NEXT INC/TN
Form 10QSB
October 04, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

[X]

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

For the Quarterly Period Ended September 1, 2006

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**

Check whether the issuer (1) filed all reports required by Section 13 or 15(d) of the Exchange Act during the past 12 months (as 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 [ ]

The number of shares of Registrant s common stock, par value $.001 per share, issued and outstanding as of October 3, 2006 was 18,626,029.

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

NEXT, INC.

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Part I FINANCIAL INFORMATION

Item 1.

Financial Statements

NEXT, INC.

CONDENSED CONSOLIDATED BALANCE SHEET

		September 1, 2006 (unaudited)
Assets		
Current assets:		
Cash	$	412,191
Accounts receivable, net		6,125,580
Notes receivable		37,662
Inventories		5,182,526
Prepaid expenses and other current assets		571,934
Deferred taxes, current		300,000

Total current assets		12,629,893
Property, plant and equipment, net		2,656,090
Goodwill		4,369,825
Notes receivable		41,710
Deferred taxes		303,842
Other assets, net		1,555,043
Total Assets	$	21,556,403
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	$	2,759,588
Accrued expenses and other current liabilities		2,029,249
Short-term debt and current maturities		1,114,867
Loan from stockholders		100,000
Line of credit		4,295,396
Total current liabilities		10,299,100
Long-term debt, less current maturities		3,301,294

Loan from stockholders		400,000
Total liabilities		14,000,394
Commitments and contingencies		
Stockholders equity		7,556,009
Total Liabilities and Stockholders Equity	$	21,556,403

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 31, 2005 (unaudited)	September 1, 2006 (unaudited)
Net sales	$ 8,449,548	$ 8,876,376
Cost of sales	6,266,076	6,271,344
Gross profit	2,183,472	2,605,032
General, administrative, and selling expenses	1,832,962	1,966,177
Operating income	350,510	638,855
Interest	(181,292)	(237,636)
Other expense	(5,593)	(53,249)
Income before income taxes	163,625	347,970
Provision for income taxes	60,181	128,053
Net income	$ 103,444	$ 219,917
Net income per share, basic and diluted	$ .01	$ .01
Weighted average shares outstanding, basic	18,734,853	18,371,751

Weighted average shares outstanding, diluted		19,006,311		18,496,534

		Nine Months Ended		
		August 31, 2005		September 1, 2006
		(unaudited)		(unaudited)
Net sales	$	17,863,143	$	18,550,417
Cost of sales		12,985,251		12,908,490
Gross profit		4,877,892		5,641,927
General, administrative, and selling expenses		4,435,706		4,966,353
Operating income		442,186		675,574
Interest		(436,514)		(580,627)
Other income (expense)		30,961		(106,750)
Income (Loss) before income taxes		36,633		(11,803)
Provision (Benefit) for income taxes		16,104		(2,982)
Net income (loss)	$	20,529	$	(8,821)
Net income (loss) per share, basic and diluted	$		$	

Weighted average shares outstanding, basic	18,177,618	18,396,846
Weighted average shares outstanding, diluted	18,519,794	18,396,846

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 31, 2005 (unaudited)	September 1, 2006 (unaudited)
Cash flows from operating activities:		
Net income (loss)	$ 20,529	$ (8,821)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	488,368	586,396
Noncash compensation	4,854	1,517
Noncash fees	33,500	11,368
Loss on sale of asset		48,310
Provision (benefit) for bad debt expense	57,768	(13,922)
Provision (benefit) for deferred taxes	16,104	(2,982)
Changes in operating assets and liabilities:		
Accounts receivable	(410,997)	(887,811)
Notes receivable		29,765
Inventories	(1,702,225)	677,857
Prepaid expenses	(41,547)	(152,143)

Other assets	(81,361)	25,914
Accounts payable	(710,554)	935,346
Accrued expenses and other liabilities	307,585	921,826
Total adjustments	(2,038,505)	2,181,441
Net cash provided by (used in) operating activities	(2,017,976)	2,172,620
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,018,658)	(47,593)
Cash received from proceeds on sale of asset		4,700
Cash paid for acquisition costs	(355,513)	
Cash paid for intangible assets	(151,467)	(167,680)
Net cash used in investing activities	(1,525,638)	(210,573)
Cash flows from financing activities:		
Revolving credit facility, net	198,464	(2,231,565)
Proceeds from loans and notes payable	1,115,501	912,000
Repayments of long terms debt, loans and notes payable	(595,348)	(360,134)
Fees paid for investment transaction	(64,738)	(28,008)

