

JOE'S JEANS INC.  
Form 10-K  
February 21, 2013

Use these links to rapidly review the document

[Table of Contents](#)

[PART IV](#)

[Index to Consolidated Financial Statements](#)

[Table of Contents](#)

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

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

**For the fiscal year ended November 30, 2012**

**Commission file number: 0-18926**

**JOE'S JEANS INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**11-2928178**

(I.R.S. Employer  
Identification No.)

**2340 South Eastern Avenue, Commerce, California 90040**

(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: **(323) 837-3700**

Securities registered pursuant to Section 12(b) of the Act:

**Common Stock, \$0.10 par value**

(Title of Class)

**The Nasdaq Stock Market, LLC**

**(NASDAQ Capital Market)**

(Name of exchange on which registered)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes o No ý

Edgar Filing: JOE'S JEANS INC. - Form 10-K

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 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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act.) Yes  No

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant based on the closing price of the registrant's common stock on The Nasdaq Stock Market, LLC as of May 31, 2012, was approximately \$51,447,000.00.

The number of shares of the registrant's common stock outstanding as of February 21, 2013 was 67,965,008.

Documents incorporated by reference: Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year are incorporated by reference in Part III of this Annual Report on Form 10-K.

---

Table of Contents

**JOE'S JEANS INC.**  
**FORM 10-K ANNUAL REPORT**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2012**

**Table of Contents**

<b>Item Number</b>		
	<b><u>PART I</u></b>	
<u>Item 1.</u>	<u>Business</u>	<u>2</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>10</u>
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	<u>20</u>
<u>Item 2.</u>	<u>Properties</u>	<u>20</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>20</u>
<u>Item 4.</u>	<u>Mine Safety Disclosure</u>	<u>20</u>
	<b><u>PART II</u></b>	
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>21</u>
<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>22</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>36</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>36</u>
<u>Item 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>36</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>37</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>37</u>
	<b><u>PART III</u></b>	
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	<u>38</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>38</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>38</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>38</u>
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	<u>39</u>
	<b><u>PART IV</u></b>	
<u>Item 15.</u>	<u>Exhibits, Financial Statement Schedules</u>	<u>39</u>
	<u>Index to Consolidated Financial Statements</u>	<u>F-i</u>
<u>Item 16.2</u>	<u>Schedule II Valuation of Qualifying Accounts</u>	<u>F-30</u>
	<u>Signature Page</u>	

---

Table of Contents

**PART I**

**Forward-Looking Statements**

Statements contained in this Annual Report on Form 10-K, or Annual Report, and in future filings with the Securities and Exchange Commission, or the SEC, in our press releases or in our other public or shareholder communications that are not purely historical facts are forward-looking statements. Statements looking forward in time are included in this Annual Report pursuant to the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the words, "believe," "anticipate," "expect," "estimate," "intend," "plan," "project," "will be," "will continue," "will likely result," and any variations of such words with similar meanings. These statements are not guarantees of future performance and are subject to certain risks and uncertainties that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements.

Factors that would cause or contribute to such differences include, but are not limited to, the risk factors contained or referenced under the headings "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in this Annual Report. In particular, certain risks and uncertainties that we face include, but are not limited to, risks associated with:

the risk that we will be unsuccessful in gauging fashion trends and changing customer preferences;

the risk that changes in general economic conditions, consumer confidence or consumer spending patterns will have a negative impact on our financial performance or strategies;

the risks associated with leasing retail space and operating our own retail stores;

the highly competitive nature of our business in the United States and internationally and our dependence on consumer spending patterns, which are influenced by numerous other factors;

our ability to respond to the business environment and fashion trends; continued acceptance of the Joe's® brand in the marketplace;

our ability to meet and maintain requirements for listing on Nasdaq;

successful implementation of any growth or strategic plans;

effective inventory management;

the risk of cyber attacks and other system risks;

our ability to continue to have access on favorable terms to sufficient sources of liquidity necessary to fund ongoing cash requirements of our operations, which access may be adversely impacted by a number of factors, including the reduced availability of credit, generally, and the substantial tightening of the credit markets, including lending by financial institutions, who are sources of credit for us, the recent increase in the cost of capital, the level of our cash flows, which will be impacted by the level of consumer spending and retailer and consumer acceptance of its products;

our ability to generate positive cash flow from operations;

competitive factors, including the possibility of major customers sourcing product overseas in competition with our products;

Table of Contents

the risk that acts or omissions by our third party vendors could have a negative impact on our reputation;

a possible oversupply of denim in the marketplace; and

other risks.

Since we operate in a rapidly changing environment, new risk factors can arise and it is not possible for our management to predict all such risk factors, nor can our management assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on forward-looking statements that only speak as of the date of this filing.

We undertake no obligation to publicly revise these forward-looking statements to reflect events, circumstances or the occurrence of unanticipated events that occur subsequent to the date of this Annual Report. As used in this Annual Report, the terms "we," "us," "our," "Joe's®," and "Joe's Jeans" refer to Joe's Jeans Inc. and our subsidiaries and affiliates, unless the context indicates otherwise.

## **ITEM 1. BUSINESS**

### **Overview**

We began our operations in April 1987 as Innovo, Inc., or Innovo, a Texas corporation, to manufacture and domestically distribute cut and sewn canvas and nylon consumer products for the utility, craft, sports-licensed and advertising specialty markets. In 1990, Innovo merged into Elorac Corporation, a Delaware corporation, and was renamed Innovo Group Inc., which was renamed Joe's Jeans Inc. in October 2007. We have evolved from producing craft and accessory products to designing and selling apparel products.

Our principal business activity is the design, development and worldwide marketing of our Joe's® products, which include denim jeans, related casual wear and accessories. Since the Joe's® brand was established in 2001, it is recognized in the premium denim industry, an industry term for denim jeans with price points generally of \$120 or more, for its quality, fit and fashion-forward designs. We focus on design, development and marketing and rely on third parties to manufacture our apparel products. We sell our products to numerous retailers, which include major department stores, specialty stores, and distributors around the world, and through our own retail stores.

We offer a collection of product offerings to our customers in addition to denim jeans. These items include tops, tees, and pants in fabrications other than denim. During fiscal 2012, we recognized growth for our Joe's® brand through increases in our retail sales, our men's domestic sales and the addition of our private label product offerings. In the first quarter of fiscal 2012, we launched a new brand, else , sold primarily at Macy's. We commenced shipping this brand in February 2012. The brand has price points starting at \$68 and was created to reach young women who are looking for a premium denim-like product at a more affordable price. We have created a unique product that incorporates staple denim fits such as skinny, boot cut, cropped, and boyfriend, in a variety of styles, as well as shorts and denim jackets.

Since 2007, we have focused our business on opening retail stores, improving international sales, increasing sales from our men's collection and enhancing the quality, fit and products available in our collection beyond denim jeans. We opened our first full price retail store in October 2008 in Chicago, Illinois and currently operate 11 full price retail stores and 19 outlet stores in outlet centers around the country. We believe that retail stores will enhance our net sales and gross profit and the outlet stores will allow us to sell our overstock or slow moving items at higher profit margins. We continue to look

Table of Contents

for additional retail leases for fiscal 2013 and beyond, but remain cautious about additional expansion of our retail store plan.

**Principal Products and Revenue Sources**

Our principal apparel products bear the Joe's® brand name. Our Joe's® product line includes women's and men's denim jeans, pants, shirts, sweaters, jackets and other apparel products. We also offer women's handbags and clutches, children's products, shoes, belts and leather goods produced by us or under various license agreements and receive royalty payments based upon net sales from licensees. Joe's® women's product line represents our largest source of revenue and consists primarily of denim jeans and pants in a variety of different fits, fabrics, washes and detailing. Every season, we offer new and core basic styles to appeal to trendsetters and fashion-forward consumers. We believe our attention to fitting different body types gives us an advantage in the marketplace, as we can offer the consumer a product designed and tailored to fit her needs. We have branded the different fit styles or we use descriptive terms so that the consumer can differentiate and choose from the variety carried by the retailer. Our fit styles include or have included over the years staple denim fits such as skinny, boot cut, cropped, relaxed, flared and boyfriend fits. We also offer another branded line, else , sold primarily at Macy's.

For our men's Joes® denim line, we carried over the concept from our women's line of offering a variety of different fits, fabrics, washes and detailing in our product selection. Similar to our women's line, we offer certain core basic styles every season in addition to new styles. We also brand or describe the fit styles for differentiation.

Our Joe's® children's product offerings include basic denim bottoms, tops, t-shirts and jackets for infants, toddlers, girls and boys. In the latter half of 2009, we licensed this category to a related party in exchange for certain guaranteed minimums and royalty payments based upon net sales and in October 2011, we entered into a new license agreement with one of the principals of the former licensee. We believe that licensing this product category will enhance our ability to produce and sell these products without requiring any additional capital investment or incremental operating expenses by us.

We operate in two primary business segments: Wholesale and Retail. Our Wholesale segment is comprised of sales to retailers, specialty stores and international distributors, revenue from licensing agreements and includes expenses from sales, trade shows, distribution, product samples and customer service departments. Joe's® products are marketed to U.S. retailers through third party showrooms located in New York and Los Angeles and to international retailers through international distributors, agents or licensed stores in the various countries. Our Retail segment is comprised of sales to consumers through full-price retail stores, outlet stores and through the [www.joesjeans.com/shop](http://www.joesjeans.com/shop) internet site. Our Corporate and other is comprised of expenses from corporate operations, which include the executive, finance, legal, human resources, design and production departments and general advertising expenses associated with the Joe's® brand.

**Product Design, Development and Sourcing**

Our product development is managed internally by a team of designers led by Joe Dahan, our Creative Director. This design team is responsible for the creation, development and coordination of the product group offerings within each collection. We typically develop four collections per year for spring, summer, fall/back-to-school, and winter/holiday, with certain core basic styles offered throughout the year. Joe Dahan is an instrumental part of our design process. When we acquired the Joe's® brand, we also entered into an employment agreement with Mr. Dahan. However, the loss of Mr. Dahan as an employee would not change any rights we have to the Joe's® brand. While his current employment agreement contains customary provisions related to continued employment, we believe that should Mr. Dahan's employment terminate, we would be able to find alternative sources for the development

Table of Contents

and design of our products. See "Risk Factors Our future success depends on our ability to attract and retain talented personnel and retain our key employees, including our chief executive officer and creative director."

We rely on third party manufacturers to manufacture all of our products for distribution. We manufacture our products in numerous countries, with most of our denim production in Mexico, China and the United States, and our knits and other production in the United States, China, Hong Kong, India, Portugal, Peru, Mexico and Korea. We do not have a long-term supply agreement with any of our third party manufacturers or contractors, and we believe that there are a number of overseas and domestic contractors that could fulfill our requirements in the event that one of our existing manufacturers would not be able to do so. We purchase products in various stages of production from partial to completed finished goods. We control production schedules in order to ensure quality and timely deliveries and conduct all aspects of inventory, warehousing, picking and packing services internally.

We purchase fabric from independent vendors located domestically and internationally. Our raw materials are principally blends of fabrics, yarns and threads and are available from multiple sources. Our primary suppliers include Candiani, Isko and Italdenim for fabrics and American Zabin, Button Accessory, Revolution Group and COATS Mexico for trims. We do not enter into any long term agreements with these suppliers nor are we substantially dependent on any one of them. We have not experienced any material shortage of raw material to meet our needs. We continue to explore alternate inventory strategies designed to improve our gross margins. However, there can be no assurance that any change in sourcing will result in enhanced profit margins, similar quality or timely deliveries, but we do believe that continuing to monitor this expense can be beneficial for the growth of our brands.

In the event we terminate any of our relationships with third parties or the economic climate or other factors result in a significant reduction in the number of contractors, our business could be negatively impacted. At this time, we believe that we would be able to find alternative sources for production if this were to occur; however, no assurances can be given that a transition would not involve a disruption to our business.

We generally purchase our products in U.S. dollars. However, because we use some overseas or non-U.S. suppliers, the cost of these products may be affected by changes in the value of the relevant currencies. Certain of our apparel purchases in the international markets will be subject to the risks associated with the importation of these types of products. See "Business Import and Export Restrictions and Other Governmental Regulations."

While we attempt to mitigate our exposure to manufacturing risks, the use of independent suppliers reduces our control over production and delivery and exposes us to customary risks associated with sourcing products from independent suppliers. Transactions with foreign manufacturers and suppliers are subject to the typical risks of doing business abroad, generally, such as the cost of transportation and the imposition of import duties and restrictions. The countries in which our products are manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariff levels, which could affect our operations and our ability to import products at current or increased levels. We cannot predict the likelihood or frequency of any such events occurring. See "Business Import Restrictions and Other Governmental Regulations." Furthermore, the inability of a manufacturer to ship orders of our products in a timely manner or to meet our quality standards could cause us to miss the delivery date requirements of our customers for those items, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices. Due to the seasonality of our business, and the apparel and fashion business in particular, the dates on which customers require shipments of products from us are critical, as styles and consumer tastes change so rapidly and particularly from one season to the next. Because quality is a leading factor when customers and retailers accept or reject goods, any decline in quality by



Table of Contents

our third-party manufacturers could be detrimental not only to a particular order, but also to our future relationship with that particular customer.

We also require our independent manufacturers to operate in compliance with applicable laws and regulations; however, we have no control over the ultimate actions of our independent manufacturers. Despite our lack of control, we have internal operating guidelines to promote ethical business practices and our employees periodically visit and monitor the operations of our independent manufacturers. We also use the services of a third party independent labor consulting service to conduct random, on-site audits as required by state labor laws to help minimize our risk and exposure to unacceptable labor practice violations.

**Merger Agreement, License Agreements and Trademarks**

In February 2001, we acquired license rights to the name Joe's Jeans, the JD stylized logo and the Joe's® mark for most apparel and accessory products from JD Holdings, the successor-in-interest to JD Design. The license agreement contained a 10-year term with two 10-year renewal periods and required us to pay a three percent royalty on the net sales of Joe's® products to JD Holdings. However, as we began to focus our operations on the Joe's® brand, we believed that by owning all rights to the Joe's® marks outright, we would eliminate any risks associated with the potential termination of the license agreement and be able to control the direction of the brand and our company. On February 6, 2007, we entered into a merger agreement with JD Holdings to acquire JD Holdings, which included all right, title and interest in the Joe's® brand and related marks. In exchange for the business of JD Holdings, after approval by our stockholders, we issued to Joe Dahan, the sole stockholder of JD Holdings, 14,000,000 shares of our common stock and \$300,000 in cash. As part of the merger consideration, we were also obligated to pay Mr. Dahan a percentage of our gross profits above \$11,251,000 until 2017. Mr. Dahan was entitled to the following: (i) 11.33 percent of the gross profit from \$11,251,000 to \$22,501,000; (ii) three percent of the gross profit from \$22,501,000 to \$31,501,000; (iii) two percent of the gross profit from \$31,501,000 to \$40,501,000; and (iv) one percent of the gross profit above \$40,501,000. On February 18, 2013, we entered into a new agreement with Mr. Dahan that provided certainty of payments to him by removing the contingencies related to the contingent consideration payments described above. This agreement fixed the overall amount to be paid by us for the remaining months of year six through year 10 with payments being made over an accelerated time period until November 2015 instead of October 2017. Under the agreement, the total aggregate amount Mr. Dahan will receive is \$9,168,000. We will take a one-time charge as an expense for the full amount in the quarterly period ending February 28, 2013. In addition, Mr. Dahan agreed to a restrictive covenant relating to non-competition and non-solicitation until November 30, 2016 in addition to the restrictive covenant in the original merger agreement.

We believe that selectively licensing the Joe's® brand for certain product categories will broaden and enhance the products available under the brand name. Also, by licensing categories, we will not incur significant capital investments or incremental operating expenses while providing us with royalty payments on net sales. There are certain minimum net sales that the licensees are required to meet and the agreements generally have certain terms with renewal rights. As of February 21, 2013, we had two active license agreements for children's products and shoes.

In addition to the common law rights associated therewith, we own a variety of pending applications and registrations throughout the world for a variety of trademarks and service marks, among which include "Joe's" and "JD" logos and "Joe's Jeans" as applied to apparel, footwear and/or other fashion accessories in numerous classes as well as for retail store services for such goods.

In addition to the above, in the United States, we own five trademark registrations for certain pocket stitch designs for jeans. As of February 21, 2013, we own approximately 10 U.S. trademark registrations (excluding the aforementioned five trademark registrations for certain pocket stitch designs for jeans), one pending U.S. trademark application, which has successfully passed through publication and has been allowed and one pending trademark application for the else mark.

Table of Contents

With respect to foreign jurisdictions, we own, as of February 21, 2013, a variety of trademark registrations and pending applications for the above-referenced marks as applied to apparel, footwear and related fashion accessories. Approximately 46 trademark registrations have issued in jurisdictions such as Australia, Canada, China, the European Community which comprises 27 member countries, Hong Kong, India, Japan, South Korea, Mexico, New Zealand, Russia, Switzerland and Turkey. We continue to prosecute 19 trademark applications in Mexico, Kuwait, and the United Arab Emirates that we believe are necessary in order to protect and enforce our rights abroad.

**Sales, Distribution and Outsourcing Agreements**

Domestically, we sell our Joe's® products to retailers and specialty stores through independent third party showrooms located in Los Angeles and New York and through our own retail stores. At the showrooms, retailers review the latest collections offered and place orders. The showroom representatives provide us with purchase orders from the retailers and other specialty store buyers. Pursuant to our arrangement with each of these showrooms, we pay sales commissions at an agreed upon percentage of sales less discounts, returns and other credit allowances. We do not utilize a showroom for the sale of our else products.

We sell our Joe's® products internationally through distributors in various countries that are managed by us and licensed stores. We believe that by working directly with our distributors abroad rather than through a third party master distributor, we exercise more control and guidance over sales. Further, we expect to benefit in sales and profitability over the long term from selling our products directly to the distributors. As we develop our internal structure to support our international business, we continue to evaluate our options and review relationships in the international marketplace to create a strategy to improve and grow international sales.

**Advertising, Marketing and Promotion**

Historically, our advertising campaigns for our Joe's® brand have been limited to strategic placement of advertising in areas of high concentration of fashion advertising through billboard advertisement in Los Angeles, California, space on the tops of taxi cabs in New York City and print ads in magazines. We generally locate short term billboard advertising space in various locations in and around New York City and Los Angeles. During fiscal 2012, we also placed ad campaigns in print magazines, such as *InStyle*, *Elle*, *Vogue*, *Teen Vogue*, *Harper's*, *GQ*, and *Vanity Fair*, to support and promote the Joe's® brand and products. In addition, we utilize a public relations firm to strategically place our products in magazines, editorials and with stylists. We also have an internal visual merchandiser who works with our retail stores and other customers to create the Joe's® presentation of products to enhance sales. For example, many of our customers' stores have denim focus areas located within a department that are dedicated to selling and showcasing our Joe's® merchandise on a year-round basis.

**Customers**

Our Joe's® products are sold to consumers through high-end department stores and boutiques located throughout the world and through our own retail stores.

We currently sell to domestic department stores such as Macy's Inc., which includes Bloomingdale's and Macy's, Neiman Marcus, Nordstrom, Saks Fifth Avenue, Von Maur, Lord & Taylor, Dillard's and Belk stores and approximately 1,000 specialty retailers, which include American Rag, Anthropologie, Piperlime, Revolve Clothing, Scoop NYC and Shop Bop in the United States. We sell internationally to distributors and our products can be found in major retailers in countries such as France, Japan, Italy, Germany, Russia, Spain, Sweden and Turkey. In addition, we also sell prior season

Table of Contents

or excess merchandise to off-price retailers. We sell our else products primarily to Macy's, who then sells the product through its department stores and its Macy's.com website.

The Joe's® website, www.joesjeans.com, has been established to promote and advance the brand's image and to allow consumers to review and purchase online the latest collection of products. The information available on Joe's® website is not intended to be incorporated into this Annual Report. We currently use both online and print advertising to create brand awareness with customers as well as consumers.

We do not enter into long-term agreements with any of our customers. Instead, we receive individual purchase order commitments from our customers. A decision by the controlling owner of a group of stores or any other significant customer, whether motivated by competitive conditions, financial difficulties or otherwise, to decrease the amount of merchandise purchased from us, or to change their manner of doing business with us, could have a material adverse effect on our financial condition and results of operations. See "Risk Factors A portion of our net sales and gross profit is derived from a small number of large customers."

For fiscal 2012, our ten largest customers and customer groups accounted for approximately 61 percent of our net sales. We believe that we would be able to find alternative customers to purchase our products in the event of the loss of any of these existing customers. For example, our two largest customers are Nordstrom Inc. and Macy's Inc. and are the only two customers that each represented over 10 percent of our net sales in fiscal 2012.

