

NITCHES INC
Form 10-Q/A
October 26, 2007

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

FORM 10-Q/A
Amendment No. 2

(Mark One)

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

For the quarterly period ended: **May 31, 2007**

or

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

For the transition period from: _____ to _____

Commission File Number: **000-13851**

NITCHES, INC.

(Exact name of registrant as specified in its charter)

California

(State or other jurisdiction of
incorporation or organization)

95-2848021

(I.R.S. Employer Identification No.)

10280 Camino Santa Fe, San Diego,

California

(Address of principal executive offices)

92121

(Zip Code)

(858) 625-2633

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate 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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Edgar Filing: NITCHES INC - Form 10-Q/A

As of July 20, 2007 the registrant had 5,659,644 shares of common stock outstanding.

EXPLANATORY NOTE

We filed our Quarterly Report on Form 10-Q for the period ended May 31, 2007 with the Securities and Exchange Commission on July 23, 2007 (the "Original Filing"). We filed an Amendment No. 1 on Form 10-Q/A for the period ended May 31, 2007 with the Securities and Exchange Commission on July 24, 2007 ("Amendment No. 1") to amend certain disclosures with respect to changes in our internal controls over financial reporting under Item 4(b).

In the Original Filing and in Amendment No. 1, we indicated that we had determined that our 2006 income tax provision included the correction of an error in the income tax provision for 2005, and further determined that correction of the error from 2005 should have been recorded as an adjustment to the 2005 financial statements, rather than as an adjustment to the tax provision for 2006. We also stated that we intend to file an amendment to our Annual Report on Form 10-K for the year ended August 31, 2006 to reflect this adjustment.

After further analysis, we determined that although there was an error in the calculation of the income tax provision for 2005, correcting the issue would not be material to our operating results. The correction, if made, would reduce net income for 2006 by \$103,000 and correspondingly reduce the net loss recorded in 2005 by the same amount. While the changes to our fiscal 2006 financial statements would be quantitatively significant when measured as a percentage of net income (the effect on our statement of operations would be to reduce our net income from \$468,000 or \$0.11 per share to \$365,000 or \$0.09 per share, a percentage change of 22.0%), the significance is largely attributable to the nominal amount of net income recorded in the period. We believe that it is not quantitatively significant when compared to the overall scale of our financial position or results of operation. Also, we do not believe that the change would be material from a qualitative standpoint. During 2006 we completed three acquisitions that had a significant impact on our operations in 2006 and are expected to have a larger impact on our operations for 2007. We believe that investors who are evaluating our stock will be concerned with a multitude of factors such as financial position, gross profit margin, new product initiatives, and integration of acquisitions. Based on this analysis, we do not believe that change is material from a quantitative or qualitative standpoint, and accordingly do not intend to amend and restate our financial statements for the year ended August 31, 2006. Our audit committee has discussed this matter with our independent accountants.

Accordingly, this Amendment No. 2 on Form 10-Q/A for the period ended May 31, 2007 ("Amendment No. 2") is being filed to make the following changes to the following sections of Amendment No. 1:

- (i) Item 1. Financial Statements. We have amended our Condensed Consolidated Statement of Changes in Shareholders' Equity to remove a \$103,000 prior period adjustment to our retained earnings as of the nine months ended May 31, 2006.
- (ii) Note 11 Item 1. Financial Statements. We are expanding our discussion concerning the terms for vesting of our outstanding stock options.
- (iii) Note 15 to Item 1. Financial Statements. We have deleted Note 15 to Item 1. Financial Statements with respect to pending restatements. As discussed above, we have determined not to restate our Annual Report on 10-K for the year ended August 31, 2006. In addition, we have now filed amendments to our Quarterly Reports on Form 10-Q for each of the quarters ended November 30, 2006 and February 28, 2007 to recognize an immediate expense related to stock based compensation rather than expensing the amounts ratable over the first year of the term of the options.

This Amendment No. 2 revises the items discussed above, solely as a result of, and to reflect, the impact of the items discussed in this Explanatory Note. While we have presented our complete Quarterly Report on Form 10-Q in this Amendment No. 2, other than the items discussed above, our Quarterly Report on Form 10-Q remains unchanged from Amendment No 1.