Issuance of common stock for investment transaction		2,691,000		
Issuance of preferred stock, net ..		650		
Issuance of common stock for stock options				5,250
Net cash provided by (used in) financing activities		3,345,529		(1,702,457)
Net increase (decrease) in cash		(198,085)		259,590
Cash, beginning of period		312,216		152,601
Cash, end of period	$	114,131	$	412,191

Supplemental Information:				
Cash paid during the period for interest	$	447,662	$	565,223
Non-Cash Investing and Financing Activities:				
Equity securities retired in payment of note receivable	$		$	510,000
Equity securities retired to reduce vendor obligation	$	(256,710)	$	23,570

Equity securities issued to acquire customer list	$	228,250	$
Equity securities retired for purchase of note	$	(122,400)	$

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

NEXT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.

Organization and Operations of Company

Next, Inc. (the Company) is the parent company of six wholly owned subsidiaries: (i) Next Marketing, Inc. (Next Marketing), (ii) Blue Sky Graphics, Inc. (Blue Sky), (iii) CMJ Ventures, Inc. (CMJ), (iv) Lil Fan, Inc. (Lil Fan) , Choice International, Inc. (Choice), and (vi) S-2-S Acquisition Corporation (S-2-S). 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-QSB and Item 310 of Regulation S-B. 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) to fairly present the financial position of the Company at September 1, 2006, and its results of operations and cash flows for the three and nine months ended August 31, 2005 and September 1, 2006. Operating results for the three and nine months ended September 1, 2006, are not necessarily indicative of the results that may be expected for the fiscal year ending December 1, 2006. 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).

The Company determined on February 28, 2006 to change its fiscal year from a calendar year ending November 30, to a 52-53 week period ending on the Friday closest to November 30, and to use a 4-4-5 week basis for quarterly reporting. The Company s first quarter in 2006 covered the transition period for this change therefore falling on March 3, 2006. Fiscal year end results on Form 10-KSB will end on December 1, 2006 therefore causing a 366 day period for fiscal year ending 2006. The Company does not believe this will materially change the operating results, however it will help the flow of monthly reporting as cut-offs are planned on Fridays for inventory counts.

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 and nine months ended September 1, 2006, sales to the Company s top four customers accounted for 82% and 75%, respectively, 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

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements, (FAS No. 157). FAS 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, FAS No. 157 does not require any new fair value measurements, but will change current practice for some entities. FAS 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.

In September 2006, the U.S. Securities and Exchange Commission (SEC) released Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, (SAB No. 108) which provides interpretive guidance on the SEC s views regarding the process of quantifying materiality of financial statement misstatements. SAB No. 108 is effective for years ending after November 15, 2006, with early application for the first interim period ending after November 15, 2006. The Company does not believe that the application of SAB No. 108 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 July 1, 2007. The Company does not believe that adoption of this statement will have a material impact on its consolidated financial position or results of operations.

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 is currently assessing the impact that Interpretation No. 48 will have on the Company s results of operations and financial position.

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 151, Inventory Costs an amendment of ARB No. 43, Chapter 4. This statement clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and spoilage. This statement also requires the allocation of fixed production overhead costs be based on normal production capacity. The provisions of SFAS No. 151 are effective for inventory costs incurred during the fiscal years beginning after June 15, 2005. The adoption of this statement did not have a material impact on the Company s consolidated financial statements.

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. The approach to accounting for share-based payments in Statement 123(R) is similar to the approach described in Statement 123. However, Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values and no longer allows pro forma disclosure as an alternative to financial statement recognition. The Company adopted Statement 123(R) at the beginning of its quarter ending March 3, 2006. The adoption of this statement did not have a material impact on the Company s consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections (SFAS No. 154), which replaces Accounting Principles Board (APB) No. 20 Accounting Changes , and SFAS No. 3 Reporting Accounting Changes in Interim Financial Statements . SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. The statement applies to all voluntary changes in accounting principle as well as changes required by an accounting pronouncement. SFAS No. 154 requires retrospective application to prior periods financial statements of a voluntary change in accounting principle unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2004. The adoption of SFAS No. 154 did not have a material impact on the Company s consolidated financial statements.

