JOE'S JEANS INC.
Form 10-K
February 03, 2010

Use these links to rapidly review the document
Table of Contents
Table of Contents 2
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, 2009

Commission file number: 0-18926

JOE'S JEANS INC.

(Exact name of registrant as specified in its charter)

Delaware	**11-2928178**
(State or other jurisdiction of incorporation or organization)	(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)

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 (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 ý No o

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 (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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. ý

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

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

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

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, Inc. as of May 31, 2009, was approximately $25,422,000.

The number of shares of the registrant's common stock outstanding as of February 3, 2010 was 61,612,826.

Documents incorporated by reference: None.

Table of Contents

JOE'S JEANS INC.
FORM 10-K ANNUAL REPORT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2009

Table of Contents

Item Number		
	PART I	
Item 1.	Business	2
Item 1A.	Risk Factors	10
Item 1B.	Unresolved Staff Comments	20
Item 2.	Properties	20
Item 3.	Legal Proceedings	21
Item 4.	Submission of Matters to a Vote of Security Holders	21
	PART II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	21
Item 6.	Selected Financial Data	22
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 8.	Financial Statements and Supplementary Data	35
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	35
Item 9A.	Controls and Procedures	35
Item 9B.	Other Information	36
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	36
Item 11.	Executive Compensation	40
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	48
Item 13.	Certain Relationships and Related Transactions, and Director Independence	52
Item 14.	Principal Accounting Fees and Services	53
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules	55
	Index to Consolidated Financial Statements	F-i
Item 16.2	Schedule II Valuation of Qualifying Accounts	F-36
	Signature Page	

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 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;
- successful implementation of any growth or strategic plans;
- effective inventory management;
- 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;
- 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;

Table of Contents

the risk that our stock may be delisted due to our inability to comply with Nasdaq listing standards; 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 renamed the company Innovo Group Inc. In October 2007, we renamed our company Joe's Jeans Inc. Initially, we produced craft and accessory products for the consumer marketplace. Since that time, we evolved from producing craft and accessory products to designing and selling apparel products. During this transition, we moved our operations from Tennessee to Los Angeles, California.

Our principal business activity has evolved into 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 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 retail stores.

In October 2007, we completed a merger with JD Holdings, the successor in interest to JD Design LLC, or JD Design, the entity from whom we originally licensed the Joe's® brand. As a result of the merger, we acquired JD Holdings, which included all rights related to the Joe's® brand. This acquisition allowed us to focus our operations on the Joe's® brand and its development. In fiscal 2007, we entered into our first license agreement for handbags and small leather goods bearing the Joe's® brand.

After the acquisition, we 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 bottoms. We opened our first full price retail store in October 2008 in Chicago, Illinois and currently operate one additional full price retail store in San Francisco, California and four outlet stores in outlet centers around the country. In addition, we have a signed lease for one additional full price store in Santa Monica, California, which we expect to open in the second half of 2010. We believe that the 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 for other retail leases for fiscal 2010 and beyond, but remain cautious about our retail store plans.

Table of Contents

During fiscal 2009, we pursued these strategies and began to re-examine our collection pieces while continuing to offer them to our customers. As a result, we focused our efforts on two areas, shirts and leggings. In the fall of fiscal 2009, we launched a line of unisex woven shirts in different fits and fabrications called "The Shirt" and branded it with the Joe's logo. At the end of fiscal 2009, we launched a line of denim leggings for women, which have been well received by our customer. We believe that these additional products added to our core and fashion denim will be a growth driver for our overall business as we move into fiscal 2010.

Principal Products and Revenue Sources

Our principal apparel products bear the Joe's® brand name. For the previous three fiscal years, our net sales were as follows:

	(in thousands)		
	2009	**2008**	**2007**
Net Sales			
Joe's Jeans	$ 80,116	$ 69,174	$ 62,767

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, and belts under various license agreements pursuant to which we receive royalty payments based upon net sales. 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 or agents in the various countries. Joe's® women's product line represents our largest source of revenue and consists primarily of denim jeans and leggings in a variety of different fits, fabrics, washes and detailing. Every season, we offer certain core basic styles in addition to new ones 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 so that the consumer can differentiate and choose from the variety carried by the retailer. Our fit styles include:

Chelsea an ultra slim fit;

Cigarette a straight and narrow fit;

Ex-Lover a relaxed fit;

Honey a curvy fit;

Muse a high waist fit;

Provocateur a petite fit with a shorter inseam;

Rocker a lean flare fit;

Socialite a classic bootcut fit;

Stardust a super flare fit;

Starlet a slim legged bootcut fit;

Twiggy a taller fit with a longer inseam; and

Visionaire a high waist bootcut fit.

