NEXT INC/TN
Form 10-K
February 15, 2008

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

[ **X** ]

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

**For the Fiscal Year Ended November 30, 2007**

**Or**

[ ]

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

**Commission File Number 000-25247**

**NEXT, INC.**

**(Exact name of registrant 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**

**Securities registered pursuant to Section 12(b) of the Act: None**

**Securities registered pursuant to Section 12(g) of the Act: Common Stock, $.001 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes ¨ No x

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 issuer 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained therein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 - Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer X

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

The issuer s revenue for the fiscal year ended November 30, 2007 was $20,217,810.

As of February 1, 2008 the aggregate market value of the Company s common stock was approximately US $1,931,446 which value, solely for the purposes of this calculation, excludes common stock held by the Company s affiliates, including major shareholders, officers, and directors. Such exclusion should not be deemed a determination or an admission by the issuer that all such individuals are, in fact, affiliates of the issuer.

The number of shares of the Issuer s common stock issued and outstanding as of February 1, 2008 was 21,830,055.

**FORWARD LOOKING STATEMENTS**

**In addition to the historical information contained herein, this report contains forward-looking statements that are subject to 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-K, including, without limitation, statements containing the words believe, are of the opinion that, anticipate, estimate, expect, 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 special risk factors set forth in Part I, Item 1A, Risk Factors; the risks and uncertainties set forth below; economic and business conditions specific to the licensed and branded 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; our ability to 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; our ability to maintain satisfactory relationships with our banking partners; political and trade relations; the overall level of consumer spending; global economic conditions, political instability 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.**

**NEXT, INC.**

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# PART I

## ITEM 1.

## BUSINESS

**BUSINESS DEVELOPMENT**. Next, Inc., a Delaware corporation, was formed January 2, 1987. It has two wholly owned subsidiaries: (i) Next Marketing, Inc., a Delaware corporation ( Next Marketing ), and (ii) Choice International, Inc., a Delaware corporation ( Choice ). On December 1, 2006, the Company merged CMJ Ventures, Inc., a Florida corporation ( CMJ ), Lil Fan, Inc., a Delaware corporation ( Lil Fan ), S-2-S Acquisition Corporation, a Delaware corporation, ( S2S ) and Blue Sky Graphics, Inc., a Delaware corporation ( Blue Sky ), into Next Marketing, Inc. to reduce the accounting and legal cost of maintaining these subsidiaries. All references herein to the Company, we, us, our or Next refer to Next, Inc. and its subsidiaries.

**The Company.** The Company, as it currently operates, commenced its operations on February 1, 2002, after the completion of a stock exchange between Sporting Magic, Inc., a Delaware corporation, and Next, Inc., a Delaware corporation (the Exchange ). Following the Exchange and until December 27, 2002, the Company operated under the name Sporting Magic, Inc., at which time Next, Inc. was merged with and into Sporting Magic, Inc. and the name Sporting Magic, Inc. was changed to Next, Inc.

**The Subsidiaries.** Blue Sky and Next Marketing became indirect subsidiaries of the Company at the time of the Exchange and on December 27, 2002, following the merger between Sporting Magic, Inc. and Next, Inc., became wholly owned subsidiaries of the Company. Blue Sky and Next Marketing (and their respective predecessors) have been in existence since 1989 and 1997, respectively, and, prior to the Exchange, were owned and controlled by two of the Company s principal stockholders. CMJ became a subsidiary of the Company on June 1, 2002 pursuant to the terms of an Agreement and Plan of Merger dated March 1, 2002, as amended on May 16, 2002 and May 15, 2003. On July 31, 2003, the Company acquired substantially all of the assets of Lil Fan, Inc., the right to sell all items previously sold by Stan Howard & Associates, and Stan Howard & Associates, Inc. through a subsidiary named Lil Fan. On October 31, 2004, the Company acquired substantially all of the assets of Choice International, Inc., the right to purchase goods through an international source, and the right to sell all items through a customer base previously sold by the principals through a subsidiary that is now Choice. On August 12, 2005, the Company acquired certain assets of Sports-2-Schools, LLC, the right to sell all items previously sold by Buck Swindle Associates, Inc. and the vendor number for a major customer through a subsidiary named S2S. On December 1, 2006, the Company merged CMJ, Lil Fan, S2S, and Blue Sky into Next Marketing to reduce the accounting and legal cost of maintaining these subsidiaries.

**THE BUSINESS**. The Company is a creative and innovative sales and marketing organization that designs, develops, markets and distributes licensed and branded imprinted sportswear primarily through key licensing agreements in addition to the Company s own proprietary designs. Products are imported, outsourced and embellished in-house via both the screenprint and embroidery processes.

The Company s management ( Management ) believes that there are substantial growth opportunities in the imprinted sportswear industry and that the Company is well positioned to take advantage of these 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 and on-time delivery at competitive prices.

