

NEXT INC/TN
Form 10-Q
October 19, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 30, 2009

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 registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

95-4675095
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes [] No []

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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer [] Accelerated Filer [] Non-Accelerated Filer [] Smaller Reporting Company [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 October 1, 2009, there were 27,390,055 shares of the registrant's common stock issued and outstanding.

NEXT, INC.

TABLE OF CONTENTS

Part I Financial Information

Item 1. Financial Statements

Condensed Consolidated Balance Sheets as of August 30, 2009, and November 28, 2008

3

Condensed Consolidated Statements of Operations for the three and nine months ended
August 30, 2009, and August 29, 2008

4

Condensed Consolidated Statements of Cash Flows for the nine months ended
August 30, 2009, and August 29, 2008

5

Notes to Condensed Consolidated Financial Statements

6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

12

Item 3. Quantitative and Qualitative Disclosures About Market Risk

18

Item 4T. Controls and Procedures

19

Part II Other Information

Item 1. Legal Proceedings

20

Item 6. Exhibits

20

Part I FINANCIAL INFORMATION

Item 1.

Financial Statements

NEXT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	August 30, 2009 (unaudited)	November 28, 2008
Assets		
Current assets:		
Cash	\$ 138,481	\$ 139,909
Accounts receivable, net of allowance for doubtful accounts		
in 2009 and 2008 of \$86,615 and \$87,445, respectively		
	3,441,680	4,384,238
Inventories	4,860,139	5,563,982
Prepaid expenses	271,451	155,250
Other current assets	24,467	79,764

Edgar Filing: NEXT INC/TN - Form 10-Q

Total current assets	8,736,218	10,323,143
Property, plant and equipment, net	1,964,372	2,141,039
Deferred taxes, net of valuation allowances		
Other assets, net	588,001	764,157
Total Assets	\$ 11,288,591	\$ 13,228,339

Liabilities and Stockholders Equity

Current liabilities:

Accounts payable	\$ 2,850,164	\$ 2,182,051
Accrued expenses and other current liabilities	2,469,422	839,368
Line of credit	2,035,087	5,144,524
Short-term debt and current maturities	2,655,924	2,837,993
Loan from stockholders	200,000	200,000
Total current liabilities	10,210,597	11,203,936
Long-term debt, less current maturities		
Total liabilities	10,210,597	11,203,936
Stockholders equity	1,077,994	2,024,403

Edgar Filing: NEXT INC/TN - Form 10-Q

Total Liabilities and Stockholders Equity	\$ 11,288,591	\$ 13,228,339
---	---------------	---------------

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	
	August 30, 2009 (unaudited)	August 29, 2008 (unaudited)
Net sales	\$ 5,125,079	\$ 7,323,686
Cost of sales	3,711,729	5,099,300
Gross profit	1,413,350	2,224,386
Selling, general, and administrative expenses	1,191,881	1,734,762
Operating income	221,469	489,624
Interest	(150,466)	(177,732)
Other income	470	477
Income before income taxes	71,473	312,369
Provision for income taxes		99,963
Net income	\$ 71,473	\$ 212,406

Edgar Filing: NEXT INC/TN - Form 10-Q

Net income per share, basic and diluted	\$	0.003	\$	0.008
Weighted average shares outstanding, basic		27,378,055		27,348,681
Weighted average shares outstanding, diluted		27,378,055		27,419,459
		Nine Months Ended		
		August 30, 2009		August 29, 2008
		(unaudited)		(unaudited)
Net sales	\$	10,738,983	\$	11,981,853
Cost of sales		7,960,054		8,500,042
Gross profit		2,778,929		3,481,811
Selling, general, and administrative expenses		3,273,025		4,212,515
Operating loss		(494,096)		(730,704)
Interest		(458,273)		(457,202)
Other income		4,135		75,058
Loss before income taxes		(948,234)		(1,112,848)
Benefit for income taxes				430,043

Edgar Filing: NEXT INC/TN - Form 10-Q

Net loss	\$	(948,234)	\$	(682,805)
Net loss per share, basic and diluted	\$	(0.03)	\$	(0.03)
Weighted average shares outstanding, basic & diluted		27,373,276		24,478,611

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

NEXT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	August 30, 2009	August 29, 2008
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net loss	\$ (948,234)	\$ (682,805)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	438,668	473,612
Noncash compensation	1,516	1,517
Noncash fees	309	3,210
Bad debt expense		15,000
Deferred taxes		(430,043)
Changes in operating assets and liabilities:		
Accounts receivable	942,558	809,129
Inventories	703,843	(523,878)
Prepaid expenses	(68,821)	(45,919)
Other assets	56,797	17,947