In March 2005, the FASB issued Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations , an Interpretation of FASB Statement No. 143: (FIN 47), which clarifies the accounting for conditional asset retirement obligations as used in SFAS No. 143, Accounting for Asset Retirement Obligations . A conditional asset retirement obligation is an unconditional legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. Under FIN 47, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligations if the fair value of the liability can be reasonably estimated. Any uncertainty about the amount and/or timing of future settlement should be factored into the measurement of the liability when sufficient information exists. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate the fair value. The provisions of FIN 47 are effective for fiscal years ending after December 15, 2005. The adoption of FIN 47 is not expected to have a material impact on the Company s consolidated financial statements.

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 September 1, 2006, consisted of the following:

Raw materials	$	3,545,672
Finished goods		1,636,854
	$	5,182,526

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 September 1, 2006, are as follows:

Assets:

Accounts receivable allowance	$	14,533
Net operating loss carryforwards		951,581
Total deferred tax assets	$	966,114
Liabilities:		
Property, plant and equipment	$	274,430
Goodwill and other intangibles		87,842
Total deferred tax liabilities	$	362,272
Deferred taxes, net	$	603,842
Current	$	300,000
Noncurrent	$	303,842

5.

Short-Term and Long-Term Debt

Short-term and long-term debt at September 1, 2006 consisted of the following:

		Short Term		Long Term
Revolving credit facility	$	4,295,396	$	
Notes payable		1,214,867		3,701,294

Total	$ 5,510,263	$ 3,701,294

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

The Company has entered into amendments with National City Bank of Indiana to extend the maturity date of the Company s credit facility during the year with the most recent amendment extending the maturity date to October 31, 2006. Additional provisions of the amendments increased the interest rate to prime plus two points and reduced the maximum availability under the revolving line of credit from $9,500,000 to $6,500,000. Pursuant to the amendments, National City waived the Company s non-compliance with certain obligations and covenants of the credit facility. Management is currently negotiating to refinance the current credit facility and believes the Company can complete the process in the near future.

Under the Company s credit facility agreement with National City Bank, the Company may draw up to the sum of 80% of eligible accounts receivable, as defined in the credit facility agreement, and 60% of eligible raw materials and eligible finished goods inventory, as defined in the credit facility agreement. In addition, the credit facility agreement provides for monthly payments of interest at a nationally published prime rate plus 2% (8.25% was the published rate at September 1, 2006). Accounts receivable, inventory, certain personal assets and personal guarantees of the Company s Chief Financial Officer and one board member collateralize the borrowings under the credit facility.

On August 31, 2006, the Company entered into a new 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, 2009. Next Investors, LLC principal partners are comprised of one officer and two directors of the Company. As of September 1, 2006, interest expensed and accrued for this loan totaled $9,479 and $28,646, respectively, for the three and nine months then ended.

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.

On September 30, 2005, the Company refinanced its credit facility for its main plant in Wabash, Indiana at First Federal Savings Bank of Wabash in the amount of $3,225,809, which paid off the original loan of $2,672,922 due in January 2006, the warehouse loan of $365,479, and an equipment loan of $155,469. These balances include accrued interest on the respective indebtedness. Also included in the refinancing were loan origination fees of $31,939. The new loan requires monthly principal and interest payments of $29,263, over a 5 year term at 7.0% interest.

On February 24, 2005, the Company entered into a credit agreement with First Federal Savings Bank of Wabash to finance the purchase of a warehouse in the amount of $365,000. This loan was subsequently consolidated with the refinancing of the main plant in Wabash on September 30, 2005. The Company has renovated and consolidated all offsite inventories into this building which has reduced rental cost by $11,500 per month.

On February 11, 2005, the Company entered into a credit agreement for $250,500 with First Federal Savings Bank of Wabash for certain production equipment purchased in 2005. The Company is required to make principal and interest payments of $4,895 per month at an interest rate of 6.75%. The maturity date is June 24, 2010.

6.