The Company s licensed and proprietary products include the following:

§

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

§

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

§

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

§

Licensing and distribution agreements with **Sturgis "Bike Rally", GRITS, Rivalfish, Chuck E. Cheese,** and **Ladies First.**

The Company is continually reviewing additional licensing programs and proprietary designs to further expand its licensing program and proprietary design portfolio.

**OPERATIONS**. The Company is one of the larger companies in the highly fragmented licensed imprinted sportswear industry. 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. We believe that the following strengths, among others, have contributed to our past success and may provide us with a distinctive ongoing competitive advantage:

**High quality, imprinted sportswear**. Imprinted sportswear is produced both domestically and offshore. For large runs with long lead times, it is economically advantageous to produce the imprinted sportswear in countries where the cost of labor is lower than in the United States. Management believes that the Company does an excellent job of costing, and effectively sourcing its products from international suppliers. The Company s facility in Wabash, Indiana, was set-up specifically to handle situations where it is not practical to produce imprinted sportswear offshore such as: (a) for customized imprinted sportswear that, due to the uniqueness of the product, is not suited for the standardized long runs of offshore production, (b) for hot market reorders of just-in-time inventory such as for major sporting events, and (c) for demand that exceeds forecasts leading to the need for quick replenishment orders. The Wabash facility, with the capability to produce both imprinted and embroidered products, was designed to include a customized inventory management system with emphasis on automation of the manufacturing process effort, to minimize costs, cycle time and waste. The Wabash facility substantially reduces our reliance on outside sourcing, enabling us to manage costs, shorten delivery time and enhance quality control of our products.

**Excellent design and merchandising staff**. We believe that licensed branded products are an established and significant growth category within our industry. The ability to deliver unique product offerings on a timely basis is key to the future success and expansion of our branded licensed revenue. The Company believes that it possesses one of the most creative and innovative design, merchandising and product development capabilities within the industry. The Company s design and merchandising staff determines, in partnership with our customers, the product strategy and is responsible for creating innovative products for our branded license and proprietary products lines. Management believes that this partnership provides stability in the design environment and consistency in our product variety and offers our customers flexibility in their product selection and timeliness of product delivery. The Company has been successful in significantly reducing the time requirements needed for the design, sourcing and delivery of products to substantially less than the industry norm. This enables us to provide a wide variety of products with greater acceptability in the marketplace within a reduced lead-time. Our partnerships with key suppliers further enhance our ability to develop and deliver our distinctive and innovative products quicker. In 2007, key suppliers included Linter Industries Corporation, Gildan Activewear SRL, and Delta Apparel, Inc.

**Upscale brand identity**. The Company offers a style of products that is built on quality and strong imagery. Our marketing themes revolve around college and university brands, motor sports, outdoor lifestyle, motorcycle biking, fishing, water sports, and other leisure pursuits designed to appeal to many of our target customers. We reinforce our upscale brand image at the retail level with specialized planograms and displays that present our lines as distinctive collections. The Company s target is to mid tier, mass and specialty retailers. Our target customer enjoys casual settings, college and sporting activities, or relaxed weekend environments. We believe that our consumers are seeking a refined level of product quality and distinctiveness, and our designs, manufacturing standards and marketing are structured accordingly.

**Customer Just in Time inventory**. The Company has the capability to work with our customers to tailor purchase orders and inventory levels to create maximum efficiency for both parties. By matching inventory mix to each customer s location needs and tracking the location s stock levels, the system creates new orders to maintain pre-approved quantities. The system objective is to increase customer sell-throughs while maintaining stock levels to avoid out of stocks.

**INFORMATION SYSTEMS**. We employ a fully integrated, real-time management information system that is specifically designed for our industry. The system includes important features such as manufacturing resource requirements planning, production scheduling, detailed product tracking, cost system, planning and control, and detailed perpetual inventory systems. As our production personnel track original purchases through various factory production phases, our merchandisers track sales in order to compare purchases against availability, thereby allowing us to react quickly to changes and trends. Our product development team utilizes sophisticated computer-aided design software to meet our customers design, collaboration and specification requirements. We also have a remote-order entry system for our sales force, allowing them to monitor and establish sales plans and communicate order specifics. Customer service personnel receive this uploaded information daily and have real-time access to inventory availability.

This information system serves users in each of our operating areas, and is also used to create costing models, specification sheets and production scheduling. Our information system also provides detailed product gross margin information that assists us in managing product profitability. During fiscal 2007, we continued to expand the relational database capabilities of our management information system to allow us to create specialized management reports and access critical decision support data.

**COMPETITION**. The imprinted sportswear industry is highly competitive. The Company believes there are over 7,000 high volume (defined as shops with annual gross sales over $500,000) screenprint and embroidery shops, and of that figure, only approximately 8% of them have gross annual sales of over $10 million. Our primary distribution channels are highly fragmented with substantial competition from other distributors of imprinted sportswear. We believe that our ability to compete effectively is based primarily on product differentiation, product quality, production flexibility and distribution capabilities, all of which Management believes enhance the Company s brands.