**Seasonality of Business and Working Capital**

Products are designed and marketed primarily for four principal selling seasons: spring, summer, fall/back-to-school and winter/holiday. Typically, we have approximately a 12 to 14 week turnaround time between the time we book an order and when we ship it. Our primary booking periods for the retail sales seasons are as follows:

<b>Retail Sales Season</b>	<b>Primary Booking Period</b>
Spring	September - November
Summer	November - March
Fall/Back-to-School	February - May
Winter/Holiday	June - August

We have historically experienced and expect to continue to experience seasonal fluctuations in our net sales. A significant amount of our net sales are realized during the third and fourth quarter when we ship orders taken during earlier months. For fiscal 2012, we funded our liquidity needs through cash from operations and cash availability under our financing agreements with CIT Commercial Services, a unit of CIT Group Inc., or CIT. If sales are materially different from seasonal norms, our annual operating results could be materially affected. Accordingly, our results for the individual quarters are not necessarily indicative of the results to be expected for the entire year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" for further discussion of our financing agreements with CIT.

**Credit and Collection**

We currently extend credit to a majority of our larger customers, who purchase our products from us at wholesale prices. Our decision to extend credit is based on factors such as credit approval by CIT under our factoring arrangements, past credit history, reputation of creditworthiness within our industry and timelines of payments made to us. We generally extend this credit without requiring collateral. A small percentage of our customers are required to pay by either cash before delivery, credit card or cash on delivery, or C.O.D., which is also based on such factors as lack of credit history, reputation (or

Table of Contents

lack thereof) within our industry and/or prior payment history. For those customers to whom we extend credit, typical terms are net 30 to 60 days. Based on industry practices, financial awareness of the customers with whom we conduct business and business experience of our industry, our management exercises professional judgment in determining which customers will be extended credit. We are exposed to some collection risk for receivables which were factored with recourse where CIT did not accept the credit risk. However, the aggregate amount of exposure is generally low and, therefore, we believe that the credit risk associated with our extension of credit is minimal.

**Backlog**

Although we may, at any given time, have significant business booked in advance of ship dates, customers' purchase orders are typically filled and shipped within two to six weeks. As of November 30, 2012, we had backlog of \$27,900,000 compared to \$28,650,000 as of November 30, 2011. The amount of outstanding customer purchase orders at a particular time is influenced by numerous factors, including the product mix, timing of the receipt and processing of customer purchase orders, shipping schedules for the product and specific customer shipping windows. Due to these factors, a comparison of outstanding customer purchase orders from period to period is not necessarily meaningful and may not be indicative of eventual actual shipments.

**Competition**

The apparel industry in which we operate is fragmented and highly competitive in the United States and on a worldwide basis. We compete for consumers with a large number of apparel companies similar to ours. Our primary branded competitors include True Religion, Seven for All Mankind, Citizens of Humanity, Hudson and J Brand. We do not hold a dominant competitive position, and our ability to sell our products is dependent upon the anticipated popularity of our designs and brand name, the price and quality of our products and our ability to meet our customers' delivery schedules. We believe the range of fits and uniqueness of our designs differentiates us from our competitors and we believe that we are competitive with companies producing goods of like quality and pricing. We believe that we can maintain our competitive position through new product development, creating product identity and brand awareness and competitive pricing. Many of our competitors may possess greater financial, technical and other resources and the intense competition and the rapid changes in consumer preferences constitute significant risk factors in our operations. As we expand globally, we will continue to encounter additional sources of competition. See "Risk Factors We face intense competition in the denim industry."

**Import and Export Restrictions and Other Governmental Regulations**

Transactions with our foreign manufacturers and suppliers are subject to the general risks of doing business abroad. Imports into the United States are affected by, among other things, the cost of transportation and the imposition of import duties and restrictions. The countries in which our products might be manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duties or tariff levels, which could affect our operations and our ability to import products at current or increased levels. We cannot predict the likelihood or frequency of any such events occurring. The enactment of any additional duties, quotas or restrictions could result in increases in the cost of our products generally and might adversely affect our sales and profitability.

Our import operations are subject to international trade agreements and regulations such as the North American Free Trade Agreement and other bilateral textile agreements between the United States and a number of foreign countries, including Morocco, Hong Kong, China, Taiwan and Korea. Some of these agreements impose quotas on the amount and type of goods that can be imported into the United States from these countries. Such agreements also allow the United States to impose, at any time, restraints on the importation of categories of merchandise that, under the terms of the

Table of Contents

agreements, are not subject to specified limits. Some of our imported products are also subject to United States customs duties and, in the ordinary course of business, we are from time to time subject to claims by the United States Customs Service for duties and other charges.

**Employees**

As of February 21, 2013, we had 384 total employees, which included 225 full-time, 150 part-time and nine temporary employees. We consider our relationships with our employees to be good.

**Financial Information about Geographic Areas**

See "Notes to Consolidated Financial Statements Note 9 Segment Reporting and Operations by Geographical Areas" for discussion of financial information about geographical areas.

**Manufacturing and Distribution Relationships**

Our denim products are manufactured by contractors located in Mexico, China, and Los Angeles, California. Our non-denim products are primarily manufactured in the United States, Mexico, Peru, Portugal, and Asia, including Hong Kong, China, India and Korea. Our products are distributed out of Los Angeles or directly from the factory to the customer. The following table represents the percentage of denim and non-denim products manufactured in the various countries or on the geographic continent as a percentage of all products manufactured during the fiscal year.

	2012	2011
United States	20.8%	20.7%
Mexico	51.5%	58.5%
Europe	1.3%	2.5%
Asia	26.4%	15.8%
Morocco		2.4%
	100%	100%

**Available Information**

Our website address is [www.joesjeans.com](http://www.joesjeans.com). We make available on or through our website, without charge, our Annual Report, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. Although we maintain a website at [www.joesjeans.com](http://www.joesjeans.com), we do not intend that the information available through our website be incorporated into this Annual Report. In addition, any materials filed with, or furnished to, the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or viewed on line at [www.sec.gov](http://www.sec.gov). Information regarding the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

Table of Contents**Executive Officers**

The following table sets forth certain information regarding our executive officers:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Marc B. Crossman	41	Chief Executive Officer, (Principal Executive Officer), President, and Director
Hamish Sandhu	50	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
Joe Dahan	45	Creative Director and Director

Marc B. Crossman has served as our Chief Executive Officer since January 2006, President since September 2004 and a member of our Board of Directors since January 1999. From March 2003 until August 2007, Mr. Crossman also served as our Chief Financial Officer.

Hamish Sandhu has served as our Chief Financial Officer since August 2007. From January 2006 until August 2007, Mr. Sandhu was Chief Financial Officer of California Tan, Inc., a consumer products company manufacturing and marketing lotion and equipment to the indoor tanning industry. From September 2001 until December 2005, Mr. Sandhu was Chief Financial Officer of Ancra International LLC, a manufacturer of aircraft cargo systems and trucking restraint products.

Joe Dahan has served as our Creative Director and a member of our Board of Directors since October 2007 and the president and head designer for our Joe's subsidiary since its formation in February 2001.

**ITEM 1A. RISK FACTORS**

*The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained in this Annual Report. Any of the following risks could materially adversely affect our business, our operating results, our financial condition and the actual outcome of matters as to which forward-looking statements are made in this Annual Report.*

***Our success will depend on increasing our sales and opening and operating our retail stores.***

Our ability to operate profitably depends on our ability to implement our strategic plan with success. During fiscal 2012, we recognized growth for our Joe's® brand through increases in our men's domestic and retail sales. We sell our Joe's® products internationally through individual distribution agreements in various countries or through licensed stores. In addition, for countries such as Japan, France and elsewhere in Western Europe, we have specific distribution agreements to distribute products in these markets with certain minimum purchase requirements. We believe that by working directly with our distributors abroad, we can exercise more control and guidance over sales.

Since we have primarily been a wholesaler, opening and operating retail stores requires us to develop retailing skills and capabilities and increase our expenditures. We are required to enter into leases, increase our rental expenses and make capital expenditures for these stores. These commitments may be costly to terminate, and these investments may be difficult to recapture if we decide to close a store or change our strategy. We must also offer a broad product assortment, appropriately manage retail inventory levels, install and operate effective retail systems, execute effective pricing strategies and integrate our stores into our overall business mix. Finally, we need to hire and train additional qualified employees and incur additional costs to operate these stores, which increase our operating expenses. If we do not manage these items properly, it could have a material adverse impact on our financial condition and results of operations. For example, in the third quarter of fiscal 2011, we recorded a retail store impairment charge of \$1,144,000 related to the property and equipment at two

Table of Contents

of our full price retail stores. Based on the operating performance of these stores, we believed that we could not recover the carrying value of the property and equipment at these stores. Due to this impairment, our SG&A expenses increased in third quarter of fiscal 2011.

While we believe that we are putting in place the mechanisms necessary to implement successfully these strategies, there can be no assurance that we will be able to achieve our level of expectations. Further, there can be no assurance that these initiatives will result in profitability for us in the short term or in the future.

***Leasing real estate exposes us to possible liabilities and losses which could have an adverse effect on our results of operations.***

We enter into leases in connection with our retail stores. Accordingly, we are subject to all of the risks associated with leasing real estate. Store leases generally require us to pay a fixed minimum rent and a variable amount based on a percentage of annual sales at that location. We generally cannot terminate our leases and have restrictions in connection with assigning or subletting our leases. If an existing or future store is not profitable, and we decide to close it, we may be committed to perform certain obligations under the applicable lease, including paying rent for the balance of the applicable lease term. As each of our leases expire, if we do not have a renewal option, we may be unable to renegotiate a renewal on commercially acceptable terms, if at all, which could cause us to close stores in desirable locations. In addition, we may not be able to close an unprofitable store due to an existing operating covenant, which may cause us to operate the location at a loss and prevent us from finding a more desirable location.

***Our business may be negatively impacted as a result of the current uncertainty of the economy in the United States and abroad.***

The general economy in the United States and abroad continues to be in the midst of uncertainty. Our business depends on the general economic environment and levels of consumer spending that affect not only the ultimate consumer, but also retailers, our largest direct customers. Purchases of high-fashion apparel and accessories tend to decline in periods of recession or uncertainty regarding future economic prospects, when consumer spending, particularly on discretionary items, and disposable income decline. Many factors affect the level of consumer spending in the apparel industries, including, among others: prevailing economic conditions, levels of employment, salaries and wage rates, energy costs, interest rates, the availability of consumer credit, taxation and consumer confidence in future economic conditions. During periods of recession or economic uncertainty, we may not be able to maintain or increase our sales to existing customers, make sales to new customers, open and operate new retail stores, or maintain or improve our earnings from operations as a percentage of net sales. As a result, our operating results may be adversely and materially affected by downward trends in the United States or global economy.

The distress in the financial markets has also resulted in extreme volatility and declines in security prices and diminished liquidity and credit availability. There can be no assurance that our liquidity and our ability to access the credit or capital markets will not be affected by changes in the financial markets and the global economy. Continuing turmoil in the financial markets could make it more difficult for us to access capital, sell assets, refinance our existing indebtedness, enter into agreements for new indebtedness or obtain funding through the issuance of our securities.

In addition, the reduced availability of credit is having a significant negative impact on businesses around the world, and the impact of this reduced availability on our suppliers and other vendors cannot be predicted. The inability of suppliers and other vendors to access liquidity, or the insolvency of suppliers and other vendors, could lead to their failure to deliver our merchandise or other services that we require. Worsening economic conditions could also impair our ability to collect amounts as they

Table of Contents

become due from our customers, or other third parties that do business with us. We also face the increased risk of order reductions or cancellations when dealing with financially ailing customers or customers struggling with economic uncertainty.

***We face risks associated with constantly changing fashion trends, including consumer's response to our products. If we are unable to adapt to changing fashion trends, our business and financial condition could be adversely effected.***

Our success depends on our ability to anticipate, gauge and respond to changing consumer demand and fashion trends in a timely manner. Any failure on our part to anticipate, identify and respond effectively to changing consumer demands and fashion trends could adversely affect the acceptance of our products and leave us with a substantial amount of unsold inventory or missed opportunities in the marketplace. If that occurs, we may be forced to rely on markdowns or promotional sales to dispose of excess, slow-moving inventory, which may negatively affect our ability to achieve profitability. At the same time, a focus on tight management of inventory may result, from time to time, in our not having an adequate supply of products to meet consumer demand and may cause us to lose sales.

We attempt to minimize our risk associated with delivering items through early order commitments by retailers. We must generally place production orders with manufacturers before we have received all of a season's orders and orders may be cancelled by retailers before shipment. Therefore, if we fail to anticipate accurately and respond to consumer preferences, we could experience lower sales, excess inventories or lower profit margins, any of which could have a material adverse effect on our results of operations and financial condition.

***Our business and results of operations could be negatively impacted by a change in consumer demand for denim in the marketplace.***

Denim, including premium denim, an industry term for denim jeans with a typical retail price of approximately \$120 or more, has been increasingly popular and growing in sales over the past few years as a consumer discretionary purchase both domestically and internationally. However, because consumer demands and fashion trends are subject to cyclical variations as well as the fact that the general economy and future economic prospects can often affect consumer spending habits, a change in any one of the following:

consumer demand,

consumer purchases of discretionary items,

general economic conditions, or

fashion trends,

may result in lower sales, excess inventories or lower profit margins for our Joe's® products, any of which could have a material adverse effect on our results operations and financial condition.

***We face intense competition in the denim industry. If we are unable to compete effectively, our business, financial condition and results of operations may be negatively impacted.***

We face a variety of competitive challenges from other domestic and foreign fashion-oriented apparel producers, some of whom may be significantly larger and more diversified and have greater financial and marketing resources than we have. We do not currently hold a dominant competitive position in any market. We compete with other denim manufacturers such as True Religion, Seven for



Table of Contents

All Mankind, Citizens of Humanity, Hudson and J Brand and other larger competitors primarily on the basis of:

anticipating and responding to changing consumer demands in a timely manner,

maintaining favorable brand recognition,

developing innovative, high-quality products in sizes, colors and styles that appeal to consumers,

appropriately pricing products,

providing strong and effective marketing support,

creating an acceptable value proposition for retail customers,

ensuring product availability and optimizing supply chain efficiencies with manufacturers and retailers, and

obtaining sufficient retail floor space and effective presentation of our products at retail.

Furthermore, some of our competitors are privately held corporations and may have resources available to them that we, as a public company, do not have. Therefore, it may be difficult for us to effectively gauge consumer response to our products and how our products are competing with these and other competitors in the marketplace. We cannot be certain that we will be able to compete successfully against current and future competitors, or that competitive pressure will not have a material adverse effect on our business, financial condition or results of operations.

***A portion of our net sales and gross profit is derived from a small number of large customers.***

Our 10 largest customers and customer groups accounted for approximately 61 percent of our net sales during fiscal 2012. We do not enter into any type of long-term agreements or firm commitment orders with any of our customers. Instead, we enter into a number of individual purchase order commitments with our customers. A decision by the controlling owner of a group of stores or any other significant customer, including our limited number of private label customers, whether motivated by competitive conditions, financial difficulties or otherwise, to decrease the amount of merchandise purchased from us, or to change their manner of doing business with us, could have a material adverse effect on our financial condition and results of operations if we are unable to find an alternative customer for our products in a timely manner.

***Our business could be negatively impacted by the financial health of our retail customers.***

We sell our products primarily to retail and distribution companies around the world based on pre-qualified payment terms. Financial difficulties of a customer could cause us to curtail business with that customer, in addition to the customer's decision to decrease the level of its orders, to cancel orders previously placed in advance of shipment dates or to cease carrying our products. We may also assume more credit risk relating to that customer's receivables. We are dependent primarily on lines of credit that we establish from time to time with customers, and should a substantial number of customers become unable to pay to us their respective debts as they become due, we may be unable to collect some or all of the monies owed by those customers.

In recent years, the retail industry has experienced consolidation or other ownership changes that have resulted in one entity controlling several different stores. This consolidation can result in fewer customers for our products or the closing of some stores or the number of "doors" which carry our products. As a result, the potential for consolidation or ownership changes, closing of retail outlets and fewer customers could negatively impact sales of our products and have a material adverse effect on our financial condition and results of operations.



Table of Contents

***Our business could suffer as a result of a manufacturer's inability to produce our goods on time and to our specifications or if we need to replace manufacturers.***

We do not own or operate any manufacturing facilities and therefore depend upon independent third parties for the manufacture of all of our products. We enter into a number of purchase order commitments each season specifying a time for delivery, method of payment, design and quality specifications and other standard industry provisions, but do not have long-term contracts with any manufacturer. The inability of a certain manufacturer to ship orders of our products in a timely manner or to meet our quality standards could cause us to miss the delivery date requirements of our customers for those items, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could have a material adverse effect on our financial condition and results of operations. Because of the seasonality of our business, and the apparel and fashion business in particular, the dates on which customers need and require shipments of products from us are critical, as styles and consumer tastes change so rapidly in the apparel and fashion business, particularly from one season to the next. Further, because quality is a leading factor when customers and retailers accept or reject goods, any decline in quality by our third-party manufacturers could be detrimental not only to a particular order, but also to our future relationship with that particular customer.

We compete with other companies for the production capacity of our manufacturers. Some of these competitors have greater financial and other resources than we have, and thus may have an advantage in the competition for production and import quota capacity. If we experience a significant increase in demand, or if an existing manufacturer of ours must be replaced, we may have to expand our third-party manufacturing capacity. We cannot assure you that this additional capacity will be available when required on terms that are acceptable to us or similar to existing terms which we have with our manufacturers, either from a production standpoint or a financial standpoint.

***Increases in the price of raw materials or their reduced availability could increase our cost of goods and decrease our profitability.***

The principal fabrics used in our business are cotton, blends, synthetics and wools. The prices we pay our suppliers for our products are dependent in part on the market price for raw materials primarily cotton used to produce them. The price and availability of cotton may fluctuate substantially, depending on a variety of factors, including demand, crop yields, weather, supply conditions, transportation costs, work stoppages, government regulation, economic climates and other unpredictable factors. Increases in raw material costs, together with other factors, will make it difficult for us to sustain the level of cost of goods savings we have achieved in recent years and result in a decrease of our profitability unless we are able to pass higher prices on to our customers. Moreover, any decrease in the availability of cotton could impair our ability to meet our production requirements in a timely manner.

***We are dependent on our relationships with our vendors.***

We purchase our raw materials, including fabric, yarns, threads and trims, such as zippers, buttons and tags from a variety of vendors. While we are not reliant exclusively on one or more particular vendor for the supply of the raw materials or component parts required to meet our manufacturing needs, we depend on our relationships and these vendors to ensure our supply of these raw materials or component parts. Any problems or disputes with these vendors could result in us having to source these raw materials or component parts from another vendor, which could delay production, and in turn have a material adverse effect on our financial condition and results of operations.

Table of Contents

***We are subject to cybersecurity risks and may incur an increase in costs in an effort to minimize those risks.***

We utilize systems and websites that allow for the secure storage and transmission of proprietary or confidential information regarding our customers, employees, and others, including credit card information and personal identification information. A security breach may expose us to a risk of loss or misuse of this information, litigation, and potential liability. We may not have the resources or technical sophistication to anticipate or prevent rapidly-evolving types of cyber attacks. Attacks may be targeted at us, our customers, or others who have entrusted us with information. Actual or anticipated attacks may cause us to incur costs, including costs to deploy additional personnel and protection technologies, train employees, and engage third-party experts and consultants. Advances in computer capabilities, new technological discoveries, or other developments may result in the technology used by us to protect transaction or other data being breached or compromised. In addition, data and security breaches can also occur as a result of non-technical issues, including breach by us or by persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Any compromise or breach of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, and a loss of confidence in our security measures, which could have an adverse effect on our results of operations and our reputation.

***Our licensees may not comply with our product quality, manufacturing standards, marketing and other requirements, which may have an adverse effect on our brand equity, reputation or our business.***

We license our trademarks to third parties for manufacturing, marketing and distribution of children's products and shoes. We believe that licensing the Joe's® brand for certain product categories will broaden and enhance the products available under the brand name. While our agreements with our licensees cover product design, product quality, sourcing, manufacturing, marketing and other requirements, our licensees may not comply fully with those agreements. Non-compliance could include marketing products under our brand names that do not meet our quality and other requirements or engaging in manufacturing practices that do not meet our standards. These activities could harm our brand equity, our reputation and our business.