Stockholders Equity

Stockholders equity was comprised of the following:

		At September 1, 2006 (unaudited)
Common stock, $.001 par value; 100,000,000 shares authorized, 18,382,740 shares issued and outstanding	$	18,383
Additional paid-in capital		7,188,532
Retained earnings		377,405
Unearned compensation		(28,311)

Total stockholders equity	$ 7,556,009

At November 30, 2004, 1,000,000 shares were reserved for issuance under the Next, Inc. 2002 Stock Option Plan, in addition to the 1,000,000 previously reserved under the same plan. In 2004, the Company issued 286,500 employee options, 94,000 of which have been cancelled or forfeited, at $1.07 which have a five year expiration from the vesting date and are subject to forfeiture should the grantee fail to be employed by the Company on the vesting date. The options granted in 2004 were all issued at market value and as such no expense was recorded. In 2005, the Company issued 1,037,500 employee options, with 237,500 issued at $1.50 (60,500 of which have been cancelled or forfeited, with a five year expiration from the vesting date) and 800,000 issued at $0.85 (with a ten year expiration from the grant date). All options granted in 2005 were vested by the Board of Directors as of November 30, 2005. The options issued in 2005 were all issued at market value and as such no expense was recorded.

On January 12, 2006, the Company s former Chief Executive Officer, William B. Hensley, III, returned 500,000 shares of Next, Inc. common stock to satisfy a promissory note 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, which was the date the shares were committed to be returned to the Company and validated by the execution of the Promissory Note.

On January 24, 2005, the Company entered into a Securities Purchase Agreement (the Agreement) with Bonanza Master Fund, Ltd. (Bonanza), MidSouth Investor Fund, L.P. (MidSouth) and Itasca Capital Partners LLC (Itasca and collectively with Bonanza and MidSouth, the Purchasers) and raised $2,990,000 in a private placement. None of the Purchasers has any other material relationship with the Company. Pursuant to the Agreement, the Company issued Bonanza 2,000,000 shares of its common stock and a warrant to purchase 1,000,000 shares, issued to MidSouth 250,000 shares and a warrant to purchase 125,000 shares, and issued to Itasca 50,000 shares and a warrant to purchase 25,000 shares. The shares were issued at $1.30 per share and the warrants are exercisable at $1.75 per share for five years. In addition, the Company has issued a warrant to purchase 115,000 shares of common stock to Dougherty & Company, LLC Investment Bankers for its services in connection with the private placement. The warrants are exercisable at $1.75 per share for five years, but the average closing price of the Company s common stock must be equal to at least $2.10 for ten consecutive trading days to exercise a purchase. The total offering price was $2,990,000 in cash, less fees of $299,000, for a net cash infusion of $2,691,000.

On January 21, 2005, The William B. and Cindy S. Hensley Family Limited Partnership (the Partnership) cancelled 80,000 shares of common stock and returned these shares to the Company for the purchase of a note issued to a former salesman. Mr. Hensley was the Chief Executive Officer of the Company and a related party. The transaction was valued at the market price or $122,400; the Partnership or its designee has the right to collect this note related to cash advances to a salesman in the amount of $121,861.

7.

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 and nine months ended August 31, 2005 and September 1, 2006, are calculated on the basis of the weighted average number of common shares outstanding.

8.

Acquisition of Sports-2-Schools, LLC

Pursuant to the terms of an Asset Purchase Agreement (the Agreement), dated August 12, 2005, by and among S-2-S Acquisition Corporation, a Delaware corporation and wholly owned subsidiary of the Company, Sports-2-Schools, LLC., a Kentucky corporation, and Buck Swindle Associates; a Purchase Price Addendum Agreement dated August 12, 2005 by and among Allen Gaddis, Gaddco, Inc., S-2-S and the Company; and a Purchase Price Addendum agreement dated August 12, 2005 by and among Dr. Jim Ingram, S-2-S, and the Company , through its subsidiary S-2-S Acquisition Corporation, acquired certain assets of Sports-2-Schools, LLC, including a customer list, license agreements and a vendor number to a large retailer. The Company assumed $172,000 in debt as part of the transaction and also assumed $205,000 in payables owed the Company for merchandise. S-2-S is in the licensed sportswear business.