**CUSTOMER BASE**. The Company has made a concerted effort to expand its customer base. As a result of this effort, the Company has developed a diverse distribution network, ranging from national, large regional, specialty retail chains, corporate accounts, college bookstores, motor sports, souvenir and gift shops and golf shops. However, in so doing, the Company has found that it needed to focus efforts toward refining its distribution channels and pricing policies. As a result, the Company found that it was necessary to turn away high volume, lower margin programs, which had the potential to turn into losses in an effort to have better distribution channels and retail programs while improving margins.

During the fiscal years of 2007, 2006, and 2005, approximately 75.2% ($15,205,208), 61.9% ($17,798,888), and 44.5% ($11,872,172) respectively, of the net sales of the Company were to its two largest customers. While these trends do not seem to intuitively support an expansion of the customer base, they result because it has been necessary to decline business with the potential to be unprofitable, as discussed above. The Company believes that this diversification, enrichment and expansion program will continue to produce more profitable results in the coming years and as sales volume in these programs increases, the leveraging of more profitable programs against a relatively fixed expense and infrastructure will become more apparent.

The following represent a cross section of the Company s customers segregated by distribution channel:

| | |
|---|---|
| **National Retail Merchants:** | Kohl s, Sears, K-Mart, Dillard s, J.C. Penney, Belk, Wal-Mart |
| **Specialty Retailers:** | Dollar General, Sam s Wholesale Club, Boscov s, Gordmans, Cracker Barrel |
| **Sporting Goods Chains:** | Sports Fan, Academy, Football Fanatics, Scheels Sports, Global Sports International, NIKCO Sports, Wings Sportswear |

| | |
|---|---|
| **Corporate Accounts and College Book Stores:** | Campustown, ND Events, Rivals.com, Alumni Hall, Gym Rats |
| **Motor Sports:** | Chevrolet®, Pontiac®, Hummer®, Cadillac®, Buick®, Corvette C6®, Dodge®, GMC®, Ford®, and motorcycle dealers and gift shops |
| **E-Commerce:** | General public via website distribution |

**GROWTH STRATEGY**. The industry in which the Company competes is highly fragmented with no single company or group of companies holding a dominant market share. As a result, Management believes that there are significant growth opportunities available to the Company that include the following:

**Expansion of the Company s Licensed Imprinted Sportswear Business**. 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. The Company believes that royalties from sports licenses produce over $500 million on approximately $13.2 billion in retail sales, making sports licenses the second highest producer of royalty revenues. Additionally, apparel and headwear items, such as those designed and embellished by the Company, make up over 60% of retail sales for collegiate licenses. These two types of licenses make up a large percentage of the Company s sales base, and based on the popularity of these items Management believes there is room for growth and expansion in the marketplace. The Company is constantly working to expand its licensing program to gain an advantage in the competitive licensed imprinted sportswear business.

**E-Commerce.** 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.rpmsportsusa.com™, www.americanwildlifeusa.com, and www.americanbiker.com™. A corporate website, www.nextinc.net, gives information to the general public about the Company.

**Increased Marketing of the Company's Proprietary Designs.** The Company has developed several proprietary designs that Management believes will increase its penetration into existing customer base and broaden its product offering to new accounts. The proprietary designs cover a broad spectrum of themes such as: **American Wildlife®** (outdoor activities) , **American Biker®** (motorcycles), **Cadre Athletic®** and **Campus Traditions USA™** (college and athletics), among others**.**

**Strategic Mergers and Acquisitions**. In addition to organic growth, the Company also plans to grow through selective strategic acquisitions. Management believes that there are a number of quality acquisition candidates that could enable the Company to expand and diversify its presence in the marketplace. The Company s key acquisition criteria include: proven financial success, diverse or complementary customer base, complementary seasonality of the business, a reputation for quality in the marketplace and an opportunity to leverage operations.

**Imprinted Sportswear Industry.** The imprinted sportswear industry is a niche industry that entails value added embellishment (embroidering or screenprinting) of various apparel. The items that are imprinted include: headwear, polo shirts, short and long-sleeve tee shirts, fleece wear and sweat pants. The imprinted sportswear is sold primarily through traditional and specialty retailers ranging from large national and regional chains to sporting goods stores, casinos, golf and tennis pro shops, souvenir shops and sports stadiums.

**Trends.** A significant industry trend is the evolving requirement of customers to have suppliers provide enhanced value-added services to them. A primary attribute that customers are seeking is a company s ability to be a one-stop shop for all product requirements. In effect, customers are now looking to their suppliers to provide enhanced value-added services: design and graphic capabilities, fulfillment and warehousing, company store planning and execution, and on-line purchasing.

**SUPPLIERS**. The Company sources a significant portion of its products through suppliers with international relationships. The majority of the products used by the Company are available from multiple sources. Alternative suppliers are currently available to the Company both domestically and internationally. In 2007, key suppliers included Linter Industries Corporation, Gildan Activewear SRL, and Delta Apparel, Inc.

**SEASONALITY**. The Company is subject to seasonality in its sales cycle due to the amount of college-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.

**EMPLOYEES**. As of February 1, 2008, the Company had approximately sixty-seven full time and four part-time employees. We consider our relations with our employees to be satisfactory.

