

NEXT INC/TN
Form 8-K/A
September 30, 2003
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K/A

(Amendment No. 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) : August 1, 2003

NEXT, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other

jurisdiction of incorporation)

0-025247
(Commission File Number)

95-4675095
(IRS Employer

Identification No.)

7625 Hamilton Park Drive, Suite 12, Chattanooga, Tennessee 37421

Address of principal executive offices

Registrant's telephone number, including area code: 423-296-8213

(Former name or former address, if changed since last report.)

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This Form 8-K/A amends the Current Report on Form 8-K filed August 15, 2003 to include Item 7.

Item 7. Financial Statements and Exhibits

(a) Consolidated Financial Statements of Lil' Fan, Inc.

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LIL FAN, INC.

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INDEPENDENT AUDITORS REPORT

To the Stockholders

Lil Fan, Inc.

Noblesville, Indiana

We have audited the accompanying balance sheet of Lil Fan, Inc. as of December 31, 2002 and the related statements of operations, stockholders deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lil Fan, Inc. as of December 31, 2002, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

/s/ TAUBER & BALSER, P.C.

June 11, 2003, except for Note 10

As to which the date is September 26, 2003

Atlanta, Georgia

Table of Contents**LIL FAN, INC.****BALANCE SHEET****JULY 31, 2003 (unaudited) and DECEMBER 31, 2002****ASSETS**

| | (Unaudited) 2003 | 2002 |
|--|---------------------|-------------------|
| | <u> </u> | <u> </u> |
| Current assets: | | |
| Restricted cash | \$ 25,937 | \$ 30,093 |
| Accounts receivable, net of allowance for doubtful accounts of \$15,787 and \$8,000, respectively | 236,199 | 159,064 |
| Inventories, net | 315,737 | 304,267 |
| Prepaid expenses | 5,853 | 10,264 |
| Deposits | 3,267 | 5,720 |
| | <u> </u> | <u> </u> |
| Total current assets | 586,993 | 509,408 |
| Property, plant and equipment, net | 45,765 | 53,392 |
| Other assets, net | 20,726 | 36,273 |
| | <u> </u> | <u> </u> |
| Total Assets | \$ 653,484 | \$ 599,073 |
| | <u> </u> | <u> </u> |
| LIABILITIES AND STOCKHOLDERS DEFICIT | | |
| Current liabilities: | | |
| Cash overdraft | \$ 23 | \$ 978 |
| Accounts payable | 275,459 | 76,018 |
| Accrued expenses | 8,070 | 7,208 |
| Due to officer/stockholder | 117,973 | 118,173 |
| Note payable-stockholder | 194,312 | 194,312 |
| Line of credit | 236,199 | 157,216 |
| Current portion of long-term debt | 7,855 | 7,855 |
| | <u> </u> | <u> </u> |
| Total current liabilities | 839,891 | 561,760 |
| Long-term debt, less current maturities | 147,181 | 151,890 |
| | <u> </u> | <u> </u> |
| Total liabilities | 987,072 | 713,650 |
| | <u> </u> | <u> </u> |
| Stockholders' deficit: | | |
| Common stock, no par value; 1000 shares authorized, issued and outstanding | 155,000 | 155,000 |
| Accumulated deficit | (488,588) | (269,577) |
| Total stockholders' deficit | (333,588) | (114,577) |
| | <u> </u> | <u> </u> |
| Total Liabilities and Stockholders' Deficit | \$ 653,484 | \$ 599,073 |
| | <u> </u> | <u> </u> |

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

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LIL FAN, INC.