Edgar Filing: NEXT INC/TN - Form 10-Q

Accounts payable	668,113	935,618
Accrued expenses and other liabilities	1,630,054	(407,722)
Total adjustments	4,373,037	848,471
Net cash provided by operating activities	3,424,803	165,666
Cash flows from investing activities:		
Purchases of property, plant and equipment	(7,515)	(32,223)
Cash paid for intangible assets	(5,019)	(17,244)
Net cash used in investing activities	(12,534)	(49,467)
Cash flows from financing activities:		
Revolving credit facility, net	(3,109,437)	(518,654)
Repayments of long term debt, loans and notes payable		
	(182,069)	(209,726)
Issuance of common stock, net		495,000
Fees paid for financing activities	(122,191)	(5,000)
Net cash used in financing activities	(3,413,697)	(238,380)
Net decrease in cash	(1,428)	(122,181)
Cash, beginning of period	139,909	200,276

Edgar Filing: NEXT INC/TN - Form 10-Q

Cash, end of period	\$	138,481	\$	78,095
---------------------	----	---------	----	--------

Supplemental Information:

Cash paid during the period for interest	\$	457,607	\$	520,539
--	----	---------	----	---------

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. The Company also distributes its own proprietary designs.

2.

Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

On March 24, 2009, the Board of Directors of the Company approved a change in the Company's fiscal year end from the Friday ending the 13-week period of the Company's fourth fiscal quarter to the Sunday ending the 13-week period of the Company's fourth fiscal quarter. As a result, the Company's 2009 fiscal year will end on Sunday, November 29, 2009, rather than on Friday, November 27, 2009.

The condensed consolidated balance sheet as of November 28, 2008, (and disclosure information as applicable) contained herein has been derived from audited financial statements. The unaudited interim 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 Rules 8-03 and 10-01 of Regulation S-X. 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 may 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 August 30, 2009, and November 28, 2008, and its results of operations for the three and nine months ended August 30, 2009, and August 29, 2008, and the cash flows for the nine months ended August 30, 2009, and August 29, 2008.

Operating results for the three and nine months ended August 30, 2009, are not necessarily indicative of the results that may be expected for the fiscal year ending November 29, 2009. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended November 28, 2008.

The accompanying financial statements do not include any adjustment that might be necessary if the Company is unable to continue as a going concern. They have been prepared on the basis of accounting principles applicable to a going concern which contemplates the realization of assets and extinguishment of liabilities in the normal course of business. The Company is dependent upon available cash, operating cash flow and its line of credit to meet its capital needs.

The Company has continued to make progress in seeking a replacement lender for its asset based line of credit. On September 30, 2009, the Company and National City Bank entered an agreement which extends the maturity date of the line of credit facility to October 30, 2009. National City Bank has not given any assurances as to any post-maturity credit extensions as part of the current extension. However, the purpose of the this 30 day extension is to permit further progression of current discussions between the Company and National City Bank toward a possible alternative structuring of the line of credit facility for a longer term agreement. As part of these discussions, the Company has agreed to retain independent consultants to help it evaluate alternative strategic options. In August 2009, a potential new lender that had made a proposal to the Company resumed its due diligence after having previously placed these procedures on hold pending the Company's reporting of certain 2009 results. This potential new lender has now completed the pre loan audit and has begun other due diligence procedures such as an inventory appraisal.

The Company can make no assurances as to whether it will be able to consummate a replacement line of credit facility with any potential lenders.

In addition to soliciting and evaluating proposals to replace its current asset based line of credit facility, the Company has executed and continues to execute several restructuring and cash conservation initiatives which have occurred from mid-2008 to the present that include:

- .
- A reorganization that included personnel terminations from all parts of the organization;
- .
- Ten percent across the board salary cuts;
- .
- Conversion of sales personnel expenses from fixed to variable;
- .
- Managing working capital through the optimization of inventory levels;
- .

Restructuring and reengineering processes to reduce operating costs and improve efficiency;

.

Completing a restructuring of loan documentation with Crossroads Bank; and

.

Implementing a customer sponsored alternative financing arrangement to reduce revolving debt.

While management believes these initiatives will better align the Company's costs with its anticipated revenues going forward, it will take time for these initiatives to have an impact on net revenue and operating income, although several of the above initiatives are evident in the Company's current operating results.