In addition to our traditional five pocket denim jeans, we began offering in late fiscal 2009, a line of denim leggings for women and unisex woven shirts in a variety of fabrications. Both products have performed well at retail and we continue to explore offering other product categories, for fiscal 2010.

Table of Contents

For our men's 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 in our men's line. We also brand the fit styles, which include the Brixton, the Classic, the Rebel and the Rocker.

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 third party in exchange for certain guaranteed minimums and royalty payments based upon net sales. 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.

Product Design, Development and Sourcing

Our product development for Joe's® 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 and 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 Joe 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 and design of our Joe's® 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. Our manufacturers are located in Mexico, Morocco, the United States and China. We do not have a long-term supply agreement with any of our third party manufactures or contractors, but 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.

During fiscal 2009, we outsourced the warehousing, picking, packing and shipping of our Joe's® products to retailers to a third party under an outsourcing agreement and shared facilities under a verbal lease arrangement with the same third party. We terminated these agreements, moved our corporate headquarters and outsourced our warehouse and distribution services to a different third party. Concurrent with the move, we entered escrow to purchase a facility to enable us to integrate these services into our operation. While there can be no assurance that we will ultimately purchase the facility, as we have a period in which to assess its suitability for our needs, we expect to move our principal headquarters to our own facility within the fiscal year.

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 and Italdenim for fabrics and American Zabin, Button Accessory, Revolution Group and COATES Mexico for trims. 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 Joe's® brand.

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

Table of Contents

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 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 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 are also obligated to pay Mr. Dahan a percentage of our gross profits above $11,251,000 until 2017. Mr. Dahan will be entitled to the following: (i) 11.33 percent of the gross profit from $11,251,000 to $22,500,000; (ii) 3 percent of the gross profit from $22,501,000 to $31,500,000;

Table of Contents

(iii) 2 percent of the gross profit from $31,501,000 to $40,500,000; and (iv) 1 percent of the gross profit above $40,501,000.

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 3, 2010, we had three active license agreements for bags, belts, children's products.

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 registrations for certain pocket stitch designs for jeans. As of February 3, 2010, we own approximately ten U.S. registrations and about 14 pending U.S. applications at various stages in prosecution. Of those 14, nine have been published for opposition, and four have been allowed.

With respect to foreign jurisdictions, we own, as of February 3, 2010, a variety of registrations and pending applications for the above-referenced marks as applied to apparel, footwear and related fashion accessories. Approximately 40 trademark registrations have issued in jurisdictions such as Australia, Canada, China, the European Community which comprises 27 member countries, Hong Kong, Japan, South Korea, Mexico, New Zealand, Russia, Switzerland, and Turkey. We continue to prosecute more than 10 trademark applications in certain foreign jurisdictions that we believe are necessary in order to protect and enforce our various designations. Such jurisdictions include Canada, South Korea, India, and Mexico.

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.

Historically, we sold our Joe's® products internationally through a master distribution agreement with Beyond Blue Inc., or BBI. We terminated our agreement with BBI in February 2007. Shortly thereafter, we engaged consultants based in Europe to assist us with entering into agreements with distributors and sales agents in various countries and to manage such relationships. For Japan, in 2007, we entered into a three year Distribution and Licensing Agreement with Itochu Corporation, or Itochu, pursuant to which Itochu agreed to distribute existing products and develop and manufacture additional products specifically for Japan. We believe that by working directly with our distributors and agents abroad rather than through a third party, we will be able to exercise more control and guidance over their sales. Further, we expect to benefit in sales and profitability over the long term from selling our products directly to the distributors or through agents rather than through a third party. However, 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.

Table of Contents

In April 2006, we entered into an agreement with a third party to outsource our product fulfillment services, including our warehousing, distribution and customer service needs for our Joe's® products. In addition, in mid-July 2006, we moved our principal executive offices to a space located within our third party product fulfillment service provider's current space under a verbal month-to-month arrangement for the use of general administrative offices. Beginning in December 2007, we paid approximately $160,000 a month for rent and all our product fulfillment services, which includes warehousing, picking, packing and shipping directly to the customer, retailer or specialty store. We have since terminated these agreements, moved our corporate headquarters and outsourced our warehouse and distribution services to a different third party. Concurrent with the move, we entered escrow to purchase a facility to enable us to integrate these services into our operation. While there can be no assurance that we will ultimately purchase the facility, as we have a period in which to assess its suitability for our needs, we expect to move our principal headquarters to our own facility within the fiscal year.

