		27,773		32,504
Deferred taxes		429,377		176,628
Other assets, net		1,351,561		1,444,080
Total Assets	$	16,443,743	$	20,758,923
Liabilities and Stockholders Equity				
Current liabilities:				
Accounts payable	$	654,837	$	3,217,014
Accrued expenses and other current liabilities		626,460		1,025,848
Short-term debt and current maturities		607,285		860,866
Loan from stockholders		200,000		200,000
Line of credit		3,850,506		4,217,238
Total current liabilities		5,939,088		9,520,966
Long-term debt, less current maturities		3,162,633		3,235,785

Loan from stockholders		300,000		300,000
Total liabilities		9,401,721		13,056,751
Commitments and contingencies				
Stockholders equity		7,042,022		7,702,172
Total Liabilities and Stockholders Equity	$	16,443,743	$	20,758,923

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

NEXT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended	
	March 2, 2007	March 3, 2006
	(unaudited)	(unaudited)
Net sales	$ 3,625,923	$ 4,850,407
Cost of sales	2,535,076	3,636,513
Gross profit	1,090,847	1,213,894
General, administrative, and selling expenses	1,558,221	1,454,910
Operating loss	(467,374)	(241,016)
Interest	(172,464)	(167,312)
Other expense	(3,867)	(10,878)
Loss before income taxes	(643,705)	(419,206)
Benefit for income taxes	(252,749)	(167,573)
Net loss	$ (390,956)	$ (251,633)
Net loss per share, basic and diluted	$ (0.02)	$ (0.01)
Weighted average shares outstanding, basic and diluted	18,606,715	18,506,579

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

NEXT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	March 2, 2007 (unaudited)	March 3, 2006 (unaudited)
Cash flows from operating activities:		
Net loss	$ (390,956)	$ (251,633)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	167,892	191,930
Noncash compensation	506	506
Noncash fees	4,176	5,800
Loss on sale of asset		3,550
Bad debt expense	33,000	(20,557)
Deferred taxes	(252,749)	(167,573)
Changes in operating assets and liabilities:		
Accounts receivable	3,620,135	3,009,534
Notes receivable	8,731	10,764
Inventories	272,933	1,051,306
Prepaid expenses	41,241	(104,979)
Other current assets	74,903	(41,804)

Accounts payable	(2,562,177)	34,035
Accrued expenses and other liabilities	(399,388)	(358,351)
Total adjustments	1,009,203	3,614,161
Net cash provided by operating activities	618,247	3,362,528
Cash flows from investing activities:		
Purchases of property, plant and equipment	(6,852)	(5,222)
Cash received from proceeds on sale of asset		2,700
Cash paid for intangible assets	(3,767)	(45,817)
Net cash used in investing activities	(10,619)	(48,339)
Cash flows from financing activities:		
Revolving credit facility, net	(366,732)	(3,310,347)
Repayments of long term debt and loans payable	(240,609)	(70,458)
Issuance of common stock for options		500
Net cash used in financing activities	(607,341)	(3,380,305)
Net increase (decrease) in cash	287	(66,116)
Cash, beginning of period	80,700	152,601

Cash, end of period	$	80,987	$	86,485
Supplemental Information:				
Cash paid during the period for interest	$	168,006	$	203,926
Non-Cash Investing and Financing Activities:				
Equity securities issued in payment of debt obligation	$	86,125	$	
Equity securities retired in payment of note receivable	$	(360,000)	$	(510,000)

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

NEXT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1.

Organization and Operations of Company

Next, Inc. (the Company) is the parent company of two wholly owned subsidiaries: (i) Next Marketing, Inc. (Next Marketing), and (ii) Choice International, Inc. (Choice). The Company is a creative and innovative sales and marketing organization that designs, develops, markets and distributes licensed products and imprinted sportswear primarily through key licensing agreements and the Company s own proprietary designs.

2.

Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements contained herein have been prepared in accordance with generally accepted accounting principles for interim financial statements, the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. (Previously, the Company filed quarterly reports on Form 10-QSB and therefore, the condensed consolidated financial statements therein were prepared in accordance with the instructions to Form 10-QSB and Item 310 of Regulation S-B in addition to generally accepted accounting principles for interim financial statements.) Accordingly, these financial statements do not include all the information and footnotes required by generally accepted accounting principles for annual financial statements. In addition, certain comparative figures presented have been reclassified to conform the prior year s data to the Company s current financial statements. In the opinion of management, the accompanying condensed consolidated financial statements contain all the adjustments necessary (consisting only of normal recurring accruals and adjustments) to fairly present the financial position of the Company at December 1, 2006 and March 2, 2007, and its results of operations and cash flows for the three months ended March 3, 2006 and March 2, 2007. Operating results for the three months ended March 2, 2007, are not necessarily indicative of the results that may be expected for the fiscal year ending November 30, 2007. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the company s latest shareholders annual report (Form 10-KSB).

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company balances and transactions have been eliminated.

Customer Base and Credit Concentration

The Company has developed a large, diverse, and distinguished customer base of traditional retailers that include national as well as large regional chains, specialty retailers, corporate accounts, college bookstores, motor sports, souvenir and gift shops, and golf shops. This expansion has been achieved through the acquisition of CMJ, Lil Fan, Choice, S-2-S, and their respective customer bases, the introduction of additional major product lines and distribution channels, such as the Motor Sports Division, which sells to a national auto dealer market consisting of approximately 9,000 potential customers, as well as expansion of its traditional national retail merchant customer base. In the three months ended March 2, 2007, sales to the Company s top two customers accounted for 67% of total sales. In the three months ended March 3, 2006, sales to the Company s top four customers accounted for 58% of total sales. The Company s management believes that the Company s credit risk exposure is limited based on current information available with respect to the financial strength of its customers and previously recorded reserves. Such estimates could change in the future.

The Company is subject to seasonality in its sales cycle due to the amount of college-licensed products. The seasonality of sales results in the majority of the Company s revenues being generated in the third and fourth quarters.

New Pronouncements

The SEC has issued a final rule on the Internal Control over Financial Reporting in Exchange Act Periodic Reporting of Non-Accelerated Filers and newly Public Companies . The final rules set the dates to comply with the internal control reporting requirements mandated by Section 404 of the Sarbanes-Oxley Act of 2002. Non-accelerated filers must provide assessment regarding internal control over financial statements in its annual report for fiscal years ending after December 15, 2007 which will be the Company s November 28, 2008 fiscal year end and must comply with the auditor attestation requirement in fiscal years ending after December 15, 2008, which will be the Company s November 27, 2009 fiscal year end. The Company plans to be in full compliance with these internal control reporting requirements by the effective dates.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB No. 115 (SFAS No. 159). This statement permits an entity to choose to measure many financial instruments and certain other items at fair value. The statement permits all entities to choose to measure eligible items at fair value at specified election dates. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company does not believe that adoption of this statement will have a material impact on its consolidated financial position or result of operations.

In September 2006, the FASB issued Statement no. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB Statement No. 87, 88, 106 and 132(R) (SFAS No. 158). This statement requires an employer to recognize in its financial statements the funded status of a defined benefit plan, determine the funded status at the end of the employer s fiscal year and recognize changes in the fund status of a defined postretirement plan in the year a change occurs. SFAS 158 becomes effective in phases beginning with financial statements issued for the fiscal years beginning after December 15, 2006 and completed by financial statements issued for the fiscal years beginning after December 15, 2008. The Company does not believe that adoption of this statement will have a material impact on its consolidated financial position or result of operations.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements, (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework and gives guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. Accordingly, SFAS No. 157 does not require any new fair value measurements, but will change current practice for some entities. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company will apply this standard prospectively. The company is studying this pronouncement, but currently believes it will not have a material effect on the Company s consolidated financial statements.

