NAUTICA ENTERPRISES INC
Form 8-K/A
July 13, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): April 30, 2001

NAUTICA ENTERPRISES, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation)

0-6708	95-2431048
(Commission File Number)	(IRS Employer Identification No.)

40 WEST 57TH STREET, NEW YORK, NEW YORK 10019
(Address of principal executive offices) (Zip code)

(212) 541-5757
(Registrant's telephone number, including area code)

N/A
(Former name or former address, if changed since last report)

ITEM 7.

FINANCIAL STATEMENTS AND EXHIBITS

On May 15, 2001, Nautica Enterprises, Inc. (the "Registrant" or "Company") filed a Current Report on Form 8-K with respect to the acquisition of substantially all of the assets of Earl Jean, Inc. ("Earl Jean"). Such Form 8-K was filed without the financial statements and pro forma financial information required by Items 210.3-05 (a) and (b) of Regulation S-X. This Current Report on Form 8-K/A provides such required information.

(a) Financial Statements of the Business Acquired

Attached as Exhibit 7.1, are the audited financial statements of Earl Jean as of December 31, 2000 and the year then ended, and the unaudited financial statements of Earl Jean as of March 31, 2001 and 2000 and the three months then ended.

(b) Pro Forma Financial Information

Attached as Exhibit 7.2, are a pro forma unaudited consolidated condensed balance sheet of the Company as of March 3, 2001 and pro forma unaudited consolidated condensed statement of earnings for the year ended March 3, 2001, giving effect to the Company's acquisition on April 30, 2001 of substantially all of the assets and assumption of certain liabilities of Earl Jean.

(c) Exhibits

EXHIBIT NO.	EXHIBIT
7.1	Financial Statements of the Business Acquired
7.2	Pro Forma Financial Information

SIGNATURE

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

Date: July 13, 2001 (Registrant)

By: /S/ WAYNE A. MARINO

Name: Wayne A. Marino
Title: Chief Financial Officer

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EXHIBIT 7.1

FINANCIAL STATEMENTS OF THE BUSINESS ACQUIRED

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INDEPENDENT AUDITORS' REPORT

To the Stockholders
Earl Jean, Inc.

We have audited the accompanying balance sheet of Earl Jean, Inc. as of December 31, 2000 and the related statements of income and stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with 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 financial position of Earl Jean, Inc. as of December 31, 2000, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

MOSS ADAMS LLP

Los Angeles, California
April 27, 2001

EARL JEAN, INC.

BALANCE SHEET

DECEMBER 31, 2000

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	565,346
Marketable securities		694,839
Accounts receivable, net of allowance for doubtful accounts of $358,000		2,447,168
Inventories		3,943,619
Prepaid expenses		38,913
Total current assets		7,689,885
PROPERTY AND EQUIPMENT, at cost, net of accumulated depreciation and amortization		334,272
OTHER ASSETS		70,526
Total assets	$	8,094,683
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$	973,776
Accrued expenses		612,707
Income taxes payable		87,600
Notes payable to stockholders		936,738
Total current liabilities		2,610,821
COMMITMENTS		
STOCKHOLDERS' EQUITY		5,483,862

Total liabilities and stockholders' equity	$ 8,094,683

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

EARL JEAN, INC.

STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 2000

NET SALES	$ 28,925,076
COST OF SALES	12,299,050
Gross profit	16,626,026
OPERATING EXPENSES	
Design	1,005,761
Selling	1,808,751
Shipping and handling	904,750
General and administrative	3,401,166
Officers' bonuses	2,698,570
	9,818,998
Income from operations	6,807,028
OTHER INCOME (EXPENSE)	
Interest on stockholder notes payable	(93,674)
Foreign exchange loss	(100,267)
Interest income	10,491
Gains on trading securities, net	33,409
Other income	17,000
Gain on settlement of loss contingency	275,000
	141,959
INCOME BEFORE PROVISION FOR INCOME TAXES	6,948,987

INCOME TAX PROVISION	97,000
NET INCOME	$ 6,851,987

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

EARL JEAN, INC.

