

FORM 10-QSB

(Mark One)

X Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended October 31, 1995

or

Transition Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the transition period from to

Commission file Number 0-10593

CANDIE'S, INC.

(Exact name of small business issuer as specified in its charter)

Delaware 11-2481903
(State or other jurisdiction of I.R.S. Employer
incorporation or organization) Identification No.)

2975 Westchester Avenue, Purchase, New York 10577
(Address of principal executive offices)

(914) 694-8600
(Issuer's telephone number, including area code)

(Former name, former address and former fiscal year,
if changed since last report)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 of 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

APPLICABLE ONLY TO CORPORATE ISSUERS

The number of shares of the registrant's Common Stock, \$.001 par value, outstanding as of December 15, 1995 excluding treasury shares): 8,265,995

Transitional small business disclosure format (check one):

YES NO X

CANDIE'S, INC. AND SUBSIDIARIES
INDEX TO FORM 10-QSB
FOR THE PERIOD ENDED OCTOBER 31, 1995

PAGE

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

Condensed Consolidated Balance Sheets at October 31, 1995
and January 31, 1995

3-4

Condensed Consolidated Statements of Operations for the

Three Months Ended October 31, 1995 and 1994	5
Condensed Consolidated Statements of Operations for the Nine Months Ended October 31, 1995 and 1994	6
Condensed Consolidated Statement of Stockholders Equity for the Nine Months Ended October 31, 1995	7
Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 31, 1995 and 1994	8-9
Notes to Condensed Consolidated Financial Statements	10-17
ITEM 2.	
Management's Discussion and Analysis of Financial Condition and Results of Operations	18-20
ART II. OTHER INFORMATION	21
SIGNATURES	21

Page 2

PART I

Item 1.

CANDIE'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	OCTOBER 31, 1995	JANUARY 31, 1995
ASSETS		
CURRENT ASSETS:		
CASH AND CASH EQUIVALENTS	\$ 207,227	\$ --
RESTRICTED CASH	--	100,000
ACCOUNTS RECEIVABLE		
net allowances of \$254,092 and \$45,000		
at October 31, 1995 and January 31, 1995	663,908	583,911
INVENTORIES	3,485,826	3,269,158
PREPAID EXPENSES	1,011,685	151,195
OTHER CURRENT ASSETS	136,313	--
TOTAL CURRENT ASSETS	5,504,959	4,104,264
PROPERTY AND EQUIPMENT:		
LESS ACCUMULATED DEPRECIATION		
AND AMORTIZATION (Note 3)	138,293	142,960
OTHER ASSETS:		
NON-COMPETITION AGREEMENTS	384,408	414,234
TRADEMARK	4,902,170	5,114,282
OTHER	459,776	514,274

TOTAL OTHER ASSETS	5,746,354	6,042,790
TOTAL ASSETS	\$11,389,606	\$10,290,014

Page 3

CANDIE'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	OCTOBER 31, 1995	JANUARY 31, 1995
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
ACCOUNTS PAYABLE	\$ 3,349,303	\$ 1,820,598
PAYABLE FOR INVENTORY IN TRANSIT	705,273	1,105,845
DUE TO FACTOR (Note 4)	410,797	1,162,035
ACCRUED LITIGATION EXPENSE	--	100,000
ACCRUED EXPENSES AND TAXES	1,230,633	1,394,253
ACCRUED U.S. CUSTOMS DUTIES (Note 9)	55,383	63,427
TOTAL CURRENT LIABILITIES	5,751,389	5,646,158
OTHER NONCURRENT LIABILITIES	25,111	206,213
ACCRUED U.S. CUSTOMS DUTIES (Note 9)	2,140	45,746
TOTAL LIABILITIES	5,778,640	5,898,117
STOCKHOLDERS' EQUITY:		
PREFERRED STOCK, \$.01 PAR VALUE - SHARES AUTHORIZED 5,000,000; NONE ISSUED OR OUTSTANDING		
COMMON STOCK, \$.001 PAR VALUE - SHARES AUTHORIZED: 30,000,000 ISSUED 8,742,034 AT October 31, 1995 AND 8,709,425 AT January 31, 1995	8,742	8,709
ADDITIONAL PAID-IN CAPITAL	9,200,305	9,162,837
DEFICIT, since February 28, 1993, (deficit eliminated \$27,696,007)	(3,598,081)	(4,779,649)
TOTAL STOCKHOLDERS' EQUITY	5,610,966	4,391,897
TOTAL LIABILITIES AND STOCK- HOLDERS' EQUITY	\$11,389,606	\$10,290,014

CANDIE'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED OCTOBER 31,
(unaudited)