STATEMENT OF OPERATIONS

FOR THE SEVEN MONTHS ENDED JULY 31, 2003 (Unaudited)

AND THE YEAR ENDED DECEMBER 31, 2002

| | (Unaudited) | |
|---|-------------------|-------------------|
| | 2003 | 2002 |
| | <u> </u> | <u> </u> |
| Net sales | \$ 725,634 | \$ 1,210,385 |
| Cost of sales | 524,534 | 654,449 |
| | <u> </u> | <u> </u> |
| Gross profit | 201,100 | 555,936 |
| General administrative, and selling expense | 355,746 | 691,613 |
| | <u> </u> | <u> </u> |
| Operating loss | (154,646) | (135,677) |
| | <u> </u> | <u> </u> |
| Non-operating items- | | |
| Financing fee | 56,879 | 27,185 |
| Interest expense | 7,499 | 11,058 |
| Other (income) expense | (13) | (157) |
| | <u> </u> | <u> </u> |
| Total non-operating | 64,365 | 38,086 |
| | <u> </u> | <u> </u> |
| Net loss | \$ (219,011) | \$ (173,763) |
| | <u> </u> | <u> </u> |

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

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LIL FAN, INC.
STATEMENT OF STOCKHOLDERS DEFICIT
FOR THE SEVEN MONTHS ENDED JULY 31, 2003 (Unaudited)
AND THE YEAR ENDED DECEMBER 31, 2002

| | Common stock | | Accumulated Deficit | Total |
|------------------------------------|--------------|------------|------------------------|--------------|
| | Shares | Amount | | |
| Balance, January 1, 2002 | 1,000 | \$ 155,000 | \$ (95,814) | \$ 59,186 |
| Net loss | | | (173,763) | (173,763) |
| Balance, December 31, 2002 | 1,000 | 155,000 | (269,577) | (114,577) |
| Net loss | | | (219,011) | (219,011) |
| Balance, July 31, 2003 (Unaudited) | 1,000 | \$ 155,000 | \$ (488,588) | \$ (333,588) |

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

Table of Contents**LIL FAN, INC.****STATEMENT OF CASH FLOWS****FOR THE SEVEN MONTHS ENDED JULY 31, 2003****AND THE YEAR ENDED DECEMBER 31, 2002**

| | (Unaudited) | |
|--|-------------------|-------------------|
| | 2003 | 2002 |
| | <u> </u> | <u> </u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (219,011) | \$ (173,763) |
| Adjustments: | | |
| Depreciation and amortization | 23,174 | 35,489 |
| Provision for bad debt | 7,787 | 8,000 |
| Inventory write-down | 6,218 | 31,898 |
| Changes in: | | |
| Accounts receivable | (84,922) | (26,161) |
| Inventories | (17,688) | 52,064 |
| Prepaid expenses | 4,411 | (6,247) |
| Other assets | 2,453 | (3,117) |
| Accounts payable | 199,441 | 91,718 |
| Accrued expenses | 862 | (3,103) |
| | <u> </u> | <u> </u> |
| Total adjustments | 141,736 | 180,541 |
| | <u> </u> | <u> </u> |
| Net cash (used) provided by operating activities | (77,275) | 6,778 |
| | <u> </u> | <u> </u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of capitalized art | | (35,340) |
| Purchase of fixed assets | | (1,111) |
| Change in restricted cash | 4,156 | (30,093) |
| | <u> </u> | <u> </u> |
| Net cash provided (used) by investing activities | 4,156 | (66,544) |
| | <u> </u> | <u> </u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Principal payments on long-term debt | (4,709) | (75,502) |
| Line of credit, net | 78,983 | 157,216 |
| Due to officer/stockholder | (200) | (27,137) |
| Loan closing cost | 0 | (857) |
| Increase in cash overdraft | (955) | 978 |
| | <u> </u> | <u> </u> |
| Net cash provided by financing activities | 73,119 | 54,698 |
| | <u> </u> | <u> </u> |
| NET DECREASE IN CASH | | (5,068) |
| CASH, BEGINNING | | 5,068 |
| | <u> </u> | <u> </u> |
| CASH, ENDING | \$ | \$ |
| | <u> </u> | <u> </u> |

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | | |
|------------------------|----------|-----------|
| Cash paid for interest | \$ 7,499 | \$ 11,058 |
|------------------------|----------|-----------|

SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES

During fiscal year 2002, the Company re-financed certain debt in the amount of \$161,418.

At December 31, 2002, the Company converted \$194,312 of accounts payable with a company owned by a stockholder to a note payable.