STATEMENT OF STOCKHOLDERS' EQUITY

YEAR ENDED DECEMBER 31, 2000

	Common Stock, no par value, 100,000 Shares Authorized			
	Number issued and outstanding	Amount	Retained Earnings	
BALANCE, December 31, 1999	10,000	$ 10,000	$ 1,121,875	$
Net income	-	-	6,851,987	
Dividends, $250 per common share	-	-	(2,500,000)	
BALANCE, December 31, 2000	10,000	$ 10,000	$ 5,473,862	$

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

EARL JEAN, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31, 2000

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 27,490,229
Cash paid to suppliers, employees and others	(23,554,303)
Interest paid	(93,674)
Income taxes paid	(9,400)
Other	(785,482)
Net cash provided by operating activities	3,047,370
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(123,216)
CASH FLOWS FROM FINANCING ACTIVITIES	
Dividends paid	(2,500,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	424,154
CASH AND CASH EQUIVALENTS, beginning of year	141,192

CASH AND CASH EQUIVALENTS, end of year	$	565,346
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Net income	$	6,851,987
Depreciation and amortization		223,155
Increase in allowance for doubtful accounts		352,021
Increase in customer credits		134,369
Gain on settlement of loss contingency		(275,000)
Increase (decrease) in cash due to changes in assets and liabilities		
Marketable securities		(694,839)
Accounts receivable		(1,786,868)
Inventories		(2,172,102)
Prepaid expenses		59,849
Other assets		(51,276)
Accounts payable		95,809
Accrued expenses		222,665
Income taxes payable		87,600
	$	3,047,370

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

EARL JEAN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - NATURE OF BUSINESS

Earl Jean, Inc. (the "Company") designs, manufactures and sells women's casual wear to distributors and department and specialty stores throughout the World, principally the United States, Japan and Europe. The Company also operates a retail store in Los Angeles, California.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION - The Company recognizes revenue upon delivery of goods to customers.

INVENTORIES - Inventories are stated at the lower of cost (first-in, first-out basis), or market.

DEPRECIATION AND AMORTIZATION - Depreciation and amortization of property and equipment is provided using the straight-line method over estimated useful lives of five years. Depreciation and amortization of leasehold improvements is provided using the straight-line method over the life of the lease. Depreciation and amortization expense for the year ended December 31, 2000 amounted to $223,155.

INCOME TAXES - The Company has elected "S" corporation status, which provides for profits and losses to be reported at the individual stockholder level for income tax purposes. The Company pays the necessary amount of dividends in order to satisfy the stockholders' estimated personal income tax liabilities based upon the Company's taxable income. State and local income taxes are provided using the statutory tax rates applicable to "S" corporations.

ADVERTISING COSTS - Advertising costs are expensed in the period incurred. Advertising expense amounted to $186,347 for the year ended December 31, 2000.

CONCENTRATION OF CREDIT RISK - Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. The Company currently maintains substantially all of its day-to-day operating cash balances with major financial institutions in the United States and the United Kingdom. At times, cash balances in the United States may be in excess of Federal Deposit Insurance Corporation insurance limits.

Concentration of credit risk, with respect to uncollateralized accounts receivable, is mitigated due to the Company's large number of geographically diverse customers. The Company controls credit risk through performing ongoing credit evaluations, including credit approvals, credit limits and other monitoring procedures of its customers. The Company's accounts receivable are reflected net of an allowance for doubtful accounts to cover potential credit losses.

EARL JEAN, INC.

NOTES TO FINANCIAL STATEMENTS

CASH AND CASH EQUIVALENTS - For purposes of cash flows, the Company considers all highly liquid investments with maturity of three months or less when purchased by the Company to be cash equivalents.

FOREIGN CURRENCY TRANSACTIONS - The Company makes sales to certain customers in the customers' local currency. Revenues are recorded by the Company in U.S. dollars using the exchange rate in effect at the time of sale. At December 31, 2000 amounts due from these customers included in accounts receivable are translated at the exchange rate in effect at the balance sheet date.

MARKETABLE SECURITIES - The Company's securities investments that are bought through mutual fund investments and held principally for the purpose of selling them in the near term are classified as trading securities. Trading securities are recorded at fair value on the balance sheet in current assets, with the change in fair value during the period included in earnings. For the year ended December 31, 2000 approximately $28,000 has been charged to earnings in respect of net unrealized holding losses on trading securities.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS - In May 2000, Emerging Issues

Task Force (EITF) No. 00-10, "Accounting for Shipping and Handling Fees and Costs" was issued. EITF No. 00-10 governs the accounting treatment and classification of the Company's shipping revenues and certain of its shipping expenses. The Company adopted EITF No. 00-10 during the fourth quarter of fiscal 2000. The adoption of this EITF did not materially affect the classification of revenues from shipments to customers and certain expenses related to shipping and handling of the Company's product for the year ended December 31, 2000. In addition, there was no effect on the Company's net income.