In June 2006, the FASB published Interpretation No. 48, Accounting for Uncertainty in Income Taxes, (Interpretation No. 48). This interpretation requires companies to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. Interpretation No. 48 also provides guidance on derecognition classification, accounting in interim periods, and disclosure requirements for tax contingencies. This interpretation is effective for fiscal years beginning after December 15, 2006. The Company does not believe that the application of FIN 48 will have a material effect on the Company s results of operations or financial position.

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 (SFAS No. 155). Among other things, SFAS No. 155 allows financial statement preparers to elect fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. This statement also eliminates the exemption from applying SFAS No. 133 to interests in securitized financial assets. SFAS No. 155 is effective for all financial instruments acquired or issued by the Company after fiscal year 2008, beginning December 1, 2007. The Company does not believe that adoption of this statement will have a material impact on its consolidated financial position or result of operations.

3.

Inventories

Inventories are valued at the lower of cost or market. Cost is determined by the first-in, first-out method, and market represents the lower of replacement cost or net realizable value. Inventories as of March 2, 2007 and December 1, 2006, consisted of the following:

	March 2, 2007	December 1, 2006
Raw materials	$ 2,391,882	$ 2,657,611
Finished goods	1,361,750	1,368,954
	$ 3,753,632	$ 4,026,565

4.

Deferred and Income Taxes

Income taxes have been computed in accordance with SFAS No. 109, Accounting for Income Taxes. This standard requires, among other things, recognition of future tax expenses or benefits, measured using enacted tax rates, attributable to taxable or deductible temporary differences between financial statements and income tax reporting bases of assets and liabilities.

The ultimate realization of deferred tax assets is dependent upon the attainment of forecasted results of operations. Management has taken these and other factors into consideration in recording the deferred tax estimate. The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at March

2, 2007 and December 1, 2006, are as follows:

	March 2, 2007	December 1, 2006
Assets:		
Accounts receivable allowance	$ 16,866	$ 4,185
Net operating loss carryforwards	1,111,684	882,342
Total deferred tax assets	$ 1,128,550	$ 886,527
Liabilities:		
Property, plant and equipment	$ 234,740	$ 240,034
Goodwill and other intangibles	64,433	69,865
Total deferred tax liabilities	$ 299,173	$ 309,899
Deferred taxes, net	$ 829,377	$ 576,628
Current	$ 400,000	$ 400,000
Noncurrent	$ 429,377	$ 176,628

5.

Short-Term and Long-Term Debt

Short-term and long-term debt at March 2, 2007 and December 1, 2006 consisted of the following:

	March 2, 2007		December 1, 2006	
	Short Term	Long Term	Short Term	Long Term
Revolving credit facility	$ 3,850,506	$	$ 4,217,238	$
Notes payable	807,285	3,462,633	1,060,866	3,535,785
Total	$ 4,657,791	$ 3,462,633	$ 5,278,104	$ 3,535,785

Various assets collateralize all of the Company s debt and certain amounts are guaranteed by its principal stockholders.

The Company signed a new credit facility with National City Bank on January 31, 2007 for two years, expiring on January 31, 2009. The new agreement increases the total line to $7,500,000, decreases the interest rate to prime plus or minus .25% (depending on certain financial ratios), increases the advance rates on accounts receivable to 85%, and establishes new quarterly financial covenants. In addition, the agreement calls for monthly payments of interest at a nationally published prime rate plus .25% (8.25% was the published rate at March 2, 2007). The loan is collateralized by accounts receivable, inventory, and limited personal guarantees of the Company s Chief Executive Officer and one board member.

On November 30, 2006, the Company entered into a subordinated loan agreement with Next Investors, LLC for $500,000, to replace an agreement originally executed on July 20, 2005. The purpose of this loan was to provide working capital to be repaid out of future cash flows. The loan has an interest rate of prime plus .25% and maturity date of November 30, 2008. Next Investors, LLC principal partners are comprised of one director and two major shareholders of the Company. As of March 2, 2007, interest expense on this loan totaled $10,743 for the three months then ended and accrued interest was $10,598. As of March 3 2006, expense on this loan totaled $9,479 for the three months then ended and accrued interest was $9,479.