**ACQUISITIONS AND REFINANCING**. On November 21, 2007, the Company signed an amendment to its credit facility with National City Bank. Pursuant to the amendment, the Bank waived any violations of the financial covenants prior to date of the amendment, the maturity date of the Company s line of credit facility was changed to November 30, 2008, the advance rate on eligible raw materials was decreased to 55% from 60%, the interest rate was increased to prime plus a percentage ranging from .75% to .25% (depending on certain financial ratios), an over-advance line of credit was extinguished, and certain financial ratios and covenants were revised, including the addition of a covenant providing for minimum levels of EBITDA plus equity or subordinated capital injections. The loan is collateralized by accounts receivable, inventory, and limited personal guarantees of the Company s Chief Executive Officer and one board member.

The Company s previous credit facility with National City Bank was entered into on January 31, 2007 with a two year term. That agreement increased the total line of credit to $7,500,000, decreased the interest rate to prime plus or minus .25% (depending on certain financial ratios), increased the advance rates on accounts receivable to 85%, and established new quarterly financial covenants.

During the 2006 fiscal year, the Company s credit facility agreement with National City Bank provided for draws up to the sum of 80% of eligible accounts receivable and 60% of eligible raw materials and eligible finished goods inventory. In addition, the credit facility agreement provided for interest at prime rate plus 1.5%.

On November 19, 2007, the Company entered into a Securities Purchase Agreement with C. W. Reed, a director of the Company, for the issuance of 2,173,913 shares of common stock and a warrant to purchase up to 1,087,500 shares of common stock for an aggregate offering price of $500,000 in cash. The Warrant is exercisable, in whole or in part, at any time and from time to time for a period of seven years following the date of issuance and has an exercise price equal to (i) $0.35 per share for the first five years thereof and (ii) $0.50 per share for the remaining two years thereof. The exercise price and the number of Warrant Shares issuable upon exercise of the Warrant are subject to adjustment as provided in the Warrant. Under the terms of the Purchase Agreement, the Purchaser has certain demand registration rights that may be exercised with respect to the Shares and the Warrant Shares.

On November 30, 2006, the Company entered into a subordinated loan agreement with Next Investors, LLC for $500,000, to replace an agreement originally executed on July 20, 2005. The purpose of this loan was to provide working capital to be repaid out of future cash flows. The loan has an interest rate of prime plus .25% and maturity date of November 30, 2008. Next Investors, LLC s principal partners are comprised of one board member, and two shareholders of the Company. As of November 30, 2007, interest expensed and accrued for this loan totaled $42,408 and $26,714, respectively. As of December 1, 2006, interest expensed and accrued for this loan totaled $39,389 and $10,743, respectively.

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 were fully subordinated to the Company s senior lenders. The Notes were 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 filed a registration statement with the Securities and Exchange Commission for the offer and sale to 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. When the notes were paid in full as of November 30, 2007, six payments had been made in stock and six payments in cash.

On September 30, 2005, the Company refinanced the credit facility for its main plant in Wabash, Indiana at Crossroads Bank (name changed from 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. Also included in the new loan were loan origination fees of $31,939. The interest rate is 7% and the note matures on October 15, 2020.

Pursuant to the terms of an Asset Purchase Agreement (the Agreement ), dated August 12, 2005, by and among S-2-S Acquisition Corporation (a wholly owned subsidiary of the Company), Sports-2-Schools, LLC, and Buck Swindle Associates, Inc., the Company, through a subsidiary, acquired certain assets of Sports-2-Schools, LLC and the right to sell all items previously sold by the principals. Sports-2-Schools, LLC s customers, distribution networks, and vendor number diversify, complement, and bolster the Company s existing customer and distribution base. The Company, during fiscal 2005, fully integrated the operations of Sports-2-Schools, LLC into the operating facility located in Wabash, Indiana (see NOTE 15 of the Notes to Consolidated Financial Statements contained elsewhere in this document). As consideration for the above described acquisition, the Company issued 50,000 shares of its common stock, with up to an additional $575,000 worth of shares of its common stock to be issued on a deferred basis if certain financial targets are achieved, and up to $600,000 in cash pursuant to an earn-out arrangement. No payments were made in fiscal year 2007 or 2006 as part of the earn-out arrangement. As additional consideration, the Company paid $50,000 to Buck Swindle Associates, Inc. and forgave $205,500 of accounts receivable indebtedness to the Company. The Company also assumed $172,000 of debt of Sports-2-Schools, LLC which was paid off in October 2005. The shares were issued to the shareholders of Sports-2-Schools, LLC, in a transaction exempt from registration pursuant to Section 4(2) of the Securities Act of 1933. The transaction was negotiated with the shareholders, who were a small group of sophisticated investors knowledgeable about the Company.