NOTE 3 - INVENTORIES

Piece goods and trim	$ 1,048,844
Work-in-process	603,156
Finished goods	2,291,619
	$ 3,943,619

EARL JEAN, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT

Furniture and equipment	$ 179,286
Automobiles	120,300
Leasehold improvements	341,460
	641,046
Accumulated depreciation and amortization	(306,774)
	$ 334,272

NOTE 5 - NOTES PAYABLE TO STOCKHOLDERS

Unsecured notes payable to the stockholders bear interest at 10% per annum, are due upon demand and are subordinated to the interests of the bank (Note 6). Included in accrued expenses at December 31, 2000 is an amount due to the stockholders of $46,837 in respect to interest due on the notes payable.

NOTE 6 - LINE OF CREDIT

At December 31, 2000, the Company had a $1,500,000 revolving line of credit with a bank providing for working capital advances through May 31, 2001. Interest was either at the bank's reference rate plus .75% or LIBOR plus 2.25% at the option of the Company. The agreement was collateralized by all assets of the Company and was personally guaranteed by the stockholders. The agreement called for the maintenance of financial ratio covenants. At December 31, 2000, the Company believes it was in compliance with the financial ratio covenants. As of December 31, 2000 the Company had no outstanding balance due to the bank under the line of credit. On April 24, 2001 the Company terminated its line of credit with the bank and all personal guarantees and security interests in the Company's assets were released by the bank.

NOTE 7 - COMMITMENTS

The Company leases its operating facilities, showrooms, and retail store under non-cancelable operating leases expiring on various dates through December 2005. Rent expense amounted to $162,561 for the year ended December 31, 2000. Several of the leases contain extension options through January 2006. Subsequent to December 31, 2000 the Company entered into a lease agreement with a related party. No related party rent expense was incurred in the year.

EARL JEAN, INC.

NOTES TO FINANCIAL STATEMENTS

Future minimum rentals under the leases are as follows for years ending December 31:

	OTHERS	RELATED PARTY	TOTAL
2001	$ 262,986	$ 60,000	$ 322,986
2002	161,778	60,000	221,778
2003	138,088	60,000	198,088
2004	96,170	60,000	156,170
2005	55,227	60,000	115,227
	$ 714,249	$ 300,000	$ 1,014,249

NOTE 8 - SUBSEQUENT EVENT

On April 23, 2001 the Company entered into an agreement with a third party purchaser whereby the third party will acquire all of the assets, except cash, and assume certain of the liabilities of the Company on or around April 30, 2001.

The Company was incorporated under the laws of the State of California on November 26, 1997 as a C corporation and commenced business on December 15, 1997 as the successor entity to Earl Jean, a California general partnership. On December 1, 1998 the Company converted from taxable C corporation to non-taxable S corporation status.

It is anticipated that the aforementioned acquisition of the assets will result in federal tax liabilities in respect of "built-in gains" on the appreciation of certain of the Company's assets during the period while the Company was a C corporation.

In order to determine the amount of any federal tax liability, a valuation of the Company's assets at December 1, 1998 would need to be performed. This valuation has not yet been performed. As the amounts of any liabilities are not estimable at this time, the Company has not made provision in these financial statements for any federal tax liabilities that may arise as a result of the asset acquisition in accordance with Statement of Financial Accounting Standards No. 5 "Accounting for Contingencies."

The federal tax liabilities, if any, are the responsibility of the Company and are not being assumed by the purchaser.

NOTE 9 - PROFIT SHARING PLAN

The Company maintains a profit sharing plan which covers all employees who are at least 21 years old and have at least one year of service with the Company. The Company's contributions to the plan are defined in the plan agreement as percentages of stockholder and employee salaries.

Contribution expense for the year ended December 31, 2000 was $130,594 and is included in accrued expenses in these financial statements.

NOTE 10 - MAJOR CUSTOMER AND SEGMENT REPORTING

The Company operates in one principal business segment across domestic and international markets. Revenues from sales in international markets amounted to approximately $17,960,000 for the year ended December 31, 2000. Included in accounts receivable at December 31, 2000 was $796,000 due from these customers.

Sales to a major customer amounted to approximately $11,350,000 or 39% of net sales for the year ended December 31, 2000. Included in accounts receivable at December 31, 2000 is $20,750 due from this customer, and terms are 30 days net.

NOTE 11 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values because of the short maturity of those instruments.

