

## **Presentation**

4/10/07

### **Operator**

Good day ladies and gentleman and welcome to the Next Inc. 2007 first quarter earnings conference call. My name is XXXX and I'll be your audio coordinator for today. At this time, all participants are in a listen-only mode. We will be facilitating a question and answer session towards the end of today's conference. If at any time during the call you require assistance, please press "\*" followed by "0" and a coordinator will be happy to assist you. As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to your host for today's call, Mr. Jason Assad, Next Inc's Director of Investor Relations. Mr. Assad please proceed.

### **Jason Assad**

Thank you and good morning everyone. Thank you for joining us today for our first quarter conference call. Speaking today on behalf of Next Inc. will be Mr. Robert Budd, President and Chief Executive Officer, Mr. David Cole, Chief Financial Officer and Mr. Rick Talbert, Vice President of Operations.

Before we begin, I would like to remind you these statements we make this morning that are not historical in nature are called forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties that could cause our actual results, performance, or achievements to be materially different from those that we may describe or imply today. The risks and uncertainties include, among others, that we would not be able to obtain sufficient and/or acceptable outside financing when and if required, changes in general economic and business conditions, changes in the acceptance of our products by consumers, a decline in the effectiveness of our sales and marketing efforts, loss of market share and pressure on prices resulting from competition, volatility in the market place, and termination of contractual or vendor relationships.

For additional information on this, you can refer to our Form 10-KSB for the year ended December 1, 2006 and other reports that we file from time to time with the SEC. All forward-looking statements made today are current-only as of today. We do not undertake any obligation to publicly update any forward-looking statements. And now, I'd like to turn the call over to the company's President and Chief Executive Officer, Mr. Robert Budd.

## **Robert Budd**

Thank you Jason and good morning everyone and welcome to the call. This morning I will provide an overview of our first quarter results before I turn the call over to our CFO David Cole to discuss the financials in more detail. I'll finish the call with a brief overview of some of our business strategies.

Our first quarter numbers reflect the challenges that we face as a company and that the retail industry in general faces for the first 6 months of the year. We are hearing from all of our retail customers that they are in an overstocked position and it is in most cases not even in the departments that our products are sold in. In fact several of our programs are checking in excess of 10% per week that is real stout in the retail world.

Although I am not pleased with our top line sales I am very encouraged by the progress that we have made on increasing margin. The margin improvement that we have experienced in the 1<sup>st</sup> quarter is directly attributable to three things. The company is being more selective about the sales opportunities that it books. We are looking at every opportunity very carefully and are pruning out the business that is not profitable. This coupled with our ongoing focus on managing our production cost and the company's ability to make better decisions regarding the business based on its improved cash position have all contributed to the margin improvement that we have realized in the first quarter.

At this time, I would now like to turn the call over to our CFO Dave Cole to give you some of the financial highlights of.

## **David Cole**

Our loss widened for the first quarter of this year over last year by approximately \$139,000. For the quarter ended March 2, 2007, we lost over \$390,000 after taxes. Historically, the first quarter of the fiscal year is the slowest, and that makes it difficult to cover all fixed expenses. That's the bad news which shouldn't surprise anyone who's followed this company very long. However, there are some very positive trends that we see despite the apparent softness that the numbers reflect. I will briefly explain what occurred financially during the quarter.

Our net sales were off considerably when compared to the same period last year. \$1,224,000 of lower sales was spread over several large customers and several channels of distribution. We believe that most of this softness was attributable to seasonal buying patterns as the retail industry globally adjusted their inventory levels during the first quarter. We don't believe that what we experienced in overall decrease in quarter one is indicative of what will happen over the rest of the year, nor does it reflect how we feel about the future sales growth potential. We are focused on expanding our customer base both wide and deep, as well as future product offerings for the balance of the fiscal year.

Our gross profit was off by \$123,000, which marginally is only 10% of the net sales decrease. Obviously, this was caused by the lower overall sales volume. But, what's good about that is that our gross profit percentage increased by 5.1 percentage points to an overall 30.1% of net sales. That's a major reason why the marginal gross profit loss was only 10% of the sales decrease. There were major cost improvements in both our raw materials, which are comprised mainly of garments, and our conversion costs, which are comprised mainly of labor and factory overhead. There were three main themes apparent in the cost improvement. First, as previously mentioned, we exited the private label business during last year and we also made a conscientious effort to pass on sales opportunities that we had due to the low margin that those sales would have had. Second, we improved our garment procurement policies by sourcing more cost-effective suppliers. Third, we operated our factory more efficiently. We expect all of these trends to continue throughout the year so that as sales volume increases, the variable profit that drops to the next level will increase as a result of the financial leverage we have achieved.