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 ) (collectively, the Purchasers ) and raised $2,990,000 in a private placement to the Purchasers. None of the Purchasers has any other material relationship with the Company. Pursuant to the Agreement, the Company issued to Bonanza 2,000,000 shares of its common stock and a warrant to purchase 1,000,000 shares, to MidSouth, 250,000 shares and a warrant to purchase 125,000 shares, and 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 will issue a warrant to purchase 115,000 shares of common stock to a consultant 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 must be equal to at least $2.10 for ten consecutive trading days to exercise purchase. The total offering price was $2,990,000 in cash.

**Future Acquisitions**. The Company has an ongoing effort to engage in discussions with various potential merger and acquisition targets and expects to grow through strategic acquisitions of complimentary businesses. Management believes that additional acquisitions by the Company will allow it to further diversify its customer and distribution base, lessen its current dependence on large customers, and enhance stockholder value. The Company is not presently a party to any definitive agreements with respect to any acquisitions and there can be no assurances that any acquisition will be accomplished in the near future or at all.

**Business Developments.** Business developments in fiscal years 2007 and 2006 include:

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On November 5, 2007, the Company announced an exclusive letter of intent to produce and market the Ladies First apparel line.

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On October 18, 2007, the Company announced a one year renewal of their Ford licensing program.

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On March 15, 2007, the Company announced the resignation of Chief Financial Officer Charles L. Thompson and the appointment of David O. Cole to the position.

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On December 28, 2006, the Company announced that its licensed college sportswear program was ranked as the fourteenth top-selling company in the Collegiate Licensing Company’s rankings.

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On October 25, 2006, the Company announced a new three-year license agreement with Dodge to produce their branded apparel.

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On September 12, 2006, the company announced a partnership with Rivalfish™ for an exclusive apparel license for their college rivalry program featuring many of the most recognizable college sports rivalries in the country.

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On September 5, 2006, the Company announced that, year to date, it was ranked number two for sales of licensed Ford apparel, based on royalty revenues.

**ITEM 1A. RISK FACTORS**

**Risks Related To Our Business.** In addition to the other information contained in this report, including risks and uncertainties described elsewhere, the following risk factors should be considered in evaluating the Company. The risks and uncertainties described below or elsewhere in this report are not the only ones the Company faces. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial also may impair the Company s business and operations. If any of the risks described below or elsewhere in this report materialize, the Company s business, financial condition, operating results and cash flows could be materially affected. Stockholders or investors considering the purchase of shares of the Company s common stock should carefully consider the following risk factors, in addition to the other information contained in this report.

You should not rely on the Company s past results to predict its future performance because its operating results fluctuate due to factors which are difficult to forecast and often out of the Company s control. The Company s past revenues and other operating results may not be accurate indicators of the Company s future performance. The factors that may contribute to these fluctuations include: fluctuations in aggregate capital spending, cyclicality and other economic conditions in one or more markets in which we sell our products; changes or reductions in demand in the markets we serve; a change in market acceptance of the Company s products or a shift in demand for the Company s products; new product introductions by the Company or by the Company s competitors; changes in product mix and pricing by the Company, its suppliers or its competitors; pricing and related availability of raw materials for the Company s products; the Company s failure to manufacture a sufficient volume of products in a timely and cost-effective manner; the Company s failure to anticipate changing product requirements of its customers; changes in the mix of sales by distribution channels; exchange rate fluctuations; and extraordinary events such as litigation or acquisitions.

**Loss of Licenses**. A substantial portion of the Company s revenue is derived from its licensing program and Company owned brands. The Company is a party to numerous licensing agreements to utilize branded logos for its products. Licenses from colleges and universities comprise the greatest segment of the Company s licenses and these licenses are grouped into master licenses. All of these master license arrangements have duration of one to three years and may not contain automatic renewal options. Although the Company has had no difficulty renewing these license arrangements in the past and obtaining new licenses, there can be no assurance that the Company will be able to do so in the future. The loss of any one group of licenses or any master license may have a material adverse effect on the Company s financial conditions and results of operations.

**Competition**. The principal competitive factors affecting the market for the Company s products include product functionality, performance, quality, reliability, delivery, price, compatibility and conformance with customer and licensor standards. Several of the Company s existing and potential competitors are larger than the Company and may have substantially greater financial, sourcing and other resources than does the Company. In addition, the Company may in the future face competition from new entrants in its markets and there can be no assurance that these competitors will not offer better price points for competitive products or offer better terms to the Company s customers than those offered by the Company to obtain greater market share or cause the Company to lower prices for its products, any of which could harm the Company s business.

**Dependence Upon Key Personnel**. The Company depends to a significant degree on the continued contribution of key executive management and key operations and sales management. The loss of the services of one or more key executives could have a material adverse effect on the Company. The Company s success also depends on its ability to attract and retain additional highly qualified management personnel to meet the needs of future expansion. Competition for these individuals is intense and they are often subject to offers from competing employers, some of whom may be better able to offer more lucrative compensation incentives than those offered by the Company. Although most of the Company s key employees have been with the Company for an extended period of time, there can be no assurance that the Company will be able to retain its key employees, or that it will be able to attract or retain additional skilled personnel as needed.