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

Table of Contents**LIL FAN, INC.****NOTES TO FINANCIAL STATEMENTS****JULY 31, 2003 AND DECEMBER 31, 2002****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Organization and Nature of Business*

Lil Fan, Inc. (the Company), an Indiana corporation, is engaged in the design and merchandising of children's licensed college and motor sports products. The company has licenses for approximately 120 major universities and colleges as well as the Indianapolis Motor Speedway, International Speedway Corporation, and Garfield amongst its other licenses. The customer base of Lil Fan includes major college bookstores, and national department stores.

Restricted Cash

Cash is restricted for the recourse obligation of the Company's factoring of accounts receivable. These funds are held in the Company's name by the financial institution with which the Company factors its accounts receivable. Amounts are placed in reserve to cover any amounts advanced to the Company not collected by the financial institution. This reserve is adjusted by the financial institution on a monthly basis.

Inventory

Inventory consists of raw materials, work-in-progress and is valued at the lower of cost or market. Cost is determined on a first-in, first-out basis. Costs included in inventories consist of materials, labor and manufacturing overhead that are related to the purchase and production of inventories. Inventories consist of the following:

| | July 31, | December 31, |
|----------------|-------------------|-------------------|
| | 2003 | 2002 |
| Raw materials | \$ 214,701 | \$ 177,333 |
| Finished goods | 101,036 | 126,934 |
| | <u>\$ 315,737</u> | <u>\$ 304,267</u> |

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has performed reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The Company grants credit to its customers without requiring collateral.

The Company factors its trade accounts receivable to a financial institution for a financing fee of 2.65% of the amounts advanced. Under the terms of the factoring agreement, the financial institution advances payments to the company upon receipt of accounts receivable invoices from the Company. The Company bears losses resulting from submitted discounts and returns. Included in accounts receivable at July 31, 2003 and December 31, 2002 are \$236,199 and \$157,216, respectively, relating to invoices or portions there-of submitted to the factor. After 90 days, the uncollected factored invoices are returned to the

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LIL FAN, INC.

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2003 AND DECEMBER 31, 2002

Company and the amount originally advanced that has not been received by the financial institution is deducted from the restricted cash account. These transactions are not reported as a sale of accounts receivable since the risk is retained by the Company.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, or for leasehold improvements, over the terms of the lease, if shorter. Expenditures for additions and improvements are capitalized, while repairs and maintenance costs are expensed as incurred.

Income Taxes

The Company has elected to be taxed under the provisions of Subchapter S of the Internal Revenue Code and similar state statutes. Accordingly, no provision or liability for income taxes is reflected in the accompanying financial statements. Instead, the stockholders are responsible for income taxes on the Company's profits and losses.

Revenue Recognition

Revenues from sales to customers are recorded when goods are shipped to customers and are reported net of provision for returns, allowances, claims and discounts, which are referred to as charge-backs.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

New Pronouncements

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ; SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections SFAS No. 146 Accounting for Costs Associated with Exit or Disposal , SFAS No. 142 Goodwill and Other Intangible Assets became effective for the Company during 2002. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for the purposes of assessing potential future impairment of goodwill. The provisions of these standards that are applicable to the Company were implemented on a prospective basis as of January 1, 2002, which has no material effect on the Company s financial statements.

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LIL FAN, INC.

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2003 AND DECEMBER 31, 2002

NOTE 2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

| | July 31, 2003 | December 31, | |
|--------------------------------|------------------|------------------|------------------------|
| | (unaudited) | 2002 | Estimated Useful Lives |
| Leasehold improvements | \$ 3,058 | \$ 3,508 | 5 - 7 years |
| Machinery and equipment | 79,410 | 79,410 | 5 - 7 years |
| Software | 3,196 | 3,196 | 3 years |
| Furniture and fixtures | 8,327 | 8,327 | 7 years |
| | <u>93,991</u> | <u>93,991</u> | |
| Less: Accumulated depreciation | (48,226) | (40,599) | |
| | <u>\$ 45,765</u> | <u>\$ 53,392</u> | |

Depreciation expense for the seven months ended July 31, 2003 and for the year ended December 31, 2002 was \$7,627 and \$13,099, respectively.