On April 6, 2006, the Company entered into a Subscription Agreement for Convertible Notes and Warrants with the following investors: DKR Soundshore Oasis Holding Fund Ltd., Alpha Capital Aktiengesellschaft, Monarch Capital Fund, Ltd., Iroquois Master Fund, Ltd., and Bluegrass Growth Fund, LP (collectively, the Investors), pursuant to which the Company issued to the Investors, as a group, $984,960 in principal amount of convertible promissory notes (the Notes) and warrants (the Warrants) to purchase 849,103 shares of common stock of the Company (the Common Stock). The Notes require equal monthly payments of cash or stock in the amount of $86,184 over a 12-month period starting 115 days after closing and will be fully subordinated to the Company s senior lenders. The Notes are convertible into a total of 1,698,207 shares of Common Stock at a conversion rate of $.58 in principal amount of the Notes per share. The warrants have a three-year term and an exercise price of $.68 per share of Common Stock. The Company has filed a registration statement with the Securities and Exchange Commission for the offer and sale by the Investors of the Common Stock underlying both the Notes and Warrants. In connection with these transactions, the Company issued to JPC Capital Partners, Inc., as placement agent, warrants to purchase 152,838 shares of Common Stock on the same terms as the Warrants issued to the Investors. As of March 2, 2007 the balance outstanding on this debt obligation was $345,062; two of the twelve required monthly payments were paid in stock and the remainder in cash since inception of this obligation.

6.

Contingencies

From time to time, the Company is a party to litigation arising in the normal course of its business operations. In the opinion of management, after consulting with legal counsel, it is not anticipated that the matters will have a material adverse impact on the Company s financial condition, liquidity or results of operations.

7.

Stockholders Equity

Stockholders equity was comprised of the following:

	March 2, 2007	December 1, 2006
Common stock, $.001 par value; 100,000,000 shares authorized, 18,223,019 and 18,626,029 shares issued and outstanding at March 2, 2007 and December 1, 2006, respectively	$ 18,223	$ 18,626
Additional paid-in capital	7,009,292	7,278,589
Retained earnings	41,807	432,763
Unearned compensation	(27,300)	(27,806)
Total stockholders equity	$ 7,042,022	$ 7,702,172

On February 27, 2007, Creative Thinking, Inc., which at the time was owned by Company s former Chief Executive Officer, William B. Hensley, III, returned 600,000 shares of Next, Inc. common stock to satisfy a promissory note executed for $360,000 to purchase certain licenses. These shares were cancelled and taken out of circulation. The transaction was valued at the market price of the stock on November 28, 2006, pursuant to the terms of a purchase agreement dated November 28, 2006, as amended. Pursuant to the terms of the purchase agreement, Creative

Thinking, Inc. elected on February 27, 2007, to deliver shares of common stock of the Company to satisfy the promissory note in lieu of satisfying the promissory note with a cash payment.

On January 17, 2006, Mr. Hensley returned 500,000 shares of Next, Inc. common stock to satisfy a promissory note and sales agreement executed for $510,000 to purchase certain inventory items. These shares were cancelled and taken out of circulation. The transaction was valued at the market price of the stock on November 17, 2005, pursuant to the terms of a promissory note and sales agreement dated November 17, 2005. Pursuant to the terms of the promissory note and sales agreement, Mr. Hensley elected to deliver shares of common stock of the Company in lieu of cash to satisfy his obligations under the promissory note and sales agreement.

8.

Earnings (Loss) Per Share

The Company accounts for earnings (loss) per share (EPS) in accordance with SFAS No. 128, Earnings (Loss) Per Share. SFAS 128 requires the presentation of basic and fully diluted EPS. Basic and diluted EPS for the three months ended March 2, 2007 and March 3, 2006, are calculated on the basis of the weighted average number of common shares outstanding.