	1995	1994
LANDED SALES	\$ 9,333,498	\$ 4,826,909
COMMISSION AND LICENSING INCOME	1,268,696	1,126,476
TOTAL REVENUES	10,602,194	5,953,385
 COST OF LANDED SALES	 7,401,356	 4,324,481
TOTAL GROSS PROFIT	3,200,838	1,628,904
 OPERATING EXPENSES:		
SELLING EXPENSES	1,324,304	1,159,058
GENERAL & ADMINISTRATION EXPENSES	856,205	798,013
REVERSAL OF ACCRUAL NO LONGER REQUIRED - PENSION PLAN	--	(340,000)
 TOTAL OPERATING EXPENSES	 2,180,509	 1,617,071
OPERATING INCOME	1,020,329	11,833
OTHER DEDUCTIONS:		
LOSS ON SETTLEMENT OF OBLIGATIONS	--	(155,000)
INTEREST - NET	(242,176)	(228,155)
OTHER EXPENSES	--	(131,858)
 TOTAL OTHER DEDUCTIONS	 (242,176)	 (515,013)
 INCOME (LOSS) BEFORE TAXES AND EXTRAORDINARY ITEM	 778,153	 (503,180)
INCOME TAXES (RECOVERY)	72,511	(8,825)
 NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	 705,642	 (494,355)
 EXTRAORDINARY ITEM--GAIN ON EXTINGUISHMENT OF DEBT, NET OF INCOME TAXES OF \$121,000	 --	 2,702,175
NET INCOME	\$ 705,642	\$ 2,207,820
 EARNINGS (LOSS) PER SHARE:		
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	\$.07	\$ (.07)
EXTRAORDINARY ITEM--GAIN ON EXTINGUISHMENT OF DEBT, NET OF INCOME TAXES OF \$.02 FOR 1994	--	.40
NET INCOME	\$.07	\$.33
 WEIGHTED AVERAGE OUTSTANDING SHARES	 14,452,746	 6,660,846

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE NINE MONTHS ENDED OCTOBER 31,
(unaudited)

	1995	1994
LANDED SALES	\$26,793,435	\$14,059,938
COMMISSION AND LICENSING INCOME	3,399,892	3,413,182
TOTAL REVENUES	30,193,327	17,473,120
COST OF LANDED SALES	21,868,908	12,382,485
TOTAL GROSS PROFIT	8,324,419	5,090,635
OPERATING EXPENSES:		
SELLING EXPENSES	3,653,856	3,265,138
GENERAL & ADMINISTRATIVE EXPENSES	2,615,305	2,381,490
REVERSAL OF ACCRUAL NO LONGER REQUIRED - PENSION PLAN	--	(340,000)
TOTAL OPERATING EXPENSES	6,269,161	5,306,628
OPERATING INCOME (LOSS)	2,055,258	(215,993)
OTHER (DEDUCTIONS) AND INCOME:		
(LOSS) GAIN ON SETTLEMENT OF OBLIGATIONS	(113,000)	728,249
INTEREST - NET	(628,079)	(534,844)
OTHER EXPENSES	--	(131,858)
TOTAL OTHER (DEDUCTIONS) AND INCOME	(741,079)	61,547
INCOME (LOSS) BEFORE TAXES AND EXTRAORDINARY ITEM	1,314,179	(154,446)
INCOME TAXES	132,611	3,586
NET INCOME (LOSS) BEFORE EXTRAORDINARY ITEM	1,181,568	(158,032)
EXTRAORDINARY ITEM--GAIN ON EXTINGUISHMENT OF DEBT, NET OF INCOME TAXES OF \$121,000	--	2,702,175
NET INCOME	\$ 1,181,568	\$ 2,544,143
EARNINGS (LOSS) PER SHARE:		
NET INCOME (LOSS BEFORE EXTRAORDINARY ITEM	\$.14	\$ (.03)
EXTRAORDINARY ITEM--GAIN ON EXTINGUISHMENT OF DEBT, NET OF INCOME TAXES OF \$.02 FOR 1994	--	.47
NET INCOME	\$.14	\$.44
WEIGHTED AVERAGE OUTSTANDING SHARES	8,542.944	5,752,943

Page 6

CANDIE'S, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED OCTOBER 31, 1995
(unaudited)

	Common Shares	Stock Amount	Paid-In Capital	Accumulated Deficit	Total
Balance, January 31, 1995	8,709,425	\$8,709	\$9,162,837	\$(4,779,649)	\$4,391,897
Issuance of common					

stock due to warrant exercise.	32,609	33	37,468	0	37,501
Net income	0	0	0	1,181,568	1,181,568
Balance, October 31, 1995	8,742,034	\$8,742	\$9,200,305	\$(3,598,081)	\$5,610,966

Page 7

CANDIE'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED OCTOBER 31,
(unaudited)

	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 1,181,568	\$2,544,143
Items In Net Income Not Affecting Cash:		
Provision For Losses On		
Accounts Receivable	209,092	20,500
Depreciation and Amortization	316,811	372,174
Provision For Pension Costs	--	(340,000)
Gains on Settlement of		
Obligations	--	(3,551,424)
Loss on Disposal of Fixed Assets	--	60,755
Increase (Decrease) In Cash Flows From Changes In Operations:		
Assets and Liabilities	(1,479,933)	(380,739)
Net Cash Provided By (Used In) Operating Activities	\$ 227,538	\$(1,274,591)

CANDIE'S, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED OCTOBER 31,
(unaudited) (CONT'D.)