NOTE 3 OTHER ASSETS

Other assets subject to amortization consist of the following:

| | July 31, 2003 | December 31, | |
|-------------------|---------------|---------------|------------------------|
| | (Unaudited) | 2002 | Estimated Useful Lives |
| Artwork | \$ 50,980 | \$ 50,980 | 2 years |
| Embroidery tapes | 13,360 | 13,360 | 2 years |
| Loan closing fees | 857 | 857 | 15 years |
| | <u>65,197</u> | <u>65,197</u> | |

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| | | |
|--------------------------------|-------------------|-------------------|
| Less: Accumulated amortization | (44,471) | (28,924) |
| | <u> </u> | <u> </u> |
| Other assets, net | \$ 20,726 | \$ 36,273 |
| | <u> </u> | <u> </u> |

Amortization expense associated with these assets for the seven months ended July 31, 2003 and for the year ended December 31, 2002 was \$15,547 and \$22,390, respectively. Amortization expense for the years ended December 31, 2003 and 2004 is estimated to be \$27,000 and \$7,000, respectively.

NOTE 4 LINE OF CREDIT

On June 10, 2002, the Company entered into a line of credit with a bank that provides for a maximum borrowing of \$250,000, expiring in August 2003. Borrowings under this line of credit are limited to and secured by factored accounts receivable and the personal residence of a stockholder of the Company. Finance fees of 2.65% are charged on amounts borrowed by the Company. As discussed in Note 1, borrowing on this line are based upon accounts receivable and such borrowings must be settled over 90 day periods.

Table of Contents**LIL FAN, INC.****NOTES TO FINANCIAL STATEMENTS****JULY 31, 2003 AND DECEMBER 31, 2002****NOTE 5 LONG-TERM DEBT**

Long-term debt consist of the following:

| | July 31, 2003 | December 31, |
|---|-------------------|-------------------|
| | (unaudited) | 2002 |
| | <u> </u> | <u> </u> |
| Note payable to a financial institution, interest payable at prime plus 2.75% (7.0% at December 31, 2002), due in monthly principal installments of \$1,474 including interest, secured by real estate owned by a stockholder of the Company. | \$ 155,036 | \$ 158,405 |
| Note payable to a financial institution, due in equal monthly installments of \$444, including interest, through March 2003, secured by equipment | | 1,340 |
| | <u> </u> | <u> </u> |
| Total long-term debt | 155,036 | 159,745 |
| Less current portion | 7,855 | 7,855 |
| | <u> </u> | <u> </u> |
| Long-term debt, net of current portion | \$ 147,181 | \$ 151,890 |
| | <u> </u> | <u> </u> |

Maturities of long-term debt for the years ending December 31, based on the current interest rate are as follows:

| | |
|------------|-------------------|
| 2003 | \$ 7,855 |
| 2004 | 6,896 |
| 2005 | 7,413 |
| 2006 | 7,968 |
| 2007 | 8,566 |
| Thereafter | 121,047 |
| | <u> </u> |
| | \$ 159,745 |
| | <u> </u> |

NOTE 6 RELATED PARTY TRANSACTIONS*Due to Officer/Stockholder*

As of July 31, 2003 and December 31, 2002, an officer of the Company had advanced \$117,973 and \$118,173, respectively, to the Company. The advance does not bear interest and is repayable upon mutual agreement between the entities.

Note Payable Stockholder

As of December 31, 2002, the Company converted accounts payable with a vendor wholly owned by a stockholder of the Company, to a Note Payable in the amount of \$194,312. This note is non-interest bearing, unsecured, and due on demand. The Company did approximately \$375,000 of business with this vendor during the year ended December 31, 2002. From January 1, 2003 through July 31, 2003, no payments were made on this note payable.

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LIL FAN, INC.

NOTES TO FINANCIAL STATEMENTS

JULY 31, 2003 AND DECEMBER 31, 2002

NOTE 7 ROYALTIES

The Company pays royalty fees to certain licensing groups based on sales of the line of these licensed products. The licensing groups are independent from its respective customers.