Advertising, Marketing and Promotion

Historically, our advertising campaign for our Joe's® brand has been limited to strategic placement of advertising in areas of high concentration of fashion advertising through billboard advertisement in Los Angeles, California, and space on the tops of taxi cabs in New York City. In January 2008, we entered into an agreement to locate short term billboard advertising space in various locations in and around New York City and Los Angeles. In addition, we utilize a public relation firm to strategically place our products in magazines, editorials and with stylists. Sales through existing retail channels are enhanced by visual merchandising. 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. 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.

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 specialty retailers such as American Rag, Anthropologie, Atrium, Barneys New York, Bergdorf Goodman, Henri Bendel, Lisa Klein, Ron Herman, Fred Segal and Scoop NYC in the United States. We sell internationally to retailers such as Galleries Lafayette, Le Bon Marche and Le Printemps in France, Barney's Japan, Isetan and Mitsukoshi in Japan, Top Shop, Harvey Nichols and Selfridges & Co. in the United Kingdom, Ztampz in Hong Kong and Gio Moretti in Italy.

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."

Table of Contents

For fiscal 2009, our three largest customers and customer groups accounted for approximately 47 percent of our net sales. While this is a high percentage of sales attributable to three customer groups, 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 largest customers included Nordstrom Inc. and Macy's Inc. which includes Bloomingdale's and Macy's.

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:

Retail Sales Season	Primary Booking Period
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 2009, 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 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, 2009, we had backlog of $23,500,000 compared to $19,800,000 as of November 30, 2008. 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

Table of Contents

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 and Rock & Republic. 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 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.

Human Resources

As of February 3, 2010, we had 165 total employees, which included 125 full-time, 25 part- time and 15 temporary employees. We consider our relationships with our employees to be good.

Financial Information about Geographic Areas

See "Notes to Consolidated Financial Statements Note 10 Segment Reporting and Operations by Geographical Areas" for discussion of financial information about geographical areas.

Table of Contents

Manufacturing and Distribution Relationships

Our denim products are manufactured by contractors located in Mexico, Morocco and Los Angeles, California. Our non-denim products are primarily manufactured in Asia, including Hong Kong and China. 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.

	2009	2008
United States	12.5%	13.8%
Mexico	59.8%	65.6%
Asia	7.2%	6.2%
Morocco	20.5%	14.4%
	100%	100%

Available Information

Our website address is *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*, 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*. Information regarding the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

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 our success in increasing sales, opening and operating our retail stores and expanding our product offerings.

Our ability to operate profitably depends on our ability to implement our strategic plan with success. During fiscal 2009, we recognized growth for our Joe's® brand through increases in our international sales, our men's and women's domestic and retail sales and by diversifying our product offering to include products such as The Shirt by Joe's and leggings. Historically, we sold our Joe's® products internationally through a master distribution agreement that we terminated in February 2007 after experiencing decreases in our international sales. Shortly thereafter, we engaged consultants based in Europe to assist us in entering into agreements with distributors and sales agents in various countries. For Japan, we entered into a separate three year distribution and licensing agreement to distribute existing products and develop and manufacture additional products specifically for the Japanese market. We believe that by working directly with our distributors and agents abroad rather than through a third party, we will be able to exercise more control and guidance over their sales. Further, we expect to benefit in sales and profitability over the long term from selling our products directly to the distributors or through agents rather than through a third party.

Table of Contents

From season to season, we have expanded our product offering by offering a variety of products other than denim bottoms. For example, we offered a full collection of fashion items for both men and women, such as woven shirts, leggings, outerwear, cashmere scarves, knit tops and sweaters, fashion jackets, trouser pants in fabrics other than denim and other licensed product categories. We believed that offering additional products would create synergy and allow us to generate additional revenue due to brand name recognition established by our denim business. In addition, by providing a more extensive array of products, we believed it would assist us in creating successful retail stores.

We opened our first retail stores during fiscal 2008 and we now have an avenue to showcase our other products while boosting our overall net sales. We opened our first full price retail store in October 2008 in Chicago, Illinois. Currently, we operate one additional full price store in San Francisco, California and four outlets. We also expect to enter into additional leases and open additional stores throughout 2010 in various locations throughout the country. We believe that the 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 for other retail leases, but remain cautious about our retail store plans.

Since we are primarily a wholesaler, opening and operating retail stores requires us to develop retailing skills and capabilities. We will be 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 will need to hire and train additional qualified employees and incur additional costs to operate these stores, which will 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.

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.

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 or have restrictions upon us 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 expires, 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 in the United States economy.

The United States general economy is currently in the midst of extraordinary economic 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

Table of Contents

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 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.

If we cannot meet the Nasdaq Capital Market maintenance requirements and Nasdaq rules, Nasdaq may delist our common stock, which could negatively affect the price of the common stock and your ability to dispose of or obtain accurate quotations as to the market price of our common stock.