The fair value of the notes payable to stockholders is not estimable because of the related party nature and subordinated features of the amounts due.

NOTE 12 - LITIGATION

At December 31, 1998, the Company had provided an amount of $500,000 for potential future losses in connection with a claim against the Company. Subsequent to December 31, 1998, the claim was settled at an amount below the Company's original estimate. The excess revenue of $275,000 was taken to earnings during the first quarter of 2000.

EARL JEAN, INC.

UNAUDITED BALANCE SHEETS

MARCH 31,		2001	
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$	1,191,894	$
Marketable securities		1,911,820	
Accounts receivable, net of allowances of $358,000 and $5,000, respectively		4,372,985	
Inventories		4,524,315	
Prepaid expenses		8,610	
Total current assets		12,009,624	

PROPERTY AND EQUIPMENT, at cost, net of accumulated depreciation and amortization		306,641
OTHER ASSETS		128,309
Total assets	$	12,444,574

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	$	1,703,259
Accrued expenses		488,976
Income taxes payable		65,600
Notes payable to stockholders		936,738
Total current liabilities		3,194,573
COMMITMENTS		
STOCKHOLDERS' EQUITY		9,250,001
Total liabilities and stockholders' equity	$	12,444,574

EARL JEAN, INC.

UNAUDITED STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31,		2001
NET SALES	$	9,521,579
COST OF SALES		3,494,312
Gross profit		6,027,267

OPERATING EXPENSES	
Design	374,238
Selling	629,880
Shipping and handling	282,066
General and administrative	807,329
	2,093,513
Income from operations	3,933,754
OTHER (EXPENSE) INCOME	
Interest on stockholder notes payable	(23,418)
Foreign exchange loss	(25,567)
Interest income	15,605
Losses on trading securities, net	(93,416)
Other income	17,181
Gain on settlement of loss contingency	-
	(109,615)
INCOME BEFORE PROVISION FOR INCOME TAXES	3,824,139
INCOME TAX PROVISION	58,000
NET INCOME	$ 3,766,139

EARL JEAN, INC.

UNAUDITED STATEMENTS OF STOCKHOLDERS' EQUITY

THREE MONTHS ENDED MARCH 31, 2001 AND 2000

	COMMON SHARES
	NO PAR VALUE, 100,000 SHARES AUTHORIZED

	NUMBER ISSUED AND OUTSTANDING	AMOUNT	RETAINED EARNINGS
THREE MONTHS THEN ENDED MARCH 31, 2001:			
At December 31, 2000	10,000	$ 10,000	$ 5,473,
Net income	-	-	3,766,
AT MARCH 31, 2001	10,000	$ 10,000	$ 9,240,
THREE MONTHS THEN ENDED MARCH 31, 2000:			
At December 31, 1999	10,000	$ 10,000	$ 1,121,
Net income	-	-	2,392,
AT MARCH 31, 2000	10,000	$ 10,000	$ 3,514,

EARL JEAN, INC.

UNAUDITED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31,	2001

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	$ 7,595,763
Cash paid to suppliers, employees and others	(5,472,845)
Interest paid, net	(7,813)
Income taxes paid	(80,000)
Other	(1,376,674)
Net cash provided by operating activities	658,431
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(31,883)
NET INCREASE IN CASH AND CASH EQUIVALENTS	626,548
CASH AND CASH EQUIVALENTS, beginning of period	565,346
CASH AND CASH EQUIVALENTS, end of period	$ 1,191,894
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Net income	$ 3,766,139
Depreciation and amortization	59,621
Increase in allowance for doubtful accounts	-
Gain on settlement of loss contingency	-
Increase (decrease) in cash due to changes in assets and liabilities	
Marketable securities	(1,216,981)
Accounts receivable	(1,925,817)
Inventories	(580,696)
Prepaid expenses	30,303
Other assets	(57,890)
Accounts payable	729,483
Accrued expenses	(123,731)
Income taxes payable	(22,000)
	$ 658,431

EARL JEAN, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF REPORTING

The accompanying financial statements are unaudited and do not include certain information and note disclosures required by generally accepted accounting principles for complete financial statements. However, in the opinion of the Company, all adjustments considered necessary for a fair presentation have been included.

The financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's financial statements for the year ended December 31, 2000. The results of operations for the three month periods ended March 31, 2001 and 2000 are not necessarily indicative of the results that may be expected for the full fiscal year.