	1995	1994
CASH FLOWS FROM		
INVESTING ACTIVITIES:		
Capital Expenditures	\$ (57,812)	\$ (69,089)
Net Cash Used in		
Investing Activities	(57,812)	(69,089)
CASH FLOWS FROM		
FINANCING ACTIVITIES:		
Proceeds from Notes Payable - New Retail		
Concepts, Inc.	600,000	--
Repayments of Notes Payable - New Retail		
Concepts, Inc.	(600,000)	--
Net Payments under Revolving Credit		
Agreement	--	(570,000)
Proceeds from private placements		
net of expenses	--	2,009,319
Proceeds from exercise of warrants	37,501	--
Net Cash Provided By		
Financing Activities	37,501	1,439,319
NET INCREASE IN CASH AND		
CASH EQUIVALENTS	207,227	95,639
CASH AND CASH EQUIVALENTS,		
beginning of period	--	114,153
CASH AND CASH EQUIVALENTS,		
end of the period	\$207,227	\$ 209,792
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$567,532	\$ 813,525
Income Taxes	\$ 53,757	\$ 49,310

CANDIE'S, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1995

1. Continuing Operations

Business, Secondary Offering and Other Transactions

Candie's, Inc., the Registrant, together with its subsidiaries is sometimes referred to herein as Candie's or the "Company."

The Condensed Consolidated Financial Statements included herein are unaudited and include all adjustments which are in the opinion of management, necessary for a fair presentation of the results of operations of the interim period pursuant to the rules and regulations of the U.S. Securities and Exchange Commission. Certain information and footnote disclosures normally included under generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures in such financial statements are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the Company's Financial Statements and the notes thereto included in the Company's Annual Report on Form 10-KSB for the fiscal year ended January 31, 1995.

The Company designs, markets, imports and distributes a variety of moderately-priced athletic, leisure and fashion footwear for women and girls under the trademarks CANDIE'S, ASPEN and BONGO. The Company's product line also includes a wide variety of workboots, hiking shoes and men's leisure shoes designed, marketed and distributed by the Company's wholly-owned subsidiary, Bright Star Footwear, Inc. ("Bright Star").

(i) Secondary Offering

The Company completed an offering of its common stock (the "Secondary Offering") on February 23, 1993. Upon the effectiveness of the Secondary Offering, the Company's stockholders approved the following: (1) a change in the company's name from Millfeld Trading Co., Inc., to Candie's, Inc., (2) a 1 for 4.5 reverse stock split of its common stock for which retroactive effect has been given in the financial statements, and (3) a quasi-reorganization.

The following transactions ((ii) through (v)) occurred contemporaneously upon effectiveness or closing of the Secondary Offering:

(ii) Debenture Conversion

Upon effectiveness of the Secondary Offering and immediately prior to the reverse stock split, the holder of the Company's \$3,500,000 subordinated convertible debenture (the "Debenture") converted the Debenture, in accordance with its terms, into 3,500,000 shares of common stock. Upon the completion of the reverse split, such former holder made a capital contribution of 127,777 of his 777,777 post-split shares of common stock to the Company and cancelled a warrant to purchase additional shares of common stock previously issued to him in connection with the Debenture.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1995

(iii) The El Greco Transactions

Upon the closing of the Secondary Offering, the Company and El Greco, Inc., an affiliated company, consummated the following transactions (the "El Greco Transactions"): (i) El Greco received 900,000 shares of the Company's common stock; (ii) El Greco transferred the trademarks "CANDIE'S," "ACTION CLUB," "FULLMOON" and "SUGAR BABIES" (collectively, the "Trademarks"), and all of its business operations associated with the Trademarks, to the Company; (iii) El Greco assigned all of its preexisting agreements with licensees of the Trademarks to the Company; (iv) the Company issued to El Greco a subordinated note in the principal amount of \$325,000, plus interest payable quarterly at the "prime interest rate" (as defined) (the "El Greco Note"); and (v) the Company paid El Greco's expenses, including attorney's fees relating to the El Greco Transactions, in the sum of \$75,000 from the proceeds of the offering. In May 1994, the El Greco Note was satisfied.

Upon the closing of the El Greco Transactions, the Company ceased to be a licensee and acquired actual ownership of the Candie's trademark.

