NITCHES INC
Form 10-Q/A
January 31, 2007

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, 2006

Commission File Number 0-13851

NITCHES, INC.

(Exact name of registrant as specified in its charter)

California	**95-2848021**
(State of Incorporation)	(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 Capital 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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |_| No |X|

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

As of January 19, 2007 the Registrant had 5,253,507 shares of common stock outstanding.

EXPLANATORY NOTE

We filed our Quarterly Report on Form 10-Q for the period ended November 30, 2006 (the "Original Filing") with the Securities and Exchange Commission on January 22, 2007. In that Original Filing we stated under Part I, Item 4 that, in the opinion of our chief executive and financial officer, our disclosure controls and procedures contained a deficiency that impeded our ability to timely process and report information. We also discussed certain limitations inherent in any system of disclosure controls and procedures. We are filing this Amendment No. 1 on Form 10-Q/A to provide additional detail concerning the nature of that deficiency and our efforts to remediate that deficiency, and to revise our disclosure concerning the inherent limitations of disclosure controls and procedures.

This Amendment No. 1 on Form 10-Q/A amends and restates Item 4. Controls and Procedures, of our Original Filing, solely as a result of, and to reflect, the impact of the items discussed in this Explanatory Note. While we have presented our complete financial statements with this Amendment No. 1 on Form 10-Q/A, those financial statements remain unchanged from the Original Filing.

Pursuant to the rules of the Securities and Exchange Commission, we have included currently-dated certifications from our chief executive and financial officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Except as otherwise specifically noted, all information contained herein is as of November 30, 2006 and does not reflect events or changes that have occurred subsequent to that date.

ITEM 1. Financial Statements

NITCHES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

	November 30, 2006 (Unaudited)	August 31, 2006
Current assets:		
Cash and cash equivalents	$ 724,000	$ 228,000
Receivables:		
Due from factor, net	22,987,000	10,057,000
Trade receivables, net	203,000	484,000
Due from affiliates and employees	27,000	18,000
Total receivables	23,217,000	10,559,000
Inventories, less allowances	7,410,000	12,424,000
Deferred income taxes, current	587,000	587,000
Other current assets	562,000	628,000
Total current assets	32,500,000	24,426,000
Property and equipment, net	126,000	164,000
Goodwill	5,344,000	2,620,000
Intangibles, net	3,791,000	3,543,000
Other assets	28,000	31,000
	$ 41,789,000	$ 30,784,000

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Due to factor	$ 20,237,000	$ 9,676,000

Accounts payable	5,139,000	9,349,000
Accrued expenses	993,000	1,163,000
Note payable	250,000	513,000
Income taxes payable	1,088,000	89,000
Total current liabilities	27,707,000	20,790,000
Long term liabilities:		
Deferred income taxes, non-current	736,000	736,000
Shareholders' equity:		
Series A preferred stock, $100 par value; 25,000,000 shares authorized,		
8,820 shares issued and outstanding	882,000	882,000
Common stock, no par value; 50,000,000 shares authorized;		
5,253,507 shares issued and outstanding (4,653,507 - August 31, 2006)	7,873,000	5,143,000
Additional paid-in capital	49,000	-
Retained earnings	4,542,000	3,233,000
Total shareholders' equity	13,346,000	9,258,000
	$ 41,789,000	$ 30,784,000

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

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

	Three Months Ended November 30,	
	2006	**2005**
Net sales	$ 35,421,000	$ 14,715,000
Cost of goods sold	26,845,000	10,382,000
Gross profit	8,576,000	4,333,000
Selling, general and administrative expenses	5,969,000	3,037,000
Income from operations	2,607,000	1,296,000
Interest expense	(300,000)	(90,000)
Other income	-	1,000
Loss from equity investment	-	(11,000)
Income before income taxes	2,307,000	1,196,000
Provision for income taxes	998,000	676,000
Net income	$ 1,309,000	$ 520,000
Earnings per weighted average share:		
Basic	$ 0.27	$ 0.14
Diluted	$ 0.26	$ 0.14
Weighted average shares outstanding:		
Basic	4,904,056	3,739,002
Diluted	4,976,808	3,739,002

