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NANTUCKET INDUSTRIES INC

Form 10-K

June 08, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

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

For the fiscal year ended February 28, 2001

Commission File Number: 1-8509

NANTUCKET INDUSTRIES, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State of other jurisdiction of
incorporation or organization)

58-0962699
(IRS Employer Identification No.)

45 Ludlow Street, Suite 602, Yonkers, New York
(Address of principal executive offices)

10705
(Zip Code)

914-375-7591
(Registrant's telephone number, including area code)

73 Fifth Avenue, Suite 6A, New York, NY 10003
(Former Address, since last report)

Common Stock, \$.10 par value
Securities registered pursuant to
Section 12(g) of the Act

NASD Supplemental Market
Name of each exchange on
which registered

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 twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ YES ☐ NO

The aggregate market value of the outstanding Common Stock of the registrant held by non-affiliates of the registrant as of June 1, 2001, based on the average bid and asked price of the Common Stock on the NASD Supplemental Market on said date was \$194,328.

As of June 1, 2001, the Registrant had outstanding 3,238,796 shares of common stock not including 3,052 shares classified as Treasury Stock.

DOCUMENTS INCORPORATED BY REFERENCE
into PART I

Annual Report On Form 10-K for the Fiscal Year Ended February 27, 2000.

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ITEM 1. BUSINESS

Proposed Reorganization

Nantucket Industries, Inc. (the "Company") is currently insolvent. It has had no business and carried on no business activities since October 1999. On March 3, 2000, the Company filed a Voluntary Petition under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. (Case Name: Nantucket Industries, Inc., Case Number: 00-B 10867). The Company intends to file a Plan of Reorganization and a Disclosure Statement in June 2001.

The goal of the projected reorganization will be for the Company to be merged with, or to acquire the assets or the capital stock of an existing business or to effect a similar business combination. No assurance can be given that this goal will be achieved. Management will have sole discretion to determine which business, if any, may be merged or acquired, as well as the terms of any merger or acquisition. Management has searched and discussed the possibilities of a business combination with several entities that appeared to have value potential for a viable combination but each situation was deemed infeasible after vigorous due diligence done by management. However, Accutone Inc., a company controlled by John H. Treglia, the Company's current president, is among the companies and businesses which management has made its candidate with regard to the possibility of an acquisition or merger transaction with the Company. If the Company should ultimately acquire a business or property from any member of management, the terms of such acquisition might not be the result of arm's length negotiations. While any transaction between the Company and any of its affiliates could present management with a conflict of interest, it is the intention of management that if such transaction should occur, the terms thereof will be no less beneficial to the Company than if such transactions were effected on an arm's length basis.

The proposed reorganization of the Company and the acquisition of or merger with a new business can be expected to require the issuance of a substantial amount of new shares of common stock or other securities. Any such stock issuances will significantly reduce the proportionate ownership and voting power of each other shareholder.

History

Until the end of October 1999, when the Company discontinued all business activities, it produced and distributed popular priced branded fashion undergarments for sale, throughout the United States, to mass merchandisers and national chains. The Company produced and sold its men's underwear products primarily under licensed labels including "Brittania" and "Arrow" and, until March 31, 1998, the Company also produced women's innerwear, under the GUESS? label, for sale to department and specialty stores. Prior to the cessation of all business activities, all of the Company's products were manufactured by offshore production contractors located in Mexico, the Far East and the Caribbean Basin, packaging and distribution of the Company's product lines was based in its leased facility in Cartersville, Georgia. The Company conducted all of its business activities directly, and indirectly through its four currently dormant subsidiary corporations, Nantucket Hosiery Mills Inc., a Delaware Corporation ("NHMI"), Nantucket Mills Inc., a Delaware Corporation, Nantucket Hosiery Mills Corp. a North Carolina corporation ("NHMC"), and

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Nantucket Management Corp., a New York corporation. The four currently dormant subsidiary corporations will be terminated at the time of any acquisition, merger or other business combination. For a discussion in more detail of the company's former business operations and the factors leading to the termination of the company's business, reference is made to Item 1 of Part I of the company's annual report on Form 10-K for the fiscal year ended February 27, 1999.

Termination of Operations

The Company experienced significant losses from operations in recent year which resulted in severe cash flow deficits that negatively impacted the ability of the Company to continue its business as formerly structured. The Company has been totally inactive since October 1999 and filed for protection under Chapter 11 on March 3, 2000. During fiscal 2000, the effect of sharply decreasing revenues over the previous four years, continuing losses from operations, interest payment defaults on outstanding debt, the lack of a long-term credit facility, and the concentration of almost all sales among only three customers forced the Company to discontinue all of its business and operations. Prior to the periods covered by this report, in fiscal 1995 and 1996, the Company had funded its operations by refinancing its debt and increasing its capital through (i) the sale of \$1 million of non-voting convertible preferred stock to management; (ii) the sale of treasury stock which increased equity by \$2.9 million; and (iii) the completion of a \$3.5 million private placement (see the discussion, below, under the subcaption, "Continuing Default on Outstanding Debentures"). The Company had also implemented a restructuring strategy aimed at improving operating results, through the reduction of costs, the streamlining of operations, and the closing of the Company's Puerto Rico Plant. These effort failed to bring the Company's operations to a profitable level. Some of the major factors and occurrences which led to the Company's insolvency and the termination of its operations are described below. For a discussion in more detail of each of the matters discussed below, reference is made to the Company's annual report on Form 10-K for the fiscal year ended February 27, 1999 and to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations", included in this Report.

Discontinuance of GUESS? Product Line

From December 7, 1992 until the first quarter of the fiscal year ended February 27, 1999, the Company held the exclusive United States rights to produce and sell undergarments bearing the "GUESS?" trademark and variations thereof. The license was subject to termination prior to its expiration if certain minimum sales goals were not met, with the payment of minimum royalties required in the amounts of \$560,000, \$700,000 and \$840,000 for the contract years ended May 31, 1997, 1998 and 1999 respectively. Minimum sales goals were never achieved under this license. During the term of this license, the Company did not have the capital resources necessary to develop and support the GUESS? product line at the levels required in the licensing agreement. Therefore, the Company, with the support of the licensor, GUESS? Inc., initiated a strategy to discontinue the GUESS? product line, which was finally and completely discontinued during the first quarter of fiscal year 1999.

Termination of "Arrow" License

Pursuant to an agreement, dated October 5, 1992, with Cluett, Peabody & Co., Inc., the Company held the exclusive United States rights (the "Arrow License") to produce and sell men's' and boys' fashion underwear, T-shirts, V-neck shirts, tank tops, briefs and boxer shorts bearing the "ARROW" trademark

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during the period commencing January 1, 1993 and expiring, as extended, December 31, 1999. The terms of the Arrow License required that the Company pay a minimum royalty of \$162,500 for each annual period through December 31, 1996, increasing to \$250,000 for each annual period from January 1, 1997 through December 31, 1999. The Company began shipping product under this trademark during the first quarter of fiscal 1994. Net sales under this license were \$4.4 million in fiscal 1999, \$4.8 million in fiscal 1998 and \$5.7 million in fiscal 1997. Because the Company was unable to meet the minimum sales volume requirements called for under the Arrow License, as of March 12, 1999, the Company reached an agreement with the licensor to terminate the Arrow License.

Failure to Meet Minimum Sales Requirements Under "Botany 300" License

On December 21, 1992, the Company obtained from the McGregor Corporation the exclusive United States rights (the "Botany 500 License") trademark during the period commencing on January 1, 1993 and expiring, pursuant to an extension, December 31, 2001. Under the terms of the license agreement, the McGregor Corporation had the right to terminate the Botany 500 License prior to its expiration if certain minimum sales goals were not met. Minimum sales levels required under the Botany 500 License for calendar 1996 were \$750,000 and \$1 million for each calendar year thereafter. The company was never able to meet the minimum sales requirements under the Botany 500 License with net sales under the license for fiscal 1997 (which included most of calendar 1996) being \$652,000 and \$225,000 for fiscal 1998 (which included most of calendar 1997). After fiscal 1998, the Company ceased all operations under the Botany 500 License.

Termination of Levi Strauss/Brittania Operations

Commencing in September 1988, the Company held a license (the "Brittania License") from Brittania Sportswear Ltd. ("Brittania"). Levi Strauss & Co. ("Levi Strauss") was the parent company of Brittania. Under the Brittania License, the Company had the right to manufacture and market men's underwear and other products under the trademark "Brittania from Levi Strauss & Co". Sales under the "Brittania License aggregated \$14.9 million in fiscal 1997 and \$4.5 million in fiscal 1998, accounting for 49% of the Company's fiscal 1997 sales, and 21% of the Company's fiscal 1998 sales. During the fiscal year ended February 27, 1999, the Company made no sales under the Brittania License. As of January 1, 1997, the Brittania License had been renewed for a five-year term, including automatic renewals of two years if certain minimum sales levels were achieved. However, on January 22, 1997, Levi's announced its intention to sell Brittania. As a result of the action taken by Levi Strauss, K-mart, the largest retainer of the Brittania brand, and the Company's largest customer (accounting for sales of Brittania product of approximately \$11 million in fiscal year 1997, and \$3 million in fiscal year 1998), advised the Company that it would no longer continue its commitment to carry the Brittania trademark. In response, the Company filed a multi-million lawsuit against Levi Strauss and Brittania in March 1997, alleging that Brittania had breached various obligations under its license agreement with the Company, including without limitation its covenant of good faith and fair dealing. This litigation was settled in June 1998, with

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the Company realizing approximately \$725,000 from such settlement.

Loss of Revolving Credit Line

The Company had a fifteen million dollar revolving credit facility with Congress Financial Corp. ("Congress"). This facility provided for: (i) loans based upon eligible accounts receivable and inventory; (ii) a \$3,000,000 letter

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of credit facility; and (iii) purchase money term loans of up to 75% of the orderly liquidation value of newly acquired and eligible equipment. Borrowings bore interest at 2 3/4% above prime. The Company's agreement with Congress required, among other things, that the Company maintain minimum working capital and net worth levels. Borrowings under the agreement were collateralized by a lien on substantially all of the assets of the Company. As at February 27, 1999 the Company was not in compliance with the net worth and working capital covenants and the facility could no longer be utilized. It was subsequently terminated on October 15, 1999. Because of its poor financial status and outlook, the Company was not able to replace the Congress credit facility.

Continuing Default on Outstanding Debentures

On August 15, 1996, the Company completed a \$3.5 million private placement with NAN Investors, L.P., an investment partnership ("NAN Investors"). Terms of this transaction included the issuance of 250,000 shares of the Company's common stock and two convertible subordinated debentures in the aggregate principal amount of \$2,760,000 (the "NAN Debenture"). The NAN Debentures bore interest at an annual rate of 12.5%, payable semi-annually, with the principal amount due and payable on August 15, 2001. Although the NAN Debentures were convertible into the Company's common stock, NAN Investors eventually waived all conversion rights.

Beginning in August 1997, the Company was in default on interest payment due under the NAN Debentures. The NAN Debentures were secured by a second mortgage on the Company's manufacturing and distribution facility located in Cartersville, Georgia. This property was sold on October 1, 1997. To release NAN's security interest in the property and to extend the cure period with respect to a \$172,500 interest payment default on the NAN Debentures, the Company prepaid \$707,000 of the principal amount of the NAN Debentures, plus a \$176,000 prepayment penalty.¹ In connection herewith, in September 1997, the Company entered into an agreement with NAN Investors (the "First NAN Forbearance Agreement") providing for the extension of the cure period for the default on the interest payments. The First NAN Forbearance Agreement was extended month by month until May 1998, at which time, the Company entered into another forbearance agreement with NAN Investors (the "Second NAN Forbearance Agreement") to extend, until December 1998, the cure period for interest payments then in default (totaling \$322,551) as well as the interest payments, which were to fall due in August and December 1998. In consideration for such extension, the Company agreed to secure the NAN Debentures by a first priority lien on all the assets of the Company, both tangible and intangible, to the extent not otherwise prohibited under the Congress revolving credit facility and to issue to NAN Investors five-year warrants convertible

(1) Total proceeds from the sale of the Cartersville facility were \$2,850,000. In addition to the \$883,000 paid to NAN Investors by way of a \$707,000 prepayment of principal and a \$176,000 prepayment penalty, the Company used \$525,000 to pay other financing secured by this property. The remaining proceeds were utilized to reduce the Company's revolving credit line with Congress.

to a total of \$16,500,000 shares of the Company's stock at an exercise price of \$.10 per share. Thereafter, the Company remained in default on all interest payments as they fell due. There was no forbearance agreement in effect for interest payments which fell due subsequent to December 1998 and, as at February 1999, interest payments in default under the NAN Debentures totaled \$2,052,986. As a consequence of such default, in accordance with their rights under the terms of the NAN Security Agreement, NAN Investors took possession of all assets

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of the Company, which consisted principally of inventory having a value of \$430,000 and outstanding accounts receivable in an amount of approximately \$500,000. On October 12, 1999, the inventory was sold by NAN Investors to American Basics Company LLC, a third party which was unaffiliated with the Company or any affiliate of the Company or of NAN Investors. The proceeds of the inventory sale and the accounts receivable have been applied by NAN Investors towards the Company's outstanding debt. As at May 31, 2000 remaining debt to NAN was approximately \$820,000.

Termination of All Operations

In the years preceding the termination of operations, the Company had experienced difficulty in filling all of its orders, caused in large part by recurring cash shortages, the expiration of its financing arrangements with Congress (and before that with Chemical Bank), and the failure to obtain the investment necessary to support and develop the GUESS? product line. The Company had previously addressed its liquidity issues by the infusion of debt and equity financing, including (i) a refinancing in March 1994; (ii) additional equity of \$3.9 million raised in fiscal 1995; (iii) a \$3.5 million private placement completed August 1996; and (iv) by the reduction in costs associated with the consolidation and restructuring of the operations in fiscal 1998 and 1999, and the attempt to more effectively manage working capital. All of these efforts, however, failed to keep the Company solvent and with the loss of the Britannia License, continuing losses from operations, interest payment defaults, and the lack of any credit facilities, the Company was forced to discontinue all business operations by the end of October 1999. The Company has remained totally inactive since October 1999 and filed for protection under Chapter 11 on March 3, 2000.

Products and Sales

Since the termination of all business operations in October of 1999, the Company has not produced any products or made any sales of any kind. Prior to that time, the company manufactured and sold men's fashion underwear to mass merchandisers and, in the case of the GUESS? division, ladies' undergarments to better department and specialty stores, primarily through direct contact by salaried and commissioned Company sales personnel. For a discussion in detail of the Company's former products, sales, and operations, reference is made to item 1 of part I of the Company's annual report on Form 10-K for the fiscal year ended February 27, 1999. With respect to results of operations for the fiscal year ended February 27, 2000 prior to the cessation of operations, reference is made to Item 7 of this Report, "Management's Discussion and analysis of Financial Condition and Results of Operations."

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Customers

Until the Company ceased operations in October 1999, two of its customers, Target Stores Inc. and Sears each accounted for more than 10% of consolidated net sales during the fiscal years ended February 27, 2000 and 1999. These two customers, as well as K-Mart, each accounted for more than 10% of the Company's consolidated net sales during fiscal 1998.

Delivery Requirements

Until the Company ceased operations in October 1999, all purchase orders were taken for current delivery and the Company had no long-term sales contracts with any customer, or any contract entitling the Company to be the exclusive supplier of merchandise to a retailer or distributor.

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Backlog

After the termination of the GUESS? license, the Company did not, in the normal course of its business, carry any significant backlog. Orders for the Company's two major customers were received the same week as the expected ship date. When the company ceased doing business in October 1999, it had no backlog of orders and has had no business activity since, including fiscal year ended February 27, 2001. At the end of the most recent prior fiscal year (year ended February 27, 1999), its backlog was an immaterial amount, as compared to \$1 million at the end of February 1998.

Competition

Until the Company ceased operations, all of its markets were highly competitive. For a more detailed description of the competitive environment in which the Company operated and the bases on which it endeavored to compete in such environment, reference is made to the subtopic "Competition" in Item 1 of Part I of the company's annual report on Form 10-K for the fiscal year ended February 27, 1999.

Patents

The Company has developed and patented packaging suitable for its former products. With the termination of the Company's operations in October 1999, the Company was no longer in a position to use its patented packaging in its own business. Present management has explored the possibility of selling or licensing the right to exploit the Company's packaging patents, but to date has met with only negative responses because of the wide availability of similar types of packaging products.

Environmental Matters

Until it ceased operations in October 1999, the company's packaging and distribution facility was located in Cartersville, GA. The Company believes that such facility materially conformed to all governmental regulations pertaining to environmental quality as then promulgated.

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Employees

Since the termination of its operations in October of 1999, the company has had no employees other than its president, John H. Treglia and Marsha Ellis, its Treasurer and Chief Associate Officer. Both such officers devote such time to the affairs of the Company as is required for the performance of their duties. None of the Company's former employees were covered by collective bargaining agreements. The Company never experienced a work stoppage due to labor difficulties and its former management believed that the relationship of the Company with its employees was satisfactory. (See Item 13 of this Report, Certain Relationships and Related Transactions.)

ITEM 2. PROPERTIES

From the time of the termination of business operations until December 31, 2000, the Company's principal headquarters were located at the office of an unaffiliated company, located at 73 Fifth Avenue, Suite 6A, New York, NY 10003. The Company utilized desk space and certain office personnel services on these premises, in a month to month basis at a cost of \$250 per month. These rental costs were waived at the end of calendar year 2000. Since January 1, 2001, the

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Company has been utilizing desk, certain office personnel, and filing space at the offices of Accutone, Inc. at 45 Ludlow Street, Yonkers, New York 10705.

Until October 1999 the Company's executive offices were located at 510 Broadhollow Road, Melville, New York. The Company occupied 2,000 square feet under a lease which was scheduled to expire July 31, 2002. This lease provided for aggregate rentals which increased 4% annually from \$46,000 to \$52,000 plus increases for certain taxes and energy costs. The Company terminated this lease agreement effective September 30, 1999 without incurring any penalties. No monies are owed in respect of this lease.

Until October 31, 1999, the Company occupied a 71,000 square foot manufacturing and distribution facility in Cartersville, Georgia under a five year lease. This facility was located at 435 Industrial Park Road, Cartersville, Georgia. The initial annual rental was \$188,148 subject to increases based on an established formula over the five year lease term which was scheduled to expire on December 31, 2002. The Company was notified on December 17, 1999 that the premises was considered abandoned and that in accordance with sections 20 and 21 of the lease, the lease was terminated effective that date. To date, no claims have been filed against the Company in respect of this property. The leased Cartersville facility was used for the packaging and distribution of the Company's products.

ITEM 3. LEGAL PROCEEDINGS

Management is unaware of any pending or threatened legal proceedings to which the Company is a party or of which any of its assets is the subject. No director, officer, or affiliate of the company, or any associated of any of them, is a party to or has a material interest in any proceeding adverse to the Company, except that George Gold, a director of the company, is a creditor included in the Chapter 11 proceedings initiated by the Company.