In conjunction with the closing of the Secondary Offering and the transfer of the Trademarks from El Greco to the Company, El Greco's operations were merged into the operations of New Retail Concepts, Inc. ("NRC"), a significant shareholder of the Company and an entity in which the Company's President is a principal stockholder.

(iv) Institutional Lender-Forgiveness ("Debt Restructuring")

At the closing of the Secondary Offering, the Company's Institutional Lender agreed to restructure the Company's indebtedness which aggregated approximately \$11,190,000, including accrued interest at February 28, 1993. Such Debt Restructuring included the forgiveness of approximately \$5,940,000 of such debt and the restructuring of the payment terms relating to the remaining principal amount of such loans. As a result of and upon the completion of the Debt Restructuring, the Company's outstanding indebtedness (excluding letters of credit) to the Institutional Lender totaled approximately \$5,250,000 at February 28, 1993.

(v) Quasi-Reorganization

Upon effectiveness of the Secondary Offering and the Debt Restructuring, the Company's stockholders approved a corporate readjustment of the Company's accounts in the form of a quasi-reorganization which was effected upon the completion of the El Greco Transactions and the Debt Restructuring.

A quasi-reorganization, often referred to as "Fresh Start Accounting," is an accounting procedure which accomplishes, with respect to the Company's accounts and financial statements, what might have been accomplished in reorganization by legal proceedings. The Company's assets, liabilities and capital accounts were adjusted to eliminate the stockholders' deficiency. On completion of the readjustments, the Company's accounts and financial statements were substantially similar to those of a new company commencing business. The Company believes the quasi-reorganization was appropriate

Page 11

CANDIE'S, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1995

because on completion of the Debenture Conversion and the Debt Restructuring and installation of a new management team, the Company had substantially reduced its outstanding indebtedness, which to a great extent was incurred in connection with the Discontinued Footwear Products had formulated revised operating plans and as a result thereof would be able to devote its resources to its continuing operations and development of the Trademarks.

2. Summary of Significant Account Policies

Basis of Presentation

Going Concern

The Company's consolidated financial statements have been presented on a going concern basis which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. The liquidity of the Company and its ability to obtain financing for its operations has been adversely affected by recurring operating losses during the fiscal years ended January 31, 1992, 1993 and 1994.

Although during the quarter ended April 30, 1993 the Company successfully completed the Secondary Offering and Debt Restructuring which improved its financial condition, prior management's unresolved operating issues and vendor negotiations continued to negatively impact the Company's operations and, additionally, the Company incurred operating losses for its fiscal years ended January 31, 1994 and January 31, 1995. At October 31, 1995, the Company had a working capital deficit of \$246,430. The operating losses of prior years have resulted in an accelerated use of funds provided by the public and private offerings of the Company's securities and adversely affected the Company's liquidity. These factors, among others raise doubt about the Company's ability to continue as a going concern.

The continuation of the Company is dependent upon the continued support of the Company's trade vendors, and institutional lenders and ultimately upon the Company achieving profitable operations. The consolidated financial statements do not include any adjustments relating to the recoverability of assets and classification of liabilities or any other adjustments that may be necessary should the Company be unable to continue as a going concern.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries and a 60% subsidiary. All material intercompany accounts and transactions are eliminated.

Page 12

CANDIE'S, INC. AND SUBSIDIARIES NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS October 31, 1995

Inventories

Inventories, which consist entirely of finished goods, are valued at the lower of cost or market. Cost is determined by the first-in, first-out ("FIFO") method.

Property, Equipment and Depreciation

Property and equipment are stated at cost. Depreciation is computed over the estimated useful lives of the assets (5-10 years) using accelerated methods.

Candie's Trademark

The Candie's trademark is stated at cost, net of amortization, as determined by its fair value relative to other assets and liabilities revalued in the aforementioned quasi-reorganization, and is being amortized over twenty years. The Company believes that the trademark has continuing value, as evidenced by increasing sales and expected profitability of Candie's products, which will be realized over the course of its useful life.

Revenue Recognition

The Company's products are sold on either a landed or first cost basis. In the case of landed sales, the Company bears the risk of loss until the products are delivered to the customer. Revenues on landed sales are recognized when the products are delivered to the customers. For goods sold on a first cost basis, the Company acts as agent only, without risk of loss,

and charges a commission on the sale. Commission income is recognized upon shipment by the manufacturers.

Earnings Per Share

Earnings per common share is computed based on the modified treasury stock method which considers the weighted average number of common stock and common stock equivalents outstanding during each year, retroactively adjusted to give effect to all stock splits. Common stock equivalents include stock options and warrants reduced by the shares which could be purchased with the assumed proceeds from such shares. Common stock equivalents that have an antidilutive effect on earnings per share are not included in the calculation.

Reclassifications

Certain amounts from the prior years' financial statements have been reclassified to conform to the current year's presentation.