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

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

	Three Months Ended November 30, 2006	Three Months Ended November 30, 2005
Preferred stock		
Balance, beginning of period	$ 882,000	$ -
Preferred stock issued	-	882,000
Balance, end of period	882,000	882,000
Common stock and paid-in capital		
Balance, beginning of period	5,143,000	1,495,000
Common stock issued	2,730,000	918,000
Stock-based compensation expense	49,000	-
Balance, end of period	7,922,000	2,413,000
Retained earnings		
Balance, beginning of period	3,233,000	2,765,000
Net income	1,309,000	520,000
Balance, end of period	4,542,000	3,285,000
Total stockholders' equity	$13,346,000	$6,580,000

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

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

	Three Months Ended November 30, 2006	Three Months Ended November 30, 2005
Net income	$ 1,309,000	$ 520,000
Cash flows from operating activities:		
Depreciation and amortization	113,000	35,000
Non-cash stock option compensation expense	49,000	-
Loss from investment in unconsolidated subsidiary	-	11,000
(Increase) decrease in due from factor	(12,930,000)	(10,629,000)
(Increase) decrease in trade receivables	272,000	275,000
(Increase) decrease in inventories	5,014,000	3,613,000
Decrease in refundable income taxes	-	(30,000)
(Increase) decrease in other assets	69,000	(10,000)

Decrease in accounts payable and accrued expenses	(4,380,000)	(3,511,000)
Increase in income taxes payables	999,000	740,000
Net cash used by operating activities	(9,485,000)	(8,986,000)
Cash flows from investing activities:		
Capital expenditures	(17,000)	(17,000)
Cash used in transaction	(300,000)	
Cash acquired in transaction	-	124,000
Net cash provided (used) by investing activities	(317,000)	107,000
Cash flows from financing activities:		
Advances from factor	10,561,000	9,109,000
Payment of loan payable	(263,000)	-
Net cash provided by financing activities	$ 10,298,000	$ 9,109,000
Net increase in cash and cash equivalents	496,000	230,000
Cash and cash equivalents at beginning of period	228,000	192,000
Cash and cash equivalents at end of period	$ 724,000	$ 422,000
Supplemental disclosures of cash flow information:		
Interest paid during the period	$ 298,000	$ 90,000
Non-cash investing activity:		
Acquisition of remaining outstanding shares of subsidiary		
Common stock issued	$ 2,730,000	$ 918,000
Series A preferred stock issued	-	882,000
	$ 2,730,000	$ 1,800,000

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

5

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

1. Description of Business:

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

2. Condensed Financial Statements:

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q. They do not include all information and footnotes necessary for a fair presentation of financial position and results of operations and cash flows in conformity with generally accepted accounting principles in the United States of America. These consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the year ended August 31, 2006. In the opinion of Management, all adjustments considered necessary for a fair presentation have been included in the interim period. Operating results for the three months ended November 30, 2006 are not necessarily indicative of the results that may be expected for the year ending August 31, 2007.

3. Earnings Per Share:

Basic earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the dilutive potential shares of common stock had been issued. The dilutive effect of outstanding options is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of our common stock can result in a greater dilutive effect from outstanding options. Additionally, the exercise of employee stock options can result in a greater dilutive effect on earnings per share.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except net income and per share amounts):

	Three Months Ended November 30,	
	2006	**2005**
Numerator:		
Net income	$ 1,309,000	$ 520,000
Denominator:		
Weighted average shares outstanding	4,904,056	3,739,002
Effect of dilutive options	72,752	-
Denominator for diluted earnings per share	4,976,808	3,739,002
Basic earnings per share	$ 0.27	$ 0.14
Diluted earnings per share	$ 0.26	$ 0.14

NITCHES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statement (continued)

4. Inventories:

	November 30, 2006	**August 31, 2006**
Fabric and trim	$ 566,000	$ 222,000
Work in progress	615,000	2,939,000
Finished goods	6,764,000	9,651,000
Markdown allowances	(535,000)	(388,000)
	$ 7,410,000	$ 12,424,000

5. Trade accounts receivable:

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, 2006, non-recourse receivables totaled $23.2 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, 2006, totaled $939,000 of which $247,000 had been collected by December 31, 2006.

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, 2006	**August 31, 2006**
Receivables assigned to factor:		
Non-recourse	$ 23,171,000	$ 10,472,000
Recourse	677,000	168,000
Allowance for customer credits and doubtful accounts	(861,000)	(583,000)
Due from factor, net	$ 22,987,000	$ 10,057,000
Non-factored accounts receivable	$ 262,000	$ 544,000