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

During the year ended February 28, 2001 the Company did not submit any matters to a vote of its shareholders.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

The Company's Common Stock, \$.10 par value, was traded on the American Stock Exchange under the symbol "NAN" until April 17, 1998. Because the Company had fallen below American Stock Exchange guidelines for continued listing, effective April 17, 1998 the Company's Stock was delisted. It is currently traded in the over-the-counter market and quoted on the OTC Electronic Bulletin Board maintained by the National Association of Securities Dealers, Inc. (the "OTC Bulletin Board"). The stock was quoted on the OTC Bulletin Board under the symbol NANK until March 3, 2000, when the Company filed a Voluntary Petition under Chapter 11 of the Bankruptcy Code in the U.S. Bankruptcy Court for the Southern District of New York. After that date, the Company's OTC bulletin Board Symbol was changed to, NANKQ, which is its current symbol. The following table sets forth representative high and low bid prices by calendar quarters during

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the last two fiscal years and the subsequent interim period through March 31, 2000, as traded on the American Stock Exchange until April 17, 1998 and as reported in the OTC Bulletin Board since May 21, 1998. The level of trading in the Company's common stock has been sporadic and limited and the bid prices reported may not be indicative of the value of the common stock or the existence of an active market. The OTC market quotations reflect inter-dealer prices without retail markup, markdown, or other fees or commissions, and may not necessarily represent actual transactions.

| Period ----- | Bid Prices Common Stock ----- | |
|-------------------------------------|-------------------------------------|--------|
| | Low | High |
| Fiscal Year Ended February 27, 2000 | | |
| May 31, 1999 | \$0.03 | \$0.08 |
| August 31, 1999 | 0.02 | .625 |
| November 30, 1999 | 0.02 | .625 |
| February 27, 2000 | 0.01 | .11 |
| Fiscal Year Ended February 28, 2001 | | |
| May 31, 2000 | \$0.0625 | \$0.10 |
| August 31, 2000 | 0.02 | 0.02 |
| November 30, 2000 | 0.01 | 0.02 |
| February 27, 2001 | 0.001 | 0.006 |

As of June 2001, the Company's Common Stock was held by approximately 262 holders of record and approximately 1,100 beneficial owners.

The Company has never paid any cash dividends on its Common Stock, and has no present intention of so doing in the foreseeable future.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial information with respect to the Company and its subsidiaries for the five fiscal years ended February 27, 2001.

The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operation" and in conjunction with the Company's Consolidated Financial Statements and notes thereto appearing elsewhere in this Report.

| | For Fiscal Year Ended ----- | | | |
|-------------------------------------------|------------------------------------------|-----------------|-----------------|-----------------|
| | (In thousands, except per share amounts) | | | |
| | Feb. 27 2001 | Feb. 27 2000 | Feb. 27 1999 | Feb. 28 1998 |
| Summary Statements of Operations ----- | | | | |
| Net sales | \$ -- | \$ 5,344 | \$ 11,518 | \$ 21,683 |
| Gross profit | -- | 1,625 | 2,410 | 3,102 |

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| | | | | |
|-------------------------------------------------------|----|-------|-------|-----------|
| Net (loss) gain sale of asset | -- | (539) | (15) | 712 |
| Net gain sale of asset | -- | -- | 712 | -- |
| Unusual credit (charge) | -- | -- | -- | -- |
| Net income (loss) | -- | 1,409 | 937 | (4,665) |
| Net earnings (loss) per share-basic and diluted | -- | (.40) | .26 | \$ (1.47) |
| Average shares outstanding | -- | 3,239 | 3,239 | 3,249 |

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Summary Balance Sheet Data

| | | | | |
|-----------------------------------------------------|---------|---------|-------|---------|
| Total assets | 22 | 22 | 3,476 | 7,208 |
| Working capital | (1,680) | (1,680) | (956) | (2,120) |
| Long-term debt (exclusive of current maturities) | -- | -- | 64 | 299 |
| Convertible subordinated debt | 827 | 827 | 2,053 | 2,053 |
| Stockholders' equity | (1,680) | (1,680) | (306) | (1,262) |

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Termination of Operations

The Company experienced significant losses in recent years which have generally resulted in severe cash flow issues that have negatively impacted the ability of the Company to continue its business. During fiscal 2000, the combined effects of various negative developments, including but not limited to: (I) sharply decreasing revenues over the previous four years; (ii) continuing losses from operations; (iii) interest payment defaults on outstanding debt, (iv) the lack of a long-term credit facility; and (v) the concentration of all sales among only three customers forced the company to discontinue all of its business and operations. During the year ended 2001 the Company remained totally inactive.

Prior to the periods covered by the financial statements included in this report, in fiscal 1995 and 1996, the Company had funded its operating losses by refinancing its debt and increasing its capital through: (I) the sale of \$1 million of non-voting convertible preferred stock to management; (ii) the sale of treasury stock which increased equity by \$2.9 million; (iii) the completion of a \$3.5 million private placement. During the several years prior to the termination of its operations, the Company had implemented a restructuring strategy aimed at improving operating results, through the reduction of costs,

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the streamlining of operations, and the closing of the company's Puerto Rico plant. These efforts failed to bring the Company's operations to a profitable level. Some of the major factors and occurrences which led to the company's insolvency and the termination of its operations; are described below. For a discussion in more detail of each of the matters discussed below, reference is made to the company's annual report on Form 10-K for the fiscal year ended February 27, 1999.

The factors noted above resulted in the termination of all of the company's business activities in October 1999 and the filing, on March 3, 2000, of a voluntary Petition under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy Court for the southern District of New York. The company remained inactive during fiscal year ended February 27, 2001. Chief among the factors leading to the present insolvency of the company were: (I) the loss of the company's largest customer because of Levi-Strauss's decision, late in fiscal 1997, to sell its "Brittania" line of men's underwear and other products which the company was licensed to manufacture and sell; (ii) the failure to meet sales goals required under various other licenses held by the company and the resultant loss of such licenses; and (iii) the company's incurrence of substantial amounts of debt in order to fund losses from operations and the inability of the company to repay such debt, including the following:

1. Termination of Levi Strauss/Brittania Operations. Commencing in September 1988, the Company held a license (the "Brittania License") from Brittania Sportswear Ltd. ("Brittania"). Levi Strauss & Co. ("Levi Strauss") was the parent company of Brittania. Under the Brittania License, the Company had the right to manufacture and market men's underwear and other products under the trademark "Brittania from Levi Strauss & Co.". Sales under the Brittania License aggregated \$14.9 million in fiscal 1997 and \$4.5 million in fiscal 1998, accounting for 49% of the company's fiscal 1997 sales, and 21% of the company's fiscal 1998 sales. During the fiscal year ended February 27, 1999, the Company made no sales under the Brittania License. As of January 1, 1997,

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the Brittania License had been renewed for a five-year term, including automatic renewals of two years if certain minimum sales levels were achieved. However, on January 22, 1997, Levi's announced its intention to sell Brittania. As a result of the action taken by Levi Strauss, K-Mart, the largest retailer of the Brittania brand, and the Company's largest customer (accounting for sales of Brittania product of approximately \$11 million in fiscal year 1997, and \$3 million in fiscal year 1998), advised the Company that it would no longer continue its commitment to carry the Brittania trademark. In response, the Company filed a multi-million dollar lawsuit against Levi Strauss and Brittania in March 1997, alleging that Brittania had breached various obligations under its license agreement with the Company, including without limitation its covenant of good faith and fair dealing. This litigation was settled in June 1998, with the Company realizing approximately \$725,000 in gross value out of such settlement.

2. Discontinuance of GUESS® Product Line. From December 7, 1992 until the first quarter of the fiscal year ended February 27, 1999, the Company held the exclusive United States rights to produce and sell undergarments bearing the "GUESS®" trademark and variations thereof. The license was subject to termination prior to its expiration if certain minimum sales goals were not met, with the payment of minimum royalties required in the amounts of \$560,000, \$700,000 and \$840,000 for the contract years ended May 31, 1997, 1998 and 1999 respectively. Minimum sales goals were never achieved under this license. Due to the lack of capital resources necessary to develop and support the GUESS® product line at the levels required in the licensing agreement. The Company,

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with the support of the licensor, initiated a strategy to terminate the GUESS? license, and the Company discontinued its GUESS? division during the first quarter of fiscal year 1999.

3. Termination of "Arrow" License. Pursuant to an agreement, dated October 5, 1992, with Cluett, Peabody & Co., Inc., the Company held the exclusive United States rights (the "Arrow License") to produce and sell men's and boys' fashion underwear, T-shirts, V-neck shirts, tank tops, briefs and boxer shorts bearing the "ARROW" trademark during the period commencing January 1, 1993 and expiring, pursuant to an extension, December 31, 1999. The terms of the Arrow License required that the Company pay a minimum royalty of \$162,500 for each annual period through December 31, 1996, increasing to \$250,000 for each annual period from January 1, 1997 through December 31, 1999. Because the Company was unable to meet the minimum sales requirements under the Arrow License, as of March 12, 1999, the company reached an agreement with the licensor to terminate the Arrow License.

4. Failure to meet Minimum Sales Requirements Under "Botany 500" License. On December 21, 1992, the Company obtained from the McGregor corporation, the exclusive United States rights (the "Botany 500 License") to produce and sell men's and boys' fashion knit underwear briefs bearing the "BOTANY 500" trademark during the period commencing on January 1, 1993 and expiring, pursuant to an extension, December 31, 2001. Under the terms of the license agreement, the McGregor Corporation had the right to terminate the Botany 500 License prior to its expiration if certain minimum sales goals were not met. Minimum sales levels required under the Botany 500 License for calendar 1996 were 4750,000 and \$1 million of each calendar year thereafter. The Company was never able to meet the minimum sales requirements under the Botany 500 License with net sales under the license for fiscal 1997 (which included most of calendar 1996) being \$652,000 and \$225,000 for fiscal 1998 (which included most of calendar 1997). After fiscal 1998, the Company ceased all operations under the Botany 500 License.

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5. Loss of Revolving Credit Line. Until October 15, 1999, the Company had a fifteen million dollar revolving credit facility with Congress Financial Corp. ("Congress"). This facility provided for: (i) loans based upon eligible accounts receivable and inventory; (ii) a \$3,000,000 letter of credit facility; and (iii) purchase money term loans of up to 75% of the orderly liquidation value of newly acquired and eligible equipment. Borrowings bore interest at 2 3/4% above prime. The Company's agreement with Congress required, among other things, that the Company maintain of minimum working capital and net worth levels. Borrowings under the agreement were collateralized by a lien on substantially all of the assets of the company. As at February 27, 1999 the Company was not in compliance with the net worth and working capital covenants. This credit facility utilized was terminated by Congress on October 15, 1999 and, because of its poor financial status and outlook, the Company was not able to replace it.

6. Continuing Default on Outstanding Debentures. On August 15, 1996, the Company completed a \$3.5 million private placement with NAN Investors, L.P., an investment partnership ("NAN Investors"). Terms of this transaction included the issuance of 250,000 shares of the Company's common stock and two convertible subordinated debentures in the aggregate principal amount of \$2,760,000 (the "NAN Debenture"). The NAN Debentures bore interest at an annual rate of 12.5%, payable semi-annually, with the principal amount due and payable on August 15, 2001. Although the NAN Debentures were convertible into the Company's common stock, NAN Investors eventually waived all conversion rights.

Beginning in August 1997, the Company was in default on interest payments due under the NAN Debentures. The NAN Debentures were secured by a second mortgage

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on the company's manufacturing and distribution facility located in Cartersville, Georgia. This property was sold on October 1, 1997. To release NAN's security interest in the property and to extend the cure period with respect to a \$172,500 interest payment default on the Debentures, the Company prepaid \$707,000 of the principal amount of the NAN Debentures plus a \$176,000 prepayment penalty.(2) In connection therewith, in September 1997, the Company entered into an agreement with NAN Investors (the "First NAN Forbearance Agreement") providing for the extension of cure period for the default on the interest payments. The First NAN Forbearance Agreement was extended month by month until May 1998, at which time, the company entered into another forbearance agreement with NAN Investors (the "Second NAN Forbearance Agreement") to extend, until December 1998, the cure period for interest payments then in default (totaling \$322,551) as well as the interest payment, which was to fall due in August 1998. In consideration for such extension, the company and NAN Investors entered into a security agreement (The "NAN Security Agreement"), pursuant to which the Company agreed to secure the NAN Debentures by a first priority lien on all the assets of the Company, both tangible and intangible, to the extent not otherwise prohibited under the Congress revolving credit facility and to issue to NAN Investors five-year warrants convertible to a total of 16,500,000 shares of the Company's stock at an exercise price of \$.10 per share. Thereafter, the company remained in default on all interest payments due after August 1997. There was no forbearance agreement in effect with respect to interest payments which fell due subsequent to December 1998 and therefore, at that point, the Company was in default with respect to the full principal amount of the NAN Debentures and all unpaid interest accrued thereon, which at that time

(2) Total proceeds from the sale of the Cartersville facility were \$2,850,000. In addition to the \$883,000 paid to NAN Investors by way of a \$707,000 prepayment of principal and a \$176,000 prepayment penalty, the Company used \$525,000 to pay other financing secured by this property. The remaining proceeds were utilized to reduce the Company's revolving credit financing with Congress.

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totalled \$2,052,986. Pursuant to their rights under the NAN Security Agreement, NAN Investors took possession of all of the Company's assets, subject to the release of the senior creditor (Congress). These assets consisted entirely of inventory and receivable. NAN Investors ultimately realized a total of \$1,222,654 from the sale or collection of such assets, reducing the Company's indebtedness to approximately \$826,845 as at the end of fiscal 2000. Further, in recognition of NAN Investors rights, under the NAN Security Agreement, to any and all remaining assets of the Company, on February 17, 2000, the Company surrendered to NAN Investors, all of its right, title, and interest in certain unasserted claims it believes it had against Target Stores, Inc. and SGS U.S. Testing Co., Inc. (the "Claims") on the condition that the net amount collected in respect of the Claims be set off against the amount of the Company's indebtedness to NAN Investors. Management believed that the value of the Claims would thus be maximized because the Company lacked the financial resources to assert the Claims and NAN Investors already had an existing right to any amounts that the company might collect in respect of the Claims. Management believed that the Claims consisted of: (i) a claim against Target Stores, Inc. for unauthorized off-sets and credits taken in a presently undetermined amount to the best of present management's knowledge, NAN Investors is currently pursuing all legal remedies available with respect to (ii) a claim against SGS U.S. Testing Co., Inc. in the approximate amount of \$35,000. A claim filed into the Federal Bankruptcy Court by SGS U.S. attorneys for the Company have filed an objection and are seeking a set-off of claims. In the years preceding the termination of operations, the company had experienced difficulty in filling all

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of its orders, caused in large part by recurring cash shortages, the expiration of its working capital financing arrangements, and the failure to obtain the investment necessary to support and develop the GUESS? product line. From at least fiscal 1996 onwards, the company had attempted to address its liquidity issues by the infusion of debt and equity financing, including (i) a refinancing in March 1994; (ii) additional equity of \$3.9 million raised in fiscal 1995; (iii) an August 1996 \$3.5 million private placement, which left the Company with \$2,760,000 in debt under the NAN Debentures, bearing interest at an annual rate of 12.5%; and (iv) by the reduction in costs associated with the consolidation and restructuring of the operations in fiscal 1998 and 1999, and the attempt to more effectively manage working capital. All of these efforts, however, failed to keep the Company solvent and with the loss of the Brittania License, continuing losses from operations, interest payment defaults, and the lack of any credit facilities, the Company was forced to discontinue all business operations by the end of October 1999. For a discussion in more detail of the restructuring strategy which the Company implemented in attempts to improve operating results and enhance its financial resources, reference is made to Item 7 of part II of the Company's annual report on Form 10-K for the fiscal year ended February 27, 1999.

Operating results for fiscal 1998 reflected \$1.8 million in restructuring charges including \$1.2 million associated with the phase out of the GUESS? division (\$660,000 inventory write-offs, \$540,000 in deferred costs and other charges), with the balance associated with write-downs, and reserves of asset values, and other non-cash items. The operating results for fiscal 1999 included \$1,930,000 in other income all of which was the result of litigation settlements as discussed earlier. The operating results for fiscal 2000 do not include any unusual credits or charges. Since the Company has remained inactive there are no operating results for the fiscal year ended February 27, 2001.

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Results of Operations

Sales

There were no sales for the year ended February 27, 2001. The Company remained inactive since it ceased doing business in October of 1999. Total net sales for the fiscal year ended February 27, 2000 were \$5,344,223, which represented a decrease of approximately 53.6% from fiscal 1999 when total net sales were approximately \$11.5 million. In turn, fiscal 1999 net sales had represented a decrease of 47% from fiscal 1998, when net sales totaled \$21.7 million. Net sales for 1998 also represented a decrease from net sales for 1997 which had totaled \$30.4 million.

No sales were generated under the discontinued Brittania license in fiscal 2000 or fiscal 1999 as compared to \$4.5 million in fiscal 1998. Sales under the Brittania license in fiscal 1998, in turn, had represented a decrease of \$10.4 million from Brittania sales in fiscal 1997.

Operations under the GUESS? License were completely phased out by the first quarter of fiscal 1999. There were, therefore, no sales attributable to this line in fiscal 2000, as compared to \$2.4 million in fiscal 1999 and \$7 million in fiscal 1998.

Former management of the company has attributed the steady decline in total net sales, since fiscal 1998, primarily to the phase out of the Brittania product associated with the actions announced by Levi to dispose of the Brittania brand, and the loss of certain styles to competitors within the company's business environment as well as a lack of sufficient working capital.

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Selling, General and Administrative Expenses

There were no selling or general and administrative expense in fiscal 2001. The Company remained inactive since it ceased doing business in October 1999. Selling, general and administrative expenses in fiscal 2000 of \$2,161,376 were approximately 41% of sales. For fiscal 1999 and 1998, these expenses were \$2.9 million and \$2 million respectively, and as a percentage of sales, 25% for fiscal year 1999, and 33% for fiscal year 1998. General and administrative expenses for fiscal year 1998 included \$691,000 in non-recurring charges incurred as part of the company's restructuring efforts. While these efforts were somewhat successful in reducing expenses as a percentage of sales, the loss of the Britannia product line ultimately resulted in the Company's becoming insolvent.

Interest Expense

There was no interest expense in fiscal 2001. The company remained inactive since it ceased doing business in October 1999. Interest expense decrease by \$172,715 in fiscal 2000, reflecting the payment of interest for only eight months of the fiscal year as well as the reduction of debt caused by the application to the outstanding debt of proceeds from the sale and liquidation by the creditor, NAN Investors, of certain of the company's assets. In fiscal 1999, interest expense decreased by approximately \$805,000, reflecting reductions in the outstanding revolving credit facility and the subordinated debt. Prior to that, in fiscal 1998, interest expenses had increased by

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approximately \$112,000, reflecting \$175,000 booked as the expense resulting from the issuance of 16,500,000 warrants.

Liquidity and Capital Resources

The Company incurred significant operating losses in recent years which resulted in severe cash flow problems which negatively impacted the ability of the company to conduct its business as structured and ultimately caused it to become and remain insolvent. The pertinent history in recent years of the company's liquidity and capital resources is as follows:

Prior to the periods covered by the financial statements included in this Report, in March, 1994, the company's principal arrangements consisted of (i) a three year \$15,000,000 revolving credit facility with Congress financial; (ii) a \$2,000,000 Term Loan Agreement with Chemical Bank; and (iii) an additional \$1,500,000 Term Loan with Congress. The financing arrangements with Congress were covered by a loan and security agreement, dated March 24, 1994 (the "Congress Loan and Security Agreement"). On May 31, 1996, the company amended the Congress Loan and Security Agreement to provide for; (i) \$251,000 in additional equipment term loan financing, (ii) extension of the repayment period for all outstanding term loans, (iii) supplemental revolving loan availability from March 1st through June 30th of each year and (iv) extension of the renewal date to March 20, 1998. In March, May, August and December of 1998, Congress extended its Loan and Security Agreement with the Company. The agreement was to expire on December 31, 1998, but was extended to August 31, 1999 and from each month thereon, on a month to month basis, until October 15, 1999 when it was mutually terminated by Congress and the company. With the loss of the Congress financing, the Company was left with no credit facility, and became insolvent.

During the several years preceding its ultimate insolvency, the Company had raised money through the sale of equity securities with: (i) a \$1,000,000

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investment by a group of investors headed by George Samberg, who was at that time, the president and CEO of the company; (ii) a \$2.9 million sale of 490,000 shares of common treasury stock to GUESS? and certain of its affiliates; and (iii) a sale of 250,000 shares of the Company's common stock to NAN Investors in fiscal 1997. The sale of common stock to NAN Investors was tied to the sale of debt securities consisting of two convertible subordinated debentures in the aggregate face amount of \$2,760,000 bearing interest at an annual rate of 12.5%. Therefore, while the company realized gross proceeds of \$3.5 million from its sales to NAN Investors, \$2,760,000 of this amount actually represented new debt because it constituted the aggregate principal amount of two NAN Debentures. The NAN Debentures were secured by a second mortgage on the Company's manufacturing and distribution facility in Cartersville, Georgia (the "Cartersville Facility"). The Company utilized the \$3.5 in proceeds from its sales to NAN Investors to prepay existing debt. Therefore, while these transactions had a positive effect on the company's liquidity and capital resources, the Company was ultimately left with substantial debt which, after the loss of the Britannia line, the company was unable to repay or even to service.