3. Property and Equipment

Major classes of property and equipment consist of the following:

Page 13

CANDIE'S, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1995

	October 31, 1995	January 31, 1995
Furniture and equipment	\$ 807,874	\$ 750,063
Transportation	20,750	44,443
	828,624	794,506
Less accumulated depreciation and amortization	690,331	651,546
Net property and equipment	\$ 138,293	\$ 142,960

4. Factor Agreement

In April 1993, the Company entered into an accounts receivable factoring agreement ("Factor Agreement"). The agreement provides the Company with the ability to borrow funds from the factor, limited to 85% (increased from 80% in August 1995) of eligible accounts receivable and up to 50% of eligible finished goods inventory (to a maximum of \$6 million in inventory) in which the factor has a security interest. The agreement also provides for the opening of documentary letters of credit (up to a maximum of \$2.5 million) to suppliers, on behalf of the Company. The factor requires a deposit equal to 43% of the amount of the letter of credit to be opened. Borrowings bear interest at the rate of one and one half percent (1-1/2%) over the existing prime rate established by the Philadelphia National Bank. The Company's President personally guarantees any and all borrowings with the factor.

Due to Factor is comprised as follows:

	October 31, 1995	January 31, 1995
Accounts Receivable - assigned	\$5,972,752	\$3,478,771
Outstanding advances	6,383,548	4,640,806
Due to Factor	\$ 410,797	\$1,162,035

5. Related Party Transactions

The Company entered into a Services Allocation Agreement with NRC, pursuant to which the Company will provide NRC with financial, marketing, sales and other business services for which NRC will be charged an allocation of the Company's expenses, including employees' salaries associated with such services.

6. Leases

In April of 1994, the Company entered into a termination agreement for its former premises whereby the Company agreed to issue up to 300,000 shares and has issued 200,000 shares of its common stock to date to its former landlord. During August 1994, the Company entered into a new lease agreement and relocated its corporate headquarters to Purchase, NY.

Page 14

CANDIE'S, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1995

Rent expense was approximately \$177,095 and \$205,229 for the nine months ended October 31, 1995 and 1994, respectively. As of October 31, 1995, future net minimum lease payments under noncancellable operating lease agreements are as follows:

1996	\$ 58,000
1997	231,000
1998	255,000
1999	283,000
2000	289,000
Thereafter	48,000
	\$1,164,000

7. Long-Term Debt

On October 6, 1994, the Company consummated an agreement with its Institutional Lender to extinguish its outstanding indebtedness of approximately \$3,378,000. As part of the extinguishment, the Company paid \$555,000 of principal and approximately \$140,000 of accrued interest. The Institutional Lender also received the proceeds from the sale of 322,222 shares of the Company's previously issued common stock and certain real property from the Company's former President, both previously pledged as collateral. The principal and interest payments were made from funds raised through private placements of the Company's stock completed in October 1994 (see Note 8). The extinguishment resulted in an extraordinary gain of approximately \$2,702,000, net of income taxes.

8. Private Placement Offerings

(i) In May 1994, the Company consummated two private placements of its common stock as follows:

(a) 33,333 shares at \$1.50 per share, resulting in aggregate proceeds of \$50,000.

(b) 248,148 shares at \$1.35 per share, resulting in aggregate proceeds of \$335,000.

In connection with these private placements of its common stock, the Company incurred fees and expenses of approximately \$66,900.

(ii) In October 1994, the Company issued 956,522 shares of its common stock at \$1.15 per share and 10,286 shares of its 8% Series A Convertible Preferred Stock at \$100 per share for aggregate proceeds of approximately \$1,730,200, net of related expenses of approximately \$398,400. The Company used a portion of those funds to repay principal and accrued interest on its institutional indebtedness (see Note 7). In conjunction with these offerings, the Company issued 55,000 shares of its common stock in lieu of payment of professional fees incurred.

Page 15

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1995

(iii) In November 1994, the Company sold 86,957 shares of common stock to NRC for \$100,000.

9. Commitments, Contingencies and Other Matters

(a) In April 1991, an action was commenced derivatively on behalf of Candie's, Inc. against certain of the Company's former directors and the Company as a nominal defendant (the "Defendants"). The complaint alleges that the Company's actions in connection with a public offering to exchange warrants for the Company and the reacquisition of ITG were detrimental to the Company's financial condition. The plaintiff seeks an accounting by the Company and payment by the Board of Directors of an unspecified amount of damages. In September 1991, the defendants moved to dismiss the complaint for failure to state a cause of action. The motion was granted in October 1991 based upon the court's mistaken belief that the plaintiff had defaulted with respect to the motion. The parties agreed to reinstate the motion in June 1992 and the motion has again been submitted to the Court for its determination. The Company and the individual defendants intend to vigorously defend the action.