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	March 2, 2007	March 3, 2006
Numerator:		
Basic and diluted earnings (loss) per share net income (loss)	$ (390,956)	$ (251,633)
Denominator:		
Basic weighted average common shares	18,606,715	18,506,579
Effect of dilutive stock options, warrants, and contingent acquisition related shares		
Denominator for diluted earnings (loss) per share	$ 18,606,715	$ 18,506,579
Basic earnings (loss) per share	$ (0.02)	$ (0.01)
Diluted earnings (loss) per share	$ (0.02)	$ (0.01)

Item 2.

Management s Discussion and Analysis of Financial Condition and Results of Operations.

You should read this section together with our condensed consolidated financial statements and related notes thereto included elsewhere in this report. In addition to the historical information contained herein, this report contains forward-looking statements that involve risks and uncertainties. Forward-looking statements are not based on historical information but relate to future operations, strategies, financial results or other developments. Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. Certain statements contained in this Form 10-Q, including, without limitation, statements containing the words believe, anticipate, estimate, expect, are of the opinion that and words of similar import constitute forward-looking statements. Y should not place any undue reliance on these forward-looking statements.

You should be aware that our actual growth and results could differ materially from those contained in the forward-looking statements due to a number of factors, which include, but are not limited to the following: the risks and uncertainties set forth below; economic and business conditions specific to the promotional products and imprinted sportswear industry; competition and the pricing and mix of products offered by us and our competitors; style changes and product acceptance; relations with and performance of suppliers; our ability to control costs and expenses; carry out successful designs and effectively communicate with our customers and to penetrate their chosen distribution channels; access to capital; foreign currency risks; risks associated with our entry into new markets or distribution channels; risks related to the timely performance of third parties, such as shipping companies, including risks of strikes or labor disputes involving these third parties; maintaining satisfactory relationships with our banking partners; political and trade relations; the overall level of consumer spending; global economic conditions and additional threatened terrorist attacks and responses thereto, including war. There may be other factors not mentioned above or included elsewhere in this report that may cause actual results to differ materially from any forward-looking information. You should not place undue reliance on these forward-looking statements. We assume no obligation to update any forward-looking statements as a result of new information, future events or developments, except as required by applicable securities laws.

Introduction

As noted elsewhere in this report, the Company s principal customers are large national and regional retailers. In order to maintain its relationship with these customers, enhance revenues from them and enable them to improve their revenues and margins, the Company must work closely with these customers to ensure they receive the Company s products expeditiously and economically. The Company works diligently to maintain what Management calls supply chain excellence a way for the Company to provide value added services to its customers.

In servicing its customers, the Company faces competition from numerous other providers of licensed promotional products. Many of these competitors are larger and better capitalized than the Company. Additionally, if the Company is to continue to grow its business by adding additional products and by making strategic acquisitions, it will require additional capital.

In assessing the Company s performance, Management focuses on (a) increasing revenues primarily through enhancing its licensing programs and (b) protecting such revenues by diversifying its customer bases regionally and demographically. In order to enhance profitability, Management monitors and seeks to improve gross margins primarily by internal cost controls and through international purchases of raw materials. Management also strives to reduce fixed costs as a percentage of sales, improve inventory turnover and reduce receivables measured by day s sales outstanding, all in an effort to improve profitability and cash flow.