In the future, we may not be able to meet the listing maintenance requirements of the Nasdaq Capital Market and Nasdaq rules, which require, among other things, minimum net tangible assets of $2 million and a minimum bid price for our common stock of $1.00. On September 15, 2009, we received a Nasdaq staff deficiency notice indicating that we were no longer in compliance with Nasdaq Rule 5550(a)(2) because the closing bid price per share of our common stock was below $1.00 per share for 30 consecutive trading days. We were provided with 180 calendar days, or until March 15, 2010 to regain compliance with this rule. We regained compliance with Nasdaq Rule 5550(a)(2) on October 30, 2009. However, there can be no assurance that we will be able to maintain the bid price of our common stock at $1.00 and not violate this rule or other Nasdaq requirements in the future.

If we are unable to satisfy Nasdaq criteria for maintaining listing, our common stock would be subject to delisting. Trading, if any, of our common stock would thereafter be conducted in the over-the-counter market, in the so-called "pink sheets" or on the National Association of Securities Dealers, Inc., or NASD, "electronic bulletin board." 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.

We face risks associated with constantly changing fashion trends, including consumer's response to our Joe's® brand.

Our success will depend 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

Table of Contents

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 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 $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,

which 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.

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 All Mankind, Citizens of Humanity and Rock & Republic, 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.

Table of Contents

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.

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 70 percent of our net sales during fiscal 2009. 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 product 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.

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.

Table of Contents

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.

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 2009, 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, 2009, our cash availability with CIT was approximately $1,476,000 under our agreements. This amount 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

Table of Contents

that protect us in the event of a default by CIT. If CIT 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 2010, 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 case 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.

We may be unable to repay our debt associated with our agreement to purchase a property to be used as corporate headquarters, warehouse and distribution center.

In January 2010, we entered into a purchase agreement to purchase a facility located in downtown Los Angeles, which we intend to use as our new corporate headquarters, warehouse and distribution center. The purchase price for the facility is $6,750,000, subject to certain prorations and adjustments. We are currently reviewing the diligence materials related to the property and have until February 25, 2010 to elect to terminate the purchase agreement for any reason or no reason.

In the event we do not terminate the agreement by February 25, 2010, we expect to enter into a loan agreement in connection with this purchase. We expect to pay 30 percent of the purchase price with cash on hand and finance the remaining 70 percent. If we cannot meet our obligations under any proposed loan, there is no guarantee that we will be able to obtain alternative funding on favorable terms, or at all. If we are unable to repay a proposed loan as it becomes due, our lender could take legal action against us. We anticipate that such action would have a materially negative impact on us.

We may be unable to effectively manage our growth related to providing internal warehouse and distribution services. As a result, our business could be adversely affected.

We currently obtain warehouse and distribution services from third party providers. Upon acquisition of the new corporate headquarters, warehouse and distribution center pursuant to our purchase agreement, we intend to use such facility to provide our warehouse and distribution services internally. We will need to hire, train and maintain additional employees to manage our anticipated growth effectively. If we are unable to attract and retain additional personnel or fail to manage our anticipated growth effectively, our business could be adversely affected.

Table of Contents

As a result of our completion of the merger with JD Holdings and the issuance of 14,000,000 shares of our common stock, Mr. Dahan may be able to exert significant influence and control over us as a result of his percentage of stock ownership, position as an executive officer and membership on our Board of Directors.

As a result of the completion of the merger and the issuance of the 14,000,000 shares of our common stock, Mr. Dahan beneficially owns approximately 22 percent of our total shares outstanding and is our largest stockholder. In addition, Mr. Dahan is an executive officer and a member of our Board of Directors. As a result, he is in a position to exert significant influence and control over us as a result of his voting power, position as an executive officer and membership on our Board of Directors. We are not aware of any intent by Mr. Dahan to influence or control our affairs as result of his percentage ownership of our common stock and his position as both an executive officer and member of our Board of Directors.

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.

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. His initial employment term is for 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.

Table of Contents

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.

In the 52 week period prior to the filing of this Annual Report, the closing price of our common stock has ranged from $1.78 to $0.25. 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.

Our directors and management beneficially own a large percentage of our common stock.

Our executive officers and directors beneficially own approximately 31 percent of our common stock, including options exercisable within 60 days of February 3, 2010 and restricted common stock units not yet vested, in the aggregate. More specifically, Joe Dahan beneficially owns approximately 22 percent of our common stock and the Chairman of our Board, Sam Furrow, beneficially owns approximately 5 percent of our common stock. Because of this level of stock ownership, in the aggregate, certain persons may be in a position to directly or indirectly control our affairs.