Consideration for the acquisition was: $50,000 in cash, 50,000 shares of the Company s common stock and up to an additional $575,000 worth of common stock, on a deferred basis (November 30, 2006, 2007, 2008) and $600,000 in cash both pursuant to a performance based earn-out arrangement. The financial terms of the transaction were determined by negotiation between representatives of the Company and Sports-2-Schools, LLC. The cash portion of the purchase price was funded from the Company s line of credit with National City Bank. The Company intends to continue to operate the business of S-2-S, after the acquisition through a new independent sales staff.

The S-2-S acquisition was made to expand the Company s distribution and customer base. The results of operations of S-2-S are included in the consolidated financial statement of the Company commencing August 12, 2005. The primary asset the Company acquired was a customer list, license agreements, and a vendor number with a large retailer that is a new customer to the company. In August 2006, the Company finalized the purchase accounting for this acquisition and reclassified $562,346 of Goodwill to Customer List, since this was the primary consideration for making the purchase. The Customer List is being amortized over a 10 year period.

Item 2.

Management s Discussion and Analysis or Plan of Operation.

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-QSB, 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. You 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:

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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.;

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Licensing agreements with **Chevy®**, **Pontiac®**, **Hummer®**, **Cadillac®**, **Dodge®**, **GMC®, Ford® Plymouth®**, **Jeep®**, and **Chrysler®** for their respective "branded" logos for the **RPM Sports USA™** motor sports line, targeting the automotive dealership network and automotive venue markets. These licensed products are also sold to our major retail customer accounts.

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Licensing and distribution agreements with **Sturgis Bike Rally** , **Indianapolis Motor Speedway**, **Professional Bull Riders**, T**he 3 Stooges**, **Fellowship of Christian Athletics**, **GRITS (Girls Raised in the South)**, and **Rivalfish**.

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Proprietary brands including **American Biker™**, **American Wildlife™**, **Cadre™**, **Varsity Classics™,** and **Campus Traditions USA™,** among others.

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 is actively engaged in discussions with various potential acquisition targets and plans to grow through strategic acquisitions of complementary businesses. The Company has embarked on an aggressive 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™; 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

The following table sets forth certain items in the Company s condensed consolidated statement of operations for the three and nine months ended August 31, 2005 and September 1, 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		Nine Months Ended	
	August 31, 2005 (unaudited)	September 1, 2006 (unaudited)	August 31, 2005 (unaudited)	September 1, 2006 (unaudited)
Net sales	$ 8,449,548	$ 8,876,376	$ 17,863,143	$ 18,550,417
Cost of sales	6,266,076	6,271,344	12,985,251	12,908,490
Gross profit	2,183,472	2,605,032	4,877,892	5,641,927
Operating and other expenses:				
General, and administrative expenses	700,707	661,676	1,968,230	1,993,350
Royalties, commissions, and selling expenses	888,008	1,045,081	1,775,096	2,208,674
Corporate expenses	244,247	259,420	692,380	764,329
Interest expenses	181,292	237,636	436,514	580,627

Other (income) expenses	5,593	53,249	(30,961)	106,750
Total operating and other expense	2,019,847	2,257,062	4,841,259	5,653,730
Income (Loss), before income taxes	163,625	347,970	36,633	(11,803)
Provision (Benefit) for income taxes	60,181	128,053	16,104	(2,982)
Net income (loss)	$ 103,444	$ 219,917	$ 20,529	$ (8,821)

Net Sales

Total net sales increased 5.1% to $8,876,376 for the three months ended September 1, 2006, from $8,449,548 for the three months ended August 31, 2005. The Company has concentrated on its core sales product lines during 2006 (Collegiate, Automotive, Wildlife, and American Biker) which grew 9.1% for the three months ended September 1, 2006 from the three months ended August 31, 2005. This excludes private label and corporate/promotional products sales which were $315,904 for the three months ended August 31, 2005, which the Company has eliminated, and therefore had no sales in the three months ended September 1, 2006. Total net sales increased 3.8% to $18,550,417 for the nine months ended September 1, 2006 from $17,863,143 for the nine months ended August 31, 2005, however core sales grew 13.7% for the comparative nine month period. Management believes that future sales growth will continue primarily through the diversification and expansion of the Company s customer base and its expanded product offerings.