Overview

The Company is a creative and innovative sales and marketing organization that designs, develops, markets, and distributes licensed and branded promotional products and imprinted sportswear primarily through key licensing agreements as well as the Company s own proprietary brands. Management believes that there are substantial growth opportunities in the promotional products and imprinted sportswear industries. Management believes that the Company is well positioned to take advantage of such growth opportunities. Management believes that the Company has an excellent reputation in the marketplace as a result of its ability to provide quality products and services, on-time delivery, at competitive prices. In recent years, licensed imprinted sportswear has become very popular. Licensing agreements are available for branded products and services, amateur and professional sports teams, and many other promotional areas. To maximize its potential, the Company is continually expanding its license program, which currently includes the following:

The Company s licensed and proprietary products include the following:

§

Approximately 200 licenses and agreements to distribute its **Cadre Athletic**™, and **Campus Traditions USA**™ line for most major colleges and universities in the U.S.;

§

Licensing agreements with **Chevrolet®**, **Pontiac®**, **Hummer®**, **Cadillac®**, **Buick®**, **Corvette C6®, Dodge®**, **GMC®, Chrysler®, Plymouth®,** and **Ford®** for their respective "branded" logos for the **RPM Sports USA**™ motor sports line, targeting the automotive dealership network and automotive venue markets;

§

Proprietary designs including **American Biker**™, **American Wildlife**™, **Ragtops Sportswear**™, **Campus Traditions USA**™ and **Cadre Athletic**™, among others;

§

Licensing and distribution agreements with **Sturgis "Bike Rally"**, **Indianapolis Motor Speedway, GRITS,** and **Rivalfish.**

Operations and Expansion

The Company is one of the significant companies in the highly fragmented licensed products and imprinted sportswear industries. The Company has implemented its strategy of The Total Solution Company to meet its customers key requirements including: art design and development, manufacturing (for imprinted sportswear), sourcing (for distributed products), warehousing and fulfillment. The Company has developed a large, diverse, and distinguished customer base of traditional retailers, ranging from national as well as large regional chains, specialty retailers, corporate accounts, college bookstores, motor sports, souvenir and gift shops, and via the Company s internet web stores.

The Company may be engaged in discussions with various potential acquisition targets and plans to grow through strategic acquisitions of complementary businesses. The Company has an acquisition program that targets companies servicing other segments of the promotional products and imprinted sportswear industry not currently serviced by the Company. It is anticipated that such strategic acquisition targets will enable the Company to more effectively utilize its marketing and sales expertise, acquire the ability to cross-distribute its branded products and licenses throughout a wider distribution base, lessen its dependency on the seasonality of retail customers and reduce overall operating costs by consolidating its services and distribution facilities, to the extent feasible.

The Company has expanded its business to include e-commerce web sites through which some of the Company's most popular licensed products are marketed. The Company has been successful in establishing itself as a premier supplier under various e-commerce web sites, currently the most significant of which are www.campustraditionsusa.com™; www.rpmsportswearusa.com™; www.americanwildlifeusa.com™, and www.americanbiker.com™. The Company plans to establish additional e-commerce web sites as other product lines are established. The corporate website, www.nextinc.net, provides information to the general public about the Company.

Results of Operations

Summary

Net loss for the three-month period ended March 2, 2007, worsened by $139,323 when compared to the net loss for the similar period ended March 3, 2006. This result occurred because the Company s net sales volume dropped $1,224,484 in several channels as enumerated below. That decline in net sales had a predictable effect on gross profit dollars, but was partially offset by a 5.1% improvement in gross profit percentage, which resulted from cost improvements that were previously implemented. Operating and other expenses were up $101,452 for the three-month period ended March 2, 2007, compared to the same period last year principally due to higher selling expenses and higher general corporate administration expenses explained in more detail below.

The following table sets forth certain items in the Company s condensed consolidated statement of operations for the three months ended March 2, 2007 and March 3, 2006. These statements should be read in conjunction with the audited financial statements of the Company as filed in the Form 10-KSB.

	Three Months Ended	
	March 2, 2007 (unaudited)	March 3,2006 (unaudited)
Net sales	$ 3,625,923	$ 4,850,407
Cost of sales	2,535,076	3,636,513
Gross profit	1,090,847	1,213,894
Operating and other expenses:		
Operations	700,856	691,853
Royalties, commissions, and selling expenses	575,416	509,061
Corporate expenses	281,949	253,996
Interest expenses	172,464	