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 have occurred from late spring through the summer, which coincides with our second and third fiscal quarters. This requires us

Table of Contents

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 2008, we funded our liquidity needs to build inventory 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. 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 outside the United States 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.

Table of Contents

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.

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	Design and administrative offices	Leased	9,350 sq. ft.	30 days' notice
Commerce, California	Warehouse	Leased	9,200 sq. ft.	30 days' notice
Los Angeles, California	Warehouse	Leased	24,100 sq. ft.	30 days' notice

We lease six retail store locations under non-cancelable operating lease agreements expiring on various dates through 2019. These facilities are all located in the United States. As of November 30, 2009, we had six stores open and a signed lease to open one additional store in 2010. Our retail square footage at the end of 2009 was approximately 11,972 square feet in the aggregate. Our retail stores range in size from 1,469 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. In addition, in January 2010, we entered into a purchase agreement to purchase a facility located in downtown Los Angeles that we intend to use for our new corporate headquarters and distribution center. The facility is approximately 83,000 square feet. We are currently reviewing the diligence materials related to the property and have until February 25, 2010 to elect to terminate the purchase agreement for any reason or no reason.

Table of Contents

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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Previously reported on a Current Report on Form 8-K filed on October 14, 2009.

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, Inc., or Nasdaq. The following sets forth the high and low interday quotations for our common stock in such 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
Fiscal 2009		
First Quarter	$ 0.50	$ 0.25
Second Quarter	$ 0.72	$ 0.22
Third Quarter	$ 1.05	$ 0.44
Fourth Quarter	$ 1.59	$ 0.63
Fiscal 2008		
First Quarter	$ 1.51	$ 0.60
Second Quarter	$ 1.25	$ 0.81
Third Quarter	$ 1.67	$ 1.01
Fourth Quarter	$ 1.39	$ 0.24

As of November 30, 2009, there were 877 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 such factors they may deem relevant, including our earnings and financial condition and our capital expenditure requirements.

(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)				
	11/30/09	11/30/08	11/30/07	11/25/06	11/26/05
Net sales	$ 80,116	$ 69,174	$ 62,767	$ 46,633	$ 35,920
Cost of goods sold	40,331	36,543	36,137	31,224	25,203
Gross profit	39,785	32,631	26,630	15,409	10,717
Operating expenses					
Selling, general and administrative	30,726	26,161	23,085	21,587	18,245
Depreciation and amortization	536	350	359	290	182
	31,262	26,511	23,444	21,877	18,427
Operating income (loss) from continuing operations	8,523	6,120	3,186	(6,468)	(7,710)
Interest expense	(388)	(633)	(828)	(573)	(781)
Other (expense) income, net			(13)	(67)	16
Income (loss) from operations, before taxes	8,135	5,487	2,345	(7,108)	(8,475)
Income tax (benefit) expense(2)	(16,385)	585	91	36	13
Income (loss) from continuing operations	24,520	4,902	2,254	(7,144)	(8,488)
Discontinued operations, net of tax(1)				(2,149)	(7,945)
Net income (loss)	$ 24,520	$ 4,902	$ 2,254	$ (9,293)	$ (16,433)
Earnings (loss) per common share Basic					
Earnings (loss) from continuing operations	0.41	0.08	0.05	(0.21)	(0.26)
Earnings (loss) from discontinued operations				(0.06)	(0.25)
Earnings (loss) per common share Basic	$ 0.41	$ 0.08	$ 0.05	$ (0.27)	$ (0.51)
Earnings (loss) per common share Diluted					
Earnings (loss) from continuing operations	0.40	0.08	0.05	(0.21)	(0.26)
Earnings (loss) from discontinued operations				(0.06)	(0.25)
Earnings (loss) per common share Diluted	$ 0.40	$ 0.08	$ 0.05	$ (0.27)	$ (0.51)
Weighted average shares outstanding					
Basic	60,053	59,420	43,840	33,853	31,942
Diluted	61,121	59,671	45,000	33,853	31,942
Balance sheet data:					
Total assets	$ 79,624	$ 57,669	$ 47,626	$ 11,794	$ 27,596
Stockholders' equity	61,506	36,085	30,396	3,308	11,557
Long-term debt Discontinued operations					7,085

(1) Our discontinued operations for fiscal 2006 and 2005 consisted of our Innovo subsidiary that sold craft and accessories and our Innovo Azteca Apparel subsidiary that sold certain other branded and private label apparel products. Our Innovo subsidiary completed the sale of its assets in May

Table of Contents

2005 and our Innovo Azteca Apparel subsidiary completed the sale of its remaining assets in May 2006.

(2) 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 as of November 30, 2008 was released and recorded as a credit to income tax benefit during fiscal 2009.