NOTE 2 - NATURE OF BUSINESS

Earl Jean, Inc. (the Company) designs, manufactures and sells women's casual wear to distributors and department and specialty stores throughout the World, principally the United States, Japan and Europe. The Company also operates a retail store in Los Angeles, California.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REVENUE RECOGNITION - The Company recognizes revenue upon delivery of goods to customers.

INVENTORIES - Inventories are stated at the lower of cost (first-in, first-out basis), or market.

DEPRECIATION AND AMORTIZATION - Depreciation and amortization of property and equipment is provided using the straight-line method over estimated useful lives of five years. Depreciation and amortization of leasehold improvements is provided using the straight-line method over the life of the lease. Depreciation and amortization expense for the three month periods ended March 31, 2001 and 2000 amounted to $59,621 and $ 52,407, respectively.

INCOME TAXES - The Company has elected "S" corporation status, which provides for profits and losses to be reported at the individual stockholder level for income tax purposes. The Company pays the necessary amount of dividends, in order to satisfy the stockholders' estimated personal income tax liabilities based upon the Company's taxable income. State and local income taxes are provided using the statutory tax rates applicable to "S" corporations.

ADVERTISING COSTS - Advertising costs are expensed in the period incurred. Advertising expense amounted to $88,554 and $67,918 for the three month periods ended March 31, 2001 and 2000, respectively.

CONCENTRATION OF CREDIT RISK - Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. The Company currently maintains substantially all of its day-to-day operating cash balances with major financial institutions in the United States and the United Kingdom. At times, cash balances in the United

States may be in excess of Federal Deposit Insurance Corporation insurance limits.

Concentration of credit risk, with respect to uncollateralized accounts receivable, is mitigated due to the Company's large number of geographically diverse customers. The Company controls credit risk through performing ongoing credit evaluations, including credit approvals, credit limits and other monitoring procedures of its customers. The Company's accounts receivable are reflected net of an allowance for doubtful accounts to cover potential credit losses.

CASH AND CASH EQUIVALENTS - For purposes of cash flows, the Company considers all highly liquid investments with a maturity of three months or less when purchased by the Company to be cash equivalents.

FOREIGN CURRENCY TRANSACTIONS - The Company makes sales to certain customers in the customers' local currency. Revenues are recorded by the Company in U.S. dollars using the exchange rate in effect at the time of sale. At March 31, 2001 and 2000, amounts due from these customers included in accounts receivable are translated at the exchange rate in effect at the corresponding balance sheet date.

MARKETABLE SECURITIES - The Company's securities investments that are bought through mutual fund investments and held principally for the purpose of selling them in the near term are classified as trading securities. Trading securities are recorded at fair value on the balance sheets in current assets, with the change in fair value during the periods included in earnings. For the three months ended March 31, 2001, $93,416 has been charged to earnings in respect of net unrealized holding losses on trading securities. The Company had no transactions in securities for the three months ended March 31, 2000.

USE OF ESTIMATES - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

IMPACT OF NEW ACCOUNTING PRONOUNCEMENTS - In May 2000, Emerging Issues Task Force (EITF) No. 00-10, "Accounting for Shipping and Handling Fees and Costs" was issued. EITF No. 00-10 governs the accounting treatment and classification of the Company's shipping revenues and certain of its shipping expenses. The Company adopted EITF No. 00-10 during the fourth quarter of fiscal 2000. The adoption of this EITF did not materially affect the classification of revenues from shipments to customers and certain expenses related to shipping and handling of the Company's product for the periods presented. In addition, there was no effect on the Company's net income.

EARL JEAN, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 4 - INVENTORIES

	MARCH 31, 2001	MARCH 31, 2000
Piece goods and trim	$ 1,397,108	$ 804,023
Work-in-process	592,265	528,054
Finished goods	2,534,942	1,001,367
	$ 4,524,315	$ 2,333,444

NOTE 5 - PROPERTY AND EQUIPMENT

	MARCH 31, 2001	MARCH 31, 2000
Furniture and equipment	$ 211,169	$ 92,883
Automobiles	120,300	107,300
Leasehold improvements	341,460	341,460
	672,929	541,643
Accumulated depreciation and amortization	(366,288)	(136,350)
	$ 306,641	$ 405,293

NOTE 6 - NOTES PAYABLE TO STOCKHOLDERS

Unsecured notes payable to the stockholders bear interest at 10% per annum, are due upon demand and are subordinated to the interests of the bank (Note 7). Included in accrued expenses at March 31, 2001 and 2000 is an amount due to the stockholders of $23,418 in respect to interest due on the notes payable.