Pursuant to the rules of the Securities and Exchange Commission, we have included currently-dated certifications from our Chief Executive and Financial Officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

Except as otherwise specifically noted, all information contained herein is as of May 31, 2007 and does not reflect events or changes that have occurred subsequent to that date. Accordingly, this Amendment No. 2 should be read in conjunction with our other filings made with the Securities and Exchange Commission subsequent to the filing of the Original Filing. The filing of this Amendment No. 2 shall not be deemed an admission that the Original Filing or Amendment No. 1 when made included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

NITCHES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS	May 31, 2007 (Unaudited)	August 31, 2006
Current assets:		
Cash and cash equivalents	\$ 282,000	\$ 228,000
Receivables:		
Due from factor, net	12,999,000	10,057,000
Trade accounts, net	8,000	484,000
Due from affiliates and employees	35,000	18,000
Total receivables	13,042,000	10,559,000
Inventories, less allowances	6,992,000	12,424,000
Deferred income taxes, current	587,000	587,000
Other current assets	721,000	628,000
Total current assets	21,624,000	24,426,000
Property and equipment, net	88,000	164,000
Goodwill	2,620,000	2,620,000
Intangibles, net	6,398,000	3,543,000
Other assets	55,000	31,000
	\$ 30,785,000	\$ 30,784,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Due to factor	\$ 10,039,000	\$ 9,676,000
Accounts payable	4,556,000	9,349,000
Accrued expenses	1,265,000	1,163,000
Note payable	-	513,000
Income taxes payable	179,000	89,000
Total current liabilities	16,039,000	20,790,000
Long term liabilities:		
Deferred income taxes, non-current	708,000	736,000
Shareholders' equity:		
Series A preferred stock, \$100 par value; 25,000,000 shares authorized, 8,820 shares issued and outstanding	882,000	882,000
Common stock, no par value; 50,000,000 shares authorized;		

Edgar Filing: NITCHES INC - Form 10-Q/A

5,659,644 shares issued and outstanding (4,653,507 - August 31, 2006)	9,373,000	5,143,000
Additonal Paid-in-Capital	301,000	-
Retained earnings	3,482,000	3,233,000
Total shareholders' equity	14,038,000	9,258,000
	\$ 30,785,000	\$ 30,784,000

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

NITCHES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2007	2006	2007	2006
Net sales	\$ 19,475,000	\$ 12,580,000	\$ 69,170,000	\$ 39,609,000
Cost of goods sold	14,690,000	8,880,000	52,042,000	28,017,000
Gross profit	4,785,000	3,700,000	17,128,000	11,592,000
Selling, general and administrative expenses	5,279,000	3,507,000	15,939,000	9,794,000
Income (loss) from operations	(494,000)	193,000	1,189,000	1,798,000
Interest expense	(206,000)	(136,000)	(752,000)	(359,000)
Other income	-	-	-	1,000
Loss from equity investment	-	-	-	(11,000)
Income (loss) before income taxes	(700,000)	57,000	437,000	1,429,000
Provision (benefit) for income taxes	(268,000)	24,000	188,000	831,000
Net income (loss)	\$ (432,000)	\$ 33,000	\$ 249,000	\$ 598,000
Earnings (loss) per weighted average share				
Basic	\$ (0.08)	\$ 0.01	\$ 0.05	\$ 0.15
Diluted	\$ (0.08)	\$ 0.01	\$ 0.05	\$ 0.15
Weighted average common shares outstanding				
Basic	5,421,259	4,053,507	5,193,555	3,948,672
Diluted	5,421,259	4,053,507	5,297,123	3,948,672

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

NITCHES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

Nine Months Ended

	May 31,	
	2007	2006
Preferred stock		
Balance, beginning of period	\$ 882,000	\$ -
Preferred stock issued	-	882,000
Balance, end of period	882,000	882,000
Common stock		
Balance, beginning of period	5,143,000	1,495,000
Common stock issued	4,230,000	918,000
Balance, end of period	9,373,000	2,413,000
Paid-in capital		
Balance, beginning of period	301,000	-
Stock-based compensation expense	-	-
Balance, end of period	301,000	-
Retained earnings		
Balance, beginning of period	3,233,000	2,765,000
Net income	249,000	598,000
Balance, end of period	3,482,000	3,363,000
Total shareholders' equity	\$ 14,038,000	\$ 6,658,000

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

NITCHES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended May 31,	
	2007	2006
Cash flows from operating activities:		
Net income	\$ 249,000	\$ 598,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	301,000	206,000
Noncash stock based compensation expense	301,000	-
Deferred income taxes	(28,000)	-
Loss from investment in unconsolidated subsidiary	-	11,000
(Increase) decrease in receivables	(2,483,000)	282,000
Increase in refundable income taxes	-	212,000
Decrease in inventories	5,432,000	1,759,000
Increase in other assets	(117,000)	(59,000)
Decrease in accounts payable and accrued expenses	(4,691,000)	(3,660,000)
Increase in income taxes payables	90,000	667,000
Net cash provided by (used in) operating activities	(946,000)	16,000
Cash flows from investing activities:		
Acquisition related costs	-	(102,000)
Capital expenditures	(50,000)	(37,000)