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, 2009, 2008 and 2007, 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 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.

The focus of our operations has been on our Joe's® brand. Our transition plan, which began in 2006, included selling the assets or ceasing operations of our other branded and private label apparel products. To enhance our ability to capitalize on the Joe's® brand, on February 6, 2007, we entered into a merger agreement to merge with JD Holdings, the successor in interest to JD Design LLC, or JD Design, the entity from whom we licensed the Joe's® brand. We also entered into our first license agreement for other product categories for handbags and small leather goods bearing the Joe's® brand. In October 2007, we completed the merger and acquired JD Holdings. In exchange for JD Holdings, we issued 14,000,000 shares of our common stock and $300,000 in cash. As part of the merger consideration, we are obligated to pay Mr. Dahan a percentage of our gross profits above $11,251,000 until 2017. Mr. Dahan will be entitled to the following: (i) 11.33 percent of the gross profit from $11,251,000 to $22,500,000; (ii) 3 percent of the gross profit from $22,501,000 to $31,500,000; (iii) 2 percent of the gross profit from $31,501,000 to $40,500,000; and (iv) 1 percent of the gross profit above $40,501,000. Concurrently, we entered into an employment agreement with Joe Dahan to be one of our executive officers. Mr. Dahan is our largest stockholder. As of February 3, 2010, he owned approximately 22 percent of our total shares outstanding and is a member of our Board of Directors.

Table of Contents

During fiscal 2009, we recognized growth for our Joe's® brand through increases in our international and retail sales, our men's and women's domestic sales and by diversifying our product offering to include products such as The Shirt by Joe's and leggings. In the fall of fiscal 2009, we launched a line of unisex woven shirts in different fits and fabrications called "The Shirt" and branded it with the Joe's logo. At the end of fiscal 2009, we launched a line of denim leggings for women, which have been well received by our customers.

We believe our growth drivers for 2010 include the performance of our retail stores, continued improvement in our international and men's sales, performance of our licensee's under their respective agreements for bags, belts and children's products and enhancement of the products available to our customer's branded with our Joe's name and logos, including woven shirts and leggings. Currently, we operate two full price stores and four outlet stores and have plans to open additional stores in 2010. We believe that through our retail stores, we are able to enhance our net sales and gross profit and sell our 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 investments or incremental operating expenses and at the same time, we receive royalty payments on net sales, which contribute to our overall growth.

Our business is seasonal. The majority of the marketing and sales activities take place from late fall to early spring. The greatest volume of shipments and sales are generally made from late spring through the summer, which coincides with our second and third fiscal quarters and our cash flow is strongest in our third and fourth fiscal 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.

Our fiscal year end is November 30. Effective October 11, 2007, we changed from a thirteen-week quarterly reporting period to a last day of the month quarterly reporting period to reflect standard quarterly accounting periods. The modification of the fiscal year did not have a material effect on our financial condition, results of operations or cash flows.

Comparison of Fiscal Year Ended November 30, 2009 to Fiscal Year Ended November 30, 2008

Results of Operations

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

	Year ended (in thousands)			
	11/30/09	11/30/08	$ Change	% Change
Net sales	$ 80,116	$ 69,174	$ 10,942	16%
Cost of goods sold	40,331	36,543	3,788	10%
Gross profit	39,785	32,631	7,154	22%
Gross margin	50%	47%	3%	6%
Selling, general and administrative	30,726	26,161	4,565	17%
Depreciation and amortization	536	350	186	53%
Income from operations	8,523	6,120	2,403	39%
Interest expense	(388)	(633)	245	(39)%
Income before taxes	8,135	5,487	2,648	48%
Income tax (benefit) expense	(16,385)	585	(16,970)	(2,901)%
Net income	$ 24,520	$ 4,902	$ 19,618	400%

Table of Contents

Fiscal Year 2009 Overview

Net Sales

Our net sales increased to $80,116,000 in fiscal 2009 from $69,174,000 in fiscal 2008, a 16 percent increase. The increase in our net sales can be attributed to a five percent growth in our international sales, growth in domestic sales of our women's and men's product lines of 10 percent and 16 percent, respectively, and a 594 percent growth in our retail and e-commerce net sales. The growth drivers during fiscal 2009 were due to brand name acceptance and recognition and demand for denim apparel products in the marketplace by consumers in addition to offering other products such as the unisex woven shirts branded as The Shirt by Joe's and leggings. In particular, our women's domestic sales increased to $59,140,000 in fiscal 2009 from $53,675,000 in fiscal 2008 and our men's domestic sales increased to $9,012,000 in fiscal 2009 from $7,751,000 in fiscal 2008.