During fiscal 1998, on October 1, 1997, the company completed the consolidation of its facilities and sold the Cartersville facility for cash aggregating to \$2,850,000. The company reflected a gain on the sale of \$793,000. The proceeds were used to (i) repay \$525,000 financing secured by this property; (ii) to prepay 4707,000 of the NAN Debentures; and (iii) to pay a \$176,000 prepayment penalty incurred from the prepayment of NAN Debentures. The remaining net proceeds were utilized to reduce the congress revolving credit financing.

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During fiscal 2000, working capital levels decreased to \$(1,685,573) from \$(956,404) at February 27, 1999 levels reflecting the surrender of the company's assets NAN Investors pursuant to its rights under the NAN Security Agreement. Working capital at February 27, 1999, reflected reductions in receivable and inventories utilized to reduce debt levels. The respective \$1,108,860 and \$1,981,523 million reductions in inventory levels, as at the ends of fiscal 2000 and fiscal 1999, reflected the Company's reduction in sales volume, and its continuing efforts to manage its supply chain towards delivering inventory closer to forecasted demand. During fiscal 1999, the subordinated debt was reclassified as short term due to the Company's inability to make interest payments on the NAN Debentures. During fiscal 2000, on October 11, 1999, the Board of Directors voted to allow NAN Investors to liquidate the assets covered by its security agreement.

Outlook

Nantucket Industries, Inc. (the "Company") is currently insolvent. It has had no business and carried on no business activities since October 1999. On March 3, 2000, the company filed a Voluntary Petition under Chapter 11 of the United States Bankruptcy Code in the U.S. Bankruptcy court for the Southern District of New York. (Case Name: Nantucket Industries, Inc., Case Number: 00-B 10867). The company intends to file a Chapter 11 Plan and a Disclosure Statement in June 2001.

The goal of the projected Chapter 11 reorganization will be for the Company to effect a merger, acquire the assets or the capital stock of existing businesses, or to effect another similar business combination. No assurances can be given that the Company will be successful in doing so. Management will have sole discretion to determine which businesses, if any, may be formed or acquired, as well as the terms of any acquisition. Accutone Inc., a company controlled by John H. Treglia, the Company's current president, has been identified as a potential company and business which management has considered

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with regard to the possibility of an acquisition or merger transaction with the Company. If the Company should ultimately acquire a business or property from any member of management, the terms of such acquisition might not be the result of arm's length negotiations. Any transaction between the Company and any of its affiliates could present management with a conflict of interest. Therefore, it is the intention of management that, if such transaction should occur, the terms thereof will be no less beneficial to the Company than they would be if such transactions had been effected on an arms length basis.

The proposed reorganization of the Company and the acquisition of or merger with new businesses can be expected to require the issuance of substantial amounts of new shares of the Company's common stock or other securities. Any such stock issuances will significantly reduce the proportionate ownership and voting power of each other shareholder.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company, required to be included in this Report are set forth below.

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NANTUCKET INDUSTRIES, INC.

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[Letterhead of Pilotti, Cunzio & Associates LLP]

[LOGO] PC&A

Independent Auditors' Report

To the Board of Directors
Nantucket Industries, Inc. and Subsidiaries
(Debtor-In-Possession)
New York, New York

We have audited the accompanying consolidated balance sheet of Nantucket Industries, Inc. and Subsidiaries (Debtor-In-Possession) for the two years ended February 28, 2001 and the related consolidated 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. The financial statements for February 27, 1999 were audited by other auditors, therefore we do not render an opinion on these financial statements.

We conducted our audit in accordance with generally accepted auditing standards. 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 consolidated financial position of Nantucket Industries, Inc. and Subsidiaries (Debtor-In-Possession) as of February 28, 2001, and the consolidated results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As represented in the accompanying financial statements, the Company has a net capital deficiency, operating losses, and defaulted on interest payments. These factors, among others discussed in Note 1 to the accompanying financial statements, raise substantial doubt about the company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. These financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ Pilotti, Cunzio & Associates LLP
June 6, 2001

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Nantucket Industries, Inc.
and Subsidiaries
(Debtor-In-Possession)

Consolidated Balance Sheets

| February 28, | 2001 | Feb |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|-----|
| <hr/> | | |
| Assets | | |
| Cash and cash equivalents | \$ 1,452 | \$ |
| Accounts receivable (Notes 2 and 8) | -- | |
| Inventories (Notes 6 and 8) | -- | |
| Other current assets | 20,331 | |
| <hr/> | | |
| Total current assets | 21,783 | |
| <hr/> | | |
| Property, plant and equipment, net (Notes 7 and 8) | -- | |
| Other assets, net | -- | |
| <hr/> | | |
| | \$ 21,783 | \$ |
| <hr/> | | |
| Liabilities and Stockholders' Deficit | | |
| Current portion of capital lease obligations (Note 8) | \$ 93,070 | \$ |
| Convertible subordinated debt (Note 4) | 826,845 | |
| Accounts payable | 244,764 | |
| Accrued salaries and employee benefits | 11,031 | |
| Accrued unusual charge (Note 5) | 77,083 | |
| Accrued expenses and other liabilities | 129,515 | |
| Accrued royalties | 319,048 | |
| <hr/> | | |
| Total current liabilities | 1,701,356 | |
| Capital lease obligations, net of current portion (Note 8) | -- | |
| <hr/> | | |
| Total liabilities | 1,701,356 | |
| <hr/> | | |
| Stockholders' deficit (Notes 4 and 11) | | |
| Preferred stock, \$.10 par value; 500,000 shares authorized, of which 5,000 shares have been designated as non-voting convertible with liquidating preference of \$200 per share and are issued and outstanding | 500 | |
| Common stock, \$.10 par value; authorized 20,000,000 shares; issued 3,241,848 | 324,185 | |
| Additional paid-in capital | 12,539,503 | 1 |
| Deferred issuance cost | -- | |
| Accumulated deficit | (14,523,824) | (1 |
| <hr/> | | |
| | (1,659,636) | (|
| Less 3,052 shares of common stock held in treasury, at cost | 19,937 | |
| <hr/> | | |
| Total stockholders' deficit | (1,679,573) | (|
| <hr/> | | |
| | \$ 21,783 | \$ |
| <hr/> | | |

See accompanying notes to financial statements.

Nantucket Industries, Inc.
and Subsidiaries
(Debtor-In-Possession)

Consolidated Statements of Operations

| Years ended February 28, | 2001 | Feb |
|---------------------------------------------------|-----------|------|
| Net sales | \$ -- | \$ |
| Cost of sales | -- | |
| Gross profit | -- | |
| Selling, general and administrative expenses | -- | |
| (Loss) from operations | -- | |
| Other income (expense): | | |
| Net loss (gain) on sale of assets (Note 7) | -- | |
| Interest expense | -- | |
| Other income (Note 12) | -- | |
| Total other (income) expense | -- | |
| Earnings (loss) before income taxes | -- | (|
| Income taxes (Note 10) | -- | |
| Net income (loss) | -- | \$ (|
| Net earnings (loss) per share - basic and diluted | -- | \$ |
| Weighted average common shares outstanding | 3,238,796 | |

See accompanying notes to financial statements.

Nantucket Industries, Inc.
and Subsidiaries
(Debtor-In-Possession)

Consolidated Statement of Stockholders' Deficit

| | |
|------------------------------------------------------------|--------------|
| Preferred stock designated as non-voting convertible | Common stock |
|------------------------------------------------------------|--------------|

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| | Shares | Amount | Shares | Amount |
|--------------------------------|--------|--------|-----------|-----------|
| Balance at March 1, 1998 | 5,000 | \$500 | 3,241,848 | \$324,185 |
| Net earnings | | | | |
| Amortization of deferred costs | | | | |
| Balance at February 27, 1999 | 5,000 | 500 | 3,241,848 | 324,185 |
| Net (loss) | | | | |
| Amortization of deferred costs | | | | |
| Balance at February 27, 2000 | 5,000 | 500 | 3,241,848 | 324,195 |
| Net earnings (loss) | | | | |
| Amortization of deferred costs | | | | |
| Balance at February 27, 2001 | 5,000 | \$500 | 3,241,848 | \$324,185 |

| | | Treasury stock | | |
|--------------------------------|---------------------|----------------|-------------|----------------|
| | Accumulated deficit | Shares | Amount | Total |
| Balance at March 1, 1998 | \$ (13,990,837) | 3,052 | \$ (19,937) | \$ (1,262,127) |
| Net earnings | 937,480 | | | 937,480 |
| Amortization of deferred costs | | | | 19,116 |
| Balance at February 27, 1999 | (13,053,357) | 3,052 | (19,937) | (305,531) |
| Net (loss) | (1,409,398) | | | (1,409,398) |
| Amortization of deferred costs | | | | 35,356 |
| Balance at February 27, 2000 | (14,462,755) | 3,052 | (19,937) | (1,679,573) |
| Net earnings (loss) | | | | |
| Amortization of deferred costs | (61,069) | | | |
| Balance at February 27, 2001 | \$ (14,523,824) | 3,052 | \$ (19,937) | \$ (1,644,217) |

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See accompanying notes to financial statements.

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Nantucket Industries, Inc.
and Subsidiaries
(Debtor-In-Possession)

Consolidated Statements of Cash Flows

| Years ended February 28, | 2001 | February 27, 2000 |
|-----------------------------------------------------------------------------------------------|---------|----------------------|
| Cash flows from operating activities: | | |
| Net earnings (loss) | \$ -- | \$ (1,409,398) |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | -- | 35,356 |
| Provision for doubtful accounts | -- | -- |
| Loss (gain) on sale of fixed assets | -- | 538,522 |
| Provision for obsolete and slow-moving inventory | -- | -- |
| Issue of warrants | -- | -- |
| Decrease (increase) in assets: | | |
| Accounts receivable | -- | 961,989 |
| Inventories | -- | 1,108,860 |
| Other current assets | -- | 47,016 |
| (Decrease) increase in liabilities: | | |
| Accounts payable | -- | (3,774) |
| Accrued expenses and other liabilities | -- | (803,465) |
| Income taxes payable | -- | -- |
| Accrued unusual charge | -- | (18,750) |
| Net cash provided by operating activities | -- | 456,356 |
| Cash flows from investing activities: | | |
| Additions to property, plant and equipment | -- | -- |
| Proceeds from sale of fixed assets | -- | -- |
| Decrease in other assets | -- | 176,601 |
| Net cash provided by investing activities | -- | 176,601 |
| Cash flows from financing activities: | | |
| (Repayments) borrowings under line of credit agreement, net | -- | -- |
| Payments of short-term debt | -- | (1,226,141) |
| Payments of long-term debt and capital lease obligations | -- | (27,632) |
| Net cash (used in) provided by financing activities | -- | (1,253,773) |
| Net increase (decrease) in cash and cash equivalents | -- | (620,816) |
| Cash and cash equivalents, beginning of year | 1,452 | 622,268 |
| Cash and cash equivalents, end of year | \$1,452 | \$ 1,452 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the year for: | | |
| Interest | \$ -- | \$ 881,670 |
| Income taxes | \$ -- | \$ -- |

See accompanying notes to financial statements.

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Nantucket Industries, Inc.
and Subsidiaries
(Debtor-In-Possession)

Notes to Consolidated Financial Statements

1. Restructuring and
Liquidity Matters

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. There have been no sales since November 1999 and the Company has remained inactive for fiscal year 2001. The Company filed for Chapter 11 bankruptcy protection in March 2000. Management is seeking merger candidates in order to continue the Corporation. If Management is unsuccessful in its merger search, the Company will cease to exist. There were no sales under the Brittania license for the fiscal years 2001, 2000 and 1999. As more fully described in Note 3, Levi Strauss & Co., the parent company of Brittania Sportswear Ltd. a licensor which accounted for \$4.5 million of the Company's fiscal 1998 sales, announced their intention to sell Brittania. In light of the actions announced by Levi's, K mart, the largest retailer of the Brittania brand and the Company's largest customer, advised the Company that it would no longer continue its on-going commitment to the Brittania trademark. Sales to this customer decreased from \$3 million in fiscal 1998, to \$0 sales in fiscal year 1999. In response, the Company filed a lawsuit against Levi-Strauss & Co., alleging that the licensor breached various obligations under the license agreement, including without limitation its covenant of good faith and fair dealing. The Company settled this litigation in June 1998 (see Note 12).

The Company experienced significant losses in fiscal years 1998 and 1999 which resulted in severe cash flow issues that negatively impacted the ability of the Company to conduct its business as then structured. In fiscal year 1999 due to the lack of capital resources needed to properly develop and support the GUESS? product line, the Company discontinued sales under the GUESS? license. Sales for this product line in fiscal 2001, 2000, and 1999 aggregated \$.0, \$.0, and \$2.5 million, with gross margins of 0%, 0% and

11.8%, respectively. As of March 1999, the company reached an agreement with Cluett, Peabody & Co., the licensor of the ARROW trademark, to terminate its Arrow license (see Note 12). Until April 17, 1998, the Company's common stock was traded on the American Stock Exchange. Because the Company fell below American Stock Exchange guidelines for continued listing, effective April 17, 1998, the Company's stock was delisted. The Company has defaulted on interest payments to its subordinated debt holder, and has no long-term credit facility in place. As a result, there can be no assurance that the Company can continue as a going concern.

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Nantucket Industries, Inc.
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Notes to Consolidated Financial Statements

The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classifications of liabilities that might be necessary should the Company be unable to continue in existence. The ultimate impact or resolution of these matters may have a materially adverse effect on the Company or on its financial condition.

The Company has funded its operating losses by refinancing its debt in fiscal 1995 and increasing its capital through (a) the sale of \$1 million of non-voting convertible preferred stock to management (Note 11) in fiscal 1995; (b) the fiscal 1995 sale of treasury stock which increased equity by \$2.9 million, and (c) the completion in 1996 of a \$3.5 million private placement (Note 4).

2. Summary of
Significant
Accounting Policies

a. The Company

Nantucket Industries, Inc. and its wholly-owned inactive subsidiaries (debtor-in-possession) (the "Company") design and distribute branded and private label fashion undergarments to mass merchandisers and national chains throughout

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the United States, until it ceased doing business in October 1999.

b. Principles of Consolidation

The consolidated financial statements include the accounts of Nantucket Industries, Inc. and its wholly owned subsidiaries (debtor-in-possession). All significant intercompany balances and transactions have been eliminated.

c. Accounts Receivable

An allowance for doubtful accounts is provided based upon historical bad debt experience and periodic evaluations of the aging of the accounts.

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Nantucket Industries, Inc.
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Notes to Consolidated Financial Statements

d. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Equipment under lease is stated at the present value of the minimum lease payments at the inception of the lease. Depreciation and amortization are provided by the straight-line method over the estimated useful lives of the assets as follows:

| | Years |
|----------------------------|-------|
| | ----- |
| Buildings and improvements | 20-40 |
| Machinery and equipment | 3-10 |
| Furniture and fixtures | 10 |

e. Stock Options

As described in Note 11, the Company has granted stock options for a fixed number of shares to employees and officers at an exercise price equal to the market value of the shares on the date of grant. As permitted by SFAS No. 123, the Company has elected to continue to account for stock options grants in accordance with APB No. 25 and recognizes no compensation expense for these grants.

f. Income Taxes

The Company and its wholly owned subsidiaries file a consolidated federal income tax return. Deferred income taxes arise as a result of differences between financial statement and income tax reporting.

g. Earnings (Loss) Per Common Share

In fiscal year 1998, the Company adopted Statement of Financial Accounting Standards No. 128 (SFAS No. 128), Earnings Per Share, which requires public companies to present earnings per share and, if applicable, diluted earnings per share. All comparative periods must be restated as of February 28, 1998 in accordance with SFAS No. 128. Basic earnings per share are based on the weighted average number of common shares outstanding without consideration of potential common share equivalents. Diluted earnings per share are based on the weighted average number of common and potential common shares outstanding. The calculation takes into account the shares that may be issued upon exercise of stock options, reduced by the shares that may be repurchased with the funds received from the exercise, based on the average price during the year. At February 27, 2000, the Company had outstanding warrants to purchase 16,500,000 shares of common stock which would potentially dilute basic earnings per share but have not been considered for the two prior periods as they would have had an antidilutive impact (see Note 9).

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Nantucket Industries, Inc.
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Notes to Consolidated Financial Statements

h. Reporting Comprehensive Income

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 130 (SFAS No. 130), Reporting Comprehensive Income, which is effective for the Company's year ending February 27, 1999. SFAS No. 130 addresses the reporting and displaying of comprehensive income and its components. Earnings (loss) per share will only be reported for net earnings (loss), and not

for comprehensive income. Adoption of SFAS No. 130 relates to disclosure within the financial statements and is not expected to have a material effect on the Company's financial statements.

i. Segment Information

In June 1997, the FASB also issued Statement of Financial Accounting Standards No. 131 (SFAS No. 131), Disclosure About Segments of an Enterprise and Related Information, which is effective for the Company's year ending February 27, 1999. SFAS No. 131 changes the way public companies report information about segments of their business in their financial statements and requires them to report selected segment information in their quarterly reports. Adoption of SFAS No. 131 relates to disclosure within the financial statements and is not expected to have a material effect on the Company's financial statements.

j. Fiscal Year

The Company's fiscal year ends on the Sunday nearest to February 28, with the exception of February 28, 2001 an inactive year, the fiscal years ended February 27, 2000 and February 27, 1999 contained 52 weeks.

k. Reclassification

Certain prior year amounts have been reclassified in order to conform to the current year's presentation.

l. Use of Estimates

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

m. Impairment of Long-Lived Assets

The Company applies Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. Accordingly, when indicators of impairment are present, the Company periodically evaluates the carrying value of property, plant and equipment and intangibles in relation to the operating performance and

future undiscounted cash flows of the underlying business. The Company adjusts carrying amount of the respective assets if the expected future undiscounted cash flows are less than their book values. No impairment loss was required in fiscal years 2001, 2000 and 1999.

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Nantucket Industries, Inc.
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Notes to Consolidated Financial Statements

n. Fair Value of Financial Instruments

Based on borrowing rates currently available to the Company for debt with similar terms and maturities, the fair value of the company's long-term debt approximate the carrying value. The carrying value of all other financial instruments potentially subject to valuation risk, principally cash, accounts receivable and accounts payable, also approximate fair value.

3. Concentration of Risk

For the period ended February 28, 2001, there were no sales or other business activities. For February 28, 2000 there were no sales. For February 27, 2000, sales to the Company's largest customer accounted for 38.8% of net sales and 23%, respectively, for the two prior fiscal years. Sales to the second largest customer in fiscal years 1999 and 1998 were 33.6% of net sales and 22%, respectively. As previously described, K Mart, which represented \$0 of net sales in the 1999 fiscal year, and 16% and 40%, for the two prior fiscal years, advised the Company it would no longer continue its commitment to the Britannia trademark and consequently, the Company currently has no business with this customer. No other customer accounted for more than 10% of the Company's consolidated net sales for fiscal 1999 and 1998.

4. Private Placement

On August 15, 1996, the Company completed a \$3.5 million private placement with an investment partnership. Terms of this transaction included the issuance of 250,000 shares and \$2,760,000 of 12.5% convertible subordinated debentures that were due August 15, 2001.

The convertible subordinated debentures are secured by a second mortgage on the

Company's manufacturing and distribution facility located in Cartersville, Georgia. In conjunction with the sale of this property completed on October 1, 1997 (see Note 7), the Company prepaid \$707,000 of these debentures.