NOTE 8 OPERATING LEASES

The Company has entered into operating leases for various equipment and vehicles. It also has month-to-month agreements for office and warehouse facilities located in Noblesville, Indiana.

Minimum future lease payments for the years ending December 31 are as follows:

| | |
|------|------------------|
| 2003 | \$ 21,533 |
| 2004 | 11,167 |
| 2005 | 5,735 |
| | <u>38,435</u> |
| | <u>\$ 38,435</u> |

Rental expense for the seven months ended July 31, 2003 and for the year ended December 31, 2002 was \$23,867 and \$62,791, respectively.

NOTE 9 SUBSEQUENT EVENT

The Company renewed its line of credit agreement on June 10, 2003. The new agreement contains similar terms and expires August 10, 2003.

On July 31, 2003, Next Inc., pursuant to the terms of an Asset Purchase Agreement acquired all of the operating assets of Lil Fan.

Note 10 Interim Financial Information

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and should be read in conjunction with Lil Fan, Inc. audited financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Such adjustments are of a normal recurring nature. Operating results for the seven months ended July 31, 2003 are not necessarily indicative of the results that may be expected for any other period or for a full fiscal year. The interim financial statements do not include the sales related to all the contractual customers of Stan Howard & Associates in accordance with EITF 99-19. However, these sales amounted to approximately \$2,901,633 in this interim period, which may be included in future years. Stan Howard & Associates is the primary sales representative for the aforementioned sales. Upon consummation of the merger transaction, Next, Inc. will be the manufacturer of all items sold by Stan Howard & Associates.

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NEXT, INC.

INTRODUCTION TO UNAUDITED PRO FORMA CONDENSED COMBINED

FINANCIAL INFORMATION

The following unaudited pro forma condensed combined balance sheet as of July 31, 2003 and the unaudited pro forma condensed combined statement of operations for the six months ended May 31, 2003, are based on the historical financial statements of Next, Inc. and Lil Fan Inc. and give effect to the pro forma adjustments described herein as though the acquisition of Lil Fan Inc. dated as of July 31, 2003 had been consummated at May 31, 2003 for the unaudited condensed combined balance sheet and at December 1, 2002 for the unaudited condensed combined statements of operations for the twelve months ended November 30, 2002 and the six months ended May 31, 2003, respectively.

The unaudited pro forma condensed combined financial statements should be read in conjunction with the notes thereto and with the historical financial statements of Next, Inc., as filed in its annual report on Form 10-KSB/A on September 9, 2003 and previously filed Form 10-QSB and the historical financial statements of Lil Fan, Inc. included elsewhere herein. The unaudited pro forma combined financial statements are not necessarily indicative of the Company's combined financial position or results of operations that would have been achieved had the acquisition been consummated at July 31, 2003 for the unaudited condensed combined balance sheet, and at January 1, 2002 for the unaudited condensed combined statements of operations for the twelve months ended November 30, 2002 and the six months ended May 31, 2003, respectively.

Under the terms of an Asset Purchase Agreement dated and consummated on July 31, 2003, Next, Inc. purchased all of the operating assets of Lil Fan, Inc. and an affiliate sole proprietorship, Stan Howard & Associates. The pro forma adjustments reflect the transaction using the purchase method of accounting, and are based on available information and certain estimates and assumptions set forth in the notes to the unaudited pro forma condensed combined financial information. Next, Inc. will establish a new basis for Lil Fan, Inc., assets and liabilities based upon an allocation of the fair value of the acquisition. The unaudited pro forma financial information reflects Next, Inc., best estimates; however, the actual amounts may differ from the pro forma amounts. Sales related to all of Stan Howard & Associates contractual customers are not included in these pro forma statements but represented \$2,901,633 in the 2003 period presented. Upon consummation of the merger transaction, Next, Inc. will be the manufacturer of all items sold by Stan Howard & Associates.