Gross Profit

Our gross profit for our Joe's® brand increased to $39,785,000 in fiscal 2009 from $32,631,000 in fiscal 2008, a 22 percent increase. Our gross margin percentage for our Joe's® brand increased to 50 percent in fiscal 2009 from 47 percent in fiscal 2008.

The increase in our gross profit was primarily due to an increase in net sales of 16 percent and a three percentage point increase in our gross margin. The increase in gross margin was mostly due to: (i) sales from our retail channel which carry a higher gross margin as we realize the difference between our cost and retail price; (ii) a greater percentage of our production requirements from the United States to lower cost facilities in Mexico and Morocco, which reduced our costs of goods sold; and (iii) an increase in revenue from license agreements for belts, bags and children's products that we did not have in fiscal 2008.

Selling, General and Administrative Expense

Selling, general and administrative, or SG&A, expenses increased to $30,726,000 in fiscal 2009 from $26,161,000 in fiscal 2008, a 17 percent increase.

The SG&A increase in fiscal 2009 compared to fiscal 2008 is largely a result of the following factors: (i) an increase of $1,248,000 in employee and employee-related expenses due to a higher headcount in fiscal 2009 compared to fiscal 2008 to support our sales growth including hiring personnel to support our retail strategy (ii) an increase of $1,439,000 in facilities, fulfillment and distribution related expenses due to our increase in net sales both domestically and internationally and the additional rent obligations associated with our six retail stores; (iii) an increase of $231,000 in stock based compensation expense due to the timing of the issuance of restricted common stock and restricted stock units for fiscal 2009; (iv) an increase of $313,000 in sales commissions as a result of a 16 percent increase in Joe's® sales; (v) an increase of $863,000 in advertising expenses to support our new retail initiatives, including promotion of the leggings in print and other traditional advertising mediums that we did not use previously and advertising to support our e-shop; (vi) an increase of $538,000 in professional fees primarily due to an increase in legal expenses associated with litigation in the ordinary course of business and consulting fees to support our retail strategy and European expansion; and (vii) an increase of $271,000 in factor and bank fees due to the increase in our net sales. These SG&A expenses were partially offset by a decrease of $277,000 in sample expenses due to better control over costs and timing of the expense.

Depreciation and Amortization Expenses

Our depreciation and amortization expenses increased to $536,000 in fiscal 2009 from $350,000 in fiscal 2008, a 53 percent increase. The increase was attributable to additional depreciation for our retail

Table of Contents

stores' leasehold improvements in fiscal 2009 which we did not have in fiscal 2008 due to the addition of four retail stores in the fourth quarter of fiscal 2008 and one in the third quarter of fiscal 2009

Interest Expense

Our combined interest expense decreased to $388,000 in fiscal 2009 from $633,000 in fiscal 2008, a 39 percent decrease. Our interest expense primarily consists of interest expense from our factoring and inventory lines of credit and letters of credit from CIT. The decrease in interest expense is due to a lower average interest rate on our factoring and inventory lines of credit as compared to the prior year period as a result of interest rate cuts by the Federal Reserve and an offset from additional interest income from higher cash balances.

Income Taxes

Our income tax benefit was $16,385,000 in fiscal 2009 compared to income tax expense of $585,000 in fiscal 2008. Our income tax benefit for fiscal 2009 primarily resulted from the release of a valuation reserve that was previously recorded against our deferred tax assets. The deferred tax assets had been established for net operating losses and other items with differences in the book basis and tax basis.

The original valuation allowance against our deferred tax assets was established as it was more likely than not that all or a portion of a deferred tax asset would not be realized. We periodically reassess the need for a valuation allowance. Realization of deferred income tax assets is dependent upon taxable income in prior carry back years, estimates of future taxable income, tax planning strategies and reversals of existing taxable temporary differences.

Based on our assessment during the fourth quarter of fiscal 2009, 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 as of November 30, 2008 was released and recorded as a credit to income tax benefit during fiscal 2009.

Net Income

We generated net income of $24,520,000 in fiscal 2009 compared to $4,902,000 in fiscal 2008. The increase in our net income in fiscal 2009 is largely the result of the following factors: (i) an income tax benefit of $16,385,000; (ii) an increase of $10,942,000 in net sales; and (iii) an increase of $7,154,000 in gross profit which translated into a 50 percent overall gross margin for the full fiscal year compared to a 47 percent overall gross margin in fiscal 2008.