(b) In June 1991, the Company and prior management received a notice from the U.S. Customs Service ("U.S. Customs"), that it intended to audit the Company's payments of customs duties for the period 1986 to June 1991. After a preaudit review, the Company voluntarily reported to U.S. Customs in September 1991 that it had miscalculated certain customs duties owed, resulting in underpayment of \$1,627,344 which was included in operations for the year ended January 31, 1992.

The Company paid \$813,672 to U.S. Customs in October 1991. In August 1992, the Company and U.S. Customs reached an agreement whereby the Company was to pay an additional \$1,000,000 to relieve the Company of all liabilities for Customs' duties, penalties and interest owed from 1986 through September 30, 1991. Such \$1,000,000 was paid from the proceeds of the Secondary Offering consummated on February 23, 1993. The Company also agreed to settle all claims for Customs' duties and penalties allegedly owed for the period October 1, 1991 to December 31, 1991, by the payment of \$180,000 plus interest, commencing July 1, 1993, at the rate of \$5,000 per month for 40 months.

(c) In October of 1994, a former employee of the Company and NRC commenced an action in the United States District Court for the Southern District of New York against the Company and NRC, alleging the existence and breach of employment agreements with NRC and assumption of the agreements by the Company. The former employee is claiming damages for unpaid compensation, bonuses and unreimbursed expenses aggregating in excess of \$500,000. On June 21, 1995, this suit was settled for (i) \$226,000, payable in 36 equal semimonthly installments over eighteen months, which was allocated equally to the Company and NRC and (ii) NRC agreed to acquire 495,000 shares of NRC's common stock held by the plaintiff for \$105,000. Provision for the Company's pro rata share of the settlement of \$113,000 is included in the financial statements. The Company and NRC are jointly and severally liable for the

Page 16

CANDIE'S, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
October 31, 1995

\$226,000 settlement. If the Company is sold or merged, substantially liquidated or disposed of or files bankruptcy, the entire amount due under the settlement agreement becomes immediately due and payable. Further, if any of the above conditions happen to NRC, one-half of the amount due becomes immediately due and payable.

(d) During fiscal year ended January 31, 1995, the Company settled amounts due for federal and state tax liabilities in the aggregate amount of approximately \$526,000. As of October 31, 1995 all such tax liabilities have been repaid.

(e) The Company has been advised by the Staff of the Securities and Exchange

Commission (the "Commission") that the Commission has authorized the Staff to commence an administrative proceeding against the Company with respect to alleged violations of Section 5 of the Securities Act of 1933 in connection with the Company's 1993 Regulation S Offering (the "Offering") of shares of common stock in the aggregate amount of \$2,000,000. The Company believes that the outcome of any proceeding which the Commission may bring against it in connection with the Offering will not have a material adverse affect on the Company or its financial condition.

(f) As of February 1, 1995, the Company is operating under an exclusive licensing arrangement which enables the Company to sell footwear in North America bearing the BONGO trademark. The Company paid a \$200,000 minimum fee, and is required to pay additional minimum amounts totaling \$820,000 over a three and one-half year period. The agreement provides for the Company to pay additional royalties, based on percentages of sales, exceeding minimum amounts, as defined.

(g) On February 1, 1995, the Company entered into a financing agreement with NRC, an affiliated entity. Pursuant to the financing agreement, the Company borrowed \$600,000 from NRC and issued promissory notes with interest payable at the prime rate and issued to NRC warrants to purchase 700,000 shares of the Company's common stock (exercisable at an initial price of \$1.2375 per share). As of October 31, 1995, the \$600,000 promissory notes have been repaid.

10. Settlement Agreements

As a result of settlements of litigations and certain other obligations, the Company is obligated at October 31, 1995 to pay an aggregate total of \$303,522 of which \$14,694 is included in other non-current liabilities.

Page 17

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Three Months Ended October 31, 1995

Landed sales (sales of products which are acquired by the Company) of branded footwear increased to \$9,333,498 for the three months ended October 31, 1995 as compared with \$4,826,909 for the three month period ended October 31, 1994. The \$4,506,589 (93%) increase was primarily due to increased market acceptance of Candie's footwear products and the introduction of footwear products bearing the BONGO trademark.

The gross profit on landed sales increased by \$1,429,712 from \$502,428 to \$1,932,142 for the three months ended October 31, 1995 over the three month period ended October 31, 1994 as a result of increased sales of Candie's footwear products. The gross profit percentage on landed sales increased from 10.4% for the three months ended October 31, 1994 to 20.7% for the quarter ended October 31, 1995. The factors which contributed to the increase in gross profit included, among others, the Company's ability to obtain from certain suppliers volume discounts on purchased merchandise, a decrease in inventory markdowns due to wider brand acceptance, and tighter internal controls which resulted in a reduction in the rate of customers' chargebacks and deductions.