Table of Contents**NEXT, INC.****UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET****MAY 31, 2003**

| | May 31, 2003 | July 31, 2003 | Pro Forma | |
|---|----------------------|-------------------|-------------------|----------------------|
| | Next, Inc. | Lil Fan, Inc. | Adjustments | Pro Forma |
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 506,756 | | (100,000) | \$ 406,756 |
| Restricted cash | | \$ 25,937 | | 25,937 |
| Accounts receivable, net | 3,071,787 | 236,199 | (236,199) | 2,930,787 |
| | | | (141,000) | |
| Inventories | 4,756,873 | 315,737 | | 5,072,610 |
| Prepaid and other assets | 827,821 | 9,120 | (318,802) | 518,139 |
| Deferred taxes, current | 326,104 | | | 326,104 |
| Total Current Assets | \$ 9,489,341 | \$ 586,993 | -796,001 | \$ 9,280,333 |
| Property and equipment, net | 1,957,933 | 45,765 | | 2,003,698 |
| Goodwill | 2,033,273 | | 1,300,276 | 3,333,549 |
| Other assets, net | 571,123 | 20,726 | (857) | 590,992 |
| Total Assets | \$ 14,051,670 | \$ 653,484 | \$ 503,418 | \$ 15,208,572 |
| Liabilities and Equity | | | | |
| Current Liabilities | | | | |
| Cash overdraft | | \$ 23 | | \$ 23 |
| Accounts payable | \$ 1,681,392 | 275,459 | \$ (141,000) | 1,815,851 |
| Accrued expenses and other liabilities | 1,002,515 | 8,070 | 237,500 | 1,248,085 |
| Short term debt and current maturities | 5,000,784 | 244,054 | (236,199) | 5,008,639 |
| Total Current Liabilities | 7,684,691 | 527,606 | (139,699) | 8,072,575 |
| Long-term debt, less current maturities | 3,093,250 | 459,467 | (117,973) | 3,434,744 |
| Deferred taxes | 199,665 | | | 199,665 |
| Other non-current liabilities | 305,000 | | 256,500 | 561,500 |
| Total Liabilities | 11,282,606 | 987,073 | (1,172) | 12,268,484 |
| Commitments & contingencies | | | | |
| | | | 387,474 | |
| Stockholders' Equity | 2,769,064 | (333,589) | 117,116 | 2,940,065 |
| Total Liabilities and Stockholders' Equity | \$ 14,051,670 | \$ 653,484 | \$ 503,418 | \$ 15,208,549 |

See notes to unaudited proforma condensed combined financial information.

Table of Contents**NEXT, INC.****UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS****FOR THE TWELVE MONTHS ENDED NOVEMBER 30, 2002**

| | For the Twelve Months Ended November 30, 2002 Next, Inc. | For the Twelve Months Ended Dec. 31, 2002 Lil Fan, Inc. | Pro Forma Adjustments | Pro Forma |
|---|---|--|--------------------------|---------------|
| Net Sales | \$ 12,451,436 | \$ 1,210,385 | | \$ 13,661,821 |
| Cost of Sales | 8,890,493 | 654,449 | | 9,544,942 |
| Gross Profit | 3,560,943 | 555,936 | | 4,116,879 |
| Operating Expenses | 3,525,092 | 691,613 | | 4,216,705 |
| Operating Income (loss) | 35,851 | (135,677) | | (99,826) |
| Other (Expense) Income | (320,615) | (38,086) | | (358,701) |
| Income Before Income Taxes | (284,764) | (173,763) | | (458,527) |
| Provision (Benefit) for Taxes | (201,759) | | (69,505) | (271,264) |
| Net Income | \$ (83,005) | \$ (173,763) | \$ (69,505) | \$ (187,263) |
| Net income per share, basic and diluted | \$ (0.01) | | | \$ (0.02) |
| Weighted average shares outstanding | \$ 9,655,772 | | \$ 180,000 | \$ 9,835,772 |

See notes to unaudited proforma condensed combined financial information.