Cost of Sales

Cost of sales was 70.6% or $6,271,344 for the three months ended September 1, 2006, compared to 74.1% or $6,266,076 for the three months ended August 31, 2005. Cost of sales relates to raw materials (garments) and production costs which were higher by $5,268 (.8%) for the three months ended September 1, 2006 compared to prior year relates to the increased volume of sales. However, cost of sales decreased by 3.5% in relation to sales for the three months ended September 1, 2006 compared to the same prior period. Cost of sales was 69.5 % for the nine months ended September 1, 2006 compared to 72.6% for the nine months ended August 31, 2005. The Company reduced labor cost associated with art, maintenance, and embroidery departments during the 9 months ended September 1, 2006. The areas associated with direct cost were re-organized for improved efficiencies. Expenses included in cost of sales are primarily raw materials, labor, supplies, contract services, and the depreciation of both the Company s principal manufacturing facility in Indiana and its equipment.

Gross Profit

Gross profit for the three months ended September 1, 2006, was $2,605,032 or 29.3% of net sales compared to $2,183,472 or 25.8% of net sales for the three months ended August 31, 2005. Gross profit for the nine months ended

September 1, 2006 was $5,641,927 or 30.4% of net sales compared to $4,877,892 or 27.3% of net sales. The increase in gross profit from 2005 relates to higher volume of licensed product sales, with better controls of production cost, and garment purchases. Management has done an extensive review of pricing models based on historical and future cost. The Company has also sought out new, more cost effective suppliers for import orders that should yield higher profit margins for the remainder of 2006 as new orders are released.

Operating and Other Expenses

General and administrative expenses were $661,676 (7.4 % of sales) for the three months ended September 1, 2006, compared to 700,707 (8.2 % of sales) for the three months ended August 31, 2005. The primary decrease in cost related to shut down of the Noblesville and Columbia offices. General and administrative expenses were $1,993,350 (10.7% of sales) for the nine months ended September 1, 2006 compared to $1,968,230 (11.0% of sales) for the nine months ended August 31, 2005. The primary increase in expenses is related to reorganization expenses and freight cost. The Company terminated employees associated with sales, human resources, and accounting in the first and second quarters and absorbed the severance cost.

Royalty, commissions, and selling expenses were $1,045,081 (11.7 % of sales) for the three months ended September 1, 2006, compared to $888,008 (10.5% of sales) for the three months ended August 31, 2005. The increase in expense was primarily related to a higher volume of licensed products sales which comprised $112,874 of the increase associated with royalty expense. Royalty, commissions, and selling expenses were $2,208,674 (11.9% of sales) for the nine months ended September 1, 2006, compared to $1,775,096 (9.9% of sales) for the nine months ended August 31, 2005. The primary increase is related to a higher mix of licensed products in 2006 from 2005, as royalty expense was up by $324,531, the remaining increase is selling cost associated with higher volume of core sales.

Corporate expenses were $259,420 for the three months ended September 1, 2006, compared to $244,247 for the three months ended August 31, 2005. The increase in corporate expenses was for banking fees. Corporate expenses were $764,329 for the nine months ended September 1, 2006, compared to $692,380 for the nine months ended August 31, 2005. The increase in expense was in banking fees, wages, and professional fees.

Interest expense relates to the Company s short and long-term debt. Interest expense was $237,636 for the three months ended September 1, 2006, compared to $181,292 for the three months ended August 31, 2005. The increase in interest expense is related to higher interest rates than previous year and increased debt outstanding during the period. Interest expense was $580,627 for the nine months ended September 1, 2006 compared to $436,514 for the nine months ended August 31, 2005; the increase relates to higher interest rates and increased debt outstanding during the period.

Other expense was $53,249 for the three months ending September 1, 2006, as compared to $5,593 for the three months ended August 31, 2005. The increase in expense relates to $30,000 of fees for banking extensions from National City and $14,574 of warrant expense for subordinated debt. Other expense for the nine months ending September 1, 2006 was $106,750 compared to other income of $30,961. The primary expenses for the nine month periods relate to one time banking fee extensions of $30,000, amortization of warrants for subordinated debt of $24,294, write-off of fixed assets of $40,056 for the closure of the Noblesville and Columbia offices, and loss on sale of vehicles of $8,256. The Company has received incentive payments from Wabash County in prior years based on staffing levels, however due to staff reductions the Company has not accrued this benefit during 2006.