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. In the nine months ended August 30, 2009, sales to the Company's three largest customers whose purchases were greater than or equal to ten percent of total sales accounted for 81% of total sales. Amounts due to the Company from these three largest customers accounted for 82% of accounts receivable as of August 30, 2009. In the nine months ended August 29, 2008, sales to the Company's three largest customers whose purchases were greater than or equal to ten percent of total sales accounted for 77% of total sales. Amounts due to the Company from these three largest customers accounted for 80% of accounts receivable as of August 29, 2008. 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 experiences seasonality in its sales cycle due to the amount of school-licensed products. The seasonality of sales results in 60 to 80 percent of the Company's revenues being generated in the third and fourth quarters. Seasonality is also affected by significant selling price differentials which result from sales of heavier garments in fall and winter months.

Sale of Receivables

We have entered into agreements to sell qualifying accounts receivable from time to time to certain financial institutions on a nonrecourse basis. We received net proceeds from the sale of receivables of \$1,785,785 for the three months and nine months ended August 30, 2009 and incurred fees of \$7,355 to do so. We have not established a

target for the sale of accounts receivable for the remainder of fiscal 2009.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standard Codification and the Hierarchy of the Generally Accepted Accounting Principles-a replacement of SFAS No. 162 (SFAS 168)*, to become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company is currently assessing the impact that SFAS 168 will have on its consolidated financial statements.

In May 2009, the FASB issued SFAS 165, *Subsequent Events*, to establish standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for financial statements issued for interim and annual periods ending after June 15, 2009. We adopted the provisions of SFAS 165 for our fiscal quarter ended August 30, 2009. The adoption of SFAS 165 by the Company did not have a material impact on its consolidated financial position or results of operations.

In preparing the accompanying unaudited consolidated financial statements, we evaluated the period from August 30, 2009 through October 19, 2009, the date the financial statements were available to be issued, for material subsequent events requiring recognition or disclosure.

In June 2008, the U.S. Securities and Exchange Commission (SEC) issued final rules that set the dates under which non-accelerated filers must comply with the internal control reporting requirements mandated by Section 404 of the Sarbanes-Oxley Act of 2002. Non-accelerated filers must provide management's assessment regarding internal control over financial statements in their annual reports for fiscal years ending on or after December 15, 2007, which was initiated for the Company's fiscal year ended November 28, 2008. In October 2009, the SEC extended the date by which companies must comply with the auditor attestation requirement to fiscal years ending on or after June 15, 2010, which will be the Company's fiscal year ending November 28, 2010.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). This statement is effective for fiscal years beginning after December 15, 2008, with early adoption prohibited. The statement amends the factors a company should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under SFAS 142. This guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. We are currently evaluating the effects, if any, that FSP 142-3 may have on our financial statements and anticipate the statement will not have a significant impact on the reporting of our results of operations when adopted on November 30, 2009.

In December 2007, the FASB issued SFAS 141 (revised), *Business Combinations* (SFAS 141(R)), which replaces SFAS 141, *Business Combinations*. SFAS 141(R) retains the underlying concepts of SFAS 141 in that all business combinations are still required to be accounted for at fair value under the acquisition method of accounting but SFAS 141(R) changed the method of applying the acquisition method in a number of significant aspects. Acquisition costs will generally be expensed as incurred; noncontrolling interests will be valued at fair value at the acquisition date; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will generally be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. SFAS 141(R) is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. SFAS 141(R) amends SFAS 109 such that adjustments made to valuation allowances on deferred taxes and acquired tax contingencies associated with acquisitions that closed prior to the effective date of SFAS 141(R) would also apply the provisions of SFAS 141(R). Early adoption is not permitted. The Company will evaluate the impact the provisions of SFAS 141(R) and will adopt this standard for our fiscal year beginning on November 30, 2009.

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 August 30, 2009, and November 28, 2008, consisted of the following:

	August 30, 2009	November 28, 2008
Raw materials	\$ 2,637,510	\$ 2,727,373
Finished goods	2,222,629	2,836,609
	\$ 4,860,139	\$ 5,563,982

4.