Edgar Filing: NITCHES INC - Form 10-Q/A

Cash acquired in transaction	-	127,
Net cash used by investing activities	(50,000)	(12,
Cash flows from financing activities:		
Advances from factor	363,000	175,
Common stock issuance	1,500,000	
Repayment of notes payable	(813,000)	
Net cash provided by financing activities	1,050,000	175,
Net increase in cash and cash equivalents	54,000	179,
Cash and cash equivalents at beginning of period	228,000	192,
Cash and cash equivalents at end of period	\$ 282,000	\$ 371,
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 752,000	\$ 359,
Income taxes	220,000	180,
Noncash investing activity:		
Acquisition of subsidiaries and intangible assets		
Common stock issued	\$ 2,730,000	\$ 918,
Series A preferred stock issued	-	882,
Promissory note issued	300,000	
	\$ 3,030,000	\$ 1,800,

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

NITCHES, INC. AND SUBSIDIARIES

Notes to the Unaudited Condensed Consolidated Financial Statements

1. Description of Business:

Nitches, Inc. and subsidiaries (we, our, us, or the Company) is a wholesale importer and distributor of clothing and home décor products manufactured to our specifications and distributed in the United States under our brand labels and retailer-owned private labels. We distribute clothing primarily in three categories: women's sleepwear and loungewear, women's sportswear and outerwear, and men's casual wear and performance apparel. We market women's sleepwear and loungewear under the following brands: Princesse tam tam®, Derek Rose®, Crabtree & Evelyn®, Disney Couture®, The Anne Lewin® Collection, The Claire Murray® Collection and Gossard®. We market women's sportswear and outerwear under the following brands: Adobe Rose®, Country Tease®, Saguaro® and Southwest Canyon®. We market men's casual wear and performance apparel under the following brands: Nat Nast®, Newport Blue®, Dockers®, The Skins Game®, and ZOIC®. We distribute home décor products under the Bill Blass® and Newport Blue® brands. We sell our branded products to better department stores, specialty boutiques, moderate department stores, and national and regional discount department stores and chains. We also develop and manufacture private label products for many leading retailers and catalogs.

2. Condensed Financial Statements:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (SEC) for Form 10-Q. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed

or omitted pursuant to such rules and regulations. These consolidated financial statements should be read in conjunction with our consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the year ended August 31, 2006. In the opinion of our management, all adjustments considered necessary for a fair presentation have been included in the interim period. Operating results for the nine months ended May 31, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending August 31, 2007 or any future period.

3. Principles of Consolidation:

The condensed consolidated financial statements include the accounts of Nitches, Inc., its wholly-owned subsidiaries Nitches Far East Limited and Designer Intimates, Inc., and Designer Intimates' wholly-owned subsidiary NAP, Inc. All significant inter-company transactions and balances are eliminated in consolidation.

4. Earnings Per Share:

Basic earnings per common share are computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares issuable upon the exercise of outstanding stock options, warrants or other convertible instruments. The dilutive effect of outstanding options is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of our common stock can result in a greater dilutive effect from outstanding options. Additionally, the exercise of employee stock options can result in a greater dilutive effect on earnings per share.

NITCHES, INC. AND SUBSIDIARIES

Notes to the Unaudited Condensed Consolidated Financial Statements

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

	Three Months Ended May 31,		Nine Months Ended May 31,	
	2007	2006	2007	2006
Numerator:				
Net income (loss)	\$ (432,000)	\$ 33,000	\$ 248,000	\$ 598,000
Denominator:				
Weighted average shares outstanding	5,421,259	4,053,507	5,193,555	3,948,672
Dilutive effect of options	-	*	103,568	-
Denominator for diluted earnings per share	5,421,259	4,053,507	5,297,123	3,948,672
Basic earnings (loss) per share	\$ (0.08)	\$ 0.01	\$ 0.05	\$ 0.15
Diluted earnings (loss) per share	\$ (0.08)	\$ 0.01	\$ 0.05	\$ 0.15

* Not reported due to the anti-dilutive effect of options on the basic loss per share.

5. Inventories:

	May 31, 2007	August 31, 2006
	Fabric and trim	\$ 170,000
Work in progress	1,306,000	