The provision for income taxes for the three months ended September 1, 2006, was $128,053, which is attributable to the Company s quarterly operating profit adjusted by book and income tax recognition of temporary differences. The provision for income taxes for the three month period ended August 31, 2005, was $60,181, which related to the pre-tax income and recognition of book and tax temporary differences. The benefit for income taxes for the nine months ended September 1, 2006 was $2,982, compared to the provision of $16,104 for the nine months ended August 31, 2005. The change between the periods relates to the operating loss adjusted by book and income tax recognition temporary differences.

Financial Position, Capital Resources, and Liquidity   September 1, 2006 and November 30, 2005

At September 1, 2006, working capital was $2,330,793 representing an increase of $109,194 from working capital at November 30, 2005 of $2,221,599. The increase in working capital was primarily due to the increase in receivables from November 30, 2005, which is primarily related to sales in the month of August 2006. This was the highest sales month in the Company s history. 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.

Liquidity and Capital Resources

The Company has historically financed its operations through a combination of earnings and debt. The Company s principal sources of debt financing are its revolving line of credit with National City Bank of Indiana and promissory notes issued by First Federal Savings Bank of Wabash. The credit facility has a maximum limit of $6,500,000 of which the Company has drawn $4,295,396 as of September 1, 2006. The credit facility matures on October 31, 2006. Management is currently negotiating to refinance the current credit facility and believes the Company can complete the process in the near future. The First Federal Savings Bank Promissory Notes consist primarily of one principal loan in the amount of $3,225,809 payable in monthly installments of $29,263 of principal and interest. The balance on this principal loan was $3,128,240 at September 1, 2006.

The Company s principal use of cash is for operating activities and working capital. Cash provided by operations in the nine months ended September 1, 2006, was $2,172,620 as compared to $2,017,976 of cash used by operations for the nine months ended August 31, 2005. The increase in cash provided related primarily to a reduction in inventory, coupled with an increase in accounts payable and accrued expenses.

Cash used for investing activities was $210,573 for the nine months ended September 1, 2006, compared to $1,525,638 for the nine months ended August 31, 2005. The Company s investing activities during the period ending September 1, 2006 were for various intangible assets in the amount of $167,680, with minimal capital equipment purchases of $47,593. In the nine months ended August 31, 2005 the Company had large capital expenditures primarily for the purchase and renovation of a warehouse, and production equipment for a total of $1,018,658.

Net cash used in financing activities was $1,702,457 for the nine months ended September 1, 2006, compared to $3,345,529 of cash provided by financing activities for the nine months ended August 31, 2005. The proceeds of common stock issued on January 24, 2005 was $2,691,000, and the net proceeds from the warehouse and equipment loans were $520,153, which were the primary items that provided cash from financings in nine months period ended August 31, 2005. For the nine months ended September 1, 2006 the primary use of funds in financings resulted from the Company s reduction in borrowings from the revolving line of credit by $2,231,565, offset by receipt of $912,000 in proceeds from a Subscription Agreement for Convertible Notes and Warrants from a group of investors that closed on April 6, 2006.

The Company has entered into amendments with National City Bank of Indiana to extend the maturity date of the Company s credit facility during the year with the most recent amendment extending the maturity date to October 31, 2006. Additional provisions of the amendments increased the interest rate to prime plus two points and reduced the maximum availability under the revolving line of credit from $9,500,000 to $6,500,000. Pursuant to the amendments, National City waived the Company s non-compliance with certain obligations and covenants of the credit facility.

Under the Company s credit facility agreement with National City Bank, the Company may draw up to the sum of 80% of eligible accounts receivable, as defined in the credit facility agreement, and 60% of eligible raw materials and eligible finished goods inventory, as defined in the credit facility agreement. In addition, the credit facility agreement provides for monthly payments of interest at a nationally published prime rate plus 2% (8.25% was the published rate at September 1, 2006). Accounts receivable, inventory, certain personal assets and personal guarantees of the Company s Chief Financial Officer and one board member collateralize the borrowings under the credit facility.

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.