**Dependence On Non-U.S. Suppliers**. The Company sources a significant amount of its products from international suppliers. Relationships with foreign suppliers present a greater risk of disruption due to political and economic instability than relationships with domestic suppliers. Although the majority of the products used by the Company are available from multiple sources both domestically and internationally, any disruption in availability of products and services from these foreign suppliers could lead to increases in the Company s product costs. The Company believes it can locate alternative products from several supplier sources to obtain the quality, and delivery standards if a disruption in international sources should occur.

**Dependence Upon Key Customers**. Historically, the Company s customer base has been comprised primarily of national and regional mass merchandise and specialty retailers. The Company has made a concerted effort to expand its customer base. The acquisition of CMJ, which sells to over five hundred specialty retailers, and the introduction of major product lines and distribution channels, such as its Motor Sports Division, which sells to a dealer network of approximately 9,000 auto dealers are two components of this expansion. The acquisition of Lil Fan also expanded the Company s customer base with the addition of a full line of design and merchandising primarily focusing on children s licensed college and motor sports products. Lil Fan customers are complementary to the Company and do not overlap with existing customers. The acquisition of S2S also expands the Company s customer base to a large national retailer to which the Company has previously not sold merchandise. As a result of this effort, the Company has developed a diverse distribution network, ranging from national, large regional, and specialty retail chains, corporate accounts, college book stores, motor sports, souvenir and gift shops, and golf shops. The recent addition of the Ladies First license on February 7, 2008 is an example and a direct result of the effort to expand the customer base into distribution channels not presently reached and even out the seasonality of the college licensed imprinted sportswear business. If the Company is unable to sustain this expansion of its customer base or if it is unable to maintain its customer base it could have a negative impact on its financial condition and results of operations.

**Consolidation in the Retail Industry.** In recent years, the retail industry has experienced consolidation and other ownership changes. In the future, retailers may undergo changes that could decrease the number of stores that carry our products or increase the ownership concentration within the department store retail industry, including: consolidating their operations, undergoing restructurings or reorganizations, or realigning their affiliations. These situations may concentrate our credit risk in a smaller number of retailers, and, if any of these retailers were to experience a shortage of liquidity, it would increase the risk that their outstanding payables to us may not be paid timely or at all.

**Litigation and Legal Expenses.** The Company is from time to time party to claims and litigation proceedings. Such matters are subject to many uncertainties and the Company cannot predict with confidence the outcomes and ultimate financial impacts of them. There can be no guarantees that actions that have been or may be brought against the Company in the future will be resolved in the Company s favor or that insurance carried by the Company will be available or paid to cover any litigation exposure. Any losses resulting from settlements or adverse judgments arising out of these claims could materially and adversely affect the Company s financial position and results of the operations.

**Cash Shortfalls.** We expect to generate the funds necessary to pay our expenses and to pay the principal and interest on our outstanding debt from our operations. Because our business is seasonal, our borrowings under the Company s revolving credit facility usually fluctuate during the year, generally peaking during August through November.

Our ability to generate cash to meet our expenses and debt service obligations will depend on our future performance, which will be affected by financial, business, economic and other factors, including potential changes in consumer preferences, the success of our products, pressure from competitors and other matters discussed in this Annual Report on Form 10-K (including this Risk Factors section). Many of these factors are beyond our control. Any factor that negatively affects our results of operations, including our cash flow, may also negatively affect our ability to pay the principal and interest on our credit facility. If we do not have enough cash to pay our credit facility, we may be required to amend it, refinance it, sell assets, incur additional indebtedness or raise equity. We cannot assure you that we will be able, at any given time, to take any of these actions on terms acceptable to us or at all.

**Credit Facility Financial Covenants.** Restrictive covenants in our credit facility may restrict our operational flexibility. Our ability to comply with these restrictions depends on many factors beyond our control. Our credit facility includes certain covenants that, among other things, limits or restricts our ability to:

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incur or guarantee additional debt,

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incur liens,

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pay dividends, repurchase stock or make other distributions,

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change our fiscal year-end,

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make material changes to executive management,

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sell, lease, or otherwise dispose of a substantial part of its assets,

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make loans and investments,

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enter into consolidations or mergers, and

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enter into transactions with affiliates.

Our credit facility may also limit our ability to agree to certain change of control transactions, because a change in control (as defined in the Credit Facility) will result in an event of default. A breach of any of the covenants or restrictions contained in our credit facility could result in an event of default under it in which case the amounts outstanding under our credit facility could be declared immediately due and payable. If the payment of indebtedness is accelerated, we cannot assure you that our assets would be sufficient to repay in full that indebtedness and any other indebtedness that would become due as a result of any acceleration.

**Interest Rate Risk.** The Company is subject to market risk for changes in the prime interest rate charged on amounts borrowed from National City Bank since that loan charges interest at prime plus or minus one-quarter of one percent determined by the Company s performance against predetermined leverage ratios. At $4.5 million, a 1% change in the prime rate would impact the Company by $45,000 depending upon the direction of the prime rate change.