***In order to effectively manage growth, we are dependent on our financing arrangements and our cash flow from operations.***

Our primary sources of liquidity are: (i) cash from sales of our Joe's® products; and (ii) cash from sales of our accounts receivables and advances against inventory. We are dependent on credit arrangements with suppliers and factoring and inventory based agreements for working capital needs. From time to time, we have conducted equity financing through private placement transactions and obtained increases in our cash availability from CIT Commercial Services, Inc., a unit of CIT Group, or CIT. During fiscal 2012, our primary methods to obtain the cash necessary for operating needs were through the sales of Joe's® products, sales of our accounts receivable pursuant to our factoring agreements and obtaining advances under our inventory security agreements with CIT. CIT has from time to time experienced economic uncertainty regarding its continued ability to operate, including filing a petition for bankruptcy in 2009. However, during this time period, CIT continued to fund us with no change to our arrangements with them. We cannot give you any assurance that should CIT experience uncertainty or insufficient cash flows again that they will continue to be able to fund us in the future.

As of November 30, 2012, our cash balance was \$13,426,000 and our cash availability with CIT was approximately \$26,000 under our agreements. This amount with CIT fluctuates on a daily basis based upon invoicing and collection related activity by CIT on our behalf. CIT has the ability to terminate the agreements we have with them upon notice or require additional collateral to secure its advances. We do not have any provisions in the agreements that protect us in the event of a default by CIT. If CIT

Table of Contents

elects to terminate the agreements, we could be forced to pay our liability with CIT and CIT may also elect to take possession of the pledged collateral, which includes raw materials through finished goods and receivables. Although we have undertaken numerous measures to increase sales and cash flow, control inventory costs and operate more efficiently so that we may be able to fund our operations for fiscal 2013, we may experience losses and negative cash flows. We cannot give you any assurance that we will in fact continue to operate profitably in the future. We believe in the event our agreements with CIT are terminated, we will be able to find alternative sources for obtaining the cash for our operating needs, including, entering into factoring or inventory security agreements with another lender.

***Most of our tangible assets are pledged under our agreements with CIT.***

In addition to being dependent on our financing agreements with CIT, we have pledged to CIT as collateral most of our tangible assets, which include raw materials such as fabric and trim, finished goods, and our receivables. In the event we default or CIT elects to terminate the agreements, we would be required to pay our liability to CIT. If we were unable or unwilling to pay all or part of our liability, CIT could exercise its rights under the agreements to the pledged collateral and sell any or all of these tangible assets. In the event CIT elects this remedy, our operations and our sales could be materially adversely impacted by the sale of or our inability to utilize these assets in our normal business operations.

***Our directors and management, including Mr. Dahan, beneficially own a large percentage of our common stock and may be able to exert significant influence and control over us and may make decisions that do not always coincide with the interest of other stockholders.***

As of February 21, 2013, our executive officers and directors, in the aggregate, beneficially owned approximately 25 percent of our common stock, including options exercisable and restricted common stock units vesting within 60 days. In particular, Joe Dahan, an executive officer and member of our Board of Directors, beneficially owned approximately 17 percent of our total shares outstanding and is our largest stockholder. As a result, such persons are in a position to exert significant control over us and have the ability to substantially influence all matters submitted to our stockholders for approval, including the election and removal of directors, any merger, consolidation or sale of all or substantially all of our assets, an increase in the number of shares authorized for issuance under our stock option plans, and to control our management and affairs. Accordingly, such concentration of ownership may have the effect of delaying, deferring or preventing a change in or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our business, even if such a transaction would be beneficial to other stockholders.

***Our future success depends on our ability to attract and retain talented personnel and retain our key employees, including our chief executive officer and creative director.***

Our future success depends in part on our ability to attract and retain talented personnel. To date, we have not had any difficulty in attracting or retaining personnel to fill open or new positions, however, in the future, we may need to expand our infrastructure to support any anticipated growth. We may need to provide incentives, both short term and long term, to attract and retain personnel. Incentives can range from bonuses, grants of options or restricted stock to perquisites unique to the industry. All such incentives will result in an increase in certain expenses. More particularly, growth and payment of incentives to personnel and expenditures to expand our infrastructure to support our growth will cause our selling, general and administrative expenses to increase if we cannot maintain or decrease other expenses. An increase in our selling, general and administrative expenses may cause us to be less profitable. There can be no assurance that we will be able to maintain or decrease other expenses, therefore, a decrease in profit may have a material adverse impact on our financial condition and results of operations.

Table of Contents

Our chief executive officer, Marc Crossman, has substantial experience and expertise in our business and has made significant contributions to our growth and success. The unexpected loss of his services could adversely affect us. We are protected to a limited extent by a key man term life insurance policy that we maintain on our behalf for Mr. Crossman; however, there can be no assurance that his departure would trigger protection under this policy. In May 2008, we entered into a written employment agreement with Mr. Crossman whereby he is employed by us as our President and Chief Executive Officer. The agreement has an employment term of two years with automatic renewal for additional two year periods if neither party elects not to renew the agreement upon 180 days advanced notice. If Mr. Crossman should leave us, his absence would likely have a substantial impact on our ability to operate on a daily basis because we would be forced to find and hire similarly experienced personnel to fill one or more of his positions and daily operations may suffer temporarily as a result of this immediate void.

Mr. Dahan's departure could materially adversely affect our operations because his experience, design capabilities and name recognition in the apparel industry is important to our business and we rely heavily on Mr. Dahan's capabilities to design, direct and produce product for the Joe's® brand. However, the loss of Mr. Dahan would not have any effect on our ownership of the brand. While we believe that we would be able to find a suitable replacement to design, direct and produce product for the Joe's® brand, we do not know the effect a new or different designer would have on the products and consumer's response to those new products. Therefore, loss of Mr. Dahan's services could have an impact on our ability to operate on a daily basis.

***In the event we seek additional capital through equity or debt offerings, our existing stockholders may be diluted or we may be unable to find additional capital on terms favorable to us and our stockholders.***

In the event that we need additional working capital for our projected operations, we may seek capital through debt or equity offerings which could result in the issuance of additional shares of our capital stock and/or rights to acquire additional shares of our capital stock. Those additional issuances of capital stock would result in a reduction of the percentage of ownership interest held by our existing stockholders. Also, the addition of a substantial number of shares of our common stock into the market or the registration of any other securities may significantly and negatively affect the prevailing market price for our common stock. Finally, we may not be able to find additional capital on terms favorable to us through existing markets or investors due to market conditions, our historical performance or our stock price.

***Our common stock price is volatile and may decrease.***

The trading price and volume of our common stock has historically been subject to fluctuations in response to factors such as the following, some of which are beyond our control:

annual and quarterly variations in actual or anticipated operating results,

operating results that vary from the expectations of securities analysts and investors,

changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors,

changes in market valuations of other denim apparel companies,

announcements of new product lines by us or our competitors, announcements by us or our competitors of significant contracts, acquisitions or dispositions of assets, strategic partnerships, joint ventures or capital commitments,

additions or departures of key personnel or members of our board of directors, and

general conditions in the apparel industry.

Table of Contents

In the 52 week period prior to the filing of this Annual Report, the closing price of our common stock has ranged from \$0.61 to \$1.56. In addition, stock markets generally have experienced price and volume trading volatility in recent years. This volatility has had an effect on the market prices of securities of many companies for reasons unrelated to the operating performance of the specific companies. These broad market fluctuations may negatively affect the market price of our common stock.

***We recently regained compliance with the Nasdaq Capital Market's continued listing requirements, but have received notification letters in the past that we no longer meet Nasdaq's requirements for continued listing. If we are not in compliance with the Nasdaq Capital Market's continued listing requirements, we may be delisted, which may decrease our stock price and make it harder for our stockholders to trade our stock and would have a material adverse effect on our liquidity and harm our business.***

In June 2011 and December 2012, we received notification letters from Nasdaq notifying us that we no longer met Nasdaq's requirements for continued listing under Nasdaq Listing Rule 5550(a)(2), or the Bid Price Rule, because the minimum bid price of our common stock did not equal or exceed \$1.00 at least once over a period of 30 consecutive trading days prior to the date of the notification letter. According to Nasdaq Listing Rule 5810(c)(3)(A), we were afforded 180 calendar days, with one additional 180 calendar day extension period, to regain compliance with the Bid Price Rule. In both instances, we were able to maintain a minimum closing bid price of at least \$1.00 for a minimum of 10 consecutive trading days during the grace period and Nasdaq sent us letters indicating that we satisfied the Bid Price Rule and the matters were closed. However, if we were not able to regain compliance in the applicable time period, Nasdaq would have provide written notification to us that our common stock would be subject to delisting from the Nasdaq Capital Market.

While we believe we will be able to comply with the Nasdaq requirements in the future, no assurances can be made that we will in fact be able to comply and that our common stock will remain listed on Nasdaq. If we are not able to comply with the Nasdaq requirements, our common stock will be delisted from Nasdaq and our common stock would likely be quoted on the OTC Bulletin Board or on the OTC Pink Sheets. As a consequence of any such delisting, a stockholder would likely find it more difficult to dispose of, or to obtain accurate quotations as to the prices of our common stock. Also, a delisting of our common stock would adversely affect our ability to obtain financing for the continuation of our operations and harm our business.

***The seasonal nature of our business makes management more difficult, severely reduces cash flow and liquidity during parts of the year and could force us to curtail our operations.***

Our business is seasonal. The majority of our marketing and sales activities take place from late fall to early spring. Historically, our greatest volume of shipments and sales occur from late spring through the early fall, which coincides with our third and fourth fiscal quarters. This requires us to build-up inventories during our first and second fiscal quarters when our cash flow is weakest. Historically speaking, our cash flow is strongest in the third and fourth fiscal quarters. Unfavorable economic conditions affecting retailers during the fall and holiday seasons in any year could have a material adverse effect on our results of operations for the year. We are likely to experience periods of negative cash flow throughout each year, including, a drop-off in business commencing each December, which could force us to curtail operations if adequate liquidity is not available. We cannot assure you that the effects of such seasonality will diminish in the future. For fiscal 2012, we funded inventory purchases through cash from operations and cash availability under our financing agreements with CIT.

***If an independent manufacturer of ours fails to use acceptable labor practices, our business could suffer.***

While we require our independent manufacturers to operate in compliance with applicable laws and regulations, we have no control over the ultimate actions of our independent manufacturers.

Table of Contents

Despite our lack of control, we have internal and vendor operating guidelines to promote ethical business practices and our staff periodically visits and monitors the operations of our independent manufacturers. We also use the services of a third party independent labor consulting service to conduct on site audits as required by state labor laws to help minimize our risk and exposure to unacceptable labor practice violations. The violation of labor or other laws by one of our independent manufacturers or the divergence of an independent manufacturer's labor practices from those generally accepted as ethical in the United States, could interrupt or otherwise disrupt the shipment of finished products to us or damage our reputation. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations. In particular, the laws governing garment manufacturers in the State of California impose joint liability upon us and our independent manufacturers for the labor practices of those independent manufacturers. As a result, should one of our independent manufacturers be found in violation of state labor laws, we could suffer financial or other unforeseen consequences.

***Our trademark and other intellectual property rights may not be adequately protected and some of our products are targets of counterfeiting.***

We believe that our trademarks and other proprietary rights are important to our success and our competitive position. We may, however, experience conflict with various third parties who acquire or claim ownership rights in certain trademarks as we expand our product offerings and expand the number of countries where we sell our products. We cannot ensure that the actions we have taken to establish and protect these trademarks and other proprietary rights will be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as a violation of their trademarks and proprietary rights. Also, we cannot assure you that others will not assert rights in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States.

Our Joe's® products are sometimes the target of counterfeiters. As a result, there are often products that are imitations or "knock-offs" of our Joe's® products that can be found in the marketplace or consumers can find products that are confusingly similar to ours. We intend to continue to vigorously defend our trademarks and products bearing our trademarks, however, we cannot assure you that our efforts will be adequate to prosecute and block all sales of infringing products from the marketplace.

***Our ability to conduct business in international markets may be affected by legal, regulatory, political and economic risks.***

Our ability to capitalize on growth in new international markets and to maintain the current level of operations in our existing international markets is subject to risks associated with international operations. Some of these risks include:

the burdens of complying with a variety of foreign laws and regulations,

unexpected changes in regulatory requirements, and

new tariffs or other barriers to some international markets.

We are also subject to general political and economic risks associated with conducting international business, including:

political instability,

changes in diplomatic and trade relationships, and

general economic fluctuations in specific countries or markets.



Table of Contents

We cannot predict whether quotas, duties, taxes, or other similar restrictions will be imposed by the United States, Mexico, the European Union, Canada, China, Japan, India, South Korea or other countries upon the import or export of our products in the future, or what effect any of these actions would have on our business, financial condition or results of operations. Changes in regulatory or geopolitical policies and other factors may adversely affect our business in the future or may require us to modify our current business practices.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

Our principal place of business is located in Commerce, Los Angeles County, California. The following table sets forth information with respect to our principal place of business:

Location	Use	Ownership Status	Approximate Area in Square Feet	Lease Expiration
Commerce, California	Warehouse, design and administrative offices	Leased	89,230	December 31, 2013

We operate 30 retail store locations under non-cancelable operating lease agreements expiring on various dates through 2023 or five or ten years from the opening date of the store. These facilities are all located in the United States. As of November 30, 2012, we had 28 stores open and operating and signed leases to open three additional stores. Our retail square footage as of November 30, 2012 was approximately 58,365 square feet in the aggregate. Our retail stores range in size from 1,359 to 3,025 square feet.

We believe that our existing facilities are well maintained, in good operating condition and are adequate for our present level of operations. We are in discussion with our landlord to renew our lease for our principal place of business under similar terms.

**ITEM 3. LEGAL PROCEEDINGS**

(a) We are a party to lawsuits and other contingencies in the ordinary course of our business. We do not believe that we are a party to any material pending legal proceedings or that it is probable that the outcome of any individual action would have an adverse effect in the aggregate on our financial condition. We do not believe that it is likely that an adverse outcome of individually insignificant actions in the aggregate would be sufficient enough, in number or in magnitude, to have a material adverse effect in the aggregate on our financial condition.

(b) None.

**ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

(a) Our common stock is currently traded under the symbol "JOEZ" on The Nasdaq Capital Market maintained by The Nasdaq Stock Market, LLC, or Nasdaq. The following chart sets forth the high and low interday quotations for our common stock on the Nasdaq market for the periods indicated. This information reflects inter-dealer prices, without retail mark-up, mark-down or commissions, and may not necessarily represent actual transactions. No representation is made by us that the following quotations necessarily reflect an established public trading market in our common stock:

	High	Low
<b><i>Fiscal 2012</i></b>		
First Quarter	\$ 0.86	\$ 0.51
Second Quarter	\$ 1.45	\$ 0.81
Third Quarter	\$ 1.26	\$ 0.89
Fourth Quarter	\$ 1.26	\$ 0.87
<b><i>Fiscal 2011</i></b>		
First Quarter	\$ 1.67	\$ 1.07
Second Quarter	\$ 1.14	\$ 0.83
Third Quarter	\$ 0.95	\$ 0.62
Fourth Quarter	\$ 0.70	\$ 0.51

As of November 30, 2012, there were approximately 845 record holders of our common stock. We have never declared or paid a cash dividend and do not anticipate paying cash dividends on our common stock in the foreseeable future. In deciding whether to pay dividends on our common stock in the future, our board of directors will consider certain factors they may deem relevant, including our earnings and financial condition and our capital expenditure requirements.

**Equity Compensation Plan Information**

See "Item 12 Security Ownership of Certain Beneficial Owners, Management and Related Stockholder Matter" for the Equity Compensation Plan Information.

(b) None.

(c) None.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The table below (includes the notes hereto) sets forth a summary of selected consolidated financial data. The selected consolidated financial data should be read in conjunction with the related consolidated financial statements and notes thereto.

	Year ended				
	(in thousands, except per share data)				
	11/30/12	11/30/11	11/30/10	11/30/09	11/30/08
Net sales	\$ 118,642	\$ 95,420	\$ 98,176	\$ 80,116	\$ 69,174
Cost of goods sold	62,472	52,056	51,963	40,331	36,543
Gross profit	56,170	43,364	46,213	39,785	32,631
Operating expenses					
Selling, general and administrative	43,997	41,617	39,349	30,726	26,161
Depreciation and amortization	1,456	1,168	843	536	350
Retail stores impairment		1,144			
	45,453	43,929	40,192	31,262	26,511
Operating income (loss)	10,717	(565)	6,021	8,523	6,120
Interest expense	376	484	464	388	633
Income (loss) before taxes	10,341	(1,049)	5,557	8,135	5,487
Income tax provision (benefit)	4,776	316	2,956	(16,385)(1)	585
Net income (loss)	\$ 5,565	\$ (1,365)	\$ 2,601	\$ 24,520	\$ 4,902
<b>Earnings (loss) per common share basic</b>	\$ 0.08	\$ (0.02)	\$ 0.04	\$ 0.41	\$ 0.08
<b>Earnings (loss) per common share diluted</b>	\$ 0.08	\$ (0.02)	\$ 0.04	\$ 0.40	\$ 0.08
Weighted average shares outstanding					
Basic	65,496	64,001	62,362	60,053	59,420
Diluted	66,849	64,001	64,505	61,121	59,671
Balance sheet data:					
Total assets	\$ 86,024	\$ 80,162	\$ 81,469	\$ 79,624	\$ 57,669
Stockholders' equity	71,739	64,757	64,873	61,506	36,085

(1)

As discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations, "Income Tax," we determined that it was more likely than not that the deferred tax assets would be fully utilized. Accordingly, the valuation allowance of \$20,291,000 was released and recorded as a credit to income tax benefit during fiscal 2009.

Table of Contents

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

**Introduction**

This discussion and analysis summarizes the significant factors affecting our results of operations and financial conditions during the fiscal years ended November 30, 2012, 2011 and 2010, respectively. This discussion should be read in conjunction with our Consolidated Financial Statements, Notes to Consolidated Financial Statements and supplemental information in Item 8 of this Annual Report. The discussion and analysis contains statements that may be considered forward-looking. These statements contain a number of risks and uncertainties, as discussed under the heading "Forward-Looking Statements" of this Annual Report that could cause actual results to differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Our future results, performance or achievements could differ materially from those expressed or implied in these forward-looking statements. We do not undertake to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

**Executive Overview**

Our principal business activity is the design, development and worldwide marketing of our Joe's® products, which include denim jeans, related casual wear and accessories. Since Joe's® was established in 2001, the brand is recognized in the premium denim industry, an industry term for denim jeans with price points generally of \$120 or more, for its quality, fit and fashion-forward designs. Because we focus on design, development and marketing, we rely on third parties to manufacture our apparel products. We sell our products through our own retail stores, to numerous retailers, which include major department stores, specialty stores and distributors around the world.

Beginning in 2009, we began to re-examine our collection pieces and re-launched several categories with their own unique branding along with the Joe's® logo or name. In the fall of fiscal 2009, we launched a line of unisex woven shirts in different fits and fabrications called The Shirt by Joe's, which was followed by items in other distinct product categories and branded as such. In the Fall of 2011, we returned to branding our products cohesively under the name Joe's®. In the first quarter of fiscal 2012, we launched a new brand, else , sold primarily at Macy's. We commenced shipping this brand in February 2012. The brand has price points starting at \$68 and was created to reach young women who are looking for a premium denim-like product at a more affordable price. We have created a unique product that incorporates staple denim fits such as skinny, boot cut, cropped, and boyfriend, in a variety of styles, as well as shorts and denim jackets. During fiscal 2012, we recognized growth through increases in our retail sales, our men's domestic sales and the addition of our private label product offerings.

For 2013, we believe that our growth drivers will be dependent upon the performance of our retail stores, continued increases from our international and men's sales, sales from our else brand, performance of our licensee's under their respective agreements for children's products and shoes and enhancement of products available to our customer's branded with our Joe's® name and logos. When we commenced fiscal 2012, we operated 22 retail stores, five of which were full price stores and 17 of which were outlet stores. During fiscal 2012, we added six retail stores, four of which were full price retail stores and two of which were outlet stores. In fiscal 2013, we added two full price retail stores and have one signed lease for a full price retail store that we expect to open before the end of our first quarter of fiscal 2013. We continue to look for additional leases for further expansion. We believe that through our retail stores, we are able to enhance our net sales and gross profit and sell overstock or slow moving items at higher profit margins. In addition, we selectively license the Joe's® brand for other product categories. By licensing certain product categories, we do not incur significant capital

Table of Contents

investments or incremental operating expenses and at the same time, we receive royalty payments on net sales, which contribute to our overall growth. We have also developed other product lines at lower price points to enhance our business.