NOTE 7 - LINE OF CREDIT

At March 31, 2001, the Company had a $1,500,000 revolving line of credit with a bank providing for working capital advances through May 31, 2001. Interest was either at the bank's reference rate plus .75% or LIBOR plus 2.25% at the option of the Company. The agreement was collateralized by all assets of the Company and was personally guaranteed by the stockholders. The agreement called for the maintenance of financial ratio covenants. At March 31, 2001, the Company believes it was in compliance with the financial ratio covenants. As of March 31, 2001 and 2000, the Company had no outstanding balance due to the bank under the line of credit. On April 24, 2001 the Company terminated its line of credit with the bank and all personal guarantees and security interests in the Company's assets were released by the bank.

EARL JEAN, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 8 - COMMITMENTS

The Company leases its operating facilities, showrooms, and retail store under non-cancelable operating leases expiring on various dates through December 2005. Rent expense amounted to $79,715 and $24,182 respectively for the three month periods ended March 31, 2001 and 2000. Several of the leases contain extension options through January 2006. Related party rent expense for the three months ended March 31, 2001 amounted to $15,000.

Future minimum rentals under the leases are as follows for years ending December 31:

	OTHERS	RELATED PARTY	TOTAL
2001 (Nine months)	$ 189,407	$ 45,000	$ 234,407
2002	161,778	60,000	221,778
2003	138,088	60,000	198,088
2004	96,170	60,000	156,170
2005	55,227	60,000	115,227
	$ 640,670	$ 285,000	$ 925,670

NOTE 9 - SUBSEQUENT EVENT

On April 23, 2001 the Company entered into an agreement with a third party purchaser whereby the third party will acquire all of the assets, except cash, and assume certain of the liabilities of the Company on or around April 30, 2001.

The Company was incorporated under the laws of the State of California on November 26, 1997 as a C corporation and commenced business on December 15, 1997 as the successor entity to Earl Jean, a California general partnership. On December 1, 1998 the Company converted from taxable C corporation to non-taxable S corporation status.

It is anticipated that the aforementioned acquisition of the assets will result in federal tax liabilities in respect of "built-in gains" on the appreciation of certain of the Company's assets during the period while the Company was a C corporation.

In order to determine the amount of any federal tax liability, a valuation of the Company's assets at December 1, 1998 would need to be performed. This valuation has not yet been performed. As the amounts of any liabilities are not estimable at this time, the Company has not made provision in these financial statements for any federal tax liabilities that may arise as a result of the asset acquisition in accordance with Statement of Financial Accounting Standards No. 5 "Accounting for Contingencies."

The federal tax liabilities, if any, are the responsibility of the Company and are not being assumed by the purchaser.

EARL JEAN, INC.

NOTES TO UNAUDITED FINANCIAL STATEMENTS

NOTE 10 - PROFIT SHARING PLAN

The Company maintains a profit sharing plan which covers all employees who are at least 21 years old and have at least one year of service with the Company. The Company's contributions to the plan are defined in the plan agreement as percentages of stockholder and employee salaries. The Company made no contributions to the profit sharing plan for the three month periods ended March 31, 2001 and 2000. Included in accruals at March 31, 2001 and 2000 are amounts of $130,594 and $82,486, respectively for contributions to be paid to the plan.

NOTE 11 - MAJOR CUSTOMER AND SEGMENT REPORTING

The Company operates in one principal business segment across domestic and international markets. Revenues from sales in international markets amounted to approximately $5,672,000 and $4,603,000 respectively for the periods ended March 31, 2001 and 2000. Included in accounts receivable at March 31, 2001 and 2000 is $2,345,831 and $1,894,073, respectively due from these customers.

Sales to a major customer amounted to approximately $2,367,000 or 25% and $3,203,000 or 47% of net sales for the three month periods ended March 31, 2001 and 2000, respectively. Included in accounts receivable at March 31, 2001 and 2000 is $486,507 and $1,344,992, respectively due from this customer, and terms are 30 days net.

NOTE 12 - FAIR VALUES OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values because of the short maturity of those instruments.

The fair value of the notes payable to stockholders is not estimable because of the related party nature and subordinated features of the amounts due.

NOTE 13 - LITIGATION

At December 31, 1998, the Company had provided an amount of $500,000 for potential future losses in connection with a claim against the Company. Subsequent to December 31, 1998, the claim was settled at an amount below the Company's original estimate. The excess revenue of $275,000 was taken to earnings during the first quarter of 2000.