Table of Contents**NEXT, INC.****UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS****FOR THE SIX MONTHS ENDED MAY 31, 2003**

| | For the Six Months Ended May 31, 2003 Next, Inc. | For the Seven Months Ended July 31, 2003 Lil Fan, Inc. | Pro Forma Adjustments | Pro Forma |
|---|---|---|--------------------------|---------------|
| Net Sales | \$ 5,131,944 | \$ 725,634 | \$ (141,000) | \$ 5,716,578 |
| Cost of Sales | 3,706,289 | 524,534 | (141,000) | 4,089,823 |
| Gross Profit | 1,425,655 | 201,100 | | 1,626,755 |
| Operating Expenses | 1,065,072 | 355,746 | | 1,420,818 |
| Operating Income (loss) | 360,583 | (154,646) | | 205,937 |
| Other (Expense) Income | (123,020) | (64,365) | | (187,385) |
| Income (Loss) Before Taxes | 237,563 | (219,011) | | 18,552 |
| Provision (Benefit) for Taxes | 94,165 | 0 | (86,811) | 7,354 |
| Net Income | \$ 143,398 | \$ (219,011) | \$ (86,811) | \$ 11,198 |
| Net income per share, basic and diluted | \$ 0.01 | | | \$ 0.00 |
| Weighted average shares outstanding | \$ 11,241,731 | | \$ 180,000 | \$ 11,421,731 |

See notes to unaudited proforma condensed combines financial information.

Table of Contents**NEXT, INC.****NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION**

May 31, 2003 Pro Forma Condensed Combined Balance Sheet Adjustments:

| No. | Account Description | Debit | Credit |
|-----|---------------------|---------|---------|
| 1 | Short term debt | 236,199 | |
| | Long term debt | 117,973 | |
| | Accounts receivable | | 236,199 |
| | Other assets | | 857 |
| | Equity | | 117,116 |

To eliminate assets and liabilities from Lil Fan not purchased or assumed.

| No. | Account Description | Debit | Credit |
|-----|-------------------------|-----------|---------|
| 2 | Goodwill | 1,300,276 | |
| | Stockholders equity | | 387,474 |
| | Cash | | 100,000 |
| | Other current assets | | 318,802 |
| | Accrued expense & other | | 237,500 |
| | Non current liabilities | | 256,500 |

To record and allocate the purchase price as follows:

| | Shares | Fair value per share | Fair value |
|---------------------------------------|---------|----------------------|------------------|
| Common stock | 180,000 | \$ 0.95 | 171,000 |
| Cash | | | 100,000 |
| Note payable | | | 137,500 |
| Contingent (earn-out) liability | | | 256,500 |
| Relocation expense | | | 50,000 |
| Acquisition expense | | | 368,803 |
| Total Purchase Price | | | 1,083,803 |
| Fair value of net liability acquired- | | | |
| Current assets | | 347,504 | |
| Property and equipment | | 45,765 | |
| Other assets | | 23,136 | |
| Liabilities assumed | | (632,878) | |

| | |
|--|-----------|
| Fair value of identifiable net liability assumed | 216,473 |
| Goodwill | 1,300,276 |

| No. | Account Description | Debit | Credit |
|-----|---|---------|---------|
| 3 | Accounts payable | 141,000 | |
| | Accounts receivable | | 141,000 |
| | To eliminate inter-company payable/receivable | | |

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NEXT, INC.

NOTES TO UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

Pro Forma Condensed Combined Statement of Operations Adjustments for the Twelve Months Ended November 30, 2002.

| No. | Account Description | Debit | Credit |
|-----|----------------------------|--------|--------|
| 4 | Deferred income taxes | 69,505 | |
| | Provision for income taxes | | 69,505 |

To record benefit of income taxes as if Lil Fan, Inc were taxed as a C corporation.

Pro Forma Condensed Combined Statement of Operations Adjustments for the Six Months Ended May 31, 2003.

| No. | Account Description | Debit | Credit |
|-----|----------------------------|---------|---------|
| 5 | Cost of Sales | 141,000 | |
| | Net Sales | | 141,000 |
| 6 | Deferred income taxes | 86,811 | |
| | Provision for income taxes | | 86,811 |

To record benefit of income taxes as if Lil Fan, Inc. were taxed as a C corporation.

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

NEXT, INC.

Date: September 30, 2003

By: /s/ Dan F. Cooke

Dan F. Cooke,

Chairman and Chief Executive Officer