

NITCHES INC
Form 10-Q/A
May 16, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q/A
Amendment No. 1

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

For the quarterly period ended: November 30, 2005

Commission File Number 0-13851

NITCHES, INC.

(Exact name of registrant as specified in its charter)

California
(State of Incorporation)

95-2848021
(I.R.S. Employer Identification No.)

10280 Camino Santa Fe, San Diego, California 92121
(Address of principal executive offices)

Registrant's telephone number: (858) 625-2633

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|-----------------------------------|-------------------------------------------|
| Common Stock, no par value | NASDAQ SmallCap Market |

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Yes No

As of November 30, 2005 the Registrant had 1,351,169 shares of common stock outstanding.

Explanatory Note

This amendment to the quarterly report of Nitches, Inc. on form 10-Q for the first quarter ended November 30, 2005 is being made to:

- 1) Revise the presentation of the Company's Consolidated Balance Sheets, Consolidate Statements of Cash Flows and Trade Receivables footnote to eliminate the netting of receivables due from factor with advances due to factor as required by Rule 5-02.19(2) of Regulation S-X and insert footnote 12 to summarize these adjustments;
- 2) Add footnote 10 to provide the goodwill and intangible asset disclosures required by paragraph 45 of SFAS
- 3) Update Critical Accounting Policies to describe the Company's annual impairment tests related to the valuation of goodwill, long-lived assets and intangible assets;
- 4) Update Item 4. Controls and Procedures to indicate that the certifying officers disclose their conclusions regarding the effectiveness of the Company's controls and procedures as of the end of the period covered by this report.
- 5) Revise the certifications required under Section 302 of Sarbanes Oxley and Item 601(b) (31) to reflect the exact language required by these regulations.

Items included in the original report that are not included herein are not amended and remain in effect as of the date of the original filing.

ITEM 1. Financial Statements

NITCHES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | November 30, 2005 | August 31, 2005 |
|------------------------------------------------------------------------------------------------------------------------------------|----------------------|--------------------|
| | (Unaudited) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 422,000 | \$ 192,000 |
| Receivables: | | |
| Due from factor, net | 14,367,000 | 3,749,000 |
| Trade receivables, net | 198,000 | 473,000 |
| Due from affiliates and employees | 55,000 | 11,000 |
| Total receivables | 14,620,000 | 4,233,000 |
| Refundable income taxes | 242,000 | 212,000 |
| Inventories, less allowances | 4,938,000 | 4,582,000 |
| Deferred income taxes, current | 600,000 | 867,000 |
| Other current assets | 376,000 | 302,000 |
| Total current assets | 21,198,000 | 10,388,000 |
| Property and equipment, net | 319,000 | 38,000 |
| Goodwill and trademarks | 3,524,000 | |
| Other intangibles subject to amortization, net | 712,000 | |
| Deferred income taxes, net of current | 477,000 | 10,000 |
| Other assets | 64,000 | 17,000 |
| | \$ 26,294,000 | \$ 10,453,000 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Due to factor | \$ 12,240,000 | \$ 3,131,000 |
| Accounts payable | 4,313,000 | 2,276,000 |
| Accrued expenses | 1,943,000 | 640,000 |
| Income taxes payable | 1,218,000 | |
| Total current liabilities | 19,714,000 | 6,047,000 |
| Long term liabilities: | | |
| Loss on investment in Designer Intimates, Inc. | | 146,000 |
| Shareholders equity: | | |
| Series A preferred stock, \$100 par value; 25,000,000 shares authorized, 8,820 shares issued and outstanding (0 - August 31, 2005) | 882,000 | |
| Common stock, no par value; 50,000,000 shares authorized; 1,351,169 shares issued and outstanding (1,171,169 - August 31, 2005) | 2,413,000 | 1,495,000 |
| Retained earnings | 3,285,000 | 2,765,000 |
| Total shareholders equity | 6,580,000 | 4,260,000 |
| | \$ 26,294,000 | \$ 10,453,000 |

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

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

| | Three Months Ended November 30, | |
|--------------------------------------------------------------|------------------------------------|--------------|
| | 2005 | 2004 |
| Net income/(loss) | \$ 520,000 | \$ (12,000) |
| Cash flows from operating activities: | | |
| Depreciation and amortization | 35,000 | 7,000 |
| (Income) loss from investment in unconsolidated subsidiary | 11,000 | (159,000) |
| (Increase) decrease in due from factor | (10,629,000) | 697,000 |
| (Increase) decrease in trade receivables | 275,000 | 440,000 |
| (Increase) decrease in inventories | 3,613,000 | (1,344,000) |
| Decrease in refundable income taxes | (30,000) | (172,000) |
| (Decrease) in other assets | (10,000) | |
| Increase (decrease) in accounts payable and accrued expenses | (3,511,000) | 895,000 |
| Increase (decrease) in income taxes payables | 740,000 | (54,000) |
| Net cash provided (used) by operating activities | \$ (8,986,000) | \$ 298,000 |
| Cash flows from investing activities: | | |
| Capital expenditures | (17,000) | (3,000) |
| Cash acquired in transaction | 124,000 | |
| Net cash provided (used) by investing activities | \$ 107,000 | \$ (3,000) |
| Cash flows from investing activities: | | 803,000 |
| Advances from factor | \$ 9,109,000 | \$ (334,000) |
| Net increase (decrease) in cash and cash equivalents | 230,000 | (39,000) |
| Cash and cash equivalents at beginning of period | 192,000 | 219,000 |
| Cash and cash equivalents at end of period | \$ 422,000 | \$ 180,000 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period: | | |
| Interest | \$ 90,000 | \$ 6,000 |
| Income taxes | | 116,000 |
| Non-cash investing activity: | | |
| Acquisition of remaining outstanding shares of subsidiary | | |
| Common stock issued | \$ 918,000 | \$ |
| Series A preferred stock issued | 882,000 | |
| | \$ 1,800,000 | \$ |