EXHIBIT 7.2

PRO FORMA FINANCIAL INFORMATION

NAUTICA ENTERPRISES, INC.
PRO FORMA UNAUDITED CONSOLIDATED CONDENSED FINANCIAL
STATEMENTS

The following pro forma unaudited consolidated condensed balance sheet has been prepared by taking the March 3, 2001 balance sheet of Nautica Enterprises, Inc. (the "Company") and the December 31, 2000 balance sheet of Earl Jean, Inc. ("Earl Jean") and giving effect to the acquisition of substantially all of the assets and assumption of certain liabilities of Earl Jean by the Company as if it had occurred on March 3, 2001. The pro forma consolidated condensed balance sheet has been prepared for information purposes only and does not purport to be indicative of the financial condition that necessarily would have resulted had this transaction taken place on March 3, 2001.

The following pro forma unaudited consolidated condensed statement of earnings for the year ended March 3, 2001 gives effect to the Company's acquisition of Earl Jean as if it had occurred at the beginning of the period. The revenues and results of operations included in the following pro forma unaudited consolidated condensed statement of operations is not considered necessarily indicative of the results of operations for the period specified had the transaction actually been completed at the beginning of the period.

These financial statements should be read in conjunction with the notes to the pro forma unaudited consolidated condensed financial statements, which follow, the financial statements of the Company and related notes thereto (as previously filed), and the financial statements of Earl Jean and related notes thereto, included herewith.

NAUTICA ENTERPRISES, INC.
UNAUDITED CONSOLIDATED CONDENSED BALANCE SHEET
MARCH 3, 2001
(AMOUNTS IN THOUSANDS)

	NAUTICA HISTORICAL MARCH 3, 2001	EARL JEAN HISTORICAL DECEMBER 31, 2000	PRO FORMA ADJUSTMENTS INCREASE/ (DECREASE)	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 36,674	$ 565	$ (46,750)	(
			30,000	(
			(565)	(
Short-term investments	5,546	695	(695)	(
Accounts receivable - net	105,269	2,447		
Inventories	98,021	3,944		
Prepaid expenses and other current assets	7,477	39		
Deferred tax benefit	10,859			
Total current assets	263,846	7,690	(18,010)	
PROPERTY, PLANT AND EQUIPMENT - AT COST, LESS ACCUMULATED DEPRECIATION AND AMORTIZATION	101,361	334	(12)	(
GOODWILL			59,980	(
OTHER ASSETS	13,099	71		
	$ 378,306	$ 8,095	$ 41,958	
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES				
Accounts payable - trade	$ 43,881	$ 974		
Accrued expenses and other current liabilities	37,613	613		

Income taxes payable	11,548	87	$ (87)	(
Notes payable		937	30,000	(
			(937)	(
Total current liabilities	93,042	2,611	28,976	
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' EQUITY				
Preferred stock	-			
Common stock	4,333	10	112	(
			(10)	(
Additional paid-in capital	71,766		18,354	(
Retained earnings	368,148	5,474	(5,474)	(
Common stock in treasury	(158,983)			
	285,264	5,484	12,982	
	$ 378,306	$ 8,095	$ 41,958	

NAUTICA ENTERPRISES, INC.
UNAUDITED CONSOLIDATED CONDENSED STATEMENT OF EARNINGS
FOR THE YEAR ENDED MARCH 3, 2001
(AMOUNTS IN THOUSANDS, EXCEPT SHARE DATA)

	NAUTICA HISTORICAL YEAR ENDED MARCH 3, 2001	EARL JEAN HISTORICAL YEAR ENDED DECEMBER 31, 2000	PRO FORMA ADJUSTMENTS INCREASE/ (DECREASE)	
Net sales	$ 627,731	$ 28,925		
Cost of goods sold	367,171	12,299		
Gross profit	260,560	16,626	-	
Selling, general and administrative expenses	196,927	9,819	$ (2,699)	(
			300	(
			2,999	(
Net royalty income	(8,779)			

Operating profit	72,412	6,807	(600)	
Other income		192		
Investment income, net	2,919	(50)	(921)	(
			(2,133)	(
			94	(
			(44)	(
Earnings before provision for income taxes	75,331	6,949	(3,604)	
Provision for income taxes	29,228	97	(1,398)	(
			2,599	(
NET EARNINGS	$ 46,103	$ 6,852	$ (4,805)	
Net earnings per share of common stock				
Basic	$ 1.45			
Diluted	$ 1.39			
Weighted-average number of common shares outstanding				
Basic	31,862,000		1,122,271	(
Diluted	33,241,000		1,122,271	(