The debentures, after giving effect to the prepayment related to the sale of the Company's facility referred to above, were convertible into the Company's common stock over the next five years. The investment partnership waived all conversion rights.

The agreement grants the investor certain registration rights for the shares issued and the conversion shares to be issued.

The difference between the purchase price of the shares issued and their fair market value on August 15, 1996 aggregated \$197,500. This was reflected as deferred issue cost and will be amortized over the expected five-year term of the subordinated convertible debentures. The prorated portion of these costs associated with the prepaid \$707,000 of these debentures was recognized in the accounting period in which the event occurred.

Costs associated with this private placement aggregated \$409,000 including \$104,000 related to the shares issued which have been charged to paid in capital. The remaining balance of \$305,000 will be amortized over the five-year term of the debentures.

The Company was in default in respect to interest payments due on the subordinated

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Nantucket Industries, Inc.
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Notes to Consolidated Financial Statements

debt in August 1997, and again in February 1998. In September 1997, the Subordinated debt holder and the Company entered into an agreement to extend the cure period on the default. This forbearance agreement was extended month by month until May 1998. In May 1998, the Company entered into an agreement with the debt holder to extend the cure period, with respect to \$322,551 in prior interest payment defaults and for the interest payment due in August 1998, until

December 1998. In return, the Company agreed to secure the debentures by a first priority lien on all the assets of the Company, to the extent not otherwise prohibited under the revolving credit facility (Note 8), and to issue five-year warrants convertible to 16,500,000 shares of the Company's stock at an exercise price of \$.10. The Company obtained an independent valuation of this transaction, in the amount of \$175,000, and this amount was expensed in fiscal year 1998. The Company is currently in default for interest payments due since August 1997 on this note, including the interest payment due February 1999. There is no forbearance agreement in effect subsequent to December 1998 and therefore, the outstanding liability of \$2,052,986 is classified as a current liability. In October 1999, the Company assigned the accounts receivable, inventory and all law suits to the subordinated creditor.

5. Unusual (Credit) Charge

In November 1992, the Company acquired Phoenix Associates, Inc., a manufacturing facility in Puerto Rico, pursuant to a stock purchase agreement. Phoenix had been an exclusive contractor for the Company, manufacturing many of the Company's product lines. A portion of the purchase price was subordinated debt payable to the former owners of Phoenix, of which \$300,000 was due February 2, 1998. In April 1993, the Company discovered an inventory variance of \$1,700,000, principally attributable to unrecorded manufacturing and material cost variance at the Puerto Rico facility, which were incurred prior to the Company's acquisition of this facility. As a result, the Company initiated an action against the former owners of the facility as more fully described in Note 12. Accordingly, in fiscal 1995 the Company eliminated this payable and reflected such reduction as an unusual credit in the 1995 financial statements.

In March of fiscal 1994, the Company terminated the employment contracts of its Chairman and Vice-Chairman. In accordance with the underlying agreement, they were paid in aggregate of approximately \$400,000 per year in severance and other benefits, through February 27, 1999.

As of February 28, 2001 and February 27, 2000, the accrued unusual charge of \$77,083 represents payments due under the termination agreements to the former Chairman and Vice-chairman. As of October 1997, pending negotiation of more favorable terms, payment under these agreements was suspended.

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Notes to Consolidated Financial Statements

6. Inventories

Inventories are recorded at the lower of cost or market value using the first in-first-out (FIFO) cost flow method, and are summarized as follows:

| | February 28, 2001 | February 27, 2000 | February 27 1999 |
|-----------------|----------------------|----------------------|---------------------|
| Raw materials | \$ -- | \$ -- | \$ -- |
| Work in process | -- | -- | -- |
| Finished goods | -- | -- | 1,108,860 |
| | \$ -- | \$ -- | \$1,108,860 |

7. Property, Plant and
Equipment

Property, plant and equipment are summarized as follows:

| | February 28, 2001 | February 27, 2000 | February 27 1999 |
|-------------------------------|----------------------|----------------------|---------------------|
| Land | \$ -- | \$ -- | \$ -- |
| Buildings and improvements | -- | -- | 26,034 |
| Machinery and equipment | -- | -- | 1,485,090 |
| Furniture and fixtures | -- | -- | 142,489 |
| | -- | -- | 1,653,613 |
| Less accumulated depreciation | -- | -- | 1,115,090 |
| | \$ -- | \$ -- | \$ 538,523 |

8. Long-Term Debt and Notes
Payable

a. Revolving Credit

The Company has a \$15 million revolving credit facility, which expired in March 1998, and has been extended to August 31, 1999. The revolving credit agreement provides for loans based upon eligible accounts receivable and inventory, a \$3,000,000 letter of credit facility and purchase money term loans of up to 75% of the orderly liquidation value of newly acquired and eligible equipment. Borrowings bear interest at 2 3/4% above prime. The agreement requires, among other provisions, the maintenance of minimum working capital

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and net worth levels and also contains restrictions regarding payment of dividends. Borrowings under the agreement are collateralized by substantially all of the assets of the Company. At February 28, 2001 and February 27, 2000, the revolving credit facility was not in place.

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Notes to Consolidated Financial Statements

b. Capital Leases

The Company leases equipment under capital leases. During Fiscal 2000, the Company's equipment was returned for non-payment.

9. Net Earnings (Loss) Per Common Share

The following table sets forth the computation of basic and diluted loss per share:

| | February 28, 2001 | February 27, 2000 | February 27 1999 |
|----------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|---------------------|
| Net earnings (loss) attributable to common stockholders | \$ -- | \$ (1,409,398) | \$ 937,480 |
| Accrued dividends on preference shares | -- | \$ (81,074) | \$ (81,103) |
| Numerator for basic and diluted net earnings (loss) per common share - earnings (loss) attributable to common stockholders | \$ -- | \$ -- | \$ 856,377 |
| Denominator for basic and diluted net earnings (loss) per common share - weighted average shares outstanding | 3,238,796 | 3,238,796 | 3,238,796 |
| Basic and diluted net earnings (loss) per share | \$ -- | \$ (.40) | \$ 0.26 |

10. Income Taxes

Deferred income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes.

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Deferred tax assets and liabilities are measured using enacted tax rates. Significant components of the Company's deferred taxes at February 28, 2001, February 27, 2000 and February 27, 1999 are as follows:

| | February 28, 2001 | February 27, 2000 | February 27 1999 |
|----------------------------------------------------------------------------|----------------------|----------------------|---------------------|
| ----- | | | |
| Deferred tax assets | | | |
| Net operating loss carryforward | \$7,215,000 | \$7,215,000 | \$6,987,000 |
| Accrued severance | -- | -- | 36,000 |
| Excess of tax basis over book basis of | -- | -- | -- |
| Capitalized inventory costs | -- | -- | 22,000 |
| Other | -- | -- | 121,000 |
| | ----- | | |
| | 7,215,000 | 7,215,000 | 7,166,000 |
| Deferred tax liabilities | | | |
| Difference between the book and tax basis of property, plant and equipment | 331,000 | 331,000 | 331,000 |
| | ----- | | |
| Net deferred tax asset | 6,884,000 | 6,884,000 | 6,835,000 |
| Valuation allowance | 6,884,000 | 6,884,000 | (6,835,000) |
| | ----- | | |
| Net deferred taxes | \$ -- | \$ -- | \$ -- |
| | ===== | | |

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Notes to Consolidated Financial Statements

The Company anticipates utilizing its deferred tax assets only to the extent of its deferred tax liabilities. Accordingly, the Company has fully reserved all remaining deferred tax assets, which it cannot presently utilize.

For tax purposes at February 28, 2001, the Company's net operating loss carryforward

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was \$20,200,000, which, if unused, will expire from 2008 to 2013. Certain tax regulations relating to the change in ownership may limit the Company's ability to utilize its net operating loss carryforward if the ownership change, as computed under each regulation, exceeds 50%. Through February 28, 2001, the change in ownership was less than 50%.

There was no income tax provision (benefit) for the fiscal years 2001, 2000 and 1999.

The following is a reconciliation of the normal expected statutory federal income tax rate to the effective rate reported in the financial statements.

| | February 28, 2001 | February 27, 2000 | February 27, 1999 |
|------------------------------------|----------------------|----------------------|----------------------|
| ----- | | | |
| Computed "expected" provision for: | | | |
| Federal income taxes | 0% | (35.0)% | (35.0)% |
| Valuation allowance | 0 | 35.0 | 35.0 |
| ----- | | | |
| Actual provision for income taxes | 0% | -- % | -- % |
| ----- | | | |

11. Stockholders' Equity

a. Stock Options

The 1972 stock option plan, as amended, provides for the issuance of options to purchase up to 340,000 shares of common stock at the market value of the date of grant. Options are exercisable up to ten years from the date of grant and vest at 20% per year.

The Company has adopted the disclosure-only provisions of SFAS No. 123. Accordingly, no compensation costs have been recognized for grants made under the Company's stock option plan. Had compensation cost been determined based on the fair value, as determined in accordance with the requirements of SFAS No. 123, at the date of grant of stock option awards, the increase in the net loss for fiscal 2001, 2000 and 1999 would be \$0, \$0 and \$91,000, respectively. In fiscal 2001, 2000 and 1999 there were no awards of stock options. During the initial phase-in period of SFAS No. 123, such compensation may not be representative of the future effects of applying this statement.

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Notes to Consolidated Financial Statements

A summary of option activity for the years ended February 28, 2001, February 27, 2000, and February 27, 1999 is as follows:

| | Number of Options | Weighted Average Exercise Price |
|----------------------------|----------------------|---------------------------------------|
| Balance, February 27, 1999 | 106,000 | \$5.05 |
| Forfeited | 106,000 | \$5.05 |
| Balance, February 27, 2000 | -- | -- |
| Balance, February 28, 2001 | -- | -- |

b. Issuance of Preferred Stock

On March 22, 1994, the Company sold to its management group 5,000 shares of non-voting convertible preferred stock for \$1,000,000. These shares are convertible into 200,000 shares of common stock at the rate of \$5.00 per share. These shares provide for cumulative dividends at a floating rate equal to the prime rate. Such dividends were convertible into common stock at the rate of \$5.00 per share. The conversion rights were waived in May 1998. These shares are redeemable, at the option of the Company, on or after February 27, 1999 and have a liquidation preference of \$200 per share. As of February 28, 2001, February 27, 2000 and February 27, 1999 dividends in arrears were \$570,134, \$489,484 and \$408,384, respectively.

c. Issuance of Treasury Stock

In connection with the Company's refinancing on March 22, 1994, the Company entered into a \$2,000,000 term loan agreement with a financial institution. Pursuant to the agreement, the Company issued to the bank 10,000 treasury common shares related to mandatory prepayments, which were not made.

d. Grant of Warrants

Warrants have been granted to NAN Investors LP to purchase 16,500,000 shares of the

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Company's Common Stock for \$.10 per share, with a five-year term effective May 21, 1998.

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Nantucket Industries, Inc.
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Notes to Consolidated Financial Statements

12. Commitments, Contingencies and Related Party Transactions

a. Agreement with Principal Stockholders

On March 1, 1994, in connection with the restructuring described in Note 4, the Company entered into agreements with its two principal stockholders and a group of employees (the "Management Group"). The agreements provide, among other things, for:

The reimbursement of the principal stockholders, limited to \$1.50 per share to the extent that the gross proceeds per share from the sale of common stock by the stockholders during the two-year period beginning September 1, 1994 are less than \$5.00 per share. Such guaranty is applicable to a maximum of 150,000 shares sold by such stockholders, subject to reductions under certain circumstances. The principal stockholders sold 157,875 shares including 88,400 at prices below \$5.00 per share; 37,125 shares in the fiscal year ended March 1, 1997 and 51,275 shares in the year ended March 2, 1996 which resulted in a charge to operating results of \$12,000 and \$35,000, respectively.

Warrants to purchase up to 157,875 shares of common stock equal to the number of shares sold by the principal stockholders. The exercise price per share of such warrants would equal the gross proceeds per share from the corresponding sale by the principal stockholders. Such warrants expire on February 28, 2000. As of May 14, 1999, these warrants have not been requested to be issued, nor have they been issued.

The contribution to the Company of life insurance policies with a cash value of \$535,000 which, if borrowed by the Company, would be repaid by the two principal stockholders.

b. Trademark Licensing Agreements

Royalties including minimum licensing payments to GUESS?, Inc. which owns 9.9% of the outstanding common stock of the Company, aggregated \$74,000 in fiscal 1999, and \$840,000 in fiscal 1998. Due to the lack of capital resources necessary to develop and support the GUESS? product line, the company discontinued its GUESS? division in the first quarter of fiscal year 1999. The GUESS? license was terminated as of March 31, 1998.

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Nantucket Industries, Inc.
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Notes to Consolidated Financial Statements

c. Litigation

In September 1993, the Company filed an action against the former owners of Phoenix Associates, Inc. (Phoenix). The Company sought compensatory damages of approximately \$4.0 million plus declaratory and injunctive relief for acts of alleged securities fraud, fraudulent conveyances, breach of fiduciary trust and unfair competition in connection with the acquisition of the common stock of Phoenix.

Additionally, the Company has filed a demand for arbitration which seeks compensatory damages of \$4.0 million, rescission of the stock purchase agreement, rescission of an employment agreement and other matters, all on account of alleged breaches of the stock employment agreement, fraudulent misrepresentation and breach of fiduciary duties.

In November 1993, the former owners of Phoenix filed counter claims against the Company alleging improper termination with regard to their employment agreement and breach of the stock purchase agreement. The Company settled this litigation and realized \$675,000 from this matter which is included in the accompanying statement of operations for 1999 under the caption "Other income."

On December 9, 1997, a former officer and director of the Company filed a complaint against the Company in the State Court of Fulton County, State of Georgia relating to payments allegedly due him under the March

18, 1994 Severance Agreement, and was seeking damages in the amount of \$219,472. The Company reached a settlement with the officer in the amount of \$100,000 plus an amount based on reaching a certain level of recovery, if any, from the Levi Strauss litigation. Based on the settlement with Levi's, no additional accrual to the former officer and director was necessary.

On January 15, 1998, in the Supreme Court of the State of New York, Westchester County, a Director of the Company filed a complaint against the Company for breach of the March 18, 1994 Severance Agreement, and seeking damages in the amount of \$559,456 plus applicable interest and legal fees which was accrued as of February 28, 1998. The Company on March 9, 1998, filed counterclaims in a significantly larger amount. In April 1999, the Company reached a settlement with the Director for \$75,000 which resulted in the reduction of approximately \$530,000 in the accrued unusual charge this reduction is included in the accompanying Statement of Operations under the caption "Other Income."

The Company is subject to other legal proceedings and claims, which arise, in the ordinary course of its business. In the opinion of management, other legal proceedings and claims in which the Company is defendant will be successfully defended or resolved without a material adverse effect on the consolidated financial position or results of operations of the Company. The Company with respect to the aforementioned litigation at February 27, 2000 has made no provision in the accompanying financial statements.

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Notes to Consolidated Financial Statements

13. Brittania Litigation

Beginning in September 1988, the Company became a licensee of Brittania Sportswear, Ltd., a wholly-owned subsidiary of Levi Strauss & Co., to manufacture and market men's underwear and other products under the trademark "Brittania from Levi Strauss & Co.". Sales under this license aggregated \$0 in fiscal year 1999, \$4.5 million in fiscal 1998.

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As of January 1, 1997, the license was renewed for a five-year term, including automatic renewals of two years if certain minimum sales levels were achieved. On January 22, 1997, Levi's announced its intention to sell Britannia. In light of the actions announced by Levi's, K Mart, the largest retailer of the Britannia brand and the Company's largest customer accounting for approximately \$11 million of the Company's fiscal 1997 sales of Britannia product, advised the Company that it would no longer continue its on-going commitment to the Britannia trademark.

The Company filed a lawsuit against Levi Strauss & Co. and Britannia Sportswear, Ltd., alleging that the licensor breached various obligations under the licensing agreement, including without limitation its covenant of good faith and fair dealing. The Company agreed to settle this litigation in June 1998 and realized approximately \$725,000 in gross value from this matter which is included in the accompanying statement of operations under the caption "Other income."

14. Subsequent Events

On March 3, 2000, the Company filed for Chapter 11 protection with U.S. Bankruptcy Court. The Company is involved in discussion with merger candidates, should these discussions prove futile, a move to Chapter 7 liquidation is probable.

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[GRANT THORNTON LETTERHEAD]

Report of Independent Certified Public Accountants

Board of Directors
Nantucket Industries, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Nantucket Industries, Inc. and Subsidiaries as of February 27, 1999 and February 28, 1998, and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the three years in the period ended February 27, 1999. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nantucket Industries, Inc. and Subsidiaries as of February 27, 1999 and February 28, 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 27, 1999 in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As presented in the accompanying financial statements, the Company has had significant decreases in sales, operating losses, and defaulted on interest payments. These factors, among others discussed in Note A to the accompanying financial statements, raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note A. These financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ Grant Thornton LLP

Atlanta, Georgia
May 14, 1999

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Nantucket Industries, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

ASSETS

| | February 27, 1999 | February 28, 1998 |
|--------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| | ----- | ----- |
| CURRENT ASSETS | | |
| Cash | \$ 622,268 | \$ 8,850 |
| Accounts receivable, less allowance for doubtful accounts of \$273,000 and \$351,000, respectively (Notes B and H) | 961,989 | 2,879,735 |
| Inventories (Notes F and H) | 1,108,860 | 3,090,383 |
| Other current assets | 67,347 | 71,895 |
| | ----- | ----- |
| Total current assets | 2,760,464 | 3,050,863 |
| PROPERTY, PLANT AND EQUIPMENT, NET (Notes G and H) | 538,522 | 958,075 |
| OTHER ASSETS, NET | 176,601 | 198,786 |
| | ----- | ----- |
| | \$3,475,587 | \$ 7,207,724 |
| | ===== | ===== |

The accompanying notes are an integral part of these statements.