Operating and other expenses were about \$101,000 higher this year over last. Most of that increase fell into two areas. Selling expenses and Corporate expenses. The higher selling expenses resulted from another strategic tactic implemented last year to move away from commissioned sales representatives. Naturally, with lower sales volume, this cost structure shift sticks out like a sore thumb, but once again, we believe that when sales pick back up, the benefit will be obvious from this gearing change. Our Corporate expenses were adversely impacted by higher professional fees incurred during the quarter, partially offset by reductions in sundry accounts.

Cash flow from operations was down considerably from last year despite more cash being available from receivable collections. Principally due to higher payments on payables, lower inventory reductions and the larger loss in the quarter, the Company's cash was left unchanged from last year. At this point in the year, we are controlling our cash carefully and judiciously. We have made no material commitments for capital expenditures yet, although we will have some expenditures that we will have to make before the year is out. Additionally, we anticipate that the improved cost structure gearing we've talked about will be of benefit for the remainder of the year. From a financial perspective, the fundamental strategies and objectives Bob and Rick have previously discussed with you haven't changed from earlier conference calls.

Now, Rick Talbert, our Operations Vice President will discuss some of our initiatives that are underway.

## **Rick Talbert**

Thanks David.

We have done a good job managing fixed and variable costs during the first quarter which is evident by our five point improvement in first quarter gross margin this year versus last. We accomplished this because our improved cash position provided us the ability to be more selective by declining lower margin business typically taken in the past. In fact, in the last quarter we voluntarily chose to decline a full year project because it simply did not meet our minimum margin threshold, and the inventory risk and turnover for this project did not meet our focused criteria. Although this does not bolster our top line figures, it does and will have a favorable effect on our full year bottom line.

We continue to make strides in the evolution of our culture, including making decisions at the appropriate level within the organization. Importantly, this process creates ownership at all levels within the organization. The results are leading to reduced lead times, improved quality, and increased flexibility and agility.

We have also begun implementing lean processes in several areas of our business. We have developed and are implementing a process that we expect will decrease our throughput time from greater than five days to less than one day, decrease work in process inventory by over 90%, and exponentially increase our accuracy and fill rate.

Lastly, we have begun fulfilling customer orders using a Vendor Managed inventory process. This creates true partnering between Next and our customers by allowing us access to real time customer sales information, which in turn allows us to keep our customers shelves stocked with fast moving inventory, and allows us to see and eliminate slower moving designs more quickly. Replenishing to stock reduces peaks and valleys on production demand that will also lead to improved efficiencies and lower costs.

We are proud of our cost improvements and are continuing to make excellent progress on our strategic initiatives. I look forward to speaking with you after we complete our second quarter. I'll now turn the call back over to Bob

## **Robert Budd**

Thanks David and Rick

There are times when you wish you could wave a magic wand and all of the issues and concerns would go away. Our first quarter and for that matter the first half of the year create a pretty unique challenge for our company. So much of our business is focused on the last 6 months of the year which cause us to in effect have the infrastructure of a 60 million dollar company, yet our annual sales are approximately 30 million. We are and will continue to be challenged by the first 6 months of our year. We are actively looking at acquisition opportunities. The development of spring and summer business through our existing channels and ongoing margin improvement are the three key areas we are focusing on.

As I have stated on numerous occasions top line growth for the sake of top line growth in today's world just does not make sense. We have to maintain our focus on executing profitable business in our core competency.

Our fall bookings are solid and we are very well positioned with our major accounts to have a good year.

There are no magic wands to wave just good old-fashioned hard work. I am proud to say our team possesses all of those virtues and more.

## **Q&A**

### **Jason Assad**

This will conclude our 2007 first quarter conference call. I want to thank you for taking the time to be with us today. As always, if you have any additional questions or feedback, please feel free to contact me directly via phone or email.

## **Operator**

This will now conclude our call.