**Possible Need For Additional Financing/Capital**. The Company is highly leveraged. Based upon the Company s current level of operations and anticipated growth, the Company believes that cash flows from operations, together with its working capital facility, will be sufficient to enable the Company to satisfy anticipated cash flow requirements for operating, investment and financing activities, including debt service. However, with the Company s planned expansion and potential for additional acquisitions, the Company could be required to obtain additional financing and/or capital, by private placement or in the public markets, to satisfy its requirements. There can be no assurance that such alternatives would be available to the Company at all or on terms reasonably acceptable to the board of directors. If we cannot obtain adequate funds on acceptable terms or at all, we may not be able to take advantage of market opportunities, develop or enhance new products, pursue acquisitions that would complement our existing product offerings, execute our business plan or otherwise respond to competitive pressures or unanticipated requirements.

**Limited Trading Market For Common Stock**. The Company s common stock is quoted on the National Association of Securities Dealers OTC Bulletin Board. There may be a limited trading market for the common stock.

**Volatility Of Common Stock s Market Price**. The market price of the common stock is more volatile than the price of common stock of more established companies, because of the limited number of shareholders and the low volume of trading. In addition, the price is subject to a variety of factors, including the business environment; the operating results of companies in the industries we serve; future announcements concerning the Company s business or that of its competitors or customers; the introduction of new products or changes in product pricing policies by the Company or its competitors; litigation matters; changes in analysts earnings estimates; developments in the financial markets; quarterly operating results; and perceived dilution from stock issuances for acquisitions and other transactions. Furthermore, stock prices for many companies fluctuate for reasons that may be unrelated to their operating results. Those fluctuations and general economic, political and market conditions, such as recessions, terrorist actions or other military actions, or international currency fluctuations, as well as public perception of equity values of publicly traded companies may adversely affect the market price of our common stock.

**Additional Shares**. The Board of Directors has the authority to issue, without further action by the stockholders, up to 10,000,000 additional shares of preferred stock in one or more series and to fix the price, rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting a series or the designation of such series. The Company has previously issued 1,750 shares of Series A Preferred Stock, all of which have been retired. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders and may adversely affect the market price of, and the voting and other rights of, the holders of common stock.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

No unresolved staff comments exist, to the best of the Company s knowledge, as of the filing of this report 10-K.

**ITEM 2.**

**PROPERTIES**

The Company s executive office is located in leased office space in Chattanooga, Tennessee, under a lease for approximately 2,000 square feet that currently expires in 2009. The rental cost for this facility is $1,800 per month. The Company purchased warehouse space in Wabash, Indiana in 2005 for a cost of $365,000, which was financed by Crossroads Bank (name changed from First Federal Savings Bank of Wabash) and renovated for inventory utilization. The purchase of this warehouse allowed the Company to consolidate its inventory from two leased warehouse facilities that cost $11,500 per month. The Company owns, subject to a mortgage, its principal manufacturing, distribution, administrative and design facility located in Wabash, Indiana (the Operating Facility ). The Operating Facility is approximately 125,000 square feet and is in excellent condition. At November 30, 2007, the Company was also leasing additional warehouse space located near the Operating Facility, at a cost of $2,6750 per month, to assist with inventory management during the Company s peak season. Management believes that its existing owned and leased facilities are adequate to meet the Company s needs for the foreseeable future. Additional space may be leased on a month-to-month basis during peak inventory and production times as deemed necessary by Management.

**ITEM 3.**

**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 4.**

**SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Company s Board of Directors has established February 1, 2008 as the record date and plans to hold its annual stockholder meeting on March 20, 2008 in accordance with the Bylaws of the Company.

# PART II

## ITEM 5.

## MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

**Market Information**. Our common stock is quoted on the National Association of Securities Dealers OTC Bulletin Board under the symbol NXTI.OB. The following table sets forth the high and low closing prices of the Company s common stock for the periods indicated, as reported by published sources. The prices reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

| | Low | High |
|---|---|---|
| **2008 Fiscal Year** | | |
| | $ | $ |
| First Quarter (through February 1, 2008) | 0.12 | 0.20 |
| **2007 Fiscal Year** | | |
| | $ | $ |
| First Quarter | 0.42 | 0.60 |
| | $ | $ |
| Second Quarter | 0.29 | 0.46 |
| | $ | $ |
| Third Quarter | 0.20 | 0.33 |
| | $ | $ |
| Fourth Quarter | 0.13 | 0.24 |
| **2006 Fiscal Year** | | |
| | $ | $ |
| First Quarter | 0.58 | 0.92 |

| | | |
|---|---|---|
| | $ | $ |
| Second Quarter | 0.43 | 0.69 |
| | $ | $ |
| Third Quarter | 0.40 | 0.62 |
| | $ | $ |
| Fourth Quarter | 0.40 | 0.60 |

**Holders.** As of February 1, 2008, there were approximately seven hundred registered holders and one thousand beneficial holders of the Company s common stock.