Our business is seasonal. The majority of the marketing and sales orders take place from late fall to late spring. The greatest volume of shipments and actual sales are generally made from summer through early fall, which coincides with our third and fourth fiscal quarters, and accordingly, our cash flow is strongest in those quarters. Due to the seasonality of our business, as well as the evolution and changes in our business and product mix, often our quarterly or yearly results are not necessarily indicative of the results for the next quarter or year. Furthermore, because of the growing number of full-price retail and outlet stores opened at different points in fiscal 2011 and 2012, we continue to assess the seasonality of our business on our retail segment and its potential impact on our financial results.

We operate in two primary business segments: Wholesale and Retail. Our Wholesale segment is comprised of sales to retailers, specialty stores and international distributors, revenue from licensing agreements and includes expenses from sales, trade shows, distribution, product samples and customer service departments. Our Retail segment is comprised of sales to consumers through full-price retail stores, outlet stores and through the [www.joesjeans.com/shop](http://www.joesjeans.com/shop) internet site. Our Corporate and other is comprised of expenses from corporate operations, which include the executive, finance, legal, human resources, design and production departments and general advertising expenses associated with our products.

**Comparison of Fiscal Year Ended November 30, 2012 to Fiscal Year Ended November 30, 2011**

	Year ended			
	(in thousands)			
	11/30/12	11/30/11	\$ Change	% Change
Net sales	\$ 118,642	\$ 95,420	\$ 23,222	24%
Cost of goods sold	62,472	52,056	10,416	20%
Gross profit	56,170	43,364	12,806	30%
Gross margin	47%	45%	2%	4%
Selling, general and administrative	43,997	41,617	2,380	6%
Depreciation and amortization	1,456	1,168	288	25%
Retail stores impairment		1,144	(1,144)	N/A
Income (loss) from operations	10,717	(565)	11,282	1,997%
Interest expense	376	484	(108)	(22)%
Income (loss) income before taxes	10,341	(1,049)	11,390	(1,086)%
Income tax provision	4,776	316	4,460	1,411%
Net income (loss)	\$ 5,565	\$ (1,365)	\$ 6,930	508%

Table of Contents**Results of Operations**

The following table sets forth certain statements of operations data by our reportable segments for the periods as indicated:

	Year ended (in thousands)			
	11/30/12	11/30/11	\$ Change	% Change
<b>Net sales</b>				
Wholesale	\$ 95,310	\$ 76,901	\$ 18,409	24%
Retail	23,332	18,519	4,813	26%
	\$ 118,642	\$ 95,420	\$ 23,222	24%
<b>Gross Profit:</b>				
Wholesale	\$ 39,895	\$ 31,097	\$ 8,798	28%
Retail	16,275	12,267	4,008	33%
	\$ 56,170	\$ 43,364	\$ 12,806	30%
<b>Operating income (loss):</b>				
Wholesale	\$ 25,762	\$ 18,000	\$ 7,762	43%
Retail	1,489	(728)	2,217	305%
Corporate and other	(16,534)	(17,837)	1,303	7%
	\$ 10,717	\$ (565)	\$ 11,282	1,997%

**Fiscal Year 2012 Overview****Net Sales**

Our net sales increased to \$118,642,000 in fiscal 2012 from \$95,420,000 in fiscal 2011, a 24 percent increase.

More specifically, our wholesale net sales increased to \$95,310,000 for fiscal 2012 from \$76,901,000 for fiscal 2011, a 24 percent increase. This increase in our wholesale sales is primarily attributed to a \$5,673,000, or a 36 percent, increase in men's Joe's® domestic sales, a \$4,832,000, or nine percent, increase in women's Joe's® domestic sales and the addition of \$7,506,000 in sales from our else brand sold primarily to Macy's that we commenced shipping in February 2012.

Our retail net sales increased to \$23,332,000 for fiscal 2012 from \$18,519,000 for fiscal 2011, a 26 percent increase. The primary reason for this increase was the opening of six additional retail stores since the end of fiscal 2011 that contributed to the overall sales increase for this segment, as well as an increase in same store sales, which are stores opened at least 12 months, including our e-shop, of 10 percent.

**Gross Profit**

Our gross profit increased to \$56,170,000 for fiscal 2012 from \$43,364,000 for fiscal 2011, a 30 percent increase. Our overall gross margin increased to 47 percent for fiscal 2012 from 45 percent for fiscal 2011.

Our wholesale gross profit increased to \$39,895,000 for fiscal 2012 from \$31,097,000 for fiscal 2011, a 28 percent increase. Our wholesale gross profit improved for fiscal 2012 compared to fiscal 2011 due to increased sales from the men's and women's wholesale business and the addition of sales from else. Our gross profit in the third quarter of fiscal 2011 was negatively impacted by a \$1,620,000 reduction in the carrying value of leggings and collection inventory to market, which also impacted our

Table of Contents

gross margins for the same period. As a result, our wholesale gross margin for fiscal 2012 was 42 percent, or two percentage points higher, compared to 40 percent for the prior year comparable period.

Our retail gross profit increased to \$16,275,000 for fiscal 2012 from \$12,267,000 for fiscal 2011, a 33 percent increase. We increased the number of store locations in fiscal 2012 compared to fiscal 2011. In fiscal 2012, we operated 19 outlet stores and nine full price retail stores compared to 17 outlet stores and five full price retail stores in fiscal 2011. Our retail gross margin percentage increased to 70 percent in fiscal 2012 from 66 percent in fiscal 2011 primarily due to the addition of, and increase in, sales at our full price retail stores which carry higher margins.

**Selling, General and Administrative Expense, including Depreciation and Amortization and Retail Store Impairment**

Selling, general and administrative, or SG&A, expenses increased to \$45,453,000 for fiscal 2012 from \$43,929,000 for fiscal 2011, a three percent increase. Our SG&A includes expenses related to employee and employee related benefits, sales commissions, payments of the contingent consideration, advertising, sample production, facilities and distribution related costs, professional fees, stock-based compensation, factor and bank fees and also includes depreciation and amortization and retail store impairment.

Our wholesale SG&A expense increased to \$14,133,000 for fiscal 2012 from \$13,097,000 for fiscal 2011, an eight percent increase. Our wholesale SG&A expense was higher in fiscal 2012 mostly due to higher sample expenses due to expanding the product offerings in our Joe's® line, the addition of else and higher commission expenses as a result of our increased sales.

Our retail SG&A expense increased to \$14,786,000 for fiscal 2012 from \$12,995,000 for fiscal 2011, a 14 percent increase. Our retail SG&A expense increased due to the addition of costs associated with opening and operating six new retail stores since the end of fiscal 2011, which included additional store payroll, store rents and depreciation expense. Also impacting our SG&A expense in fiscal 2011 was an impairment charge of \$1,144,000 related to the property and equipment at two of our full price retail stores. Based on the operating performance of these stores, we believed that we could not recover the net carrying value of the property and equipment at these stores.

Our corporate and other SG&A expense decreased to \$16,534,000 for fiscal 2012 from \$17,837,000 for fiscal 2011, a seven percent decrease. Our corporate and other SG&A expense includes general overhead associated with running our operations. Our SG&A expense decreased primarily due to a decrease in print and other advertising commitments and professional fees in fiscal 2012 compared to fiscal 2011.

**Operating (Loss) Income**

We had an operating income of \$10,717,000 for fiscal 2012 compared to operating loss of \$565,000 for fiscal 2011. We experienced operating income compared to operating loss mostly due to an increase in net sales and corresponding increase in gross profit. In fiscal 2011, we recorded two charges that did not reoccur in fiscal 2012, an inventory write down of \$1,620,000 to the lower of cost or market for leggings and collection inventory and an impairment charge of \$1,144,000 related to the property and equipment at two of our full price retail stores, which contributed to our operating loss in fiscal 2011.

We had wholesale operating income of \$25,762,000 for fiscal 2012 compared to \$18,000,000 for fiscal 2011, a 43 percent increase. Our retail operating income was \$1,489,000 for fiscal 2012 compared to a loss of \$728,000 for fiscal 2011. Our corporate and other operating expense decreased by \$1,303,000 due to a decrease in our advertising expenses and professional fees during fiscal 2012 compared to fiscal 2011.

Table of Contents**Interest Expense**

Our interest expense decreased to \$376,000 for fiscal 2012 from \$484,000 for fiscal 2011, a 22 percent decrease. Our interest expense is primarily associated with interest expense from our factoring facility and inventory lines of credit used to help support our working capital needs. We maintained lower average loan balances under our factoring facility during fiscal 2012 than fiscal 2011, resulting in our decrease in interest expense.

**Income Taxes**

Our effective tax rate was 46 percent for fiscal 2012 compared to negative 30 percent for fiscal 2011. For fiscal 2011, we had losses associated with our operations that would ordinarily result in a tax benefit. Due to unfavorable permanent book/tax difference associated with the costs of acquiring the trademark (in connection with the merger in 2007), we had income for tax purposes which resulted in a tax expense which caused the negative effective tax rate. For fiscal 2012, our effective tax rate has normalized as we no longer had losses associated with our operations.

**Net (Loss) Income**

Our net income was \$5,565,000 in fiscal 2012 compared to a net loss of \$1,365,000 for fiscal 2011. The shift to net income from a net loss was primarily due to the write down of \$1,620,000 to market value for certain finished goods inventory and an impairment charge of \$1,144,000 related to the property and equipment at two of our full price retail stores we recorded in the third quarter of fiscal 2011. In addition, our net income was positively impacted by increases in net sales and gross profit as a result of increases in our wholesale men's net sales, retail net sales and the addition of sales from our else brand.

**Comparison of Fiscal Year Ended November 30, 2011 to Fiscal Year Ended November 30, 2010**

	Year ended			
	(in thousands)			
	11/30/11	11/30/10	\$ Change	% Change
Net sales	\$ 95,420	\$ 98,176	\$ (2,756)	(3)%
Cost of goods sold	52,056	51,963	93	0%
Gross profit	43,364	46,213	(2,849)	(6)%
Gross margin	45%	47%	(2)%	(4)%
Selling, general and administrative	41,617	39,349	2,268	6%
Depreciation and amortization	1,168	843	325	39%
Retail stores impairment	1,144		1,144	N/A
(Loss) income from operations	(565)	6,021	(6,586)	(109)%
Interest expense	484	464	20	4%
(Loss) income before taxes	(1,049)	5,557	(6,606)	(119)%
Income tax provision	316	2,956	(2,640)	(89)%
Net (loss) income	\$ (1,365)	\$ 2,601	\$ (3,966)	(152)%



Table of Contents**Results of Operations**

The following table sets forth certain statements of operations data by our reportable segments for the periods as indicated:

	Year ended (in thousands)			
	11/30/11	11/30/10	\$ Change	% Change
<b>Net sales</b>				
Wholesale	\$ 76,901	\$ 85,141	\$ (8,240)	(10)%
Retail	18,519	13,035	5,484	42%
	\$ 95,420	\$ 98,176	\$ (2,756)	(3)%
<b>Gross Profit:</b>				
Wholesale	\$ 31,097	\$ 38,324	\$ (7,227)	(19)%
Retail	12,267	7,889	4,378	55%
	\$ 43,364	\$ 46,213	\$ (2,849)	(6)%
<b>Operating income (loss):</b>				
Wholesale	\$ 18,000	\$ 23,887	\$ (5,887)	(25)%
Retail	(728)	(42)	(686)	(1,633)%
Corporate and other	(17,837)	(17,824)	(13)	(0)%
	\$ (565)	\$ 6,021	\$ (6,586)	(109)%

**Fiscal Year 2011 Overview****Net Sales**

Our net sales decreased to \$95,420,000 in fiscal 2011 from \$98,176,000 in fiscal 2010, a three percent decrease.

More specifically, our wholesale net sales decreased to \$76,901,000 for fiscal 2011 from \$85,141,000 for fiscal 2010, a 10 percent decrease. This decrease in our wholesale sales is primarily attributed to a decrease in international and women's domestic sales, which declined collectively by \$10,848,000 over the prior year period, or a 15 percent decrease. This decrease was partially offset by a \$2,893,000, or a 22 percent increase, in men's domestic sales.

Our retail net sales increased to \$18,519,000 for fiscal 2011 from \$13,035,000 for fiscal 2010, a 42 percent increase. The primary reason for this increase was the opening of five additional retail stores since the end of fiscal 2010 that contributed to overall sales increase for this segment in fiscal 2011.

**Gross Profit**

Our gross profit decreased to \$43,364,000 for fiscal 2011 from \$46,213,000 for fiscal 2010, a six percent decrease. Our overall gross margin decreased to 45 percent for fiscal 2011 from 47 percent for fiscal 2010.

Our wholesale gross profit decreased to \$31,097,000 for fiscal 2011 from \$38,324,000 for fiscal 2010, a 19 percent decrease. Our wholesale gross profit and gross margin for the fiscal 2011 were negatively impacted by a decrease of \$8,240,000 in wholesale sales and an inventory write down of \$1,620,000 to the lower of cost or market for leggings and collection inventory in the third quarter of fiscal 2011. This inventory write down accounted for 57 percent of the six percent decline in fiscal 2011's total gross profit and resulted in a gross margin reduction of two percentage points. Our

Table of Contents

wholesale gross margins for fiscal 2011 were further negatively impacted by our product placement mix with our wholesale customers.

Our retail gross profit increased to \$12,267,000 for fiscal 2011 from \$7,889,000 for fiscal 2010, a 55 percent increase. We increased the number of store locations in fiscal 2011 compared to fiscal 2010. In fiscal 2011, we operated 17 outlet stores and five full price retail stores. In fiscal 2010, we operated 13 outlet stores and four full price retail stores. Our retail gross margin percentage increased to 66 percent in fiscal 2011 from 61 percent in fiscal 2010 primarily due to the inventory mix in stores and a reduced level of promotional activity at our outlet stores.

**Selling, General and Administrative Expense, including Depreciation and Amortization and Retail Store Impairment**

Selling, general and administrative, or SG&A, expenses increased to \$43,929,000 for fiscal 2011 from \$40,192,000 for fiscal 2010, a nine percent increase. Our SG&A includes expenses related to employee and employee related benefits, sales commissions, payments of the contingent consideration, advertising, sample production, facilities and distribution related costs, professional fees, stock-based compensation, factor and bank fees and also includes depreciation and amortization and retail store impairment.

Our wholesale SG&A expense decreased to \$13,097,000 for fiscal 2011 from \$14,437,000 for fiscal 2010, a nine percent decrease. Our wholesale SG&A expense was lower in fiscal 2011 mostly due to lower sample and distribution expenses. Cost savings in these areas resulted from close management of our sample expenses and consolidating our distribution function to our corporate facility in the first quarter of fiscal 2011.

Our retail SG&A expense increased to \$12,995,000 for fiscal 2011 from \$7,931,000 for fiscal 2010, a 64 percent increase. Our retail SG&A expense increased due to the addition of costs associated with opening and operating five new retail stores since the end of fiscal 2010, which included additional store payroll, store rents and depreciation expense. Also impacting our SG&A expense was additional depreciation for leasehold improvements at these additional retail stores and an impairment charge of \$1,144,000 related to the property and equipment at two of our full price retail stores. Based on the operating performance of these stores, we believed that we could not recover the net carrying value of the property and equipment at these stores. Due to this impairment and increased store openings, our retail SG&A expenses increased correspondingly for fiscal 2011.

Our corporate and other SG&A expense increased slightly to \$17,837,000 for fiscal 2011 from \$17,824,000 for fiscal 2010, a less than one percent increase. Our corporate and other SG&A expense includes general overhead associated with running our operations. Our SG&A expense decreased in certain areas, such as employee and employee related benefits and facilities and distribution, due to reduced headcount and consolidation of our corporate headquarters in the first quarter of fiscal 2011. Offsetting these decreases were approximately \$1,657,000 in expenses for print and other advertising in order to support and promote our brand and increased professional fees.

**Operating (Loss) Income**

We had an operating loss of \$565,000 for fiscal 2011 compared to operating income of \$6,021,000 for fiscal 2010, a 109 percent decrease. We experienced an operating loss compared to operating income mostly due to lower net sales which resulted in a loss of gross profit of \$1,251,000, an inventory write down of \$1,620,000 to the lower of cost or market for leggings and collection inventory that negatively impacted our gross profit, an increase in SG&A expenses of \$2,268,000 due to additional store openings and increased advertising expenses and an impairment charge of \$1,144,000 related to the property and equipment at two of our full price retail stores.

Table of Contents

We had wholesale operating income of \$18,000,000 for fiscal 2011 compared to operating income of \$23,887,000 for fiscal 2010, a 25 percent decrease. Our retail operating loss was \$728,000 compared to a loss of \$42,000 for fiscal 2010. Our corporate and other operating expense increased by \$13,000 due to a slight increase in general overhead costs.

**Interest Expense**

Our interest expense increased to \$484,000 for fiscal 2011 from \$464,000 for fiscal 2010, a four percent increase. Our interest expense is primarily associated with interest expense from our factoring facility and inventory lines of credit used to help support our working capital needs. We maintained comparable average loan balances under our factoring facility in both comparative periods.

**Income Taxes**

Our effective tax rate was negative 30 percent for fiscal 2011 compared to 53 percent for fiscal 2010. For fiscal 2011, we had losses associated with our operations that would ordinarily result in a tax benefit. Due to unfavorable permanent book/tax difference associated with the costs of acquiring the trademark (in connection with the merger in 2007), we had income for tax purposes which resulted in a tax expense which caused the negative effective tax rate.

**Net (Loss) Income**

Our net loss was \$1,365,000 in fiscal 2011 compared to net income \$2,601,000 for fiscal 2010. This shift from net income to a net loss was primarily due to a loss in gross profit of \$2,849,000 from lower net sales and gross margins, which included an inventory write down of \$1,620,000 to the lower of cost or market for leggings and collection inventory, an increase in SG&A expenses of \$2,268,000 due to additional store openings and increased advertising expenses and an impairment charge of \$1,144,000 related to the property and equipment at two of our full price retail stores. However, these increases were offset by lower income tax expense.

**Liquidity and Capital Resources**

Our primary sources of liquidity are: (i) cash from sales of our products; and (ii) sales from accounts receivable factoring facilities and advances against inventory. For the year ended November 30, 2012, we generated \$5,782,000 of cash flow from operations and used \$2,779,000 in investing activities for purchases of property and equipment mostly in connection with the opening and operation of our new and existing retail stores. We used \$2,267,000 in financing activities. This was comprised of \$1,863,000 in repayments in factored borrowings, payments of \$424,000 for taxes on restricted stock units and proceeds of \$20,000 from stock option exercises. Our cash balance increased to \$13,426,000 as of November 30, 2012.

Historically, we have been dependent on credit arrangements with suppliers and factoring and inventory based agreements for working capital needs. Our primary methods to obtain the cash necessary for operating needs are through the sales of Joe's® products, sales of our accounts receivable pursuant to our factoring agreements, obtaining advances under our inventory security agreements with CIT and utilizing existing cash balances. The accounts receivable are sold for up to 85 percent of the face amount on either a recourse or non-recourse basis depending on the creditworthiness of the customer. In addition, the inventory agreement allows us to obtain advances for up to 50 percent of the value of certain eligible inventory. CIT currently permits us to sell our accounts receivable at the maximum level of 85 percent and allows advances of up to \$6,000,000 for eligible inventory. CIT has the ability, in its discretion at any time or from time to time, to adjust or revise any limits on the amount of loans or advances made to us pursuant to these agreements and to impose surcharges on our rates for certain of our customers. As further assurance to CIT, cross guarantees were executed by

Table of Contents

and among us and all of our subsidiaries to guarantee each entity's obligations. As of November 30, 2012, our cash balance was \$13,426,000 and our cash availability with CIT was approximately \$26,000. This amount with CIT fluctuates on a daily basis based upon invoicing and collection related activity by CIT on our behalf. In connection with both of the agreements with CIT, most of our tangible assets are pledged to CIT, including all inventory, merchandise, and/or goods, including raw materials through finished goods and receivables. Our trademarks are not encumbered.

In May 2010, the parties amended the accounts receivable agreement to provide for a change in the factoring fees, an extension of the agreement and additional termination rights. The accounts receivable agreement may be terminated by CIT upon 60 days' written notice or immediately upon the occurrence of an event of default as defined in the agreement. The accounts receivable agreement may be terminated by us upon 60 days' written notice prior to June 30, 2013, or earlier provided that the minimum factoring fees have been paid for the respective period or CIT fails to fund us for five consecutive days. The inventory agreement may be terminated once all obligations are paid under both agreements or if an event of default occurs as defined in the agreement. We expect that the accounts receivable agreement and inventory agreement will renew under the same terms on July 1, 2013.