On January 24, 2005, the Company entered into a Securities Purchase Agreement (the Agreement) with Bonanza Master Fund, Ltd. (Bonanza), MidSouth Investor Fund, L.P. (MidSouth) and Itasca Capital Partners LLC (Itasca and collectively with Bonanza and Mid South, the Purchasers), and raised $2,990,000 in a private placement. None of the Purchasers has any other material relationship with the Company. Pursuant to the Agreement, the Company issued Bonanza 2,000,000 shares of its common stock and a warrant to purchase 1,000,000 shares of common stock, issued to MidSouth 250,000 shares and a warrant to purchase 125,000 shares of common stock, and issued to Itasca 50,000 shares and a warrant to purchase 25,000 shares of common stock. The shares of common stock were issued at $1.30 per share and the warrants are exercisable at $1.75 per share for five years. In addition, the Company has issued a warrant to purchase 115,000 shares of common stock to Dougherty & Company, LLC Investment Bankers for its services in connection with the private placement. The warrants are exercisable at $1.75 per share for five years, but the average closing price of the Company s common stock must be equal to at least $2.10 for ten consecutive trading days to exercise a purchase. The total offering price was $2,990,000 in cash, less fees of $299,000, for a net cash infusion of $2,691,000.

Item 3. Controls and Procedures

Within the 90 days prior to the date of this report, the Company s management, including the Chief Executive Officer and the Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Exchange Act Rules 13a-14(c) and 15d-14(c). Based upon the evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective, in all material respects, to ensure that the information required to be disclosed in the Company s periodic SEC filings is recorded, processed, summarized and reported as and when required.

There have been no significant changes in the company s internal controls or in other factors that could significantly affect internal controls subsequent to the date the Chief Executive Officer and the Chief Financial Officer carried out this evaluation.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company has pending various minor legal actions arising in the normal course of business. Management does not believe that such legal actions, individually or in the aggregate, will have a material impact on the Company s business, financial condition or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On April 6, 2006, the Company entered into a Subscription Agreement 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 will issue 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.

On January 24, 2005, the Company entered into a Securities Purchase Agreement with Bonanza Master Fund, Ltd., MidSouth Investor Fund, L.P., and Itasca Capital Partners LLC (collectively, the Purchasers) and raised $2,990,000 in a private placement. None of the Purchasers has any material relationship with the Company. Pursuant to the Securities Purchase Agreement, the Company issued Bonanza 2,000,000 shares of its common stock and a warrant to purchase 1,000,000 shares of common stock, issued to MidSouth 250,000 shares and a warrant to purchase 125,000 shares of common stock, and issued to Itasca 50,000 shares of common stock and a warrant to purchase 25,000 shares of common stock. The shares of common stock were issued at $1.30 per share and the warrants are exercisable at $1.75 per share for five years. In addition, the Company has issued a warrant to purchase 115,000 shares of common stock to Dougherty & Company, LLC Investment Bankers for its services in connection with the private placement. The warrants are exercisable at $1.75 per share for five years, but the average closing price of the Company s common stock must be equal to at least $2.10 for ten consecutive trading days to exercise a purchase. The total offering price was $2,990,000 in cash, less fees of $299,000, for a net cash infusion of $2,691,000.

Item 6. Exhibits and Reports on Form 8-K

(a)

The following documents are incorporated by reference as exhibits to this report:

Exhibit Number	Description
31.1	Section 302 Chief Executive Officer Certification.
31.2	Section 302 Chief Financial Officer Certification.
32	Section 906 Chief Executive Officer Certification and Chief Financial Officer Certification.

(b)

Reports of Form 8-K

(1) A report on Form 8-K dated September 21, 2006, reporting a press release announcing a commitment for a new credit facility with GMAC Commercial Finance.

(2) A report on Form 8-K dated July 15, 2006, reporting an Amendment to the Company s credit facility.

(3) A report on Form 8-K dated July 6, 2006, reporting a press release announcing the Company s earnings for the six months ended June 2, 2006.

(4) A report on Form 8-K dated July 6, 2006, reporting a press release announcing a conference call to be held with interested stockholders.

SIGNATURES

In accordance with the requirements of the Securities and Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEXT, INC.

October 4, 2006

By: /s/ Robert M. Budd

Robert M. Budd,

Chief Executive Officer

By: /s/ Charles L. Thompson

Charles L. Thompson,

Chief Financial Officer and

Principal Accounting Officer

EXHIBIT INDEX

(a)

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