Income Taxes

Edgar Filing: NEXT INC/TN - Form 10-Q

Income taxes have been computed in accordance with SFAS No. 109, Accounting for Income Taxes (SFAS 109). 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 and carry-forwards that give rise to significant portions of the deferred tax assets and liabilities at August 30, 2009, and November 28, 2008, are as follows:

	August 30, 2009	November 28, 2008
Assets:		
Accounts receivable allowance	\$ 34,646	\$ 34,978
Goodwill and other intangibles	913,710	928,523
Net operating loss carryforwards	1,873,897	1,506,883
	2,822,253	2,470,384
Valuation allowance for deferred tax assets	(2,676,465)	(2,311,579)
Total deferred tax assets	145,788	158,805
Liabilities:		
Property, plant and equipment	145,788	158,805
Total deferred tax liabilities	145,788	158,805
Deferred taxes, net	\$	\$

A reduction of gross deferred tax assets and the associated valuation allowance was made at August 30, 2009, after the filing of the November 28, 2008 corporate tax return. A portion of the goodwill written off as impaired at November 28, 2008 was presumed to be currently deductible for tax purposes in error. This error caused the estimated net operating loss for the year then ended to be overstated, which caused the deferred tax asset to also be overstated. The write down of the deferred tax asset associated with this portion of the goodwill written off created an expense that should have reduced the November 28, 2008 deferred tax asset estimate by approximately \$800,000. Since total deferred tax assets are reduced by a valuation allowance, and because they continue to be reduced by such allowance,

there would have been no net effect to the income statement at November 28, 2008, nor, would there be any during fiscal 2009.

The Company adopted the provisions of FIN 48 on December 1, 2007. Upon adoption of FIN 48, the Company had no unrecognized tax benefits recorded. The Company does not expect its unrecognized tax benefits to change significantly in the next twelve months. If unrecognized tax benefits existed, the interest and penalties related to the unrecognized tax positions would be recorded as income tax expense in the consolidated statement of operations. The Company is subject to United States federal income taxes, as well as income taxes in various states. The Company's tax years 2005 through 2007 remain open to examination for U. S. Federal and state income taxes.

5.

Short-Term and Long-Term Debt

Short-term and long-term debt at August 30, 2009, and November 28, 2008, consisted of the following:

	August 30, 2009		November 28, 2008	
	Short Term	Long Term	Short Term	Long Term
Revolving credit facility	\$ 2,035,087	\$	5,144,524	\$
Notes payable	2,855,924		3,037,993	
Total	\$ 4,891,011	\$	8,182,517	\$
			\$	

On August 21, 2009, the Company and Crossroads Bank entered into new loan documents effective as of August 14, 2009, including business loan agreements and promissory notes, with respect to three loans originally extended to the Company by Crossroads Bank in 2004 and 2005. Following this restructuring, the three loans had an aggregate balance of \$2,655,924 at August 30, 2009. With respect to the largest of the three loans having a principal balance of \$2,583,090 at August 14, 2009, the new loan documents provide for the payment of interest only for six months beginning on September 15, 2009 and a corresponding six-month extension of the maturity date to July 15, 2010. The interest under this loan is initially fixed at 7% per annum until December 15, 2010, after which the loan will accrue interest at a variable rate (but not less than 6.5% per annum) indexed to the U.S. prime rate as reported in *The Wall Street Journal*, plus 0.5 percent (rounded up to the nearest one-eighth percent) with the first such variable rate payment being due on January 15, 2011. The other two loans have an aggregate principal balance of \$72,835. In connection with entering the new loan documents, Crossroads Bank agreed to waive principal payments for August 2009 under these loans. Payments under these two loans were resumed beginning September 2009 and the loans are scheduled to be paid in full on their original maturity dates of November 2, 2009 and June 24, 2010. The resulting

monthly installments on these two loans will be \$12,220. The Company paid Crossroads Bank \$10,000 in fees and paid its Wabash based counsel \$4,500 in fees to accomplish the restructuring. Crossroads Bank permanently waived all current and prior covenant violations associated with these loans and modified future covenant requirements at the same time. However, due to doubt that the Company will be able to meet certain future financial covenants for which a waiver is not yet due, the debt has been classified as a current liability. Under the terms of a 2005 intercreditor agreement, Crossroads Bank holds a collateral interest in the Company's real estate and equipment and fixtures by virtue of a subordination clause in the intercreditor agreement by National City Bank of its interest in those assets to Crossroads Bank.