From June 1 to June 30, 2010, we paid to CIT a factoring rate of 0.6 percent to factor accounts which CIT bore the credit risk, subject to discretionary surcharges, and 0.4 percent for accounts which we bore the credit risk. The interest rate associated with borrowings under the inventory lines and factoring facility is 0.25 percent plus the Chase prime rate. Beginning July 1, 2010, the factoring rate changed to 0.55 percent for accounts which CIT bears the credit risk, subject to discretionary surcharges, up to \$40,000,000 of invoices factored, 0.50 percent over \$40,000,000 of invoices factored and 0.35 percent for accounts which we bear the credit risk. The interest rate associated with the agreements is 0.25 percent plus the Chase prime rate.

We have also established a letter of credit facility with CIT to allow us to open letters of credit for a fee of 0.25 percent of the letter of credit face value with international and domestic suppliers, subject to cash availability on our inventory line of credit.

As of November 30, 2012, we had a net loan balance of \$14,166,000 for factored receivables, a loan balance of \$5,782,000 for inventory advances and no letters of credit outstanding.

For fiscal 2013, our primary capital needs are for (i) operating expenses; (ii) working capital necessary to fund inventory purchases; (iii) capital expenditures for potential additional retail store openings; (iv) financing extensions of trade credit to our customers; and (v) payment for the fixed amount paid to Mr. Dahan pursuant to our agreement with him. We anticipate funding our operations through working capital generated by the following: (i) cash flow from sales of our products; (ii) managing our operating expenses and inventory levels; (iii) maximizing trade payables with our domestic and international suppliers; (iv) increasing collection efforts on existing accounts receivables; and (v) utilizing our receivable and inventory-based agreements with CIT.

Based on our cash on hand, cash flow from operations and the expected cash availability under our agreements with CIT, we believe that we have the working capital resources necessary to meet our projected operational needs for fiscal 2013. However, if we require more capital for growth or experience operating losses, we believe that it will be necessary to obtain additional working capital through credit arrangements or debt or equity financings. We believe that any additional capital, to the extent needed, may be obtained from additional sales of equity securities or other loans or credit arrangements. There can be no assurance that this or other financings will be available if needed. Our inability to fulfill any interim working capital requirements would force us to constrict our operations.

We believe that the rate of inflation over the past few years has not had a significant adverse impact on our net sales or income from continuing operations.

Table of Contents**Commitments and Contractual Obligations**

The following table sets forth our contractual obligations and commercial commitments for our continuing operations as of November 30, 2012:

	Payments due by period (in thousands)						
	Total	2013	2014	2015	2016	2017	Thereafter
Operating lease obligations	\$ 48,799	\$ 6,310	\$ 6,049	\$ 6,085	\$ 6,061	\$ 5,998	\$ 18,296
Purchase obligations	4,540	4,540					
	\$ 53,339	\$ 10,850	\$ 6,049	\$ 6,085	\$ 6,061	\$ 5,998	\$ 18,296

Until February 18, 2013, we had a contractual obligation to pay a contingent payment to Mr. Dahan in the event the gross profit of our Joe's® brand sales exceed \$11,251,000 in a fiscal year. See "Management's Discussion of Critical Accounting Policies Additional Merger Consideration (Contingent Consideration)" for a further discussion of this contingent obligation.

*Off Balance Sheet Arrangements*

We do not have any off balance sheet arrangements.

**Management's Discussion of Critical Accounting Policies**

We believe that the accounting policies discussed below are important to an understanding of our financial statements because they require management to exercise judgment and estimate the effects of uncertain matters in the preparation and reporting of financial results. Accordingly, we caution that these policies and the judgments and estimates they involve are subject to revision and adjustment in the future. While they involve less judgment, management believes that the other accounting policies discussed in "Notes to Consolidated Financial Statements Note 2 Summary of Significant Accounting Policies" included in this Annual Report are also important to an understanding of our financial statements. We believe that the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

*Revenue Recognition*

Wholesale revenues are recorded on the accrual basis of accounting when title transfers to the customer, which is typically at the shipping point. We record estimated reductions to revenue for customer programs, including co-op advertising, other advertising programs or allowances, based upon a percentage of sales. We also allow for returns based upon pre-approval or in the case of damaged goods. Such returns are estimated based on historical experience and an allowance is provided at the time of sale.

Retail store revenue is recognized net of estimated returns at the time of sale to consumers. E-commerce sales of products ordered through our retail internet site known as www.joesjeans.com are recognized upon estimated delivery and receipt of the shipment by the customers. E-commerce revenue is also reduced by an estimate of returns. Retail store revenue and E-commerce revenue exclude sales taxes. Revenue from licensing arrangements are recognized when earned in accordance with the terms of the underlying agreements, generally based upon the higher of (a) contractually guaranteed minimum royalty levels; and (b) estimates of sales and royalty data received from our licensees. Payments received in consideration of the grant of a license or advanced royalty payments are recognized ratably as revenue over the term of the license agreement. The revenue recognized ratably over the term of the license agreement will not exceed royalty payments received. The unrecognized

Table of Contents

portion of the upfront payments are included in deferred royalties and accrued expenses depending on the long or short term nature of the payments to be recognized. As of November 30, 2012, we have recognized all of the advanced payments under our licensing agreements as income.

*Accounts Receivable, Due To Factor and Allowance for Customer Credits and Doubtful Allowances*

We evaluate our ability to collect on accounts receivable and charge-backs (disputes from the customer) based upon a combination of factors. Whether a receivable is past due is based on how recently payments have been received and in certain circumstances where we are aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filings, substantial downgrading of credit sources). A specific reserve for bad debts is taken against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. Amounts are charged off against the reserve once it is established that amounts are not likely to be collected. We recognize reserves for charge-backs based on our historical collection experience.

The balance in the allowance for customer credits and doubtful accounts as of November 30, 2012 and November 30, 2011 was \$557,000 and \$678,000, respectively, for non-factored accounts receivables.

*Inventory*

We continually evaluate the composition of our inventories, assessing slow-turning, ongoing product as well as product from prior seasons. Market value of distressed inventory is valued based on historical sales trends on our individual product lines, the impact of market trends and economic conditions, and the value of current orders relating to the future sales of this type of inventory. Significant changes in market values could cause us to record additional inventory markdowns.

*Valuation of Long-lived and Intangible Assets and Goodwill*

We assess the impairment of identifiable intangibles, long-lived assets and goodwill annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review other than on an annual basis include the following:

- A significant underperformance relative to expected historical or projected future operating results;
- A significant change in the manner of the use of the acquired asset or the strategy for the overall business; or
- A significant negative industry or economic trend.

When we determine that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the aforementioned factors and the carrying value exceeds the estimated undiscounted cash flows expected to be generated by the asset, impairment is measured based on a projected discounted cash flow method using a discount rate determined by management. These cash flows are calculated by netting future estimated sales against associated merchandise costs and other related expenses such as payroll, occupancy and marketing. In the third quarter of fiscal 2011, we recorded store impairment charges of \$1,144,000 related to two of our full price retail stores. Based on the operating performance of these stores, we believed that we could not recover the carrying value of property and equipment located at these stores.

In fiscal 2007, we acquired through merger JD Holdings, which included all of the goodwill and intangible assets goodwill related to the Joe's®, Joe's Jeans and JD® logo and marks. To date, we have not recognized any impairment related to the goodwill or intangible assets of our Joe's® brand. We have assigned an indefinite life to these intangible assets and therefore, no amortization expenses

Table of Contents

are expected to be recognized. However, we test the assets for impairment annually in accordance with our critical accounting policies.

We evaluate goodwill and other indefinite lived intangible assets at least annually using a two-step process. The first step is to determine the fair value of each reporting unit and compare this value to its carrying value. If the fair value exceeds the carrying value, no further work is required and no impairment loss would be recognized. The second step is performed if the carrying value exceeds the fair value of the assets. The implied fair value of the reporting unit's goodwill or indefinite lived intangible assets must be determined and compared to the carrying value of the goodwill or indefinite lived intangible assets.

Our annual impairment testing date is September 30 of each year. For fiscal 2012, we determined that there was no impairment of our goodwill or indefinite lived intangible assets.

*Additional Merger Consideration (Contingent Consideration)*

In connection with the merger with JD Holdings, we agreed to pay to Mr. Dahan the following contingent consideration in the applicable fiscal year for 120 months following October 25, 2007:

No contingent consideration if the gross profit is less than \$11,250,000 in the applicable fiscal year;

11.33% of the gross profit from \$11,251,000 to \$22,500,000;

3% of the gross profit from \$22,501,000 to \$31,500,000;

2% of the gross profit from \$31,501,000 to \$40,500,000; and

1% of the gross profit above \$40,501,000.

The additional merger consideration, or contingent consideration, is paid in advance on a monthly basis based upon estimates of gross profits after the assumption that the payments are likely to be paid. At the end of each quarter, any overpayments are offset against future payments and any significant underpayments are made.

Under the Financial Accounting Standards Board (FASB) Accounting Standards Codification, or ASC, accounting for consideration transferred to settle a contingency based on earnings or other performance measures, certain criteria is used to determine whether contingent consideration based on earnings or other performance measures should be accounted for as (1) adjustment of the purchase price of the acquired enterprise or (2) compensation for services, use of property or profit sharing. The determination of how to account for the contingent consideration is a matter of judgment that depends on the relevant facts and circumstances. The advanced contingent consideration payments are accounted for as operating expense.

On February 18, 2013, we entered into a new agreement with Mr. Dahan that provided certainty of payments to him by removing the contingencies related to the contingent consideration payments described above. This agreement fixed the overall amount to be paid by us for the remaining months of year six through year 10 with payments being made over an accelerated time period until November 2015 instead of October 2017. Under the agreement, the total aggregate amount Mr. Dahan will receive is \$9,168,000. We will take a one-time charge as an expense for the full amount in the quarterly period ending February 28, 2013. In addition, Mr. Dahan agreed to a restrictive covenant relating to non-competition and non-solicitation until November 30, 2016 in addition to the restrictive covenant in the original merger agreement.

Table of Contents

*Income Taxes*

As part of the process of preparing our consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which we operate. The process involves estimating actual current tax expense along with assessing temporary differences resulting from differing treatment of items for book and tax purposes. These timing differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheet. Management records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. Management has considered future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance. Increases in the valuation allowance result in additional expense to be reflected within the tax provision in the consolidated statement of income. Reserves are also estimated for ongoing audits regarding federal and state issues that are currently unresolved. We routinely monitor the potential impact of these situations.

*Contingencies*

We record an estimated loss from a loss contingency when information available prior to issuance of our financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies such as legal and income tax matters requires management to use judgment. Many of these legal and tax contingencies can take years to be resolved. Generally, as the time period increases over which the uncertainties are resolved, the likelihood of changes to the estimate of the ultimate outcome increases. Management believes that the accruals for these matters are adequate. Should events or circumstances change, we could have to record additional accruals.

*Stock Based Compensation*

We account for stock-based compensation in accordance with the ASC standards. We elected the modified prospective method where prior periods are not revised for comparative purposes. Under the fair value recognition provisions, stock based compensation is measured at grant date based upon the fair value of the award and expense is recognized on a straight-line basis over the vesting period. We use the Black-Scholes option pricing model to determine the fair value of stock options, which requires management to use estimates and assumptions. The determination of the fair value of stock based option awards on the date of grant is based upon the exercise price as well as assumptions regarding subjective variables. These variables include our expected life of the option, expected stock price volatility over the term of the award, determination of a risk free interest rate and an estimated dividend yield. We estimate the expected life of the option by calculating the average term based upon historical experience. We estimate the expected stock price volatility by using implied volatility in market traded stock over the same period as the vesting period. We base the risk-free interest rate on zero coupon yields implied from U.S. Treasury issues with remaining terms similar to the term on the options. We do not expect to pay dividends in the foreseeable future and therefore use an expected dividend yield of zero. If factors change or we employ different assumptions for estimating fair value of the stock option, our estimates may be different than future estimates or actual values realized upon the exercise, expiration, early termination or forfeiture of those awards in the future. At this time, we believe that our current method for accounting for stock based compensation is reasonable. Furthermore, an entity may elect either an accelerated recognition method or a straight-line recognition method for awards subject to graded vesting based on a service condition, regardless of how the fair value of the award is measured. For all stock based compensation awards that contain graded vesting based on service conditions, we have elected to apply a straight-line recognition method to account for these awards. However, guidance is relatively new and the application of these principles over time may be subject to further interpretation or refinement. See "Notes to Consolidated Financial Statements Note 2 Summary of Significant Accounting Policies Stock-Based Compensation" and "Note 7 Stockholders' Equity Stock Incentive Plans" for additional discussion.



Table of Contents

*Recent Accounting Pronouncements*

In June 2011, the FASB issued guidance regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The updated guidance is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this standard will only impact the presentation of our consolidated financial statements and will have no impact on the reported results.

In May 2011, the FASB issued additional guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. We do not believe that adoption of this guidance will have a material impact on our financial position and results of operations.

In September 2011, the FASB issued an amendment which gives an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. If an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then it is required to perform the first step of the two-step goodwill impairment test. If the carrying value of the reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted if an entity's financial statements for the most recent annual or interim period have not yet been issued. We do not believe that adoption of this guidance will have a material impact on our financial position and results of operations.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable to us as a Smaller Reporting Company.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by Item 8 is included in "Item 15. Exhibits, Financial Statement Schedules" of our consolidated financial statements and notes thereto, and the consolidated financial statement schedule filed on this Annual Report.

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

There have been no changes in or disagreements with our independent registered public accounting firm, Ernst & Young LLP.

Table of Contents

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures*

Under the supervision, and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we performed an evaluation of our disclosure controls and procedures, as defined in 13a-15(e) and 15-d-15(e) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded, as of the end of the period covered by this report, that such disclosure controls and procedures were effective.

*Management's Annual Report On Internal Control Over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we performed an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of November 30, 2012.

*Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during the fourth quarter of the fiscal year covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

**Change in Date of 2013 Annual Meeting of Stockholders**

As previously reported, our 2013 Annual Meeting of Stockholders, or 2013 Annual Meeting, has been scheduled for April 8, 2013 in Los Angeles, California. Because the expected date of our 2013 Annual Meeting represents a change of more than 30 days from the anniversary of our 2012 Annual Meeting of Stockholders held on November 14, 2012, we have set a new deadline for the receipt of stockholder proposals submitted pursuant to Rule 14a-8 under the Exchange Act for inclusion in our proxy materials for the 2013 Annual Meeting. In order to be considered timely, such proposals must be received by us at our principal executive offices at 2340 South Eastern Avenue, Commerce, CA 90040 no later than March 8, 2013. This deadline will also apply in determining whether notice is timely for purposes of exercising discretionary voting authority with respect to proxies for purposes of Rule 14a-4(c) under the Exchange Act. All proposals should be directed to the attention of the Corporate Secretary at our principal executive offices at 2340 South Eastern Avenue, Commerce, CA 90040.

**PART III**

Certain information required by Part III is omitted on this Annual Report since we intend to file our Definitive Proxy Statement for our next Annual Meeting of Stockholders, pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, or Exchange Act, no later than March 30, 2013, and certain information to be included in the Definitive Proxy Statement is incorporated herein by reference.

Table of Contents

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The information required by Item 10 as to directors, executive officers and Section 16 reporting compliance is incorporated by reference from our Definitive Proxy Statement.

**Code of Business Conduct and Ethics**

Our Board of Directors adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees on May 22, 2003. Our Code of Business Conduct and Ethics is available on our website at [www.joesjeans.com](http://www.joesjeans.com) or you may request a free copy of our Code of Business Conduct and Ethics from our Chief Compliance Officer at our corporate headquarters at the following address: 2340 S. Eastern Avenue, Commerce, California 90040 or by calling (323) 837-3700. You may also find a copy of our Code of Business Conduct and Ethics filed as Exhibit 14 originally filed with our Annual Report on Form 10-K for the fiscal year ended November 29, 2003 filed with the SEC on February 28, 2004.

To date, there have been no waivers under our Code of Business Conduct and Ethics. We intend to disclose any amendments to our Code of Business Conduct and Ethics and any waiver granted from a provision of such Code on a Form 8-K filed with the SEC within four business days following such amendment or waiver or on our website at [www.joesjeans.com](http://www.joesjeans.com) within four business days following such amendment or waiver. The information contained or connected to our website is not incorporated by reference into this Annual Report and should not be considered a part of this or any other report that we file or furnish to the SEC.

**Audit Committee**

The Audit Committee, established in accordance with Section 3(a)(58)(A) of the Exchange Act, is currently comprised of Messrs. O'Riordan, Furrow and Savage. Mr. O'Riordan serves as Chairman of the Audit Committee. Currently, all Audit Committee members are "independent" under NASDAQ listing standards and as such term is defined in the rules and regulations of the SEC, and has also been designated to be an "audit committee financial expert" as such term is defined in the rules and regulations of the SEC. A copy of the Audit Committee charter can be found on our website [www.joesjeans.com](http://www.joesjeans.com) under our Investor Relations heading.

**ITEM 11. EXECUTIVE COMPENSATION.**

The information required by Item 11 as to executive compensation is incorporated by reference from our Definitive Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS.**

The information required by Item 12 as to the security ownership of certain beneficial owners and management and related stockholder matters is incorporated by reference from our Definitive Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.**

The information required by Item 13 as to certain relationships and related transactions is incorporated by reference from our Definitive Proxy Statement.

Table of Contents**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

The information required by Item 14 as to principal accountant fees and services is incorporated by reference from our Definitive Proxy Statement.

**PART IV****ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) List of documents filed as a part of this Annual Report:

1 and 2. Financial Statements and Financial Statement Schedules

**Audited Consolidated Financial Statements:**Report of Independent Registered Public Accounting Firm

F-1

Consolidated Balance Sheets at November 30, 2012 and 2011

F-2

Consolidated Statements of Operations for the years ended November 30, 2012, 2011 and 2010

F-3

Consolidated Statements of Stockholders' Equity for the years ended November 30, 2012, 2011 and 2010

F-4

Consolidated Statements of Cash Flows for the years ended November 30, 2012, 2011 and 2010

F-5

Notes to Consolidated Financial Statements

F-6

Schedule II Valuation of Qualifying Accounts

F-30

(a) 3. Exhibits (listed according to the number assigned in the table in Item 601 of Regulation S-K)

<b>Exhibit Number</b>	<b>Description</b>	<b>Document if Incorporated by Reference</b>
3.1	Seventh Amended and Restated Certificate of Incorporation of the Registrant	Exhibit 4.1 to Current Report on Form 8-K filed on October 15, 2007
3.2	Amended and Restated Bylaws of Registrant	Exhibit 4.2 to Registration Statement on Form S-8 filed on November 12, 1993
10.1	Amended and Restated Employment Agreement by and between Joe's Jeans Inc. and Joseph M. Dahan to be effective upon closing of the Merger Agreement (Schedule 6.2(c) to Merger Agreement)	Exhibit 10.1 to Current Report on Form 8-K filed on June 26, 2007
10.2	Investor Rights Agreement by and between Joe's Jeans Inc. and Joseph M. Dahan	Exhibit 10.2 to Current Report on Form 8-K filed on October 31, 2007
10.3	Factoring Agreement dated June 1, 2001 between Joe's Jeans, Inc. and CIT Commercial Services	Exhibit 10.4 to Quarterly Report on Form 10-Q for the period ended August 30, 2003 filed on October 14, 2003
10.4	Inventory Security Agreement dated August 20, 2002 between Joe's Jeans Inc. and CIT Commercial Services	Exhibit 10.7 to Quarterly Report on Form 10-Q for the period ended August 30, 2003 filed on October 14, 2003