LIABILITIES AND STOCKHOLDERS' DEFICIT

| | February 27, 1999 | February 28, 1998 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| | ----- | ----- |
| CURRENT LIABILITIES | | |
| Current portion of long-term debt (Note H) | \$ | \$ 3,161,28 |
| Current portion of capital lease obligations (Note H) | 56,452 | 51,89 |
| Convertible subordinated debt (Note D) | 2,052,986 | 2,052,98 |
| Accounts payable | 248,538 | 722,48 |
| Accrued salaries and employee benefits | 80,740 | 223,03 |
| Accrued unusual charge (Note E) | 95,833 | 465,00 |
| Accrued expenses and other liabilities | 863,271 | 730,47 |
| Accrued royalties | 319,048 | 763,27 |
| | ----- | ----- |
| Total current liabilities | 3,716,868 | 8,170,43 |
| CAPITAL LEASE OBLIGATIONS, NET OF CURRENT PORTION (Note H) | 64,250 | 120,70 |
| ACCRUED UNUSUAL CHARGE (Notes E and L) | 78,717 | |
| | ----- | ----- |
| | 3,781,118 | 8,469,85 |
| STOCKHOLDERS' DEFICIT (Notes D and K) | | |
| Preferred stock, \$.10 par value; 500,000 shares authorized, of which 5,000 shares have been designated as non-voting convertible with liquidating preference of \$200 per share and are issued and outstanding | 500 | 50 |
| Common stock, \$.10 par value; authorized 20,000,000 shares; Issued 3,241,848 | 324,185 | 324,18 |
| Additional paid-in capital | 12,539,503 | 12,539,50 |
| Deferred issuance cost | (96,425) | (115,54) |
| Accumulated deficit | (13,053,357) | (13,990,83) |
| | ----- | ----- |
| | (285,594) | (1,242,19) |
| Less 3,052 shares of common stock held in treasury, at cost | 9,937 | 19,93 |
| | ----- | ----- |
| | (305,531) | (1,262,12) |
| | ----- | ----- |
| | \$ 3,475,587 | \$ 7,207,72 |
| | ===== | ===== |

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| | February 27, 1999 | Year ended February 28, 1998 | March 1, 1997 |
|------------------------------------------------------|----------------------|------------------------------------|------------------|
| | ----- | ----- | ----- |
| Net sales | \$11,517,842 | | \$30,394,409 |
| Cost of sales | 9,107,947 | 18,581,718 | 24,395,054 |
| | ----- | ----- | ----- |
| Gross profit | 2,409,895 | 3,101,608 | 5,999,355 |
| Selling, general and administrative expenses | 2,879,200 | 7,166,124 | 7,546,341 |
| | ----- | ----- | ----- |
| Operating profit (loss) | (469,305) | (4,064,516) | (1,546,986) |
| Other (income) expense | | | |
| Net loss (gain) on sale of assets (Note G) | 15,093 | (711,686) | -- |
| Interest expense | 506,746 | 1,311,875 | 1,199,529 |
| Other income (Note L) | (1,928,624) | -- | -- |
| | ----- | ----- | ----- |
| Total other (income) expense | (1,406,785) | 600,189 | 1,199,529 |
| | ----- | ----- | ----- |
| Earnings (loss) before income taxes | 937,480 | (4,664,705) | (2,746,515) |
| Income taxes (Note J) | -- | -- | -- |
| | ----- | ----- | ----- |
| Net earnings (loss) | \$ 937,480 | \$ (4,664,705) | \$ (2,746,515) |
| | ===== | ===== | ===== |
| Net earnings (loss) per share - basic and diluted | \$ 0.26 | \$ (1.47) | \$ (0.91) |
| | ===== | ===== | ===== |
| Weighted average common shares outstanding | 3,238,796 | 3,238,796 | 3,124,785 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

Nantucket Industries, Inc. and Subsidiaries CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT Years ended February 27, 1999, February 28, 1998 and March 1, 1997

| Preferred stock designated as non convertible | | Common stock | | Addit pai capi |
|-----------------------------------------------------|--------|--------------|--------|----------------------|
| Shares | Amount | Shares | Amount | |
| ----- | ----- | ----- | ----- | ----- |

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| | | | | | |
|--------------------------------|-------|--------|-----------|-----------|---------|
| Balance at March 2, 1996 | 5,000 | \$ 500 | 2,991,848 | \$299,185 | \$11,55 |
| Net loss | -- | -- | -- | -- | |
| Common stock issued (Note D) | -- | -- | 250,000 | 25,000 | 80 |
| Balance at March 1, 1997 | 5,000 | 500 | 3,241,848 | 324,185 | 12,36 |
| Net loss | -- | -- | -- | -- | |
| Issue of warrants | -- | -- | -- | -- | 17 |
| Amortization of deferred costs | -- | -- | -- | -- | |
| Balance at February 28, 1998 | 5,000 | 500 | 3,241,848 | 324,185 | 12,53 |
| Net earnings | -- | -- | -- | -- | |
| Amortization of deferred costs | -- | -- | -- | -- | |
| Balance at February 27, 1999 | 5,000 | \$ 500 | 3,241,848 | \$324,185 | \$12,53 |

| | Deferred issuance costs | Accumulated deficit | Treasury stock | | Tot |
|------------------------------|-------------------------------|------------------------|----------------|-------------|--------|
| | | | Shares | Amount | |
| Balance at March 2, 1996 | \$ -- | \$ (6,579,617) | 3,052 | \$ (19,937) | \$5,25 |
| Net loss | -- | (2,746,515) | -- | -- | (2,74 |
| Common stock issued (Note D) | (183,772) | -- | -- | -- | 64 |

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| | | | | | |
|--------------------------------|-------------|-----------------|-------|-------------|--------|
| Balance at March 1, 1997 | (183,772) | (9,326,132) | 3,052 | (19,937) | 3,15 |
| Net loss | -- | (4,664,705) | -- | | (4,66 |
| Issue of warrants | -- | -- | -- | -- | 17 |
| Amortization of deferred costs | 68,231 | -- | -- | -- | 6 |
| Balance at February 28, 1998 | (115,541) | (13,990,837) | 3,052 | (19,937) | (1,26 |
| Net earnings | -- | 937,480 | -- | -- | 93 |
| Amortization of deferred costs | 19,116 | -- | -- | -- | 1 |
| Balance at February 27, 1999 | \$ (96,425) | \$ (13,053,357) | 3,052 | \$ (19,937) | \$ (30 |

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The accompanying notes are an integral part of this statement.

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Nantucket Industries, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | February 27, 1999 | February 28, 1998 | Ma |
|--------------------------------------------------------------------------------------------------------|----------------------|----------------------|-------|
| | ----- | ----- | --- |
| Cash flows from operating activities: | | | |
| Net earnings (loss) | \$ 937,480 | \$ (4,664,705) | \$ (2 |
| Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities | | | |
| Depreciation and amortization | 397,053 | 569,121 | |
| Provision for doubtful accounts | 11,210 | 239,982 | |
| Loss (gain) on sale of fixed assets | 15,093 | (711,686) | |
| Provision for obsolete and slow-moving inventory | 77,528 | 1,175,646 | |
| Issue of warrants | -- | 175,000 | |
| Decrease (increase) in assets | | | |
| Accounts receivable | 1,906,536 | 253,047 | (1 |
| Inventories | 1,903,995 | 560,411 | 1 |
| Other current assets | 4,548 | 419,024 | |
| (Decrease) increase in liabilities | | | |
| Accounts payable | (473,945) | (497,380) | |
| Accrued expenses and other liabilities | (453,720) | 468,708 | |
| Income taxes payable | -- | (1,909) | |
| Accrued unusual charge | (547,884) | (92,151) | |
| | ----- | ----- | --- |
| Net cash provided by (used in) operating activities | 3,777,894 | 3,723,859 | (1 |
| Cash flows from investing activities: | | | |
| Additions to property, plant and equipment | (59,562) | (212,093) | |
| Proceeds from sale of fixed assets | 51,745 | 2,808,731 | |
| Decrease (increase) in other assets | 56,525 | 348,724 | |
| | ----- | ----- | --- |
| Net cash provided by (used in) investing activities | 48,708 | 2,945,362 | |

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Nantucket Industries, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

February 27, February 28, March 1,

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| | 1999 | 1998 | 1997 |
|------------------------------------------------------------------|-------------|-------------|-------------|
| | ----- | ----- | ----- |
| Cash flows from financing activities: | | | |
| (Repayments) borrowings under line of credit agreement, net | (3,161,286) | (5,915,589) | 173,093 |
| Payments of short-term debt | -- | -- | (800,000) |
| Issuance of convertible subordinated debentures, net of expenses | -- | -- | 2,351,084 |
| Payments of long-term debt and capital lease obligations | (51,898) | (752,693) | -- |
| Issuance of common stock | -- | -- | 740,000 |
| | ----- | ----- | ----- |
| Net cash (used in) provided by financing activities | (3,213,184) | (6,668,282) | 2,464,177 |
| Net increase (decrease) in cash | 613,418 | 909 | (7,144) |
| Cash at beginning of year | 8,850 | 7,941 | 15,085 |
| | ----- | ----- | ----- |
| Cash at end of year | \$ 622,268 | \$ 8,850 | \$ 7,941 |
| | ===== | ===== | ===== |
| Supplemental Disclosure of Cash Flow Information: | | | |
| ----- | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 191,440 | \$ 762,798 | \$1,173,981 |
| | ===== | ===== | ===== |
| Income taxes | \$ -- | \$ -- | \$ -- |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS February 27, 1999, February 28, 1998 and March 1, 1997

NOTE A - RESTRUCTURING AND LIQUIDITY MATTERS

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. Net sales for the fiscal year ended February 27, 1999 decreased 47% from the prior year level to \$11.5 million. There were no sales under the Brittania license for the current fiscal year, and sales under the GUESS? license declined by \$4.5 million from prior year levels. As more fully described in Note L, Levi Strauss & Co., the parent company of Brittania Sportswear Ltd. a licensor which accounted for \$14.9 million of the Company's fiscal 1997 sales, and \$4.5 million of fiscal 1998 sales, announced their intention to sell Brittania. In light of the actions announced by Levi's, K mart, the largest retailer of the Brittania brand and the Company's largest customer, advised the Company that it would no longer continue its on-going commitment to the Brittania trademark. Sales to this customer decreased from \$11 million in fiscal year 1997, to \$3 million in fiscal 1998, to \$0 sales in fiscal year 1999. In response, the Company filed a lawsuit against Levi Strauss & Co., alleging that the licensor breached various obligations under the license agreement, including without limitation its covenant of good faith and fair

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dealing. The Company settled this litigation in June 1998 (see Note L).

The Company has experienced significant losses in recent years which have generally resulted in severe cash flow issues that have negatively impacted the ability of the Company to conduct its business as presently structured. In fiscal year 1999 due to the lack of capital resources needed to properly develop and support the GUESS? product line, the Company has discontinued sales under the GUESS? license. Sales for this product line in fiscal 1999, 1998, and 1997 aggregated \$2.5, \$7.0 and \$4.7 million, with gross margins of 11.8%, 6.4% and 13.2%, respectively. As of March 1999, the Company reached an agreement with Cluett, Peabody & Co., the licensor of the ARROW trademark, to terminate its Arrow license (see Note L). Until April 17, 1998, the Company's common stock was traded on the American Stock Exchange. Because the Company fell below American Stock Exchange guidelines for continued listing, effective April 17, 1998, the Company's stock was delisted. The Company has defaulted on interest payments to its subordinated debt holder, and has no long-term credit facility in place, and currently three customers represent 90% of the Company's net sales.

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As a result of sharply decreasing revenue, the continuing losses, interest payment default, the lack of a long-term credit facility and the present sales concentration over three customers, there can be no assurance that the Company can continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts and classifications of liabilities that might be necessary should the Company be unable to continue in existence. The ultimate impact or resolution of these matters may have a materially adverse effect on the Company or on its financial condition.

In view of the issues described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon the continued operations of the Company, which in turn is dependent upon the Company's ability to maintain the financing of its working capital requirements on a continuing basis and to improve its future operations.

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

February 27, 1999, February 28, 1998 and March 1, 1997

NOTE A - RESTRUCTURING AND LIQUIDITY MATTERS - Continued

The Company has funded its operating losses by refinancing its debt in fiscal 1995 and increasing its capital through (a) the sale of \$1 million of non-voting convertible preferred stock to management (Note K) in fiscal 1995; (b) the fiscal 1995 sale of treasury stock which increased equity by \$2.9 million, and (c) the completion in 1996 of a \$3.5 million private placement (Note D).

The Company has been implementing a restructuring strategy to improve operating results and enhance its financial resources which included reducing costs, streamlining its operations and closing its Puerto Rico plant. In addition, management has implemented additional steps to reduce its operating costs which it believes are sufficient to provide the Company with the ability to continue in existence. Major elements of these action plans include:

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- o The phase-out of the GUESS? product line, completed in the second quarter of fiscal year 1999.
- o The sale of the Company's Cartersville, Georgia location (Note G), and the relocation to more appropriate space for its packaging and distribution facilities.
- o The transfer of all domestic manufacturing requirements to foreign manufacturing contract facilities.
- o Staff reductions associated with the transfer of manufacturing to offshore contractors.
- o The relocation of executive offices and showrooms to more appropriate, lower cost facilities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. The Company

Nantucket Industries, Inc. and its wholly-owned subsidiaries (the "Company") design and distribute branded and private label fashion undergarments to mass merchandisers and national chains throughout the United States.

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2. Principles of Consolidation

The consolidated financial statements include the accounts of Nantucket Industries, Inc. and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 27, 1999, February 28, 1998 and March 1, 1997

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Accounts Receivable

An allowance for doubtful accounts is provided based upon historical bad debt experience and periodic evaluations of the aging of the accounts.

4. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Equipment under lease is stated at the present value of the minimum lease payments at the inception of the lease. Depreciation and amortization are provided by the straight-line method over the estimated useful lives of the assets as follows:

| | Years |
|----------------------------|-------|
| | ----- |
| Buildings and improvements | 20-40 |

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| | |
|-------------------------|------|
| Machinery and equipment | 3-10 |
| Furniture and fixtures | 10 |

5. Other Assets

Other long-term assets consist primarily of capitalized loan origination costs. These costs are being amortized over the term of the related credit agreements. Other assets includes \$196,000 and \$151,000 of accumulated amortization as of February 27, 1999 and February 28, 1998, respectively.

6. Stock Options

As described in Note I, the Company has granted stock options for a fixed number of shares to employees and officers at an exercise price equal to the market value of the shares on the date of grant. As permitted by SFAS No. 123, the Company has elected to continue to account for stock options grants in accordance with APB No. 25 and recognizes no compensation expense for these grants.

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7. Income Taxes

Company and its wholly-owned subsidiaries file a consolidated federal income tax return. Deferred income taxes arise as a result of differences between financial statement and income tax reporting.

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED February 27, 1999, February 28, 1998 and March 1, 1997

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

8. Earnings (Loss) Per Common Share

In fiscal year 1998, the Company adopted Statement of Financial Accounting Standards No. 128 (SFAS No. 128), Earnings Per Share, which requires public companies to present earnings per share and, if applicable, diluted earnings per share. All comparative periods must be restated as of February 28, 1998 in accordance with SFAS No. 128. Basic earnings per share is based on the weighted average number of common shares outstanding without consideration of potential common share equivalents. Diluted earnings per share is based on the weighted average number of common and potential common shares outstanding. The calculation takes into account the shares that may be issued upon exercise of stock options, reduced by the shares that may be repurchased with the funds received from the exercise, based on the average price during the year. At February 27, 1999, the Company had 106,000 outstanding stock options and warrants to purchase 16,500,000 shares of common stock which would potentially dilute basic earnings per share but have not been considered for the two prior periods as they would have had an antidilutive impact (see Note I).

9. Reporting Comprehensive Income

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 130 (SFAS No. 130), Reporting

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Comprehensive Income, which is effective for the Company's year ending February 27, 1999. SFAS No. 130 addresses the reporting and displaying of comprehensive income and its components. Earnings (loss) per share will only be reported for net earnings (loss), and not for comprehensive income. Adoption of SFAS No. 130 relates to disclosure within the financial statements and is not expected to have a material effect on the Company's financial statements.

10. Segment Information

In June 1997, the FASB also issued Statement of Financial Accounting Standards No. 131 (SFAS No. 131), Disclosure About Segments of an Enterprise and Related Information, which is effective for the Company's year ending February 26, 1999. SFAS No. 131 changes the way public companies report information about segments of their business in their financial statements and requires them to report selected segment information in their quarterly reports. Adoption of SFAS No. 131

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relates to disclosure within the financial statements and is not expected to have a material effect on the Company's financial statements.

11. Fiscal Year

The Company's fiscal year ends on the Sunday nearest to February 28. The fiscal years ended February 27, 1999, February 28, 1998 and March 1, 1997 contained 52 weeks.

12. Reclassification

Certain prior year amounts have been reclassified in order to conform to the current year's presentation.

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED February 27, 1999, February 28, 1998 and March 1, 1997

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

13. Use of Estimates

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

14. Impairment of Long-Lived Assets

The Company applies Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of. Accordingly, when indicators of impairment are present, the Company periodically evaluates the carrying value of property, plant and equipment and intangibles in relation to the operating performance and future undiscounted cash flows of the underlying business. The Company adjusts carrying

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amount of the respective assets if the expected future undiscounted cash flows are less than their book values. No impairment loss was required in fiscal years 1999, 1998 and 1997.

15. Fair Value of Financial Instruments

Based on borrowing rates currently available to the Company for debt with similar terms and maturities, the fair value of the Company's long-term debt approximate the carrying value. The carrying value of all other financial instruments potentially subject to valuation risk, principally cash, accounts receivable and accounts payable, also approximate fair value.

NOTE C - CONCENTRATION OF RISK

For the current fiscal year, sales to the Company's largest customer accounted for 38.8% of net sales and 23% and 18%, respectively, for the two prior fiscal years. Sales to the second largest customer in the current fiscal year were 33.6% of net sales and 22% and 19%, respectively, for the two prior fiscal years. As previously described, K mart, which represented \$0 of net sales in the current fiscal year, 16% and 40%, for the two prior fiscal years, advised the Company it would no longer continue its commitment to the Britannia trademark

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and consequently, the Company currently has no business with this customer. No other customer accounts for more than 10% of the Company's consolidated net sales for fiscal 1999, 1998 and 1997.

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED February 27, 1999, February 28, 1998 and March 1, 1997

NOTE D - PRIVATE PLACEMENT

On August 15, 1996, the Company completed a \$3.5 million private placement with an investment partnership. Terms of this transaction included the issuance of 250,000 shares and \$2,760,000 of 12.5% convertible subordinated debentures which are due August 15, 2001.

The convertible subordinated debentures are secured by a second mortgage on the Company's manufacturing and distribution facility located in Cartersville, Georgia. In conjunction with the sale of this property completed on October 1, 1997 (see Note G), the Company prepaid \$707,000 of these debentures.

The debentures, after giving effect to the prepayment related to the sale of the Company's facility referred to above, were convertible into the Company's common stock over the next five years. The investment partnership waived all conversion rights.

The agreement grants the investor certain registration rights for the shares issued and the conversion shares to be issued.

The difference between the purchase price of the shares issued and their

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fair market value on August 15, 1996 aggregated \$197,500. This was reflected as deferred issue cost and will be amortized over the expected five-year term of the subordinated convertible debentures. The prorated portion of these costs associated with the prepaid \$707,000 of these debentures was recognized in the accounting period in which the event occurred.

Costs associated with this private placement aggregated \$409,000 including \$104,000 related to the shares issued which have been charged to paid in capital. The remaining balance of \$305,000 will be amortized over the five-year term of the debentures.

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 27, 1999, February 28, 1998 and March 1, 1997

NOTE D - PRIVATE PLACEMENT - Continued

The Company was in default in respect to interest payments due on the subordinated debt in August 1997, and again in February 1998. In September 1997, the Subordinated debt holder and the Company entered into an agreement to extend the cure period on the default. This forbearance agreement was extended month by month until May 1998. In May 1998, the Company entered into an agreement with the debt holder to extend the cure period, with respect to \$322,551 in prior interest payment defaults and for the interest payment due in August 1998, until December 1998. In return, the Company agreed to secure the debentures by a first priority lien on all the assets of the Company, to the extent not otherwise prohibited under the revolving credit facility (Note H), and to issue five-year warrants convertible to 16,500,000 shares of the Company's stock at an exercise price of \$.10. The Company obtained an independent valuation of this transaction, in the amount of \$175,000, and this amount was expensed in fiscal year 1998. To the extent that the Company has insufficient authorized and unissued shares of common stock to satisfy the exercise of the warrants, the Company shall use its best efforts to promptly cause its authorized capital to be increased to the extent necessary to satisfy the conversion rights in full. The Company can, at its option within the framework of the forbearance agreement, prepay all or part of the outstanding subordinated debt at a price equal to 125% of the principal amount paid. The Company is currently in default for interest payments due since August 1997 on this note, including the interest payment due February 1999. There is no forbearance agreement in effect subsequent to December 1998 and therefore, the outstanding liability of \$2,052,986 is classified as a current liability.

NOTE E - UNUSUAL (CREDIT) CHARGE

In November, 1992, the Company acquired Phoenix Associates, Inc., a manufacturing facility in Puerto Rico, pursuant to a stock purchase agreement. Phoenix had been an exclusive contractor for the Company, manufacturing many of the Company's product lines. A portion of the purchase price was subordinated debt payable to the former owners of Phoenix, of which \$300,000 was due February 2, 1998. In April, 1993, the Company discovered an inventory variance of \$1,700,000, principally attributable to unrecorded manufacturing and material cost variance at the Puerto Rico facility, which were incurred prior to the

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Company's acquisition of this facility. As a result, the Company initiated an action against the former owners of the facility as more fully described in Note L. Accordingly, in fiscal 1995 the Company eliminated this payable and reflected such reduction as an unusual credit in the 1995 financial statements.