On January 31, 2009, the Company entered into a forbearance agreement with National City Bank (now part of PNC Bank), which extended the maturity date of the revolving credit facility to April 30, 2009, in connection with the Company's efforts to find a replacement lender. On April 30, 2009, and again on June 30, 2009, the Company and National City Bank entered into amendments to the forbearance agreement, which extended the maturity date to June 30, 2009 and September 30, 2009, respectively. On September 30, 2009, the Company and National City Bank entered into an extension agreement (the "Extension Agreement") which further extended the maturity date to October 30, 2009. The purpose of the Extension Agreement was to permit progression of current discussions between the Company and National City Bank toward a possible alternative structuring of the credit facility (and documentation of the same) which would enable the Company to continue due diligence with an alternative lender and to pursue strategic business opportunities the Company has with its customers and strategic partners. The advance rates on eligible accounts receivable and inventory under the credit facility are 85% and 55%, respectively. At October 1, 2009, the interest rate is set at prime plus ten percent. Pursuant to the Extension Agreement, the interest rate will escalate to prime plus twelve percent after October 30, 2009, if amounts borrowed under the line of credit remain unpaid at that time. Under the June 30, 2009 amendment (the "Second Amendment"), the Company's total line of credit was reduced to \$3,000,000 from the previously reduced limit of \$3,500,000 established under the April 30, 2009 amendment. The limit on the amount of the line of credit available from inventory collateral was increased to \$2,500,000 under the Extension Agreement so as to not unnecessarily restrict the Company from pursuing strategic business opportunities with its customers and strategic partners. Previously, this amount had been reduced to \$1,500,000 under the Second Amendment. National City Bank holds an interest in all assets of the Company.

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 had an interest rate of prime plus 0.25% and a maturity date of November 30, 2008. Effective October 31, 2008, the Company and Next Investors, LLC entered into a Note Extension Agreement (the "Note Extension Agreement") for this subordinated loan agreement, whereby the maturity date of November 30, 2008, was extended to October 31, 2009 and the interest rate was changed to 6% per annum. Remaining principal payments were rescheduled to August 31, 2009 and October 31, 2009 in installments of \$100,000 each. At August 31, 2009, in accordance with the terms of its subordination agreement with Next Investors LLC, National City Bank withheld its approval of any further payments to Next Investors, LLC. Under the Note Extension Agreement, whenever National City Bank withholds such approval, the nonpayment by the Company does not constitute a payment default. The principal partners of Next Investors, LLC are comprised of one board member, and two shareholders of the Company. As of August 30, 2009, interest expensed and accrued for this loan totaled \$9,167 and \$933, respectively. As of November 28, 2008, interest expensed and accrued for this loan totaled \$15,858 and \$1,667, respectively.

Contingencies

From time to time, the Company is a party to litigation arising in the normal course of its business operations, but the Company is not currently a party to any legal proceedings.

7.

Stockholders Equity

Stockholders equity was comprised of the following:

	August 30, 2009	November 28, 2008
Common stock, \$.001 par value; 100,000,000 shares authorized, 27,387,055 and 27,360,055 shares issued and outstanding at August 30, 2009, and November 28, 2008, respectively	\$ 27,387	\$ 27,360
Additional paid-in capital	8,472,787	8,472,505
Accumulated deficit	(7,399,935)	(6,451,701)
Unearned compensation	(22,245)	(23,761)
Total stockholders equity	\$ 1,077,994	\$ 2,024,403

8.

Earnings (Loss) Per Share

The Company accounts for earnings (loss) per share (EPS) in accordance with SFAS No. 128, Earnings Per Share (SFAS 128). SFAS 128 requires the presentation of basic and fully diluted EPS. Basic and diluted EPS for the three and nine months ended August 30, 2009, and August 29, 2008, are calculated on the basis of the weighted average number of common shares outstanding.

Edgar Filing: NEXT INC/TN - Form 10-Q

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

	Three months ended	
	August 30, 2009	August 29, 2008
Numerator:		
Net income	\$ 71,473	\$ 212,406
Denominator:		
Basic weighted average common shares	27,378,055	27,348,681
Effect of dilutive stock options and warrants		70,778
Basic and diluted earnings per share	\$ 0.003	\$ 0.008
	Nine months ended	
	August 30, 2009	August 29, 2008
Numerator:		
Net loss	\$ (948,234)	\$ (682,805)
Denominator:		
Basic weighted average common shares	27,373,276	24,478,611
Basic and diluted loss per share	\$ (0.03)	\$ (0.03)

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 and in our Annual Report on Form 10-K for the fiscal year ended November 28, 2008 (the 2008 Form 10-K). 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 stat