Commission and licensing income for the three months ended October 31, 1995 increased by \$142,220 (12.6%) over the same period last year primarily because of increased sales of footwear on a "first cost basis." When products are sold on a first cost basis, the Company acts as agent for its customers in supervising the design and production of products. In return,

the Company generally receives a commission based on a percentage of the sales price.

Selling expenses as a percentage of sales decreased for the three months ended October 31, 1995 as compared to the three months ended October 31, 1994.

General and Administrative expenses as a percentage of sales decreased for the three months ended October 31, 1995 as compared to the same period in 1994.

Operating income increased from \$11,833 for the three months ended October 31, 1994 to \$1,020,329 for the three months ended October 31, 1995. The \$1,008,496 increase was due to a significant increase in sales coupled with an increase in the Company's gross profit percentage on those sales.

Interest expense increased by \$14,021 for the three months ended October 31, 1995 as compared to the same period last year. The increase was primarily due to the Company's sales growth which required an increase in borrowings under the Factor Agreement (see Note 4 of Notes to Condensed Consolidated Financial Statements).

Page 18

As a result of the foregoing, the Company's net income before extraordinary items for the three months ended October 31, 1995 increased to \$705,642 from a net loss of \$494,355 for the corresponding period ended October 31, 1994.

Nine Months Ended October 31, 1995

Landed sales of branded footwear increased to \$26,793,435 for the nine months ended October 31, 1995 as compared with \$14,059,938 for the nine month period ended October 31, 1994. The \$12,733,497 (91%) increase was primarily due to increased market acceptance of Candie's footwear products.

The gross profit on landed sales increased by \$3,247,074 from \$1,677,453 to \$4,924,527 for the nine months ended October 31, 1995 over the nine month period ended October 31, 1994 as a result of increased sales of Candie's footwear products. The gross profit percentage on landed sales increased from 11.9% for the nine months ended October 31, 1994 to 18.4% for the nine months ended October 31, 1995. The factors which contributed to the increase in gross profit included, among others, the Company's ability to obtain from certain suppliers volume discounts on purchased merchandise, a decrease in inventory markdowns due to wider brand acceptance, and tighter internal controls which resulted in a reduction in the rate of customers' chargebacks and deductions.

Selling expenses as a percentage of sales decreased for the nine months ended October 31, 1995 as compared to the nine months ended October 31, 1994.

General and Administrative expenses as a percentage of sales decreased for the nine months ended October 31, 1995 as compared to the nine months ended October 31, 1994.

Operating income increased from a loss of \$215,993 for the nine months ended October 31, 1994 to income of \$2,055,258 for the nine months ended October 31, 1995. The increase was primarily due to a 91% increase in landed sales along with a corresponding 6.5% increase in the gross profit percentage on those sales.

Interest expense increased by \$93,235 for the nine months ended October 31, 1995 as compared to the same period last year. The increase was primarily due to an increase in financing under the Factor Agreement (see Note 4 of Notes to Consolidated Financial Statements).

As a result of the foregoing, the Company's net income before extraordinary items for the nine months ended October 31, 1995 increased to \$1,181,568 from a loss of \$158,032 for the corresponding period ended October 31, 1994.

Liquidity and Capital Resources

In the report on the Company's annual financial statements at January 31, 1995, the Company's independent certified public accountants have included an explanatory paragraph in their report on the Company's financial statements stating certain factors which raise a substantial doubt about the Company's ability to continue as a going concern.

Page 19

At October 31, 1995, the Company had a working capital deficiency of \$246,430 compared to a working capital deficiency of \$1,541,894 at January 31, 1995. This increase in working capital primarily results from the Company's net income for the nine month period ended October 31, 1995. Accordingly, the ratio of current assets to current liabilities was .96 to 1.0 at October 31, 1995 compared to .73 to 1.0 at January 31, 1995.

The Company's cash flow from operating activities increased for the nine month period ended October 31, 1995 compared to the same period of the prior year. Net cash provided by operating activities totaled \$227,538 for the nine months ended October 31, 1995 compared to net cash used in operating activities of \$1,274,591 for the nine months ended October 31, 1994. The increase in cash flow from operating activities for the 1995 period resulted primarily from the Company's income before extraordinary item.

The Company had \$207,227 in cash and cash equivalents at October 31, 1995 compared to \$209,792 at October 31, 1994. The restricted cash of \$100,000 held at October 31, 1994 was released in connection with the settlement of a legal action against the Company.