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

NITCHES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

5. Trade accounts receivable and amounts due to factor:

Pursuant to the terms of an agreement between Nitches and a factor, Nitches sells a majority of its trade accounts receivable to the factor on a pre-approved, non-recourse basis. The price at which the accounts are sold is the invoice amount reduced by the factor commission (.3% of the invoice amount) and all selling discounts. For accounts sold to the factor without recourse, the factor is responsible for collection, assumes all credit risk, and obtains all of the rights and remedies against the company's customers. For such accounts, payment is due from the factor upon the earlier of the payment of the receivable to the factor by the customer, or the maturity of the receivable (generally 180 days from the date of shipment to the customer). As of November 30, 2005, non-recourse receivables totaled \$14.5 million.

Trade accounts receivable not sold to the factor remain in the custody and control of the Company and the Company maintains all credit risk on those accounts as well as accounts which are sold to the factor with recourse. The combined credit risk for non-factored and recourse receivables as of November 30, 2005, totaled \$731,000, of which \$241,000 had been collected by December 31, 2005.

The Company may request payment from the factor in advance of the collection date or maturity. Any such advance payments are assessed an interest charge through the collection date or maturity at the factor's prime rate less 1.5% (one and one half percent) per annum. The company's obligations with respect to advances from the factor are limited to the interest charges thereon. Advance payments are limited to a maximum of 85% (eighty-five percent) of eligible accounts receivable. The factoring agreement also provides for the issuance of irrevocable letters of credit for the Company's purchase of inventory in the normal course of its business. Letters of credit are subject to a \$6 million limit. All assets of the company collateralize the advances and letters of credit. The Company's Chairman has also provided a personal guaranty in connection with the factoring arrangement.

The status of the Company's trade accounts receivable and letters of credit are as follows:

| | November 30, 2005 | August 31, 2005 |
|----------------------------------------------------------|----------------------|--------------------|
| Receivables assigned to factor: | | |
| Non-recourse | \$ 14,458,000 | \$ 3,827,000 |
| Recourse | 440,000 | 110,000 |
| Allowance for customer credits and doubtful accounts | (531,000) | (188,000) |
| Due from factor | \$ 14,367,000 | \$ 3,749,000 |
| Non-factored accounts receivable | 291,000 | 557,000 |
| Allowance for customer credits and doubtful accounts | (93,000) | (84,000) |
| Trade receivables, net | \$ 198,000 | \$ 473,000 |
| Due to factor | \$ 12,240,000 | \$ 3,131,000 |
| Contingent liabilities for irrevocable letters of credit | \$ 3,785,000 | \$ 3,520,000 |

NITCHES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements

10. Goodwill and Intangible Assets:

Goodwill and Other Intangible Assets consisted of the following at October 24, 2005 and November 30, 2005:

| | November 30, 2005 | October 24, 2005 |
|--------------------------|----------------------|---------------------|
| Good will & trademarks | \$ 3,524,000 | \$ 3,524,000 |
| Other intangibles | 721,000 | 721,000 |
| Accumulated amortization | (9,000) | |
| | <u>\$ 712,000</u> | <u>\$ 721,000</u> |

The Goodwill & Trademarks represents the excess purchase price over the fair value of the net assets acquired with Designer Intimates, Inc. and is not subject to amortization. In accordance with SFAS 142 it will be tested for impairment on an annual basis and between annual tests in certain instances (see Valuation of Goodwill, Long-lived Assets and Intangible Assets). The Other Intangibles is the license for Crabtree & Evelyn which is being amortized through December 31, 2012.

The estimated aggregated amortization expense for intangible assets for each of the five succeeding fiscal years is:

| | |
|-------------|------------|
| 2006 | \$ 100,000 |
| 2007 | 100,000 |
| 2008 | 100,000 |
| 2009 | 100,000 |
| 2010 | 100,000 |

11. New Accounting Pronouncements:

The FASB did not issue any new Statements of Financial Accounting Standards during the current period.

12. Restatement

After filing its quarterly report on form 10-Q as of November 30, 2005, the Company reviewed its presentation of factored trade receivables and factor advances on the balance sheet and determined that, in accordance with generally accepted accounting principles, factor advances should be presented as a separate liability on the balance sheet and not on a net basis with factored accounts receivable. This amended report includes the restatement of the balance sheets and statements of cash flows to reflect this presentation. The changes are summarized in the tables below.

| Balance Sheets | As previously reported | Adjustments | As restated |
|--------------------------|---------------------------|----------------|-------------|
| August 31, 2005 | | | |
| Accounts receivable, net | \$ 1,091,000 | \$ (1,091,000) | \$ |
| Due from factor, net | | 3,749,000 | 3,749,000 |
| Trade receivables, net | | 473,000 | 473,000 |
| Due to factor | | 3,131,000 | 3,131,000 |
| August 31, 2004 | | | |