## Edgar Filing: JOE'S JEANS INC. - Form 10-K

### Table of Contents

<b>Exhibit Number</b>	<b>Description</b>	<b>Document if Incorporated by Reference</b>
10.5	Amendment to Factoring Agreement originally dated June 1, 2001 between Joe's Jeans Inc. and CIT Commercial Services dated effective April 23, 2003	Exhibit 10.6 to Quarterly Report on Form 10-Q for the period ended May 31, 2003 filed on July 15, 2003
10.7	2000 Director Option Plan	Attachment E to Definitive Proxy Statement on Schedule 14A filed on September 19, 2000
10.8	2004 Stock Incentive Plan	Exhibit A to Definitive Merger Proxy Statement on Schedule 14A filed on September 10, 2009
10.12	Offer Letter by and between Innovo Group Inc. and Hamish Sandhu	Exhibit 10.1 to the Current Report on Form 8-K filed on August 27, 2007
10.13	Amendment to Factoring Agreement by and among Joe's Jeans Subsidiary Inc. (formerly Joe's Jeans Inc.), Joe's Jeans Inc. (formerly Innovo Group Inc.) and The CIT Group/Commercial Services, Inc. dated October 24, 2007	Exhibit 10.1 to the Current Report on Form 8-K filed on October 30, 2007
10.14	Amendment to Guaranty Agreement by and between Joe's Jeans Inc. (formerly Innovo Group Inc.) and The CIT Group/Commercial Services, Inc. dated October 24, 2007	Exhibit 10.2 to the Current Report on Form 8-K filed on October 30, 2007
10.16	Form of Restricted Stock Agreement for Members of the Board of Directors	Exhibit 10.1 to the Current Report on Form 8-K filed on December 21, 2007
10.17	Restricted Stock Agreement for Marc B. Crossman	Exhibit 10.2 to the Current Report on Form 8-K filed on December 21, 2007
10.18	Form of Restricted Stock Unit Agreement	Exhibit 10.3 to the Current Report on Form 8-K filed on December 21, 2007
10.19	Executive Employment Agreement by and between Joe's Jeans Inc. and Marc B. Crossman dated May 30, 2008	Exhibit 10.1 to the Current Report on Form 8-K filed on June 5, 2008
10.20	Letter Agreement with Pixior LLC	Exhibit 10.20 to the Annual Report on Form 10-K for the year ended November 30, 2008 filed on April 29, 2009
10.21	Global Customer Surcharge Letter Agreement with The CIT Group/Commercial Services, Inc. dated March 11, 2009	Exhibit 10.1 to the Current Report on Form 8-K filed on March 17, 2009
10.22	Form of Restricted Stock Agreement	Exhibit 10.3 to Current Report on Form 8-K filed on October 14, 2009
10.23	Agreement with Dependable Distribution Centers dated January 8, 2010	Exhibit 10.23 to the Annual Report on Form 10-K for the year ended November 30, 2009 filed on February 3, 2010

## Edgar Filing: JOE'S JEANS INC. - Form 10-K

### Table of Contents

Exhibit Number	Description	Document if Incorporated by Reference
10.25	Form of Stock Option Agreement	Exhibit 10.1 to Quarterly Report on Form 10-Q for the period ended February 28, 2010 filed on April 8, 2010
10.26	Amendment to Factoring Agreement by and among Joe's Jeans Subsidiary Inc., Joe's Jeans Inc. and The CIT Group/Commercial Services, Inc. dated May 5, 2010	Exhibit 10.1 to Current Report on Form 8-K filed on May 11, 2010
10.27	Gross Lease Agreement by and between Mass Transit Properties LLC and Joe's Jeans Inc.	Exhibit 10.27 to the Annual Report on Form 10-K for the year ended November 30, 2010 filed on February 10, 2011
10.28	Amended and Restated 2004 Stock Incentive Plan	Exhibit A to Definitive Proxy Statement on Schedule 14A filed on September 19, 2011
10.29	Form of Restricted Stock Agreement	Exhibit 10.2 to the Current Report on Form 8-K filed on February 17, 2012
10.30	Form of Restricted Stock Unit Agreement	Exhibit 10.30 to the Annual Report on Form 10-K for the year ended November 30, 2011 filed on February 28, 2012
10.31	Agreement by and among Joe's Jeans Inc., Joe's Jeans Subsidiary, Inc. and Joseph M. Dahan	Exhibit 10.1 to the Current Report on Form 8-K filed on February 19, 2013
14	Code of Business Conduct and Ethics adopted as of May 22, 2003	Exhibit 14 to the Annual Report on Form 10-K for the year ended November 29, 2003 filed on February 27, 2004
21	Subsidiaries of the Registrant	Filed herewith
23	Consent of Independent Registered Public Accounting Firm	Filed herewith
24.1	Power of Attorney (included on signature page)	Filed herewith
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.	Filed herewith
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.	Filed herewith
32	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Filed herewith

Table of Contents

<b>Exhibit Number</b>	<b>Description</b>	<b>Document if Incorporated by Reference</b>
101.1*	The following materials from Joe's Jeans Inc.'s Annual Report on Form 10-K for the year ended November 30, 2012, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets at November 30, 2012 and 2011, (ii) Consolidated Statements of Operations for the years ended November 30, 2012, 2011 and 2010, (iii) Consolidated Statements of Stockholders' Equity for the years ended November 30, 2012, 2011 and 2010, (iv) Consolidated Statements of Cash Flows for the years ended November 30, 2012, 2011 and 2010, and (iv) Notes to Consolidated Financial Statements	Filed herewith

---

\*  
Users of this data are advised in accordance with Rule 406T of Regulation S-T promulgated by the Securities and Exchange Commission that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.



Table of Contents

**Joe's Jeans Inc. and Subsidiaries**

**Index to Consolidated Financial Statements**

**Audited Consolidated Financial Statements:**

Report of Independent Registered Public Accounting Firm

F-1

Consolidated Balance Sheets at November 30, 2012 and 2011

F-2

Consolidated Statements of Operations for the years ended November 30, 2012, 2011 and 2010

F-3

Consolidated Statements of Stockholders' Equity for the years ended November 30, 2012, 2011 and 2010

F-4

Consolidated Statements of Cash Flows for the years ended November 30, 2012, 2011 and 2010

F-5

Notes to Consolidated Financial Statements

F-6

Schedule II Valuation of Qualifying Accounts

F-30

F-i

---

Table of Contents

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Stockholders of Joe's Jeans Inc. and Subsidiaries**

We have audited the accompanying consolidated balance sheets of Joe's Jeans Inc. and subsidiaries, (the "Company"), as of November 30, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2012. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We are not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide 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 Joe's Jeans Inc. and subsidiaries at November 30, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Los Angeles, California  
February 21, 2013

F-1

---

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(in thousands, except per share data)**

	November 30, 2012	November 30, 2011
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 13,426	\$ 12,690
Accounts receivable, net	812	1,542
Inventories, net	31,318	23,262
Due from related parties		612
Deferred income taxes, net	3,051	2,644
Prepaid expenses and other current assets	641	769
<b>Total current assets</b>	<b>49,248</b>	<b>41,519</b>
Property and equipment, net	6,683	5,464
Goodwill	3,836	3,836
Intangible assets	24,000	24,000
Deferred income taxes, net	665	4,663
Other assets	1,592	680
<b>Total assets</b>	<b>\$ 86,024</b>	<b>\$ 80,162</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 10,893	\$ 10,499
Due to factor	1,402	3,265
Due to related parties	195	357
<b>Total current liabilities</b>	<b>12,490</b>	<b>14,121</b>
Deferred rent	1,795	1,284
<b>Total liabilities</b>	<b>14,285</b>	<b>15,405</b>
Commitments and contingencies		
Stockholders' equity		
Common stock, \$0.10 par value: 100,000 shares authorized, 67,294 shares issued and 66,965 outstanding (2012) and 65,477 shares issued and 65,148 outstanding (2011)	6,732	6,550
Additional paid-in capital	106,747	105,512
Accumulated deficit	(38,649)	(44,214)
Treasury stock, 329 shares	(3,091)	(3,091)
<b>Total stockholders' equity</b>	<b>71,739</b>	<b>64,757</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 86,024</b>	<b>\$ 80,162</b>

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



Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(in thousands, except per share data)**

	Year ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Net sales	\$ 118,642	\$ 95,420	\$ 98,176
Cost of goods sold	62,472	52,056	51,963
<b>Gross profit</b>	<b>56,170</b>	<b>43,364</b>	<b>46,213</b>
Operating expenses			
Selling, general and administrative	43,997	41,617	39,349
Depreciation and amortization	1,456	1,168	843
Retail stores impairment		1,144	
	45,453	43,929	40,192
Operating income (loss)	10,717	(565)	6,021
Interest expense	376	484	464
Income (loss) before taxes	10,341	(1,049)	5,557
Income tax provision	4,776	316	2,956
<b>Net income (loss)</b>	<b>\$ 5,565</b>	<b>\$ (1,365)</b>	<b>\$ 2,601</b>
<b>Earnings (loss) per common share basic</b>	<b>\$ 0.08</b>	<b>\$ (0.02)</b>	<b>\$ 0.04</b>
<b>Earnings (loss) per common share diluted</b>	<b>\$ 0.08</b>	<b>\$ (0.02)</b>	<b>\$ 0.04</b>
Weighted average shares outstanding			
Basic	65,496	64,001	62,362
Diluted	66,849	64,001	64,505

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

Table of Contents

## JOE'S JEANS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total Stockholders' Equity
	Shares	Par Value				
<b>Balance, November 30, 2009</b>	61,494	\$ 6,151	\$ 103,605	\$ (45,450)	\$ (2,800)	\$ 61,506
Net income				2,601		2,601
Stock-based compensation, net of withholding taxes			801			801
Stock repurchase					(257)	(257)
Exercise of warrants	566	57	596			653
Exercise of stock options	110	11	39			50
Net settled options exercised	832	83	(83)			
Taxes on net settled options exercised			(653)			(653)
Issuance of restricted common stock	1,129	113	(113)			
Excess tax benefit on stock-based compensation			172			172
<b>Balance, November 30, 2010</b>	64,131	6,415	104,364	(42,849)	(3,057)	64,873
Net loss				(1,365)		(1,365)
Stock-based compensation, net of withholding taxes			1,278			1,278
Stock repurchase					(34)	(34)
Issuance of restricted common stock	1,346	135	(135)			
Excess tax benefit on stock-based compensation			5			5
<b>Balance, November 30, 2011</b>	65,477	6,550	105,512	(44,214)	(3,091)	64,757
Net income				5,565		5,565
Stock-based compensation, net of withholding taxes			1,423			1,423
Exercise of stock options	20	2	18			20
Issuance of restricted common stock	1,797	180	(180)			
Excess tax benefit on stock-based compensation			(26)			(26)
<b>Balance, November 30, 2012</b>	67,294	\$ 6,732	\$ 106,747	\$ (38,649)	\$ (3,091)	\$ 71,739

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

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

	Year ended		
	November 30, 2012	November 30, 2011	November 30, 2010
Net income (loss)	\$ 5,565	\$ (1,365)	\$ 2,601
Adjustment to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	1,456	1,168	843
Retail stores impairment		1,144	
Stock-based compensation	1,847	1,808	1,671
Excess tax benefit on stock-based compensation	(26)	5	172
Provision for non-factored customer credits and doubtful accounts	(121)	(211)	58
Decrease in deferred taxes	3,591	97	2,295
Changes in operating assets and liabilities:			
Accounts receivable	851	1,043	(701)
Inventories	(8,056)	6,983	(7,358)
Prepaid expenses and other assets	(680)	(8)	(537)
Accounts payable and accrued expenses	394	126	(3,217)
Due to/from related parties	450	(550)	251
Deferred revenue			(615)
Deferred rent	511	366	388
Net cash provided by (used in) operating activities	5,782	10,606	(4,149)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of property and equipment	(2,779)	(2,055)	(3,402)
Net cash used in investing activities	(2,779)	(2,055)	(3,402)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
(Payments on) proceeds from factor borrowing, net	(1,863)	(1,707)	1,843
Exercise of stock options	20		50
Purchase of treasury stock		(34)	(257)
Payment of taxes on restricted stock units	(424)	(530)	(870)
Payment of taxes on net settled options exercised			(653)
Exercise of warrants			653
Net cash (used in) provided by financing activities	(2,267)	(2,271)	766
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	736	6,280	(6,785)
CASH AND CASH EQUIVALENTS, at beginning of year	12,690	6,410	13,195
<b>CASH AND CASH EQUIVALENTS, at end of year</b>	\$ 13,426	\$ 12,690	\$ 6,410

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

Table of Contents

**JOE'S JEANS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Business Description and Basis of Presentation**

Our principal business activity involves the design, development and worldwide marketing of apparel products. Our primary current operating subsidiary is Joe's Jeans Subsidiary Inc., or Joe's Jeans Subsidiary. In addition, we have other subsidiaries, Joe's Jeans Retail Subsidiary, Inc. and Innovo Inc. All significant inter-company transactions have been eliminated. We operate in two primary business segments: Wholesale and Retail. Our Wholesale segment is comprised of sales to retailers, specialty stores and international distributors and includes revenue from licensing agreements and records expenses from sales, trade shows, distribution, product samples and customer service departments. Our Retail segment is comprised of sales to consumers through full price retail stores, outlet stores and through the [www.joesjeans.com/shop](http://www.joesjeans.com/shop) internet site. We opened our first full price retail store in October 2008 in Chicago, Illinois and currently operate 11 full price retail stores and 19 outlet stores in outlet centers around the country. Our Corporate and other is comprised of expenses from corporate operations, which include the executive, finance, legal, human resources, design and production departments and general advertising expenses associated with the Joe's® brand. Our fiscal year end is November 30. Each fiscal year, as presented, is 52 weeks.

We, along with our Joe's Subsidiary, JD Holdings, Inc., or JD Holdings, and Joseph Dahan, the sole stockholder of JD Holdings, entered into a definitive Agreement and Plan of Merger on February 6, 2007, as amended on June 25, 2007, or the Merger Agreement. JD Holdings primary assets included all rights, title and interest in all intellectual property, including the trademarks, related to the Joe's®, Joe's Jeans and JD brand and marks, or the Joe's Brand. JD Holdings was the successor to JD Design, the entity from whom we licensed the Joe's Brand. The license agreement terminated automatically upon completion of the merger. We acquired JD Holdings in order to acquire the Joe's Brand which allowed us to expand our product offerings and the brand in the marketplace, including opening branded retail stores and entering into licenses for additional product categories.

Under the terms and subject to the conditions set forth in the Merger Agreement, on October 25, 2007, we completed the merger. In connection with the merger, Joe's Subsidiary merged with and into JD Holdings, with Joe's Subsidiary as the surviving entity. In addition, we issued 14,000,000 shares of our common stock, made a cash payment of \$300,000 to JD Holdings in exchange for all of its outstanding shares and incurred \$269,000 of other costs related to the merger. As a result of the merger, we now own all outstanding stock of JD Holdings and all rights, title and interest in the Joe's Brand. Upon completion of the merger, on October 25, 2007, Mr. Dahan became one of our officers, directors and greater than 10 percent stockholder and the Employment Agreement and Investor Rights Agreement became effective. See "Note 8 Commitments and Contingencies" for further detail on the Employment Agreement and Investor Rights Agreement.

**2. Summary of Significant Accounting Policies**

*Use of Estimates*

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



Table of Contents

**JOE'S JEANS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

*Revenue Recognition*

Wholesale revenues are recorded on the accrual basis of accounting when title transfers to the customer, which is typically at the shipping point. We record estimated reductions to revenue for customer programs, including co-op advertising, other advertising programs or allowances, based upon a percentage of sales. We also allow for returns based upon pre-approval or in the case of damaged goods. Such returns are estimated based on historical experience and an allowance is provided at the time of sale.

Retail store revenue is recognized net of estimated returns at the time of sale to consumers. E-commerce sales of products ordered through our retail internet site known as www.joesjeans.com are recognized upon estimated delivery and receipt of the shipment by the customers. E-commerce revenue is also reduced by an estimate of returns. Retail store revenue and E-commerce revenue exclude sales taxes. Revenue from licensing arrangements are recognized when earned in accordance with the terms of the underlying agreements, generally based upon the higher of (a) contractually guaranteed minimum royalty levels; and (b) estimates of sales and royalty data received from our licensees. Payments received in consideration of the grant of a license or advanced royalty payments are recognized ratably as revenue over the term of the license agreement and are reflected under the caption of "Deferred Licensing Revenue" on the Consolidated Balance Sheets. The revenue recognized ratably over the term of the license agreement will not exceed royalty payments received. The unrecognized portion of the upfront payments are included in deferred royalties and accrued expenses depending on the long or short term nature of the payments to be recognized. There were no advanced payments under our licensing agreements during our fiscal year ended November 30, 2012 and 2011.

*Accounts Receivable, Due To Factor and Allowance for Customer Credits and Doubtful Allowances*

We evaluate our ability to collect on accounts receivable and charge-backs (disputes from the customer) based upon a combination of factors. Whether a receivable is past due is based on how recently payments have been received and in certain circumstances where we are aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filings, substantial downgrading of credit sources). A specific reserve for bad debts is taken against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. Amounts are charged off against the reserve once it is established that amounts are not likely to be collected. We recognize reserves for charge-backs based on our historical collection experience. See "Note 3 Accounts Receivable, Inventory Advances and Due to Factor" for further discussion.

*Inventory*

Inventory is valued at the lower of cost or market with cost determined by the first-in, first-out method. Inventory consists of finished goods, work-in-process and raw materials. We continually evaluate our inventories by assessing slow moving current product. Market value of non-current inventory is estimated based on historical sales trends for this category of inventory for individual product lines, the impact of market trends, an evaluation of economic conditions and the value of current orders relating to future sales of this type of inventory. Inventory reserves establish a new cost basis for inventory. Such reserves are not reversed until the related inventory is sold or otherwise disposed. Costs capitalized in inventory include the purchase price of raw materials, contract labor and finished goods, plus in-bound transportation costs and import fees and duties. During the third quarter

Table of Contents

**JOE'S JEANS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

of fiscal 2011, we wrote down certain finished goods inventory by \$1,620,000, representing the lower of cost or market adjustment.

*Costs of Goods Sold*

Costs of goods sold include product, freight in, freight out, inventory reserves, inventory markdowns and other various charges.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses include salaries and benefits, travel and entertainment, professional fees, advertising, marketing, sample expenses, stock based compensation expenses, facilities, fulfillment and distribution costs and compensation payments made in connection with the earn-out consideration.

*Earnings Per Share*

Basic earnings per share, or EPS, is computed using the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the period except for periods of net loss for which no common share equivalents are included because their effect would be anti-dilutive. Dilutive common equivalent shares consist of common stock issuable upon exercise of stock options, restricted stock and restricted stock units using the treasury stock method.

*Advertising Costs*

Advertising costs are charged to expense as incurred, or, in the case of media ads, upon first airing. Brochures and catalogues are capitalized and amortized over their expected period of future benefits, which is typically twelve months or less.

Advertising and tradeshow expenses included in selling, general and administrative expenses were approximately \$2,953,000, \$4,025,000 and \$2,368,000 for fiscal 2012, 2011 and 2010, respectively.

*Financial Instruments*

The fair values of our financial instruments (which consist of cash, accounts receivable, accounts payable, due to factor and notes payable) do not differ materially from their recorded amounts because of the relatively short period of time between origination of the instruments and their expected realization. We do not hold or have any obligations under financial instruments that possess off-balance sheet credit or market risk.

*Impairment of Long-Lived Assets and Intangibles*

We assess the impairment of long-lived assets, identifiable intangibles and goodwill annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Table of Contents

**JOE'S JEANS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

Factors considered important that could trigger an impairment review other than on an annual basis include the following:

A significant underperformance relative to expected historical or projected future operating results;

A significant change in the manner of the use of the acquired asset or the strategy for the overall business; or

A significant negative industry or economic trend.

When we determine that the carrying value of long-lived assets may not be recoverable based upon the existence of one or more of the aforementioned factors and the carrying value exceeds the estimated undiscounted cash flows expected to be generated by the asset, impairment is measured based on a projected discounted cash flow method using a discount rate determined by management. These cash flows are calculated by netting future estimated sales against associated merchandise costs and other related expenses such as payroll, occupancy and marketing.

During the third quarter of fiscal 2011, we recorded store impairment charges of \$1,144,000 related to two of our full price retail stores. Based on the operating performance of these stores, we believed that we could not recover the carrying value of property and equipment located at these stores. There was no impairment recorded during fiscal 2012.

In fiscal 2007, we acquired through merger JD Holdings, which included all of the goodwill and intangible assets goodwill related to the Joe's®, Joe's Jeans and JD® logo and marks. To date, we have not had to recognize any impairment related to the goodwill or intangible assets of our Joe's® brand. We have assigned an indefinite life to these intangible assets and therefore, no amortization expenses are expected to be recognized. However, we test the assets for impairment annually in accordance with our critical accounting policies.

Goodwill and other indefinite lived intangible assets at least annually using a two-step process. The first step is to determine the fair value of each reporting unit and compare this value to its carrying value. If the fair value exceeds the carrying value, no further work is required and no impairment loss would be recognized. The second step is performed if the carrying value exceeds the fair value of the assets. The implied fair value of the reporting unit's goodwill or indefinite lived intangible assets must be determined and compared to the carrying value of the goodwill or indefinite lived intangible assets.

Our annual impairment testing date is September 30 of each year. For fiscal 2012 and 2011, we determined that there was no impairment of our goodwill or indefinite lived intangible assets.

*Cash Equivalents*

We consider all highly liquid investments that are both readily convertible into known amounts of cash and mature within 90 days from their date of purchase to be cash equivalents.