**Dividends.** The Company has never declared a cash dividend on its common stock and its Board of Directors does not anticipate that the Company will pay cash dividends in the foreseeable future. The Company has a covenant in the loan agreement with its primary lender that stipulates it cannot pay dividends on common stock.

**Recent Sales of Unregistered Securities.** On November 19, 2007, the Company entered into a Securities Purchase Agreement with C. W. Reed, a director of the Company, for the issuance of 2,173,913 shares of common stock and a warrant to purchase up to 1,087,500 shares of common stock for an aggregate offering price of $500,000 in cash. The Warrant is exercisable, in whole or in part, at any time and from time to time for a period of seven years following the date of issuance and has an exercise price equal to (i) $0.35 per share for the first five years thereof and (ii) $0.50 per share for the remaining two years thereof. The exercise price and the number of Warrant Shares issuable upon exercise of the Warrant are subject to adjustment as provided in the Warrant. Under the terms of the Purchase Agreement, the Purchaser has certain demand registration rights that may be exercised with respect to the Shares and the Warrant Shares.

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 were 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 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. When the notes were paid in full as of November 30, 2007, six payments had been made in stock and six payments in cash.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**. There were no stock repurchases made during the fiscal years ended 2007 or 2006.

**Equity Compensation Plan Information.** See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters below.

**Comparison of Total Return among Next, Inc., Peer Group, and NASDAQ Composite Index.** Set forth below is a line graph comparing the yearly change in the cumulative total stockholder return, assuming dividend reinvestment, on our Company s common stock with (1) an apparel/textiles peer group and (2) the NASDAQ Composite Index.

| | **2003** | **2004** | **2005** | **2006** | **2007** |
|---|---|---|---|---|---|
| Next, Inc. | $100.00 | $123.08 | $65.38 | $43.85 | $15.38 |
| Peer Group *(1)* | 100.00 | 117.23 | 121.57 | 164.47 | 176.05 |
| NASDAQ Composite | 100.00 | 104.66 | 111.45 | 121.38 | 132.82 |

*(1)*

*Peer group companies used were: Gildan Activewear, Inc., Big Dog Holdings, Inc., VF Corporation, Columbia Sportswear Company, and Nike, Inc. Companies were selected for the peer group based on industry, so that the group would represent the various areas in which Next, Inc. operates, including wholesaling, embellishment, and sales of licensed apparel.*

The Performance Graph assumes that $100 was invested in the common stock of our Company and comparison groups on November 30, 2003, or the closest trading day thereto, and that all dividends have been reinvested.

**ITEM 6.**

**SELECTED FINANCIAL DATA**

The following table presents selected statement of operations data and selected balance sheet data on a consolidated basis. We derived the selected historical consolidated financial data for the fiscal years ended 2007, 2006, 2005, 2004, and 2003 from our audited consolidated financial statements and related notes. You should read this data together with Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes that are a part of this Annual Report on Form 10-K. The results of operations for 2005 include the revenues of S-2-S Acquisition Corporation of $223,764 from August 12, 2005, the date of its acquisition.

| | Fiscal year | | | | |
|---|---|---|---|---|---|
| | **2007** | **2006** | **2005** | **2004** | **2003** |
| Net sales | $ 20,217,810 | $ 28,767,253 | $ 26,677,155 | $ 21,518,753 | $ 20,873,989 |
| Cost of sales | 13,990,331 | 20,641,860 | 19,974,842 | 14,892,346 | 14,461,801 |
| Inventory write off | | | 703,948 | | |
| Gross profit | 6,227,479 | 8,125,393 | 5,998,365 | 6,626,407 | 6,412,188 |
| Gross profit percentage | 30.8% | 28.2% | 22.5% | 30.8% | 30.7% |
| Operating and other expense: | | | | | |
| Operations expense | 2,277,819 | 2,754,244 | 2,762,502 | 2,241,108 | 2,210,045 |
| Royalties, commissions, and other selling expense | 2,919,381 | 3,453,829 | 2,763,434 | 2,680,462 | 2,211,593 |
| Corporate expense | 1,109,474 | 1,017,632 | 973,880 | 1,026,774 | 1,062,764 |
| Operating income (loss) | (79,195) | 899,688 | (501,451) | 678,063 | 927,786 |
| Interest expense | 683,304 | 815,960 | 645,891 | 493,588 | 455,839 |
| Other (income) expense | 6,355 | 12,959 | (21,250) | 601,350 | 10,764 |
| Income (loss) before income taxes | (768,854) | 70,769 | (1,126,092) | (416,875) | 461,183 |
| Provision (benefit) for income taxes | (297,768) | 24,232 | ( 445,372) | (136,085) | 182,356 |
| Net income (loss) | $ (471,086) | $ 46,537 | $ (680,720) | $ (280,790) | $ 278,827 |

**Balance sheet data (at year-end)**

| | | | | | |
|---|---|---|---|---|---|
| Working capital | 2,076,948 | 2,552,082 | 2,221,599 | 2,692,892 | 1,188,907 |
| Total assets | 20,851,262 | 20,758,923 | 21,817,846 | 21,032,812 | 17,422,287 |