In March of fiscal 1994, the Company terminated the employment contracts of its Chairman and Vice-Chairman. In accordance with the underlying agreement, they were paid in aggregate of approximately \$400,000 per year in severance and other benefits, through February 27, 1999.

As of February 27, 1999, the accrued unusual charge of \$95,833 represents payments due under the termination agreements to the former Chairman and Vice-Chairman. As of October 1997, pending negotiation of more favorable terms, payment under these agreements was suspended (see Note L).

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED February 27, 1999, February 28, 1998 and March 1, 1997

NOTE F - INVENTORIES

Inventories are recorded at the lower of cost or market value using the first in-first-out (FIFO) cost flow method, and are summarized as follows:

| | February 27, 1999 | February 28, 1998 |
|-----------------|----------------------|----------------------|
| | ----- | ----- |
| Raw materials | \$ -- | \$ 166,646 |
| Work in process | -- | 756,959 |
| Finished goods | 1,108,860 | 2,166,778 |
| | ----- | ----- |
| | \$1,108,860 | \$3,090,383 |
| | ===== | ===== |

NOTE G - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are summarized as follows:

| | February 27, 1999 | February 28, 1998 |
|-------------------------------|----------------------|----------------------|
| | ----- | ----- |
| Land | \$ -- | \$ -- |
| Buildings and improvements | 26,034 | 9,130 |
| Machinery and equipment | 1,485,090 | 3,384,115 |
| Furniture and fixtures | 142,489 | 791,242 |
| | ----- | ----- |
| | 1,653,613 | 4,184,487 |
| Less accumulated depreciation | 1,115,090 | 3,226,412 |
| | ----- | ----- |
| | \$ 538,523 | \$ 948,075 |
| | ===== | ===== |

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On October 1, 1997, the Company completed the consolidation of its facilities and sold its 152,000 square foot manufacturing and distribution facility in Cartersville, Georgia for cash aggregating \$2,850,000. The Company reflected a gain on the sale in its third fiscal quarter of \$793,000. The proceeds were used to pay the \$525,000 financing secured by this property, to prepay \$707,000 of the convertible subordinated debentures secured by a second mortgage on this property, and to pay a \$176,000 prepayment penalty incurred from the prepayment of the subordinated debt. The remaining proceeds were utilized to reduce the revolving credit financing.

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED February 27, 1999, February 28, 1998 and March 1, 1997

NOTE H - LONG-TERM DEBT AND NOTES PAYABLE

1. Revolving Credit

The Company has a \$15 million revolving credit facility which expired in March, 1998, and has been extended to August 31, 1999. The revolving credit agreement provides for loans based upon eligible accounts receivable and inventory, a \$3,000,000 letter of credit facility and purchase money term loans of up to 75% of the orderly liquidation value of newly acquired and eligible equipment. Borrowings bear interest at 2-3/4% above prime. The agreement requires, among other provisions, the maintenance of minimum working capital and net worth levels and also contains restrictions regarding payment of dividends. Borrowings under the agreement are collateralized by substantially all of the assets of the Company. At February 27, 1999, the revolving credit facility was not utilized, and the Company was not in compliance with the net worth and working capital covenants.

2. Capital Leases

The Company leases equipment under capital leases. A schedule of the yearly minimum rental payments is as follows:

| | |
|---------------------------------------------|-----------|
| February 2000 | \$ 64,488 |
| February 2001 | 64,488 |
| February 2002 | 2,857 |
| | ----- |
| Total minimum lease payments | 131,833 |
| Less amount representing interest | (11,131) |
| | ----- |
| Present value of net minimum lease payments | 120,702 |
| Less current maturities | (56,452) |
| | ----- |
| Long-term capital lease obligation | \$ 64,250 |
| | ===== |

At February 27, 1999, the Company has approximately \$96,709 of equipment under capital lease with accumulated depreciation of approximately \$29,013.

Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 27, 1999, February 28, 1998 and March 1, 1997

NOTE I - NET EARNINGS (LOSS) PER COMMON SHARE

The following table sets forth the computation of basic and diluted loss per share:

| | February 27, 1999 | February 28, 1999 | M |
|----------------------------------------------------------------------------------------------------------------------------|-----------------------|-------------------------|----------------|
| | ----- | ----- | ----- |
| Net earnings (loss) attributable to common stockholders | \$ 937,480 | \$ (4,664,705) | \$ (2 |
| Accrued dividends on preference shares | (81,103) | (84,603) | |
| | ----- | ----- | ----- |
| Numerator for basic and diluted net earnings (loss) per common share - earnings (loss) attributable to common stockholders | \$ 856,377 ===== | \$ (4,749,308) ===== | \$ (2 ===== |
| Denominator for basic and diluted net earnings (loss) per common share - weighted average shares outstanding | \$ 3,238,796 ===== | 3,238,796 ===== | \$ 4 ===== |
| Basic and diluted net earnings (loss) per share | \$ ===== | \$ 0.26 ===== | \$ ===== |

Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 27, 1999, February 28, 1998 and March 1, 1997

NOTE J - INCOME TAXES

Deferred income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Deferred tax assets and liabilities are measured using enacted tax rates. Significant components of the Company's deferred taxes at February 27, 1999 and February 28, 1998 are as follows:

February 27, February 28,

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| | 1999 | 1998 |
|----------------------------------------------------------------------------|--------------|--------------|
| | ----- | ----- |
| Deferred tax assets | | |
| Net operating loss carryforward | \$ 6,987,000 | \$ 7,150,000 |
| Accrued severance | 36,000 | 257,000 |
| Excess of tax basis over book basis of inventories | -- | 333,000 |
| Capitalized inventory costs | 22,000 | 63,000 |
| Other | 121,000 | 127,000 |
| | ----- | ----- |
| | 7,166,000 | 7,930,000 |
| Deferred tax liabilities | | |
| Difference between the book and tax basis of property, plant and equipment | 331,000 | 366,000 |
| | ----- | ----- |
| Net deferred tax asset | 6,835,000 | 7,564,000 |
| Valuation allowance | (6,835,000) | (7,564,000) |
| | ----- | ----- |
| Net deferred taxes | \$ -- | \$ -- |

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The Company anticipates utilizing its deferred tax assets only to the extent of its deferred tax liabilities. Accordingly, the Company has fully reserved all remaining deferred tax assets, which it cannot presently utilize. The decrease in valuation allowance of \$729,000 is equal to the decrease in net deferred tax assets.

For tax purposes at February 27, 1999, the Company's net operating loss carryforward was \$18,405,000, which, if unused, will expire from 2009 to 2013. Certain tax regulations relating to the change in ownership may limit the Company's ability to utilize its net operating loss carryforward if the ownership change, as computed under each regulation, exceeds 50%. Through February 27, 1999, the change in ownership was less than 50%.

There was no income tax provision (benefit) for the fiscal years 1999, 1998 and 1997.

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED February 27, 1999, February 28, 1998 and March 1, 1997

NOTE J - INCOME TAXES - Continued

The following is a reconciliation of the normal expected statutory federal income tax rate to the effective rate reported in the financial statements.

| February 27, 1999 | February 28, 1998 | March 1, 1997 |
|----------------------|----------------------|------------------|
| ----- | ----- | ----- |

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| | | | |
|-----------------------------------|---------|---------|---------|
| Computed "expected" provision for | | | |
| Federal income taxes | (35.0)% | (35.0)% | (35.0)% |
| Valuation allowance | 35.0 | 35.0 | 35.0 |
| | ---- | ---- | ---- |
| Actual provision for | | | |
| income taxes | --% | --% | --% |
| | ===== | ===== | ===== |

NOTE K - STOCKHOLDERS' EQUITY

1. Stock Options

The 1972 stock option plan, as amended, provides for the issuance of options to purchase up to 340,000 shares of common stock at the market value of the date of grant. Options are exercisable up to ten years from the date of grant and vest at 20% per year.

The Company has adopted the disclosure-only provisions of SFAS No. 123. Accordingly, no compensation costs have been recognized for grants made under the Company's stock option plan. Had compensation cost been determined based on the fair value, as determined in accordance with the requirements of SFAS No. 123, at the date of grant of stock option awards, the increase in the net loss for fiscal 1999, 1998 and 1997 would be \$91,000, \$91,000 and \$91,000, respectively. In fiscal 1999, 1998 and 1997 there were no awards of stock options. During the initial phase-in period of SFAS No. 123, such compensation may not be representative of the future effects of applying this statement.

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED February 27, 1999, February 28, 1998 and March 1, 1997

NOTE K - STOCKHOLDERS' EQUITY - Continued

A summary of option activity for the years ended February 28, 1999, February 28, 1998 and March 1, 1997 is as follows:

| | Number of Options | Weighted Average Exercise Price |
|----------------------------|----------------------|------------------------------------|
| | ----- | ----- |
| Balance, March 1, 1997 | 264,000 | \$4.95 |
| Forfeited | (11,000) | \$3.37 |
| | ----- | ----- |
| Balance, March 1, 1997 | 253,000 | \$5.02 |
| Forfeited | (78,500) | \$5.43 |
| | ----- | ----- |
| Balance, February 28, 1998 | 174,500 | \$4.84 |
| Forfeited | (68,500) | \$4.51 |
| | ----- | ----- |
| Balance, February 27, 1999 | 106,000 | \$5.05 |
| | ===== | ===== |

At February 27, 1999 the status of outstanding stock options is summarized as follows:

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| Exercise Prices | Options Outstanding | Weighted average remaining contractual life | Options exercisable |
|--------------------|------------------------|---------------------------------------------------|------------------------|
| ----- | ----- | ----- | ----- |
| \$3.37 | 31,000 | 6.7 years | 18,600 |
| \$5.75 | 75,000 | 5.7 years | 60,000 |
| | ----- | | ----- |
| | 106,000 | | 78,600 |
| | ===== | | ===== |

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The weighted average fair value at date of grant for those options granted in fiscal 1996 was \$2.34. The fair value of each option at date of grant was estimated using the Black-Scholes options pricing model utilizing the following weighted average assumptions:

| | |
|------------------------------------|----------|
| Dividend yield | 0% |
| Risk-free interest rate | 6.23% |
| Expected life after vesting period | 10 years |
| Expected volatility | 58% |

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED February 27, 1999, February 28, 1998 and March 1, 1997

NOTE K - STOCKHOLDERS' EQUITY - Continued

3. Issuance of Preferred Stock

On March 22, 1994, the Company sold to its management group 5,000 shares of non-voting convertible preferred stock for \$1,000,000. These shares are convertible into 200,000 shares of common stock at the rate of \$5.00 per share. These shares provide for cumulative dividends at a floating rate equal to the prime rate. Such dividends were convertible into common stock at the rate of \$5.00 per share. The conversion rights were waived in May 1998. These shares are redeemable, at the option of the Company, on or after February 27, 1999 and have a liquidation preference of \$200 per share. As of February 27, 1999 and February 28, 1998 dividends in arrears were \$408,384 and \$327,281, respectively.

4. Issuance of Treasury Stock

In connection with the Company's refinancing on March 22, 1994, (Note D), the Company entered into a \$2,000,000 term loan agreement with a financial institution. Pursuant to the agreement, the Company issued to the bank 10,000 treasury common shares related to mandatory prepayments, which were not made.

5. Grant of Warrants

Warrants have been granted to NAN Investors LP to purchase 16,500,000 shares of the Company's Common Stock for \$.10 per share, with a five-year term effective May 21, 1998.

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NOTE L - COMMITMENTS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS

1. Lease Commitments

Minimum rental commitments under noncancellable leases (excluding escalation) having a term of more than one year are as follows:

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| Fiscal year ending | |
|--------------------|------------|
| 2000 | \$ 258,000 |
| 2001 | 260,000 |
| 2002 | 265,000 |
| 2003 | 202,000 |
| 2004 | 3,000 |
| | ----- |
| | \$ 988,000 |
| | ===== |

Rental expense under operating leases, including escalation amounts was approximately \$249,000, \$228,007 and \$266,000 for the fiscal years ended February 27, 1999, February 27, 1998 and March 1, 1997, respectively.

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED February 27, 1999, February 28, 1998 and March 1, 1997

NOTE L - COMMITMENTS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS - Continued

2. Agreement with Principal Stockholders

On March 1, 1994, in connection with the restructuring described in Note A, the Company entered into agreements with its two principal stockholders and a group of employees (the "Management Group"). The agreements provide, among other things, for:

The reimbursement of the principal stockholders, limited to \$1.50 per share to the extent that the gross proceeds per share from the sale of common stock by the stockholders during the two-year period beginning September 1, 1994 are less than \$5.00 per share. Such guaranty is applicable to a maximum of 150,000 shares sold by such stockholders, subject to reductions under certain circumstances. The principal stockholders sold 157,875 shares including 88,400 at prices below \$5.00 per share: 37,125 shares in the fiscal year ended March 1, 1997 and 51,275 shares in the year ended March 2, 1996 which resulted in a charge to operating results of \$12,000 and \$35,000, respectively.

Warrants to purchase up to 157,875 shares of common stock equal to the number of shares sold by the principal stockholders. The exercise price per share of such warrants would equal the gross proceeds per share from the corresponding sale by the principal stockholders. Such warrants expire on February 28, 2000. As of May 14, 1999, these warrants have not been requested to be issued, nor have they been issued.

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The contribution to the Company of life insurance policies with a cash value of \$535,000 which, if borrowed by the Company, would be repaid by the two principal stockholders.

The cancellation of the outstanding stock options and incentive awards of the Group members and the principal stockholders and the authorization to issue options to Group members to purchase 150,000 shares of common stock based upon certain terms and conditions.

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3. Trademark Licensing Agreements

Royalties including minimum licensing payments to GUESS?, Inc. which owns 9.9% of the outstanding common stock of the Company, aggregated \$74,000 in fiscal 1999, \$840,000 in fiscal 1998 and \$294,000 in fiscal 1997. Due to the lack of capital resources necessary to develop and support the GUESS? product line, the Company discontinued its GUESS? division in the first quarter of fiscal year 1999. The GUESS? license was terminated as of March 31, 1998.

Royalty payments including agreement minimums for product sold under the ARROW brand aggregated \$250,000 in fiscal 1999, \$250,000 in fiscal 1998 and \$315,000 in fiscal 1997. As of March 12, 1999, the Company reached an agreement with the licensor to terminate the ARROW license agreement. No payment of sales royalties, or guaranteed minimum royalties were required to be made after January 1, 1999. The licensor made payment of \$50,000 to the Company to settle any and all outstanding issues connected with the termination of the licensing agreement.

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED
February 27, 1999, February 28, 1998 and March 1, 1997

NOTE L - COMMITMENTS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS
- Continued

4. Litigation

In September 1993, the Company filed an action against the former owners of Phoenix Associates, Inc. (Phoenix). The Company sought compensatory damages of approximately \$4.0 million plus declaratory and injunctive relief for acts of alleged securities fraud, fraudulent conveyances, breach of fiduciary trust and unfair competition in connection with the acquisition of the common stock of Phoenix.

Additionally, the Company has filed a demand for arbitration which seeks compensatory damages of \$4.0 million, rescission of the stock purchase agreement, rescission of an employment agreement and other matters, all on account of alleged breaches of the stock employment agreement, fraudulent misrepresentation and breach of fiduciary duties.

In November 1993, the former owners of Phoenix filed counter claims against the Company alleging improper termination with regard to their employment agreement and breach of the stock purchase agreement. The Company settled this litigation

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and realized \$675,000 from this matter which is included in the accompanying statement of operations for 1999 under the caption "Other income."

On December 9, 1997, a former officer and director of the Company filed a complaint against the Company in the State Court of Fulton County, State of Georgia relating to payments allegedly due him under the March 18, 1994 Severance Agreement, and was seeking damages in the amount of \$219,472. The Company reached a settlement with the officer in the amount of \$100,000 plus an amount based on reaching a certain level of recovery, if any, from the Levi Strauss litigation. Based on the settlement with Levi's, no additional accrual to the former officer and director was necessary.

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On January 15, 1998, in the Supreme court of the State of New York, Westchester County, a Director of the Company filed a complaint against the Company for breach of the March 18, 1994 Severance Agreement, and seeking damages in the amount of \$559,456 plus applicable interest and legal fees which was accrued as of February 28, 1998. The Company on March 9, 1998, filed counterclaims in a significantly larger amount. In April 1999, the Company reached a settlement with the Director for \$75,000 which resulted in the reduction of approximately \$530,000 in the accrued unusual charge this reduction is included in the accompanying Statement of Operations under the caption "Other Income."

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED February 27, 1999, February 28, 1998 and March 1, 1997

NOTE L - COMMITMENTS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS - Continued

4. Litigation - Continued

The Company is subject to other legal proceedings and claims, which arise, in the ordinary course of its business. In the opinion of management, other legal proceedings and claims in which the Company is defendant will be successfully defended or resolved without a material adverse effect on the consolidated financial position or results of operations of the Company. The Company with respect to the aforementioned litigation at February 27, 1999 has made no provision in the accompanying financial statements.

5. Letters of Credit

At February 27, 1999, the Company had outstanding letters of credit, primarily with foreign banks of approximately \$597,000 for purposes of collateralizing the Company's obligations for inventory purchases.

NOTE M - RETIREMENT PLAN

The Company has a 401(k) plan for the benefit of all qualified employees. No contribution was made for fiscal years 1999, 1998 and 1997.

NOTE N - BRITTANIA LITIGATION

Beginning in September, 1988, the Company became a licensee of Britannia

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Sportswear, Ltd., a wholly-owned subsidiary of Levi Strauss & Co., to manufacture and market men's underwear and other products under the trademark "Brittania from Levi Strauss & Co". Sales under this license aggregated \$0 in fiscal year 1999, \$4.5 million in fiscal 1998, and \$14.9 million in fiscal 1997.

As of January 1, 1997, the license was renewed for a five-year term, including automatic renewals of two years if certain minimum sales levels were achieved. On January 22, 1997, Levi's announced its intention to sell Brittania. In light of the actions announced by Levi's, K mart, the largest retailer of the

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Brittania brand and the Company's largest customer accounting for approximately \$11 million of the Company's fiscal 1997 sales of Brittania product, advised the Company that it would no longer continue its on-going commitment to the Britannia trademark.

The Company filed a lawsuit against Levi Strauss & Co. and Brittania Sportswear, Ltd., alleging that the licensor breached various obligations under the licensing agreement, including without limitation its covenant of good faith and fair dealing. The Company agreed to settle this litigation in June 1998 and realized approximately \$725,000 in gross value from this matter which is included in the accompanying statement of operations under the caption "Other income."

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Nantucket Industries, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED February 27, 1999, February 28, 1998 and March 1, 1997

NOTE O - SUBSEQUENT EVENT (UNAUDITED)

Subsequent to year-ended February 27, 1999, the Company ceased all operations and sold certain inventory and fixed assets as well as turned over the collection of all accounts receivable to the primary lender of the Company in order to satisfy a portion of the outstanding debt secured by the assets. The carrying value of the inventory and fixed assets sold was approximately \$1,000,000. The Company expects to seek relief from the remaining debt outstanding, to all creditors, through a voluntary petition under Chapter 11 of the United States Bankruptcy Code in February 2000. Pending Bankruptcy Court approval of the Disclosure Statement as adequate, the Company intends to solicit votes on the Plan of Reorganization ("the Plan") from the Company's secured lenders and stockholders. From the Filing Date of the Plan until the Effective Date of the Plan, the Company will operate its business as a debtor-in-possession subject to the jurisdiction of the Bankruptcy Court.

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None in last two years.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;
COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

Directors, Executive Officers and Significant Employees

The following sets forth, as of June 1, 2001, the names and ages of all directors, executive officers, and other significant employees of the Company; the date when each director was appointed; and all positions and offices in the Company held by each. Each director will hold office until the next annual meeting of shareholders and until his or her successor has been elected and qualified: Name Age Positions Held Date Appointed Director

| Name | Age | Positions Held | Date Appointed Director |
|------------------------|-----|----------------------------------------|-------------------------|
| John H. Treglia | 58 | Director, President, And Secretary | Jan. 18, 2000 |
| Dr. Frank J. Castanaro | 50 | Director | Feb. 17, 2000 |
| George D. Gold | 79 | Director | 1966 |
| Marsha Ellis | 40 | Treasurer and Chief Accounting Officer | Jan. 18, 2000 |

Set forth below is information regarding the principal occupations of each current director during the past five years or more. None of the directors or principal executive officers holds the position of director in any other public company.