*Concentration of Credit Risk*

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash, cash equivalents, accounts receivable and amounts due from factor. We maintain cash and cash equivalents with various financial institutions. The policy is designed to limit exposure to

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Summary of Significant Accounting Policies (Continued)**

any one institution. We perform periodic evaluations of the relative credit rating of those financial institutions that are considered in our investment strategy.

We do not require collateral for trade accounts receivable. However, we sell a portion of our accounts receivable to CIT Commercial Services, Inc., or CIT, on a non-recourse basis. In that instance, we are no longer at risk if the customer fails to pay. However, for accounts receivable that are not sold to CIT or sold on a recourse basis, we continue to be at risk if these customers fail to pay. We provide an allowance for estimated losses to be incurred in the collection of accounts receivable based upon the aging of outstanding balances and other account monitoring analysis. The net carrying value approximates the fair value for these assets. Such losses have historically been within management's expectations. Uncollectible accounts are written off once collection efforts are deemed by management to have been exhausted.

For fiscal 2012, 2011 and 2010 a, sales to customers or customer groups representing greater than 10 percent of net sales are as follows:

	2012	2011	2010
Nordstrom, Inc.	22.3%	25.5%	21.7%
Macy's Inc.	14.8%	*	11.0%

\*

Less than 10%.

Our 10 largest customers and customer groups accounted for approximately 61 percent of our net sales during fiscal 2012. In addition, our international sales were \$4,986,000, \$4,568,000 and \$6,233,000 in fiscal 2012, 2011 and 2010, respectively.

*Stock-Based Compensation*

We measure the cost of all employee stock-based compensation awards based on the grant date fair value of those awards and record that cost as compensation expense over the period during which the employee is required to perform service in exchange for the award (generally over the vesting period of the award). An entity may elect either an accelerated recognition method or a straight-line recognition method for awards subject to graded vesting based on a service condition, regardless of how the fair value of the award is measured. For all stock based compensation awards that contain graded vesting based on service conditions, we have elected to apply a straight-line recognition method to account for these awards.

*Property and Equipment*

Property and equipment are stated at the lower of cost or fair value in the case of impaired assets. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the lives of the respective leases or the estimated service lives of the improvements, whichever is shorter. Maintenance and repairs are charged to expense as incurred. Upon sale or retirement, the asset cost and related accumulated depreciation or amortization is removed from the accounts, and any related gain or loss is included in the determination of net income.

Table of Contents

**JOE'S JEANS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies (Continued)**

*Income Taxes*

We use the liability method of accounting for income taxes. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates.

Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The likelihood of a material change in our expected realization of these assets depends on our ability to generate sufficient future taxable income. Our ability to generate enough taxable income to utilize our deferred tax assets depends on many factors, among which is our ability to deduct tax loss carry-forwards against future taxable income, the effectiveness of tax planning strategies and reversing deferred tax liabilities.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained upon examination by the taxing authorities, based upon the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based upon the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. Our policy is to recognize interest and penalties that would be assessed in relation to the settlement value of unrecognized tax benefits as a component of income tax expense.

*Other Recently Issued Financial Accounting Standards*

In June 2011, the Financial Accounting Standards Board (FASB) issued guidance regarding the presentation of comprehensive income. The new standard requires the presentation of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new standard also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in the statement where the components of net income and the components of other comprehensive income are presented. The updated guidance is effective on a retrospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The adoption of this standard will only impact the presentation of our consolidated financial statements and will have no impact on the reported results.

In May 2011, the FASB issued additional guidance on fair value measurements that clarifies the application of existing guidance and disclosure requirements, changes certain fair value measurement principles and requires additional disclosures about fair value measurements. The updated guidance is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. We do not believe that adoption of this guidance will have a material impact on our financial position and results of operations.

In September 2011, the FASB issued an amendment which gives an entity the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary. If an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then it is required to perform the first step of the two-step

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Summary of Significant Accounting Policies (Continued)**

goodwill impairment test. If the carrying value of the reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted if an entity's financial statements for the most recent annual or interim period have not yet been issued. We do not believe that adoption of this guidance will have a material impact on our financial position and results of operations.

**3. ACCOUNTS RECEIVABLE, INVENTORY ADVANCES AND DUE TO FACTOR**

Historically, our primary method to obtain the cash necessary for operating needs has been through the sale of accounts receivable pursuant to factoring agreements and advances under inventory security agreements with our factor, CIT.

As a result of these agreements, amounts due to factor consist of the following (in thousands):

	November 30, 2012	November 30, 2011
Non-recourse receivables assigned to factor	\$ 20,964	\$ 14,892
Client recourse receivables	24	108
<b>Total receivables assigned to factor</b>	<b>20,988</b>	<b>15,000</b>
Allowance for customer credits	(2,442)	(2,498)
Net loan balance from factored accounts receivable	(14,166)	(10,857)
Net loan balance from inventory advances	(5,782)	(4,910)
<b>Due to factor</b>	<b>\$ (1,402)</b>	<b>\$ (3,265)</b>
Non-factored accounts receivable	\$ 1,369	\$ 2,220
Allowance for customer credits	(323)	(358)
Allowance for doubtful accounts	(234)	(320)
<b>Accounts receivable, net of allowance</b>	<b>\$ 812</b>	<b>\$ 1,542</b>

Of the total amount of receivables sold by us as of November 30, 2012 and November 30, 2011, we hold the risk of payment of \$24,000 and \$108,000, respectively, in the event of non-payment by the customers.

Our Joe's Jeans Subsidiary is party to accounts receivable factoring agreement and an inventory security agreement with CIT. The accounts receivable agreement give us the ability to obtain cash by selling to CIT certain of its accounts receivable and the inventory security agreement give us the ability to obtain advances for up to 50 percent of the value of certain eligible inventory. The accounts receivables are sold for up to 85 percent of the face amount on either a recourse or non-recourse basis depending on the creditworthiness of the customer. CIT currently permits us to sell our accounts receivables at the maximum level of 85 percent and allows advances of up to \$6,000,000 for eligible inventory. CIT has the ability, in its discretion at any time or from time to time, to adjust or revise any limits on the amount of loans or advances made to us pursuant to both of these agreements and to impose surcharges on our rates for certain of our customers. In addition, cross guarantees were executed by and among us and all of our parent and subsidiaries to guarantee each entity's obligations.

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. ACCOUNTS RECEIVABLE, INVENTORY ADVANCES AND DUE TO FACTOR (Continued)**

As of November 30, 2012, our cash balance was \$13,426,000 and our cash availability with CIT was approximately \$26,000. This amount with CIT fluctuates on a daily basis based upon invoicing and collection related activity by CIT for the receivables sold. In connection with the agreements with CIT, certain assets are pledged to CIT, including all of the inventory, merchandise and/or goods, including raw materials through finished goods and receivables. However, our trademarks are not encumbered.

In May 2010, the parties amended the accounts receivable agreement to provide for a change in the factoring fees, an extension of the agreement and additional termination rights. The accounts receivable agreement may be terminated by CIT upon 60 days' written notice or immediately upon the occurrence of an event of default as defined in the agreement. The accounts receivable agreement may be terminated by us upon 60 days' written notice prior to June 30, 2013, or earlier provided that the minimum factoring fees have been paid for the respective period or CIT fails to fund us for five consecutive days. The inventory agreement may be terminated once all obligations are paid under both agreements or if an event of default occurs as defined in the agreement. We expect that the accounts receivable agreement and inventory agreement will renew under the same terms on July 1, 2013.

From June 1 to June 30, 2010, we paid to CIT a factoring rate of 0.6 percent to factor accounts which CIT bore the credit risk, subject to discretionary surcharges, and 0.4 percent for accounts which Joe's bore the credit risk. The interest rate associated with borrowings under the inventory lines and factoring facility is 0.25 percent plus the Chase prime rate. Beginning July 1, 2010, the factoring rate changed to 0.55 percent for accounts which CIT bears the credit risk, subject to discretionary surcharges, up to \$40,000,000 of invoices factored, 0.50 percent over \$40,000,000 of invoices factored and 0.35 percent for accounts which we bear the credit risk. The interest rate associated with borrowings under the inventory lines and factoring facility is 0.25 percent plus the Chase prime rate. As of November 30, 2012, the Chase prime rate was 3.25 percent.

In the event we need additional funds, we have also established a letter of credit facility with CIT to allow us to open letters of credit for a fee of 0.25 percent of the letter of credit face value with international and domestic suppliers, subject to availability. At November 30, 2012, we had no letters of credit outstanding.

**4. Inventories, Net**

Inventory is valued at the lower of cost or market with cost determined by the first-in, first-out method. Inventories consisted of the following (in thousands):

	November 30, 2012	November 30, 2011
Finished goods	\$ 19,887	\$ 13,512
Finished goods consigned to others	363	238
Work in progress	1,732	2,052
Raw materials	10,687	8,574
	32,669	24,376
Less allowance for obsolescence and slow moving items	(1,351)	(1,114)
	\$ 31,318	\$ 23,262

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Inventories, Net (Continued)**

We recorded charges to our inventory reserve allowance of \$0, \$128,000 and \$0 in fiscal 2012, 2011 and 2010, respectively.

**5. Property and Equipment**

Property and equipment consisted of the following (in thousands):

	Useful lives (years)	November 30, 2012	November 30, 2011
Computer and equipment	3 - 7	\$ 1,889	\$ 1,753
Furniture and fixtures	3 - 7	3,887	2,453
Leasehold improvements, primarily retail	5 - 10	4,964	4,001
		10,740	8,207
Less accumulated depreciation		(4,057)	(2,743)
Net property and equipment		\$ 6,683	\$ 5,464

Depreciation expenses aggregated \$1,456,000, \$1,168,000 and \$843,000 for fiscal 2012, 2011 and 2010, respectively.

**6. Income Taxes**

The provision (benefit) for income taxes is as follows:

	Year ended (in thousands)		
	2012	2011	2010
Current:			
Federal	\$ 225	\$ 24	\$ 255
State	981	195	231
	1,206	219	486
Deferred:			
Federal	3,772	260	2,158
State	(202)	(163)	312
	3,570	97	2,470
Total	\$ 4,776	\$ 316	\$ 2,956



Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Income Taxes (Continued)**

Net deferred tax assets result from the following temporary differences between the book and tax basis of assets and liabilities:

	Year ended	
	(in thousands)	
	2012	2011
Deferred tax assets:		
Current:		
Allowance for customer credits and doubtful accounts	\$ 1,165	\$ 1,259
Inventory valuation	703	717
Net benefit of net operating loss carryforwards	325	98
Stock compensation expense	19	19
Inventory capitalization	475	390
State tax deduction	318	32
Other	46	129
Total current deferred taxes	\$ 3,051	\$ 2,644
Noncurrent:		
Benefit of net operating loss carryforwards	\$ 9,757	\$ 13,599
Stock compensation expense	182	113
Deferred rent	698	509
Other	57	(38)
Total noncurrent deferred tax assets	10,694	14,183
Deferred tax liabilities:		
Noncurrent:		
Property and equipment basis difference	\$ 701	\$ 6
Long lived intangible asset	9,328	9,514
Total noncurrent deferred tax liabilities	10,029	9,520
Net noncurrent deferred tax assets	\$ 665	\$ 4,663

A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Annually, management reassesses the need for a valuation allowance. Realization of deferred income tax assets is dependent upon taxable income in prior carryback years, estimates of future taxable income, tax planning strategies and reversals of existing taxable temporary differences. Based on our assessment of these items for fiscal 2012, 2011 and 2010, we determined that the deferred tax assets were more likely than not to be realized.

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Income Taxes (Continued)**

The reconciliation of the effective income tax rate to the federal statutory rate for the years ended is as follows:

	Year ended		
	2012	2011	2010
Computed tax provision at the statutory rate	34.0%	34.0%	35.0%
State income tax	4.9%	(2.0)%	6.4%
Contingent consideration payments	6.1%	(57.0)%	11.0%
Effect of uncertain tax positions		(1.5)%	
Sec 162 (m) limitation	1.3%	(3.2)%	
Other adjustments	(0.1)%	(0.4)%	0.8%
Effective tax rate	46.2%	(30.1)%	53.2%

We are subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. To the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carryforward amount. We are no longer subject to U.S. federal and California income tax examinations by tax authorities for years prior to fiscal 2008. We are currently not subject to any examinations where we expect that the examination will have a material effect on our financial statements or results of operation upon conclusion of an examination.

We had net operating loss carryforwards of \$27,734,000 at the end of fiscal 2012 for federal tax purposes that will expire from fiscal 2018 through fiscal 2027. We also had \$25,489,000 of net operating loss carryforwards available for California that will expire from fiscal 2017 through fiscal 2020.

Certain limitations may be placed on net operating loss carryforwards as a result of "changes in control" as defined in Section 382 of the Internal Revenue Code. In the event a change in control occurs, it will have the effect of limiting the annual usage of the carryforwards in future years. Additional changes in control in future periods could result in further limitations of our ability to offset taxable income. Management believes that certain changes in control have occurred which resulted in limitations on its net operating loss carryforwards, however, management has determined that these limitations will not impact the ultimate utilization of the net operating loss carryforwards.

As of November 30, 2012 and 2011, we provided a liability of \$80,000 and \$166,000, respectively, for unrecognized tax benefits related to various federal and state income tax matters. Included in the balance sheet at November 30, 2012 is \$53,000, net of tax related benefits, that impact the effective income tax rate if recognized. The following presents a rollforward of its unrecognized tax benefits (in thousands):

Balance at December 1, 2010	\$ 101
Increase for tax positions taken during the prior period	8
Increase for tax positions taken during the current period	57
Balance at November 30, 2011	166
Payments made during the current period	(86)
Balance at November 30, 2012	\$ 80

Table of Contents

**JOE'S JEANS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. Income Taxes (Continued)**

We recognize accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes in its statements of operations. For fiscal 2012 and 2011, we had approximately \$8,000 and \$16,000, respectively, for the payment of interest and penalties accrued at November 30, 2012 and 2011, respectively. We do not expect any unrecognized tax benefit to reverse in fiscal 2013.

**7. Stockholders' Equity**

*Warrants*

Historically, we have issued warrants in conjunction with various private placements of our common stock, and debt to equity conversions. As of November 30, 2012, all outstanding common stock warrants have been exercised or have expired. During fiscal 2010, 605,000 warrants were exercised.

*Stock Incentive Plans*

In September 2000, we adopted the 2000 Director Stock Incentive Plan, or the 2000 Director Plan, under which nonqualified stock options were granted to members of our Board of Directors in lieu of cash director fees. After the adoption of the 2004 Stock Incentive Plan in June 2004, we no longer granted options pursuant to the 2000 Director Plan; however, the plan remains in effect for awards outstanding as of the adoption of the 2004 Stock Incentive Plan. As of November 30, 2012, options to purchase up to 21,794 shares of common stock remained outstanding under the 2000 Director Plan.

On June 3, 2004, we adopted the 2004 Stock Incentive Plan, or the 2004 Incentive Plan, and in October 2011, we adopted an Amended and Restated 2004 Stock Incentive Plan, or the Restated Plan, to update it with respect to certain provisions and changes in the tax code since its original adoption. Under the Restated Plan, the number of shares authorized for issuance is 6,825,000 shares of common stock. After the adoption of the Restated Plan in October 2011, we will no longer grant awards pursuant to the 2004 Incentive Plan; however, it remains in effect for awards outstanding as of the adoption of the Restated Plan. Under the Restated Plan, grants may be made to employees, officers, directors and consultants under a variety of awards based upon underlying equity, including, but not limited to, stock options, restricted common stock, restricted stock units or performance shares. The Restated Plan limits the number of shares that can be awarded to any employee in one year to 1,250,000. The exercise price for incentive options may not be less than the fair market value of our common stock on the date of grant and the exercise period may not exceed ten years. Vesting periods, terms and types of awards are determined by the Board of Directors and/or our Compensation and Stock Option Committee, or Compensation Committee. The Restated Plan includes a provision for the acceleration of vesting of all awards upon a change of control as well as a provision that allows forfeited or unexercised awards that have expired to be available again for future issuance. Since fiscal 2008, we have issued both restricted common stock and restricted common stock units, or RSUs, to our officers, directors and employees pursuant to our various plans. The RSUs represent the right to receive one share of common stock for each unit on the vesting date provided that the employee continues to be employed by us. On the vesting date of the RSUs, we expect to issue the shares of common stock to each participant upon vesting and expect to withhold an equivalent number of shares at fair market value on the vesting date to fulfill tax withholding obligations. Any RSUs withheld or forfeited will be shares available for issuance in accordance with the terms of the Restated Plan.

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Stockholders' Equity (Continued)**

The shares of common stock issued upon exercise of a previously granted stock option or a grant of restricted common stock or RSUs are considered new issuances from shares reserved for issuance in connection with the adoption of the various plans. We require that the option holder provide a written notice of exercise in accordance with the option agreement and plan to the stock plan administrator and full payment for the shares be made prior to issuance. All issuances are made under the terms and conditions set forth in the applicable plan. As of November 30, 2012, 4,406,454 shares remained available for issuance under the Restated Plan.

For all stock compensation awards that contain graded vesting with time-based service conditions, we have elected to apply a straight-line recognition method to account for all of these awards. For existing grants that were not fully vested at November 30, 2011, there was a total of \$1,847,000 of stock based compensation expense recognized during fiscal 2012.

The following summarizes option grants, restricted common stock and RSUs issued to members of our Board of Directors for the fiscal years 2002 through fiscal 2012 (in actual amounts) for service as a member:

Granted as of:	November 30, 2012	
	Number of options	Exercise price
2002	40,000	\$ 1.00
2002	31,496	\$ 1.27
2003	30,768	\$ 1.30
2004	320,000	\$ 1.58
2005	300,000	\$ 5.91
2006	450,000	\$ 1.02

	Number of restricted shares issued
2007	320,000
2008	473,455
2009	371,436
2010	131,828
2011	
2012	617,449

F-18

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Stockholders' Equity (Continued)**

Stock option activity in the aggregate for the periods indicated are as follows (in actual amounts):

	Options	Weighted average exercise price	Weighted average remaining contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at November 30, 2011	868,290	\$ 3.73		
Granted				
Exercised	(20,000)	1.00		
Expired	(51,496)	1.17		
Forfeited				
Outstanding and exercisable at November, 2012	796,794	\$ 3.96	2.3	\$
Weighted average per option fair value of options granted during the year		N/A		

	Options	Weighted average exercise price	Weighted average remaining contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at November 30, 2010	868,290	\$ 3.73		
Granted				
Exercised				
Forfeited/expired				
Outstanding and exercisable at November 30, 2011	868,290	\$ 3.73	3.4	\$
Weighted average per option fair value of options granted during the year		N/A		

	Options	Weighted average exercise price	Weighted average remaining contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at November 30, 2009	3,226,046	\$ 1.78		
Granted				
Exercised	(2,357,756)	1.08		
Forfeited/expired				
Outstanding and exercisable at November 30, 2010	868,290	\$ 3.73	4.1	\$ 97,251
Weighted average per option fair value of options granted during the year		N/A		

The total intrinsic value of options exercised during the fiscal years ended November 30, 2012, 2011 and 2010 was \$7,600, \$0 and \$2,720,000, respectively.

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Stockholders' Equity (Continued)**

Exercise prices for options outstanding and exercisable as of November 30, 2012 are as follows:

Exercise Price	Options Outstanding and Exercisable	
	Number of shares	Weighted-Average Remaining Contractual Life
\$1.00 - \$1.02	100,000	3.3
\$1.27 - \$1.30	21,794	0.5
\$1.58 - \$1.63	225,000	1.8
\$5.91	450,000	2.5
	796,794	2.3

The following table summarizes stock option activity by plan. There are no stock options outstanding under our Restated Plan.