NAUTICA ENTERPRISES, INC.
NOTES TO THE PRO FORMA UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

The accompanying pro forma unaudited consolidated condensed balance sheet and statement of earnings present the financial position and results of operations of Nautica Enterprises, Inc. (the "Company') giving effect to the acquisition on April 30, 2001 of substantially all of the assets and assumption of certain liabilities of Earl Jean, Inc. ("Earl Jean").

On April 30, 2001, the Company, through a wholly-owned subsidiary, acquired substantially all of the assets and assumed certain liabilities of Earl Jean for a combination of cash consideration of $45,000,000, 1,122,271 newly-issued shares of the Company's restricted common stock, a working capital adjustment of approximately $1,800,000 and up to $21,000,000 in contingent payment if certain performance targets are met between fiscal 2003 and 2012. The source of cash consideration was a combination of general corporate funds and short-term borrowings of the Company's existing line of credit made in the ordinary course of business by certain banks.

The pro forma unaudited consolidated condensed financial statements reflect the $45,000,000 in cash paid at the closing and the issuance of 1,122,271 shares of Company's common stock (valued at $18,465,847). The $21,000,000 contingent purchase price and the $1,800,000 working capital adjustment have not been given effect in the pro forma unaudited consolidated condensed financial statements and will be recorded when the contingency is resolved.

Concurrently, with the acquisition, the Company borrowed $30,000,000 under its existing short-term borrowing facilities to fund a portion of the cash paid for the acquisition.

Had the contingent amounts been recorded, the cash payment would have increased by $22,800,000, with a corresponding increase in goodwill of $21,000,000 and a working capital increase, other than cash, of approximately $1,800,000. In addition, pro forma earnings before income taxes and pro forma net earnings after pro forma income taxes would have decreased by $2,350,000 and $1,438,000, respectively, for the year ended March 3, 2001. In addition, pro forma basic and diluted earnings per share would have decreased by $.04 for the year ended March 3, 2001.

The adjustments below were prepared based on estimates or approximations. It is possible that the actual amounts recorded may have an impact on the results of operations and the balance sheet different from that reflected in the accompanying pro forma unaudited consolidated condensed financials statements. It is therefore possible that the entries below will not be the amounts actually recorded at the closing date.

NAUTICA ENTERPRISES, INC.
NOTES TO PRO FORMA UNAUDITED CONSOLIDATED

CONDENSED FINANCIAL STATEMENTS

BALANCE SHEET AT MARCH 3, 2001:

(a) To record the acquisition of substantially all the assets and certain liabilities of Earl Jean for a fixed purchase price of $63,465,847, plus acquisition expenses of $1,750,000

Purchase price, paid in cash	$ 45,000,000
Purchase price paid in Company common stock	18,465,847
Acquisition costs (cash)	1,750,000
Total purchase price	$ 65,215,847

Financed by:	
Cash	$ 16,750,000
Short-term borrowings	30,000,000
Common stock(1,122,271 shares)	18,465,847
Total purchase price	$ 65,215,847

(b) To eliminate assets and liabilities not included in the acquisition:

Cash	$ 565,346
Short-term investments	694,839
Fixed Assets	12,000
Income taxes payable	87,600
Shareholder note payable	936,738

(c) To allocate excess purchase price to goodwill

(d) To eliminate equity and retained earnings of Earl Jean

STATEMENT OF EARNINGS FOR THE YEAR ENDED MARCH 3, 2001

(a) To eliminate bonuses of the former officers of Earl Jean

(b) To record additional salaries new employment arrangements

(c) To amortize goodwill based upon a twenty-year life

(d) To eliminate interest income received on $16,749,440 at an annual rate of 5.5%

(e) To record interest expense on note payable of $30,000,000 at an average annual rate of 7.11% to finance cash payment to Earl Jean

(f) To eliminate interest expense on shareholder note of $936,738

(g) To eliminate interest income of $10,491 and gains on trading securities of $33,409 on Earl Jean cash and marketable securities

(h) To record tax effect of pro forma adjustments at 38.8%

(i) To record additional tax provision on Earl Jean at 38.8% as if it were a C Corporation which it had not been subject to because it was an S Corporation

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