Mr. Treglia is a graduate of Iona College, from which he received a BBA in Accounting in 1964. Since January 18, 2000 he has served as president, secretary, and a director of the Company, devoting such time to the business and affairs of the Company as is required for the performance of his duties. From 1964 until 1971, Mr. Treglia was employed as an accountant by Ernst & Ernst and, thereafter, founded and operated several businesses in various areas. From 1994 through 1998, Mr. Treglia served as a consultant to several companies which were in Chapter 11. These included J.R.B. Contracting, Inc., Laguardia Contracting, and Melli-Borrelli Associates. In 1996, Mr. Treglia founded Accutone In., a company engaged in the business of manufacturing and distributing hearing aids. He has served as its president and CEO since such time.

George J. Gold has been a director of the company since 1966. During his tenure with the Company he has served as its Chairman of the Board, Chief Executive Officer, and Treasurer of the company. He resigned all positions other than Director on March 18, 1994.

Dr. Castanaro received a Bachelor of Science degree from the University of Scranton in 1974. In 1978 he graduated from Georgetown University School of Dentistry and has been in private practice as a dentist since such time. Dr. Castanaro was appointed as a director of the company on February 17, 2000. Dr. Castanaro has assisted two large ophthalmology practices to introduce and expand their activities in Laser therapy, including, but not limited to, Lasik

procedures. Dr. Castanaro presently practices dentistry in partnership with Dr.'s Joseph C. and John B. Fontana in Peekskill, New York, and has a solo practice in Yonkers, New York. Dr. Castanaro is a member of the American Dental Association, the Dental Society of the State of New York, the Ninth District Dental Society, and the Peekskill-Yorktown Dental Society.

Marsha Ellis has served as treasurer and chief accounting officer of the Company since January 18, 2000. Miss Ellis attended North Carolina State University at which she studied accounting and computer sciences. She is currently employed full time as comptroller of St. Ives Country Club. Miss Ellis served as assistant controller of the company from 1994 until it ceased doing business in October of 1999. Since January 18, 2000 she has kept that position on a part time basis devoting much of her time to the business and affairs of the Company as is required for the performance of her duties. From 1986 until 1993 Ms. Ellis was a manager in the Accounting Department of The British-American International Services Group of Companies.

Resignations of Officers and Directors
During the Fiscal Year February 2000

On June 22, 1999, during the fiscal year prior to that covered by this report, Stephen Samberg submitted his resignation as chairman, CEO, and a director of the Company. As of such date, the Company was left with only one executive officer, Nicholas J. Dmytryszyn, who served in the positions of secretary, CFO, and treasurer. Members of the Company's former management have advised present management that Mr. Dmytryszyn resigned all of his positions with the Company some time in October 1999. The board of directors did not take any action to fill the vacancies caused by the resignations of Messrs. Samberg and Dmytryszyn. Therefore, from October 1999 until January 18, 2000 (see below), the Company had no executive officers in place.

Resolution to Reorganize the Company Under Chapter 11
And Appointment of John H. Treglia to Administer Same

Prior to the fiscal year covered by this report at a special meeting of the board of directors, held on January 18, 2000, the Company's board of directors reviewed the Company's insolvent state, its total absence of business operations since October 1999 and the lack of prospects to improve its financial and operational positions. In light of the company's poor position and prospects, the board approved the filing of a Voluntarily petition under Chapter 11 of the United States Bankruptcy Code in the Federal Court for the Southern District of New York for the purpose or reorganizing the business and affairs of the Corporation through a merger with or acquisition of a new and viable business.

In connection with the projected reorganization of the Company with a new, viable business, John H. Treglia, was appointed as a director to fill the vacancy caused by the resignation of James H. Carey, which had occurred on October 8, 1999. Upon the appointment of Mr. Treglia, the Company's board consisted of Mr. Treglia and four members of the former management, Steven Schneider, Marc Feder, Kenneth Klein, and George J. Gold. Mr. Treglia, who is the president and a controlling shareholder of Accutone Inc., a company engaged in the business of manufacturing and distributing hearing aids, was also appointed President and Secretary of the company and of its four subsidiaries. Management is seeking merger or acquisition candidates in order to continue the existence of the Company. It management is unsuccessful in finding at least one appropriate candidate, the company and its subsidiaries will cease to exist. Management has not identified any specific business or even any specific

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industry for the company or any of its

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subsidiaries and has not made or entered into any definite plans, proposals, arrangements, or understandings with respect to any possible business combination or opportunity nor has it made application to the Bankruptcy Court for approval of any particular merger or acquisition. However, Accutone Inc., a company controlled by John H. Treglia, the Company's current president, will be among the companies and businesses which management will consider with regard to the possibility of an acquisition or merger transaction with the Company. If the Company should ultimately acquire a business or property from any member of management, the terms of such acquisition might not be the result of arm's length negotiations. While any transaction between the Company and any of its affiliates could present management with a conflict of interest, it is the intention of management that if such transaction should occur, the terms thereof will be no less beneficial to the Company than if such transactions were effected on an arms length basis.

Appointment of Marsha Ellis as Treasurer and Chief Accounting Officer

Prior to the fiscal year covered by this report, at the January 18, 2000 special meeting of the board of directors, Marsha Ellis, the former assistant comptroller of the company, was appointed treasurer and chief accounting officer, of the Company.

Resignation of Three Directors and Appointment of Dr. F.J. Castanaro to Board

Prior to the fiscal year covered by this report, at a meeting of the board of directors held on February 17, 2000, Marc Feder resigned his position as a director of the Company and the remaining directors present at the meeting appointed Dr. Frank J. Castanaro to fill the vacancy on the board caused by Mr. Feder's resignation. Subsequent to the said meeting, two more directors, Steven Schneider and Kenneth Klein also resigned from the board. The resignation of Messrs. Feder, Klein, and Schneider were submitted in light of the termination of the Company's former business and the projected reorganization of the Company through a Chapter 11 proceeding.

Section 16(a) ownership Reporting Compliance

To the best knowledge of current management and the members of management who resigned in February 2000, during the fiscal year ended February 27, 2000, the Company did not receive any Forms 3 or 4 or any amendments thereto, nor did any director, officer or beneficial owner of more than 10% of the company's equity securities fail to file, on a timely basis, reports required by Section 16(a) of the Exchange Act.

ITEM 11. EXECUTIVE COMPENSATION

Compensation of Directors

Until June of 2000, when the board of directors eliminated compensation for directors other than those employed by the Company, such persons were paid \$5,000 annually and an additional \$500 for each Board or committee meeting attended in person. No payments made during the fiscal year ended February 27, 2001.

Compensation Committee Interlocks and Insider Participation

The Compensation Committee was disbanded in May 1998. As of the date

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hereof, the

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Board of Directors has not established a new Compensation Committee and it has no plans to do so until such time as the financial position and prospects of the Company improve significantly.

SUMMARY COMPENSATION TABLE

The Summary Compensation Table shows compensation information for each of the fiscal years ended February 28, 2001 and February 27, 2000 for all persons who served as the Company's chief executive officer. No other executive officers of the Company received compensation in excess of \$100,000 during the fiscal year ended February 27, 2000.

To the best knowledge of current management, prior to and/or during the fiscal year ended February 27, 2000 the Company had in effect a 401(k) Profit Sharing Plan, a Long Term Incentive Plan and one or more Stock Option and SAR Plans and/or granted stock options outside of specific Plans therefore. As part of the projected reorganization under chapter 11, all existing compensation plans and rights to purchase securities of the Company arising thereunder will be terminated, as will all outstanding stock options; any funds or assets in the company's 401(k) Profit Sharing Plan and any other compensation plan holding funds or assets of former employees will be distributed by the Trustees of any such plans to the beneficial owners thereof and all such Plans will also be terminated.

ANNUAL COMPENSATION

| Name and Principal Position ----- | Year ---- | Salary ----- |
|--------------------------------------|--------------|-----------------|
| John H. Treglia | 2001 | \$ -0- |
| President, Chief Executive | 2000 | 0 |
| Officer, Secretary and | 1999 | N/A |
| Director | | |

ITEM NO. 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Security Ownership of Certain Beneficial Owners

The following table sets forth information as of June 1, 2001, with respect to the persons known to the Company to be the beneficial owners of more than 5% of the common stock, \$.10 par value of the Company.

PRINCIPAL SHAREHOLDERS

The Company knows of no person, other than those listed in the Management's Shareholdings Table, below, who owns more than 5% of the common stock of the Company.

Security Ownership of Management

The following table sets forth information as of June 1, 2001, with respect to the beneficial ownership of the Common Stock, \$. 10 par value, of the Company by each of the executive officers and directors of the company and all executive officers and directors as a group:

MANAGEMENT SHAREHOLDINGS TABLE

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class (1) |
|---------------------------------------------------------|--------------------------------------------------------------------------------|----------------------------------------------------|-------------------------|
| Common Stock | George J. Gold 209 Sterling Road Harrison, NY 10528 | 359,078 (2) | 11.09% |
| Common Stock | John H. Treglia 45 Ludlow Street Suite 602 Yonkers, NY 10705 | -0- | -0-% |
| Common Stock | Dr. Frank J. Castanaro 970 North Broadway Suite 108 Yonkers, NY 10701 | -0- | -0-% |
| Common Stock | Marsha Ellis 3680 Chartwell Drive Suwanee, GA 30024 | -0- | -0-% |
| All directors and Officers as a Group (4 persons) | | | |

(Notes to Table Appear on Following Page)

Pursuant to the rules of the Securities and Exchange commission, shares of Common Stock which an individual or member of a group has right to acquire within 60 days pursuant to the exercise of options or warrants are deemed to be outstanding for the purpose of computing the ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person; shown in the table. Accordingly, where applicable, each individual or group member's rights to acquire shares pursuant to the exercise of options or warrants are noted below.

- (2) All such shares are subject to the Nantucket Industries Stock Voting Trust u/i/d March 22, 1994 the "Voting Trust"). In addition, the severance agreement with Mr. Gold provided for the company to issue, as of April 1, 1997, warrants for the purchase of up to a total of \$157,875 shares to George J. Gold and Donald D. Gold. Such warrants have not yet been issued.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following is a description of any transactions during the fiscal year ended February 27, 2001 or any presently proposed transactions, to which the Company was or is to be a party, in which the amount involved in such transaction (or series of transactions) was \$60,000 or more and which any of the following

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persons had or is to have a direct or indirect material interest: (i) any director or executive officer of the Company; (ii) any person who owns or has the right to acquire 5% or more of the issued and outstanding common stock of the Company; and (iii) any member of the immediate family of any such persons. Current management is not aware of any requirements, which may have been in effect prior to January 2000, with respect to the approval of related transactions by independent directors. Because of its current limited management resources, the company does not presently have any requirement respecting the necessity for independent directors to approve transactions with related parties. All transactions are approved by the vote of the majority, or the unanimous written consent, of the full board of directors. J all member so the board of directors all members of the board of directors, individually and/or collectively, could have possible conflicts of interest with respect to transactions with related parties.

Employment Agreement with John H. Treglia

On April 3, 2000, the Company entered into an employment agreement with John H. Treglia, its President and CEO. The agreement provides for an annual salary in the amount of \$150,000 and a term of three years. Mr. Treglia has agreed to waive the right to be paid in cash until, in the opinion of the board of directors, the Company has sufficient financial resources to make such payments. In lieu of cash salary payments, Mr. Treglia may accept shares of common stock at, or at a discount from the market price. His agreements provides for the possibility of both increases in salary and the payment of bonuses at the sole discretion of the board of directors, participation in any pension plan, profit-sharing plan, life insurance, hospitalization of surgical program or insurance program hereafter adopted by the Company (to the extent that the employee is eligible to do so under the provisions of such plan or program), reimbursement of business related expenses, for the non-disclosure of information which the Company deems to be confidential to it, for non-competition with the Company for the two-year period following termination of employment with the company and for various other terms and conditions of employment. The Company does not intend to provide any of its employees with medical, hospital or life insurance benefits until the board of directors determines that it has sufficient financial resources to do so.

PART IV

ITEM 14 EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

The following is a list of all exhibits and financial statement schedules filed as part of this report, certain of which documents have been incorporated by reference to documents previously filed on behalf of the Company.

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Financial Statements

The financial statements filed as a part of this report are as follows:

| | |
|---------------------------------------------------------------|----|
| Consolidated balance Sheets - | |
| February 28, 2001, February 27, 2000 and February 27, 1999 | 24 |
| Consolidated Statements of Operations - years Ended | |
| February 28, 2001, February 27, 2000 and February 27, 1999 | 25 |
| Consolidated Statements of Stockholders' Equity - Years Ended | |
| February 28, 2001, February 27, 2000 and February 27, 1999 | 26 |

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| | |
|-------------------------------------------------------------------------------------------------------------------------|----|
| Consolidated Statements of Cash Flows - Years Ended February 28, 2001, February 27, 2000 and February 27, 1999 | 27 |
| Notes to Consolidated Financial Statements | 28 |
| Report of Independent Certified Public Accounts - Grant Thornton LLP | 41 |
| Consolidated Balance Sheets - February 27, 1999 and February 28, 1998 | 42 |
| Consolidated Statements of Operations - Year Ended February 27, 1999, February 28, 1998, and March 1, 1997 | 44 |
| Consolidated Statements of Stockholders' Equity - Years Ended February 27, 1999, February 28, 1998 and March 1, 1997 | 45 |
| Consolidated Statements of Cash Flows - Years Ended February 27, 1999, February 28, 1998 and March 1, 1997 | 47 |
| Notes to Consolidated Financial Statements (a) (2) Financial Statement Schedule | 49 |
| Reports on Form 8-K | |

No reports on Form 8-K have been filed during the last quarter of the period covered by this report.

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Exhibits

Exhibits which, in their entirety, are incorporated by reference to any report, exhibit or other filing previously made with the Securities and Exchange Commission are designated by an asterisk (*) and the location of such material is included in its description.

Exhibit

| No. | Description |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (3) (a) | Certificate of Incorporation as currently in effect (filed as Exhibit 3 (a) to Form 10-K Report for the fiscal year ended February 27, 1988 (the "1988 10-K"). |
| (3) (b) | By-laws as currently in effect (filed as Exhibit 3(b) to the Form 8K dated August 15, 1996). |
| (3) (c) | Certificate of Incorporation of Nantucket Hosiery Mills Corp. filed March 1, 2000. |
| (3) (d) | Nantucket Hosiery Mills Inc. filed February 25, 2000. |
| (4) (a) | Specimen Stock Certificate (filed as Exhibit 4(b) to Registration Statement on Form S-1, No. 2-87229 filed October 17, 1983 (the "1983 Form S-1"). |
| (4) (b) | Share Purchase Rights Agreement, dated as of September 6, 1988, between the |

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Company and State Street Bank and Trust Company (filed as Exhibit 4(a) to Form 8-K Report dated as of September 6, 1988), as amended by the following: Amendment No. 1 dated October 3, 1988 (filed as Exhibit 9 to Schedule 14D-9 Amendment No. 1 dated October 4, 1988), Amendment No. 2 dated October 18, 1988 (filed as Exhibit 14 to Schedule 14D-9 Amendment No. 2 dated October 19, 1988) and Amendment No. 3 dated November 1, 1988 (filed as Exhibit 4(c) to Form 10-K Report for the fiscal year ended February 25, 1989 (the "1989 10K"), Amendment No. 4 dated as of November 17, 1988 (filed as Exhibit 1 to Amendment No. 1 to Form 8-A, dated November 18, 1988) and Amendment dated as of August 15, 1994 (filed as Exhibit 4(e) to Form 8-K dated August 19, 1994).

- (4) (c) Note Acquisition Rights Agreement dated as of September 6, 1988 between the Company and State Street Bank and Trust Company, as amended on September 19, 1988 (filed as Exhibit 4(b) to Form 8-K Report dated September 6, 1988) as amended by the following: Amendment No. 2 dated October 3, 1988 (filed as Exhibit 10 to Schedule 14D-9 Amendment No. 2 dated October 4, 1988), Amendment No. 3 dated October 18, 1988

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(filed as Exhibit 15 to Schedule 14D-9 Amendment No. 2 dated October 19, 1988), Amendment No. 4 dated November 1, 1988, (filed as Exhibit 4(d) to the 1989 10-K) and Amendment No. 5 dated as of November 17, 1988 (filed as Exhibit 2 to Amendment No. 1 to Form 8-A, dated November 18, 1988).

- (4) (d) Certificate of Designation, Preferences and Rights of Non-Voting Convertible Preferred Stock of Nantucket Industries, Inc. (filed as Exhibit 4 to Form 8-K Current Report dated March 22, 1994 (the "1994 8-K").
- (4) (e) Common Stock Purchase Agreement dated as of August 18, 1994 by and among Registrant, Guess?, Inc., the Maurice Marciano 1990 Children's Trust, the Paul Marciano Trust u/t/d 2/20/86, the Armand Marciano Trust u/t/d 2/20/86 and The Samberg Group, L.L.C. (filed as Exhibit 4(d) to Form 8-K dated August 19, 1994).
- (4) (f) Common Stock and Convertible Subordinated Debenture Purchase Agreement dated as of August 13, 1996 by and among Nantucket Industries, Inc. and NAN Investors, L.P. (filed as Exhibit 4(f) to the Form 8-K dated August 15, 1996).
- (4) (g) Sixth Amendment dated as of August 15, 1996 to that certain Rights Agreement dated as of September 6, 1988 between Nantucket Industries, Inc., and State Street Bank & Trust Company (filed as Exhibit 4(g) to the Form 8-K dated August 15, 1996).
- (9) Voting Trust Agreement by and among the Samberg Group, L.L.C., George Gold, Donald Gold, Stephen Samberg, Stephen Sussman, Robert Polen, Ray Wathen, Nantucket Industries, Inc., Robert Rosen and Joseph Mazzella dated as of March 21, 1994 (filed as Exhibit 99(b) to 1994 8-K).
- (10) (a) Nantucket Industries, Inc. Savings Plan effective June 1, 1988 by and between the Registrant and George Gold and Donald Gold as Trustees, Amendment No. 1 thereto dated June 22, 1990 and Amendment No. 2 thereto dated November 19, 1990 (filed as Exhibit (10)(a) to Form 10-K Report for the fiscal year ended February 29, 1992 (the "1992 10-K")).

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- (10) (b) Incentive Stock Option Plan (filed as Exhibit 10(d) to the 1988 10-K).
- (10) (c) 1988 Nantucket Industries, Inc. Nonstatutory Stock Option Plan (filed as Exhibit 10(c) to the 1989 10-K).
- (10) (e) (i) Trademark Agreement between Registrant and Faberge,

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Incorporated dated November 1, 1980 ("Trademark Agreement") regarding the trademarks "Faberge" and "BRUT" for use with men's and boy's underwear and bathing suits (filed as Exhibit 10(g)(i) to 1987 10-K); Amendment dated November 16, 1982 regarding the trademark "BRUT 33" (filed as Exhibit 10(m) to 1983 S-1); Letter dated August 24, 1983 from Faberge to Registrant with respect to renewal of the Trademark Agreement for an additional five year period (filed as Exhibit 10(g)(iii) to 1987 10-K); Amendment dated May 6, 1983 regarding the trademarks "BRUT Medallion Design" and "Brut Royale" (filed as Exhibit 10(k)(ii) to 1983 S-1; Amendment dated December 5, 1983 (filed as Exhibit 10(g)(iv) to the Form 10-K Report for the fiscal year ended March 3, 1984 (the "1984 10-K"); Amendment dated October 31, 1984 (filed as Exhibit 10(g)(xiii) to the Form 10-K Report for the fiscal year ended March 2, 1985 (the "1985 10-K"); Amendment dated March 14, 1986 extending license to include swimwear tops (filed as Exhibit 10(g)(v) to the 1986 10-K; Amendment dated April 25, 1984 (filed as Exhibit 10(g)(v) to the 1984 10-K); Letter dated December 31, 1987, extending term of Trademark Agreement for an additional five year period and deleting men's and boy's bathing suits from coverage (filed as Exhibit 10(g)(iii) to the 1988 10-K); extension dated February 24, 1989, extending expiration date of the Trademark Agreement to February 28, 1998 (filed as Exhibit 10(e)(ii) to the 1989 10-K).