	Total Number of Shares	2004 Incentive Plan	2000 Director Plan
Outstanding at November 30, 2011	868,290	775,000	93,290
Granted			
Exercised	(20,000)		(20,000)
Forfeited / Expired	(51,496)		(51,496)
Outstanding and exercisable at November 30, 2012	796,794	775,000	21,794
Outstanding at November 30, 2010	868,290	775,000	93,290
Granted			
Exercised			
Forfeited / Cancelled			
Outstanding and exercisable at November 30, 2011	868,290	775,000	93,290
Outstanding at November 30, 2009	3,226,046	3,022,500	203,546
Granted			
Exercised	(2,357,756)	(2,247,500)	(110,256)
Forfeited / Cancelled			
Outstanding and exercisable at November 30, 2010	868,290	775,000	93,290

Table of Contents

## JOE'S JEANS INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 7. Stockholders' Equity (Continued)

A summary of the status of restricted common stock and RSUs as of November 30, 2012, and changes during the year, are presented below:

	Restricted Shares	Restricted Stock Units	Total Shares	Weighted-Average Grant-Date Fair Value	
				Restricted Shares	Restricted Stock Units
Outstanding at November 30, 2011	464,610	2,542,728	3,007,338	\$ 1.30	\$ 0.98
Granted	670,781	2,292,421	2,963,202	0.66	0.75
Issued	(291,155)	(1,126,519)	(1,417,674)	1.09	0.84
Cancelled		(533,955)	(533,955)		0.88
Forfeited		(40,188)	(40,188)		0.77
Outstanding at November 30, 2012	844,236	3,134,487	3,978,723	\$ 0.86	\$ 0.87
Outstanding at November 30, 2010	408,857	3,126,967	3,535,824	0.86	0.90
Granted	260,182	959,331	1,219,513	1.65	1.15
Issued	(204,429)	(1,085,780)	(1,290,209)	0.86	0.93
Cancelled		(457,790)	(457,790)		0.91
Forfeited					
Outstanding at November 30, 2011	464,610	2,542,728	3,007,338	\$ 1.30	\$ 0.98
Outstanding at November 30, 2009	691,903	4,773,979	5,465,882	\$ 0.94	\$ 0.84
Granted		131,828	131,828		1.77
Vested					
Issued	(283,046)	(1,128,318)	(1,411,364)	1.06	0.77
Cancelled		(478,517)	(478,517)		0.78
Forfeited		(172,005)	(172,005)		1.01
Outstanding at November 30, 2010	408,857	3,126,967	3,535,824	\$ 0.86	\$ 0.90

As of November 30, 2012, there was \$2,327,000 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the Restated Plan. In fiscal 2012, there were no options granted, 1,871,539 RSUs and 670,781 shares of restricted stock granted. In fiscal 2012, we issued 1,126,519 shares of our common stock to holders of RSUs, 291,155 shares of restricted stock and withheld, cancelled or forfeited 574,143 RSUs.

*Earnings Per Share*

Earnings per share are computed using weighted average common shares and dilutive common equivalent shares outstanding. Potentially dilutive securities consist of outstanding options and warrants.

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Stockholders' Equity (Continued)**

A reconciliation of the numerator and denominator of basic earnings per share and diluted earnings per share is as follows:

	Year Ended		
	(in thousands, except per share data)		
	November 30, 2012	November 30, 2011	November 30, 2010
<b>Basic earnings (loss) per share computation:</b>			
Numerator:			
Net income (loss)	\$ 5,565	\$ (1,365)	\$ 2,601
Denominator:			
Weighted average common shares outstanding	65,496	64,001	62,362
<b>Income (loss) per common share basic</b>			
Net income (loss)	\$ 0.08	\$ (0.02)	\$ 0.04
<b>Diluted earnings (loss) per share computation:</b>			
Numerator:			
Net income (loss)	\$ 5,565	\$ (1,365)	\$ 2,601
Denominator:			
Weighted average common shares outstanding	65,496	64,001	62,362
Effect of dilutive securities:			
Restricted shares, RSU's and options	1,353		2,143
Dilutive potential common shares	66,849	64,001	64,505
<b>Income (loss) per common share dilutive</b>			
Net income (loss)	\$ 0.08	\$ (0.02)	\$ 0.04

For fiscal 2012, currently exercisable options, unvested restricted shares and unvested RSUs in the aggregate of 1,058,970 have been excluded from the calculation of the diluted loss per share as their effect would have been anti-dilutive. For fiscal 2011 and 2010, currently exercisable options and warrants in the aggregate of 3,875,628 and 450,000, respectively, have been excluded from the calculation of diluted income per share because the exercise prices of such options and warrants were out-of-the-money.

*Shares Reserved for Future Issuance*

As of November 30, 2012, shares reserved for future issuance include (i) 796,794 shares of common stock issuable upon the exercise of stock options granted under the incentive plans; (ii) 2,713,605 shares of common stock issuable upon the vesting of RSUs; and (iii) an aggregate of 4,406,454 shares of common stock available for future issuance under the Restated Plan as of November 30, 2012.



Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Commitments and Contingencies***Operating Lease Obligations and Other Obligations Related to Operations*

We lease certain equipment and office and retail space under separate lease arrangements. The leases generally contain renewal provisions. Equipment and office/retail rental expenses under such leases for the years ended November 30, 2012, November 30, 2011 and November 30, 2010, were approximately \$5,146,000, \$4,217,000 and \$2,755,000, respectively.

We lease retail store locations under operating lease agreements expiring on various dates through 2023 or 5 to 10 years from the rent commencement date. Some of these leases require us to make periodic payments for property taxes, utilities and common area operating expenses. Certain retail store leases provide for rents based upon the minimum annual rental amount and a percentage of annual sales volume, generally ranging from 6% to 8%, when specific sales volumes are exceeded. Some leases include lease incentives, rent abatements and fixed rent escalations, which are amortized and recorded over the initial lease term on a straight-line basis.

On January 8, 2010, we entered into an agreement to provide us with warehouse storage and fulfillment services and corporate office space on a month to month basis. Under the terms of the agreement, we paid on a per square foot basis for office and warehouse space along with an hourly billing rate for labor associated with the services provided by the landlord. The agreement could be cancelled by either party upon 30 days' written notice or if no storage or other services were performed for a period of 180 days. The agreement contained other customary terms and conditions related to the handling and storage of products, as well as the provision of services under the agreement. See below for further discussion regarding the termination of this agreement.

On November 22, 2010, we entered into a lease agreement to lease additional office and warehouse space at our current corporate offices that commenced on January 1, 2011, or the Lease Agreement. In connection with the Lease Agreement, we lease approximately 89,000 square feet which serves as our corporate headquarters and distribution center. In connection with the Lease Agreement, the previous agreement terminated and the landlord no longer provided certain fulfillment and distribution services for us.

We lease the office and warehouse space until December 31, 2013 and have one option to extend for an additional three year period, which we are currently in discussions regarding. We pay gross monthly rent in the amount of \$42,000. The Lease Agreement contains other customary terms and conditions related to the lease and condition of the premises, including a provision for a refundable security deposit in the amount of \$114,000, of which \$24,000 has been refunded.

As of November 30, 2012, the future minimum rental payments under non-cancelable retail operating leases with lease terms in excess of one year were as follows (in thousands):

2013	\$ 5,804
2014	6,007
2015	6,085
2016	6,061
2017	5,998
Thereafter	18,296
	\$ 48,251

Table of Contents

**JOE'S JEANS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Commitments and Contingencies (Continued)**

*Advertising Commitments*

From time to time, we enter into various agreements for short term billboard, taxi cab top, bus or other advertising spaces in various locations in and around New York and Los Angeles and for print advertising. However, we do not have any commitment to pay a minimum amount or any long term commitments for such advertising.

*Letters of Credit*

We had a no contingent liability for letters of credit as of November 30, 2012.

*Employment Agreement*

After completion of the merger, we entered into an employment agreement for Mr. Dahan to serve as Creative Director for the Joe's Brand.

The initial term of employment is five years with automatic renewals for successive one year periods thereafter, unless terminated earlier in accordance with the agreement. Under the employment agreement, Mr. Dahan is entitled to an annual salary of \$300,000 and other discretionary benefits that the Compensation Committee of the Board of Directors may deem appropriate in its sole and absolute discretion.

Under the terms of the employment agreement, we may terminate Mr. Dahan for cause or if he becomes disabled, as defined in the agreement. Should we terminate Mr. Dahan's employment for cause or disability, we would only be required to pay him through the date of termination. We may terminate Mr. Dahan's employment without cause at any time upon two weeks' notice, provided that we pay to him the present value of the annual salary amounts otherwise due to him for the remainder of the initial term of employment or any renewal term. Mr. Dahan may terminate his employment for good reason at any time with 30 days written notice. In the event that Mr. Dahan terminates his employment for good reason, then he will be entitled to the present value of the annual salary amounts otherwise due to him for the remainder of the term of employment. Further, Mr. Dahan may terminate his employment for any reason upon ten business days' notice and only be entitled to his salary as of the date of termination on a pro rata basis.

The employment agreement contains customary terms and conditions related to confidentiality of information, ownership by Joe's of all intellectual property, including future designs and trademarks, alternative dispute resolution and Mr. Dahan's duties and responsibilities to us and the Joe's Brand as Creative Director.

*Investor Rights Agreement*

Upon the closing of the merger, we also entered into an investor rights agreement. Pursuant to the investor rights agreement, we agreed to register for resale, on a periodic basis at the request of Mr. Dahan, the shares of common stock eligible for resale issued in connection with the merger. The shares of common stock issued as merger consideration become eligible for resale beginning on the six month anniversary of the closing date of the merger at an initial rate of  $\frac{1}{6}$  of the shares issued and every six months thereafter at the same rate until all the shares are fully released on the third anniversary of the closing date. We agreed to bear all expenses associated with registering these shares for resale and granted to Mr. Dahan certain piggyback rights with respect to future registration

Table of Contents

**JOE'S JEANS INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Commitments and Contingencies (Continued)**

statements filed by us. The investor rights agreement contains customary terms and conditions related to registration procedures, trading suspensions and indemnification of the parties. On March 24, 2008, a registration statement on Form S-3 was declared effective for the resale of up to 2,333,333 shares where the contractual restrictions on resale lapsed on April 25, 2008. Mr. Dahan has not requested the filing of any additional registration statements.

*Contingent Consideration Payments*

As part of the consideration paid in connection with the merger and without regard to continued employment, Mr. Dahan is entitled to a certain percentage of the gross profit earned by us in any applicable fiscal year until October 2017. Mr. Dahan is entitled to the following: (i) 11.33 percent of the gross profit from \$11,251,000 to \$22,500,000; (ii) three percent of the gross profit from \$22,501,000 to \$31,500,000; (iii) two percent of the gross profit from \$31,501,000 to \$40,500,000; (iv) one percent of the gross profit above \$40,501,000. The payments may be paid in advance on a monthly basis based upon estimates of gross profits after the assumption has been reached that the payments are likely to be paid. At the end of each quarter, any overpayments are offset against future payments and any significant underpayments are made. No payments are made if the gross profit is less than \$11,250,000. "Gross Profit" is defined as net sales of the Joe's® brand less cost of goods sold. We account for such payments as compensation expense. See "Note 14 Subsequent Events" for a further discussion on a new agreement related to the contingent consideration payments.

*Litigation*

We are involved from time to time in routine legal matters incidental to our business. In the opinion of our management, resolution of such matters will not have a material effect on our financial position or results of operations.

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Segment Reporting and Operations by Geographic Areas***Segment Reporting*

The following table contains summarized financial information concerning our reportable segments:

	Year ended		
	2012	2011	2010
<b>Net sales:</b>			
Wholesale	\$ 95,310	\$ 76,901	\$ 85,141
Retail	23,332	18,519	13,035
	\$ 118,642	\$ 95,420	\$ 98,176
<b>Gross profit:</b>			
Wholesale	\$ 39,895	\$ 31,097	\$ 38,324
Retail	16,275	12,267	7,889
	\$ 56,170	\$ 43,364	\$ 46,213
<b>Operating income (loss):</b>			
Wholesale	\$ 25,762	\$ 18,000	\$ 23,887
Retail	1,489	(728)	(42)
Corporate and other	(16,534)	(17,837)	(17,824)
	\$ 10,717	\$ (565)	\$ 6,021
<b>Capital expenditures:</b>			
Wholesale	\$ 1,066	\$ 302	\$ 17
Retail	1,652	1,656	3,275
Corporate and other	61	97	110
	\$ 2,779	\$ 2,055	\$ 3,402
<b>Total assets:</b>			
Wholesale	\$ 48,934	\$ 44,399	\$ 45,594
Retail	9,039	7,594	7,980
Corporate and other	28,051	28,169	27,895
	\$ 86,024	\$ 80,162	\$ 81,469

*Operations by Geographic Areas*

Currently, we do not have any material reportable operations outside of the United States.

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. Related Party and Other Transactions**

As of November 30, 2012 and November 30, 2011, our related party balance consisted of amounts due to and due from certain related parties, as further described below, as follows:

	November 30, 2012	November 30, 2011
<b>Due from related parties</b>		
Ever Blue LLC	\$	\$ 529
Albert Dahan		83
Total due from related parties	\$	\$ 612
<b>Due to related parties</b>		
Joe Dahan	\$ 195	\$ 343
Albert Dahan		14
Total due to related parties	\$ 195	\$ 357

*Joe Dahan*

As part of the consideration paid in connection with the merger, Mr. Dahan is entitled to a certain percentage of our gross profit in any applicable fiscal year until October 2017. See "Note 8 Commitments and Contingencies Contingent Consideration Payments" for a further discussion on the contingent consideration and "Note 14 Subsequent Events" for a further discussion on a new agreement related to the contingent consideration payments.

For fiscal 2012, 2011 and 2010, payments of \$1,862,000, \$1,757,000 and \$1,785,000, respectively, were made to Mr. Dahan.

*Albert Dahan*

In April 2009, we entered into a commission-based sales agreement with Albert Dahan, brother of Joe Dahan, for the sale of our products into the off-price channels of distribution. Under the agreement, Mr. Albert Dahan is entitled to a commission for purchase orders entered into by us where he acts as a sales person. The agreement may be terminated at any time for any reason or no reason with or without notice. For fiscal 2012, 2011 and 2010, payments of \$573,000, \$580,000 and \$719,000, respectively, were made to Mr. Albert Dahan under this arrangement.

Effective as of June 1, 2009, we entered into a license agreement for the license of the children's product line with Kids Jeans LLC, or Kids LLC, an entity in which Mr. Albert Dahan holds an interest and has voting control. Under the terms of the license, Kids LLC had an exclusive right to produce, distribute and sell children's products bearing the Joe's® brand on a worldwide basis, subject to certain limitations on the channels of distribution. In exchange for the license, Kids LLC paid us a royalty payment of 20 percent on the first \$5,000,000 in net sales, or \$1,000,000. In April 2011, we terminated the license agreement and in June 2011, we entered into a settlement agreement with Kids LLC. Pursuant to the terms of the settlement agreement, Kids LLC agreed to pay to us approximately \$450,000 in exchange for Kids LLC's right to continue to sell children's apparel products until September 30, 2011 or December 31, 2011, depending on the product to be sold and customer to whom it will be sold. In exchange, the parties entered into mutual releases with respect to all claims related to the subject matter. In October 2011, we entered into a new agreement, or New Agreement,

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. Related Party and Other Transactions (Continued)**

similar to the previous one, with Ever Blue LLC, or Ever Blue, an entity which Albert Dahan is the sole member, for the continued sale of children's products. In exchange for the license, Ever Blue pays to us a royalty on net sales with certain guaranteed minimum sales for each term. For fiscal 2012, we recognized \$296,000 in royalty income under the New Agreement. In connection with the New Agreement, we provided initial funding to Ever Blue for inventory purchases. There was no amount outstanding at November 30, 2012.

**11. Supplemental Cash Flow Information**

	Year ended		
	(in thousands)		
	2012	2011	2010
<b>Significant Non-cash transactions</b>			
Write off of fully depreciated fixed assets	\$ 89	\$ 671	\$ 189
Sale of fixed assets at net carrying value	\$ 104		
<b>Additional cash flow information</b>			
Cash paid during the year for interest	\$ 383	\$ 506	\$ 513
Cash paid during the year for income taxes	\$ 862	\$ 218	\$ 2,716

**12. Employee Benefit Plans**

On December 1, 2002, we established a tax qualified defined contribution 401(k) Profit Sharing Plan, or the Plan. All employees who have worked for us for 30 consecutive days may participate in the Plan and may contribute up to 100 percent, subject to certain limitations, of their salary to the plan. We may make company matched contributions on a discretionary basis. All employees who have worked 500 hours qualify for profit sharing in the event at the end of each year we decide to do so. Costs of the Plan charged to operations were \$26,000, \$16,000 and \$6,000 for fiscal 2012, 2011 and 2010, respectively. In addition, we match our employees' contributions under the Plan in the lesser of the following amounts: (i) up to 2 percent of the employee's compensation, or (ii)  $\frac{1}{3}$  of the employee's contribution up to 6 percent of the employee's salary. For fiscal 2012, 2011 and 2010, we contributed \$132,000, \$117,000 and \$107,000, respectively, to employees under the match portion of the Plan.

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Quarterly Results of Operations (Unaudited)**

The following is a summary of the quarterly results of operations for the years ended November 30, 2012 and November 30, 2011:

2012	Quarter ended			
	(in thousands, except per share data)			
	February 28	May 31	August 31	November 30
Net sales	\$ 25,962	\$ 28,640	\$ 30,304	\$ 33,736
Gross profit	13,084	13,560	13,818	15,708
Income before taxes	1,688	2,969	2,614	3,070
Income tax expense	894	1,551	1,224	1,107
Net income	\$ 794	\$ 1,418	\$ 1,390	\$ 1,963
<b>Net income per share:</b>				
<b>Earnings per common share basic</b>	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.03
<b>Earnings per common share diluted</b>	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.03

2011	Quarter ended			
	(in thousands, except per share data)			
	February 28	May 31	August 31	November 30
Net sales	\$ 21,180	\$ 24,701	\$ 24,151	\$ 25,388
Gross profit	10,385	11,521	9,744	11,714
Income (loss) before taxes	398	1,556	(2,753)	(250)
Income tax expense (benefit)	208	805	(715)	18
Net (loss) income	\$ 190	\$ 751	\$ (2,038)	\$ (268)
<b>Net (loss) income per share:</b>				
<b>Earnings (loss) per common share basic</b>	\$ 0.00	\$ 0.01	\$ (0.03)	\$ (0.00)
<b>Earnings (loss) per common share diluted</b>	\$ 0.00	\$ 0.01	\$ (0.03)	\$ (0.00)

**14. Subsequent Events**

On February 18, 2013, we entered into a new agreement with Mr. Dahan that provided certainty of payments to him by removing the contingencies related to the contingent consideration payments made to Mr. Dahan as an earn out under the original merger agreement. This new agreement fixed the overall amount to be paid by us for the remaining months in year six through year 10 under the original merger agreement with such payments to be made over an accelerated time period until November 2015 instead of October 2017. Under the agreement, from February 22, 2013 until November 27, 2015, Mr. Dahan is entitled to receive the total aggregate fixed amount of \$9,168,000 through weekly installment payments. We will take a one-time charge as an expense for the full fixed amount in the quarterly period ending February 28, 2013. In addition, Mr. Dahan agreed to a restrictive covenant relating to non-competition and non-solicitation until November 30, 2016 in addition to the restrictive covenant in the original merger agreement.





Table of Contents

**ITEM 16.2**  
**Joe's Jeans Inc. and Subsidiaries**

**Schedule II**  
**Valuation of Qualifying Accounts**

Description	(in thousands)				Balance at End of Period
	Balance at Beginning of Period	Additions Charged to Costs & Expenses	Charged to Other Accounts(1)	Deductions(2)	
Allowance for doubtful accounts:					
Year ended November 30, 2012	\$ 320	211	(256)	(41)	\$ 234
Year ended November 30, 2011	\$ 449	37		(166)	\$ 320
Year ended November 30, 2010	\$ 501	28		(80)	\$ 449
Allowance for customer credits:					
Year ended November 30, 2012	\$ 2,856	12,229		(12,320)	\$ 2,765
Year ended November 30, 2011	\$ 3,407	12,156		(12,707)	\$ 2,856
Year ended November 30, 2010	\$ 2,936	12,838		(12,367)	\$ 3,407
Allowances for inventories:					
Year ended November 30, 2012	\$ 1,114	237			\$ 1,351
Year ended November 30, 2011	\$ 1,067	175		(128)	\$ 1,114
Year ended November 30, 2010	\$ 1,183	(116)		0	\$ 1,067

(1) The European accounts receivable were sold on April 30, 2012. This amount represents the reserve against those receivables.

(2) Deductions represent the actual amount of write-off of an asset against a reserve previously recorded. In the case of inventories, a deduction could represent the write-off upon disposition or a markdown of carrying value.



Edgar Filing: JOE'S JEANS INC. - Form 10-K

Table of Contents

<b>Signature</b>	<b>Capacity</b>	<b>Date</b>
<hr/> <i>/s/ KELLY HOFFMAN</i> Kelly Hoffman	Director	February 21, 2013
<hr/> <i>/s/ SUHAIL R. RIZVI</i> Suhail R. Rizvi	Director	February 21, 2013
<hr/> <i>/s/ THOMAS O'RIORDAN</i> Thomas O'Riordan	Director	February 21, 2013
<hr/> <i>/s/ KENT SAVAGE</i> Kent Savage	Director	February 21, 2013

---