Management continues to seek additional means of reducing and maintaining costs while increasing revenues. Among other actions designed to increase revenues, management is exploring ways to expand markets for existing products while considering the ability to generate revenues from new products or product lines. Management is also concentrating on ways to increase the Company's liquidity. As part of the aforementioned strategies, management has obtained from Congress Talcott, its factor, an increase in its credit line from \$7,500,000 to \$10,000,000. Congress has also agreed to lend up to 50% of eligible inventory of \$6,000,000 (increased from \$5,000,000). The Company has also been able to negotiate open account shipments from certain overseas factories on payment terms of 30-60 days. This will allow the Company to purchase certain goods without the need to obtain letters of credit. The Company has also entered into an arrangement with a buying agent to assist in reducing the cost of merchandise purchased from overseas factories. Management believes that its on-going cost containment efforts, plus the support of its trade vendors and institutional lenders, will provide the Company with sufficient working capital for the next twelve months. However, there can be no assurance that the Company will be able to generate sufficient funds to meet future operating expenses and the Company may, therefore, be required to seek additional financing from, among other sources, institutional lenders and the sale of its securities. There can be no assurance that if required, the Company will be able to obtain any such financing.

Page 20

Item 1. Legal Proceedings

In December 1995 the United States District Court for the Southern District of New York approved the settlement of an action instituted in July 1992 against the Company and its former directors by the Food and Allied Service Trades Department, AFL-CIO, and on behalf of the class of all other similarly situated stockholders. The settlement requires the Company to make a \$100,000 cash payment to the plaintiffs and to issue to the plaintiffs that number of shares of its Common Stock (up to a maximum of 600,000 shares) which would allow the plaintiffs to realize an additional \$550,000 upon their sale over a two-year period. If the plaintiffs do not realize \$550,000 from the sale of such shares, the Company will be required to pay to the plaintiffs the amount of the shortfall.

Items 2-5.

None.

Item 6.

(a) Exhibits

11 - Computation of earnings per common share.

27 - Financial Data Schedule.

(b) Reports on Form 8-K

A report on Form 8-K for the event dated July 31, 1995 was filed in August 1995 under Item 5 of Form 8-K in order to file certain unaudited balance sheet information which was required by NASDAQ for continued inclusion of the Company's securities in the NASDAQ system.

SIGNATURES

In accordance with the requirements of the Exchange Act, the Registrant has duly caused this report to be signed on its behalf by the undersigned, duly authorized.

CANDIE'S, INC.
(Registrant)

DATED: December 15, 1995

By: /s/ Neil Cole
NEIL COLE
President and
Chief Executive Officer
(Principal Executive and
Accounting Officer)

Page 21

EXHIBIT INDEX

Exhibit No.	Description	Page
11	Computation of Earnings per Share (Three months ended October 31, 1995 and 1994)	23
	Computation of Earnings per Share (Nine months ended October 31, 1995 and 1994)	24
27	Financial Data Schedule	25

Page 22

Exhibit 11
Page 1

CANDIE'S, INC.
COMPUTATIONS OF EARNINGS PER SHARE

	Three Months Ended	
	October 31, 1995	October 31, 1994
Income (Loss) before extraordinary item	\$ 705,642	(\$ 494,355)
Extraordinary item		
Gain on Debt extinguishment	-	2,702,175
Net Income	705,642	2,207,820
Earnings Per Share Income from investment of excess proceeds on exercise of common stock equivalents	337,190	-
TOTAL EPS INCOME	\$1,042,832	\$2,207,820
Weighted average number of shares outstanding	14,452,746	6,660,846
Earnings (Loss) Per Share		
Net Income (Loss) Before Extraordinary item	\$0.07	(\$0.07)

Extraordinary item-Gain on extinguishment of debt, net of income taxes of \$.02 for 1994	-	\$0.40
NET INCOME PER SHARE	\$0.07	\$0.33

Page 23

Exhibit 11
Page 2

CANDIE'S, INC.
COMPUTATIONS OF EARNINGS PER SHARE

	Nine Months Ended	
	October 31, 1995	October 31, 1994
Income (Loss) before extraordinary item	\$1,181,568	(\$ 158,032)
Extraordinary item Gain on Debt extinguishment	-	2,702,175
Net Income	1,181,568	2,544,143
Earnings Per Share Income from investment of excess proceeds on exercise of common stock equivalents (1)	-	-
TOTAL EPS INCOME	\$1,181,568	\$2,544,143
Weighted average number of shares outstanding	8,542,944	5,752,944
Earnings (Loss) Per Share		
Net Income (Loss) Before Extraordinary item	\$0.14	(\$0.03)
Extraordinary item-Gain on extinguishment of debt, net of income taxes of \$.02 for 1994	-	\$0.47
NET INCOME PER SHARE	\$0.14	\$0.44

- (1) The Modified Treasury Stock Method was not used since its results were antidilutive. Accordingly, there was no additional income included in earnings per share for investment of proceeds upon the exercise of common stock equivalents.

<ARTICLE> 5

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This schedule contains summary financial information extracted from the Condensed Consolidated Financial Statements of Candie's, Inc. at October 31, 1995 and is qualified in its entirety by reference to such Condensed Financial Statements.

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