- (10) (e) (ii) Intentionally omitted.
- (10) (e) (iii) License Agreement between the Company and BRITTANIA Sportswear, Ltd. (subsidiary of Levi Strauss) dated September 6, 1988 for the manufacture and sale of men's and ladies' underwear under the "BRITTANIA" trademark (filed as Exhibit 19 to Form 10-Q for the Quarter ended August 27, 1988).
- (10) (e) (iv) License Agreement between the Company and BRITTANIA Sportswear, Ltd. (subsidiary of Levi Strauss) dated December 31, 1991 for the manufacture and sale of men's and ladies' underwear under the "BRITTANIA" trademark (filed as Exhibit 10(e)(iv) to Form 10-K for the fiscal year ending February 26, 1994.
- (10) (e) (v) Amendment dated January 31, 1996 to License Agreement between the Registrant and BRITTANIA Sportswear, Ltd. (subsidiary of Levi Strauss) for the manufacture and sale of men's and ladies' loungewear under the "BRITTANIA" trademark.
- (10) (e) (vi) Intentionally omitted.

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- (10) (e) (vii) License Agreement between the Company and Britannia Sportswear Limited, a subsidiary of Levi Strauss & Co. effective as of January 1, 1997, extending the Company's license through December 31, 1999, for the manufacture and sale of men's underwear and loungewear under the 'BRITTANIA' trademark (filed as Exhibit 10(e) (iii) to the Form 10-Q for the quarter ended August 31, 1996).
- (10) (f) Modification and Extension of Lease dated November 30, 1982 between Registrant and Satti Development Corp. (filed as Exhibit 10(1) to the 1983 10-K); (i) amendment dated February 16, 1988 extending term of lease through April 30, 1993 (filed as Exhibit 10(h) to the 1988 10-K); (ii) amendment dated August 15, 1991 expanding demised premises, extending term of lease through May 31, 1997 and modifying annual rental (filed as Exhibit 10(f) (ii) to 1992 Form 10-K).
- (10) (f) (i) Intentionally omitted.
- (10) (g) Promissory Notes from George J. Gold and Donald D. Gold to Registrant (filed as Exhibit 10(s) to 1983 S-1).
- (10) (h) Intentionally omitted.
- (10) (i) Amended and Restated Credit Agreement dated December 8, 1989, between Registrant and Manufacturers Hanover Trust Company ("MHTC") for the borrowing of up to \$11,500,000 of which \$8,500,000 is on a revolving credit basis until March 5, 1993, the balance to be used against letters of credit issued by NIETC for the benefit of the Registrant; \$8,500,000 Note dated December 8, 1989, from Registrant to MHTC; Continuing Letter of Credit Security Agreement dated December 8, 1989, between Registrant and MHTC. (filed as Exhibit 10(i) to the Form 10-K Report for the fiscal year ended March 3, 1990 (the "1990 10-K") Omitted exhibits to said Agreement will be furnished to the Commission upon request. (i) First Amendment dated August 1, 1990 to Loan Agreement between Registrant and MHTC (filed as Exhibit 10(i) (i) to the Form 10-K Report for the fiscal year ended March 2, 1991); (ii) Second Amendment and Waiver dated as of May 23, 1991 to Loan Agreement between Registrant and MHTC (filed as Exhibit (10) (i) (ii) to the 1992 Form 10-K); (iii) Fifth Amendment and Waiver dated as of February 22, 1993, to Amended and Restated Credit Agreement dated as of December 8, 1989, between the Registrant and Chemical Bank, as successor by merger to MHTC (filed as Exhibit (iii) to the Form 8-K dated March 4, 1993); (iv) Sixth Amendment and Waiver dated as of March 4, 1993, to Amended and Restated Credit Agreement (filed as Exhibit 10(k) (iv) to 1993 10-K).

- (10) (j) (i) Revolving Credit Agreement dated as of December 30, 1993 by and between Chemical Bank, Nantucket Industries, Inc., Nantucket Mills, Inc. and Nantucket Management Corporation (the "Credit Agreement") (filed as Exhibit 10(j) (i) to the 1994 Form 10-K).
- (10) (j) (ii) First Amendment to Credit Agreement dated as of February 28, 1994 by and

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between Chemical Bank, Nantucket Industries, Inc., Nantucket Mills, Inc. and Nantucket Management Corporation (filed as Exhibit 10(j)(ii) to the 1994 10-K).

- (10) (j) (iii) Second Amendment to Credit Agreement dated as of March 17, 1994 by and between Chemical Bank, Nantucket Industries, Inc., Nantucket Mills, Inc. and Nantucket Management Corporation (filed as Exhibit 10(j)(iii) to the 1994 10-K).
- (10) (k) Intentionally omitted.
- (10) (n) Intentionally omitted.
- (10) (o) Intentionally omitted.
- (10) (q) Intentionally omitted.
- (10) (s) Intentionally omitted.
- (10) (t) Intentionally omitted.
- (10) (u) Intentionally omitted.
- (10) (v) Sublicense Agreement dated November 20, 1991 by and among Dawson Consumer Products, Inc., Registrant and PGH Company regarding the use of the trademark "Adolfo" on men's high fashion underwear briefs (filed as Exhibit (10) (v) to the 1992 Form 10-K).
- (10) (w) Sublicense Agreement dated October 16, 1992 by and among Salant Corporation, Dawson Consumer Products, Inc. and the Registrant regarding the use of the trademark "John Henry" on men's high fashion underwear briefs (filed as Exhibit (10) (w) to the 1992 Form 10-K).
- (10) (x) Employment Agreement dated May 26, 1992 by and between the Registrant and Stephen P. Sussman (filed as Exhibit 10(x) to the Form 10Q Report for November 28, 1992) as amended by the Amendment dated August 8, 1994 (filed as Exhibit 99(a) to Form 8-K dated August 19, 1994).

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- (10) (x) (i) Amendment No. 2 dated August 9, 1996 to that certain Employment Agreement dated as of May 26, 1992 by and between Nantucket Industries, Inc. and Stephen P. Sussman (filed as Exhibit 99(a) to the Form 8-K dated August 15, 1996).
- (10) (y) Purchase and Sale Agreement dated as of July 31, 1997 by and among Mimms Investments, a Georgia general partnership and Nantucket Industries, Inc. regarding the sale of the Registrant's property at 200 Cook St., Cartersville, GA. (filed as Exhibit (10) (y) to 10Q report for August 30, 1997).
- (10) (y) (i) Amendment dated August 14, 1997 to Purchase and Sale Agreement dated as of July 31, 1997 by and among Mimms Investments, a Georgia general partnership regarding the sale of the Registrants property located at 200 Cook St., Cartersville, GA (filed as Exhibit (10) (y) (i) to 10Q report for August 30, 1997).

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- (10) (y) (ii) Amendment dated August 27, 1997 to Purchase and Sale Agreement dated as of July 31, 1997 by and among MimmsInvestments, a Georgia general partnership regarding the sale of the Registrants property located at 200 Cook St., Cartersville, GA (filed as Exhibit (10) (y) (ii) to 10Q report for August 31, 1997).
- (10) (z) (i) Intentionally omitted.
- (10) (z) (ii) Amended and Restated Employment Agreement by and between Nantucket Industries, Inc. and Stephen M. Samberg (filed as Exhibit 10(z)(ii) to the 1994 Form 10-K) as amended by the Amendment dated August 8, 1994 (filed as Exhibit 99(c) to Form 8-K dated August 19, 1994).
- (10) (z) (iii) Amendment No. 2 dated August 9, 1996 to that certain Employment Agreement dated as of March 18, 1994 by and between Nantucket Industries, Inc. and Stephen M. Samberg (filed as Exhibit 99(c) to the Form 8-K dated August 15, 1996).
- (10) (z) (iv) Amendment No. 3 dated July 1, 1997 to that certain Employment Agreement dated as of March 18, 1994 by and between Nantucket Industries, Inc and Stephen M. Samberg (filed as Exhibit (10) (z) (iv) to 1998 10-K).
- (10) (aa) License Agreement dated October 5, 1992 between Cluett Peabody & Co., Inc. and Registrant with respect to the ARROW trademark (filed as Exhibit 2 to Form 10Q Report for November 28, 1992).

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- (10) (bb) License Agreement dated December 9, 1992 between GUESS?, Inc. and Registrant with respect to the GUESS? trademark (filed as Exhibit 3 to Form 10Q Report for November 28, 1992).
- (10) (cc) Registrant's 1992 Long-Term Stock Option Plan (filed as Exhibit 4 to Form 10Q Report for November 28, 1992).
- (10) (dd) Registrant's 1992 Executive Performance Benefit Plan (filed as Exhibit 5 to Form 10Q for November 28, 1992).
- (10) (ee) Management Agreement made as of January 1, 1993 by and between Nantucket Management Corp. (a subsidiary of Registrant) and Registrant (filed as Exhibit 10(ee) to 1993 10-K).
- (10) (ff) License Agreement dated December 21, 1992 between Registrant and McGregor Corporation with respect to the Botany 500 Trademark (filed as Exhibit 10(ff) to 1993 10-K).
- (10) (ff) (I) Letter Agreement dated July 10, 1995 amending License Agreement between the Registrant and McGregor Corporation with respect to the Botany 500 Trademark (filed as Exhibit 10(ff) to 1993 10-K).
- (10) (gg) Severance Agreement dated as of March 18, 1994 by and among Nantucket Industries George J. Gold and Donald Gold (filed as Exhibit 10(gg) (i) to the Form 10K Report for the fiscal year ended February 25, 1995). (Filed as Exhibit 10(gg) to the 1994 Form 10-K) as amended by the Amendment dated August 17, 1994 (filed as Exhibit 99(b) to Form 8-K dated August 19, 1994).

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- (10) (gg) (i) Letter dated February 28, 1995 amending Severance Agreement by and among Registrant, George J. Gold and Donald D. Gold (filed as Exhibit 10(gg)(i) to the Form 10-K Report for the fiscal year ended February 25, 1995).
- (10) (gg) (ii) Third Amendment dated August 9, 1996 to that certain Severance Agreement dated as of March 18, 1994 by and among Nantucket Industries, Inc. George J. Gold and Donald D. Gold (filed as Exhibit 99(b) to the Form 8-K dated August 15, 1996).
- (10) (hh) Agreement dated as of March 1, 1994 by and among the Samberg Group, L.L.C., George J. Gold, Donald D. Gold, Stephen M. Samberg, Stephen P. Sussman, Robert Polen, Raymond L. Wathen and Nantucket Industries, Inc. (filed as Exhibit 10(hh) to the 1994 Form 10-K).
- (10) (ii) Loan and Security Agreement by and between

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Nantucket Industries, Inc. and Congress Financial Corp. dated as of March 21, 1994 (filed as Exhibit 99(b) to 1994 8-K).

- (10) (ii) (i) Amendment No. 2 dated July 31, 1996, to Loan and Security Agreement dated as of March 21, 1994, among Nantucket Industries, Inc. and Congress Financial Corp. (filed as Exhibit 99(o) to the Form 8-K dated August 15, 1996).
- (10) (ii) (ii) Amendment No. 3 dated August 15, 1996, to Loan and Security Agreement dated as of March 21, 1994, among Nantucket Industries, Inc. and Congress Financial Corp. (filed as Exhibit 99(p) to the Form 8-K dated August 15, 1996).
- (10) (ii) (iii) Amendment No.4 dated March 18, 1997 to Loan and Security Agreement dated as of March 21, 1994 among Nantucket Industries, Inc and Congress Financial Corp (filed as Exhibit (10)(ii)(ih) to 10Q report for August 30, 1997).
- (10) (ii) (iv) Amendment No. 5 dated March 31, 1997 to Loan and Security Agreement dated as of March 21, 1994 among Nantucket Industries, Inc and Congress Financial Corp (filed as Exhibit (10)(ii)(iv) to 10Q report for August 30, 1997).
- (10) (ii) (v) Amendment No. 6 dated May 4, 1997, to Loan and Security Agreement dated as of March 21, 1994, among Nantucket Industries, Inc and Congress Financial Corp (filed as Exhibit (10)(ii)(v) to 10Q report for August 30, 1997).
- (10) (ii) (vi) Extention dated March 20, 1998 to the Loan and Security Agreement dated as of March 21, 1994, among Nantucket Industries, Inc and Congress Financial Corp.(filed as Exhibit (10)(ii)(vi) to 1998 10-K).
- (10) (ii) (vii) Extention No. 2 dated May 20, 1998 to the Loan and Security Agreement dated as of March 21, 1994, among Nantucket Industries. Inc and Congress Financial Corp. (filed as Exhibit (10)(ii)(vii) to 1998 10-K).
- (10) (jj) Guaranty by Nantucket Mills, Inc. in favor of Congress Financial Corp. dated as of March 21, 1994 (filed as Exhibit 99(c) to 1994 8-K).
- (10) (kk) General Security Agreement by Nantucket Mifls, Inc. in favor of Congress Financial Corp. dated as of March 21, 1994 (filed as Exhibit 99(d) to 1994

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8-K).

- (10) (ll) Guarantee of Nantucket Management Corporation in favor of Congress Financial Corp. dated as of March 21, 1994 (filed as Exhibit 99(e) to 1994 8-K).

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- (10) (mm) General Security Agreement by Nantucket Management Corporation in favor of Congress Financial Corp. dated as of March 21, 1994 (filed as Exhibit 99(f) to 1994 8-K).
- (10) (nn) Amended and Restated Credit Agreement by and among Chemical Bank, Nantucket Industries, Inc., Nantucket Nfills, Inc. and Nantucket Management Corporation dated as of March 21, 1994 (filed as Exhibit 99(g) to 1994 8-K) and amended by the Amendment dated as of August 18, 1994 (filed as Exhibit 99(e) to the Form 8-K dated August 19, 1994).
- (10) (oo) Amended and Restated Security Agreement by and between Nantucket Industries, Inc. and Chemical Bank dated as of March 21, 1994 (filed as Exhibit 99(h) to 1994 Form 8-K).
- (10) (pp) Amended and Restated Security Agreement by and between Nantucket Mills, Inc. and Chemical Bank dated as of March 21 1994 (filed as Exhibit 99(i) to 1994 8-K).
- (10) (qq) Security Agreement by and between Management Corporation and Chemical Bank dated as of March 21, 1994 (filed as Exhibit 99(j) to 1994 8-K).
- (10) (rr) Deed to Secure Debt, Security Agreement and Assignment of Leases and Rents by Nantucket Industries, Inc. to Chemical Bank dated as of June 8, 1994 (filed as Exhibit 10(ss) to the 1994 Form 10-K). and Assignment of Leases and Rents by Nantucket Industries, Inc. to Congress Financial Corporation dated June 8, 1994 (filed as Exhibit 10(rr) to the 1994 Form 10-K).
- (10) (ss) Deed to Secure Debt, Security Agreement and Assignment of Leases and Rents by Nantucket Industries, Inc. to Chemical Bank dated as of June 8, 1994 (filed as Exhibit 10(ss) to the 1994 Form 10-K).
- (10) (tt) Employment Agreement dated November 23, 1994 by and between Registrant and Raymond L. Wathen (filed as Exhibit 10(tt) to Form 10-K Report for the fiscal year ended February 25, 1995).
- (10) (tt) (i) Amendment to Employment Agreement entered into as of January 1, 1996 between Registrant and Raymond L. Wathen.
- (10) (uu) Employment Agreement dated July 1, 1994 by and between Registrant and Ronald S. Hoffman (filed as Exhibit 10(uu) to Form 10-K Report for the fiscal year ended February 25, 1995).

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- (10) (uu) (i) Letter Agreement dated June 12, 1995 between Registrant and Ronald S. Hoffman, extending the term of his employment to June 30, 1996.
- (10) (uu) (ii) Letter Agreement dated August 9, 1996 between Registrant and Ronald S. Hoffman amending the change of control provision in his employment agreement (filed as Exhibit 99(e) to the Form 8-K dated August 15, 1996).
- (10) (uu) (iv) Letter Agreement dated as of June 30, 1996 between Registrant and Ronald S. Hoffman, extending the term of his employment to June 30, 1997 (filed as Exhibit 99(j) to the Form 8-K dated August 15, 1996).
- (10) (vv) Employment Agreement dated as of January 1996 by and between Registrant and Joseph Visconti.
- (10) (vv) (i) Amendment dated August 9, 1996 to that certain Employment Agreement dated as of January 1, 1996 by and between Nantucket Industries, Inc and Joseph Visconti (filed as Exhibit 99(d) to the Form 8-K dated August 15, 1996).
- (10) (vv) (ii) Amendment No. 2 dated as of July 1, 1997 to that certain Employment Agreement dated as of January 1, 1996 by and between Nantucket Industries and Joseph Visconti (filed as Exhibit (10) (vv) (ii) to the 1998 10-K Form).
- (10) (ww) First Amendment, dated as of December 15, 1995 to Amended and Restated Credit Agreement dated as of March 21, 1994, among Nantucket Industries, Inc. and its subsidiaries and Chemical Bank (filed as Exhibit (10) (w) to Form 10-Q Report for the quarter ended November 25, 1995).
- (10) (xx) Complaint filed on March 7, 1997 with Superior Court of California for the County of San Francisco C.A. No. 985160, Nantucket Industries, Inc. v. Levi Strauss & Co., and Britannia Sportswear Limited (filed as Exhibit 99(q) to the Form 8-K dated March 7, 1997).
- (10) (zz) Press Release dated March 10, 1997 (filed as Exhibit 99(r) to the Form 8-K dated March 7, 1997).
- (10) (aaa) Lease between Registrant and First Industrial LP dated December 3, 1997 (filed as Exhibit 99(s) to Form 8-K dated November 26, 1997).
- (10) (bbb) Letter Agreement dated September 30, 1997 from Nantucket Industries, Inc. to NAN Investors, LP (filed as Exhibit 99(t) to the 10Q report for November 29, 1997.)

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- (10) (bbb) (i) Letter Agreement No. 2 dated May 19, 1998 from Nantucket Industries to NAN Investors LP (filed as Exhibit (10) (bbb) (i) to 1998 Form 10-K).
- (10) (ccc) Termination of License Agreement dated March 25, 1998 between GUESS? Inc. and the Registrant (filed as Exhibit (10) (ccc) to 1998 Form 10-K).
- (10) (ddd) Employment Agreement, dated April 3, 2000, between John H. Treglia and Company.
- 16(a) Letter, dated June 8, 2000, of Grant Thornton LLP regarding change in certifying accountant.

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23(a) Consent of Grant Thornton LLP dated June 14, 2000.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York.

NANTUCKET INDUSTRIES, INC.

June 7, 2001

By /s/ John Treglia

John Treglia, President, Secretary
and CFO

June 7, 2001

By /s/ Marsha Ellis

Marsha Ellis, Treasurer and
Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities on the dates indicated.

June 7, 2001

/s/ John Treglia

John H. Treglia, Director

June 7, 2001

/s/ Frank J. Castanaro

Frank J. Castanaro, Director

June 7, 2001

George J. Gold, Director

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Commission File Number 1-8509

SECURITIES AND EXCHANGE COMMISSION

Washington, DC

FORM 10-K

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Annual Report

For the Fiscal Year Ended

February 27, 2000

NANTUCKET INDUSTRIES, INC.

(Exact Name of the Company as Specified in Charter)

EXHIBITS

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INDEX OF EXHIBITS BEING FILED HERewith

There are no Exhibits for this period.

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