Table of Contents

Comparison of Fiscal Year Ended November 30, 2008 to Fiscal Year Ended November 30, 2007

Results of Operations

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

	Year ended (in thousands)			
	11/30/08	11/30/07	$ Change	% Change
Net sales	$ 69,174	$ 62,767	$ 6,407	10%
Cost of goods sold	36,543	36,137	406	1%
Gross profit	32,631	26,630	6,001	23%
Gross margin	47%	42%	5%	12%
Selling, general and administrative	26,161	23,085	3,076	13%
Depreciation and amortization	350	359	(9)	(3)%
Income from operations	6,120	3,186	2,934	92%
Interest expense	(633)	(828)	195	(24)%
Other expense		(13)	13	(100)%
Income before taxes	5,487	2,345	3,142	134%
Income tax expense	585	91	494	543%
Net income	$ 4,902	$ 2,254	$ 2,648	117%

Fiscal Year 2008 Overview

Net Sales

Our net sales increased to $69,174,000 in fiscal 2008 from $62,767,000 in fiscal 2007, a 10 percent increase. The increase in our net sales can be attributed to continued growth in our international sales, domestic sales of our women's, men's and children's product lines and e-commerce sales. The growth drivers during fiscal 2008 were due to brand name acceptance and recognition and demand for denim apparel products in the marketplace by consumers. In particular, our international sales increased to $5,390,000 in fiscal 2008 from $3,248,000 in fiscal 2007 and our men's domestic sales increased to $7,751,000 in fiscal 2008 from $5,539,000 in fiscal 2007. We also had an additional $703,000 in revenue from our retail stores and e-shop in fiscal 2008, which we did not have in fiscal 2007.

Gross Profit

Our gross profit for our Joe's® brand increased to $32,631,000 in fiscal 2008 from $26,630,000 in fiscal 2007, a 23 percent increase. Our gross margin percentage for our Joe's® brand increased to 47 percent in fiscal 2008 from 42 percent in fiscal 2007.

The increase in our gross profit was primarily due to an increase in net sales of 10 percent and a five percentage point increase in our gross margin. The increase in gross margin was due to a shifting of a greater percentage of our production requirements from the United States to lower cost facilities in Mexico and Morocco, which reduced our costs of goods sold.

Selling, General and Administrative Expense

Selling, general and administrative, or SG&A, expenses increased to $26,161,000 in fiscal 2008 from $23,085,000 in fiscal 2007, a 13 percent increase.

Table of Contents

The SG&A increase in fiscal 2008 compared to fiscal 2007 is largely a result of the following factors: (i) an increase of $1,723,000 for contingent consideration payments to Mr. Dahan as a result of the merger with JD Holdings that closed in October 2007; (ii) an increase of $1,411,000 in employee and employee-related expenses due to a higher headcount in fiscal 2008 compared to fiscal 2007 to support our sales growth including hiring personnel to support our retail strategy (iii) an increase of $997,000 in facilities, fulfillment and distribution related expenses due to our increase in net sales both domestically and internationally and the additional rent obligations associated with our four retail stores; (iv) an increase of $729,000 in stock based compensation expense due to the issuance of restricted common stock and restricted stock units in the fourth quarter of fiscal 2007 and the first quarter of fiscal 2008; (v) an increase of $694,000 in sales commissions as a result of a 10 percent increase in Joe's® sales; (vi) an increase of $269,000 in sample expenses to support our development of a full collection of items; (vii) an increase of $218,000 in professional fees primarily due to an increase in legal expenses associated with lawsuits in the ordinary course of business and consulting fees to support our retail strategy and European expansion; and (viii) an increase of $198,000 in factor and bank fees due to the increase in our net sales. These SG&A expenses were partially offset by (i) a non-cash charge of $1,483,000 in May 2007 related to settlement expenses associated with our termination of our former international distributor; and (ii) a decrease of $1,660,000 in royalty expenses due to no longer having an obligation to pay a three percent royalty on net sales to JD Holdings.

Interest Expense

Our combined interest expense decreased to $633,000 in fiscal 2008 from $828,000 in fiscal 2007, a 24 percent decrease. Our interest expense primarily consists of interest expense from our factoring and inventory lines of credit and letters of credit from CIT. The decrease in interest expense is mostly due to a lower average interest rate on our factoring and inventory lines of credit as compared to the prior year period as a result of interest rate cuts by the Federal Reserve.

Income Taxes

Our income tax expense was $585,000 in fiscal 2008 compared to $91,000 in fiscal 2007, or a 543 percent increase. Our effective tax rate was eleven percent for fiscal 2008 compared to four percent for fiscal 2007. The difference between the effective tax rate and the statutory rate is primarily attributable to the utilization of net operating loss tax carryforwards against which a full valuation allowance has been established and our increase in net income.

Net Income

We generated net income of $4,902,000 in fiscal 2008 compared to $2,254,000 in fiscal 2007. The increase in our net income in fiscal 2008 is largely the result of the following factors: (i) an increase of $6,407,000 in net sales; and (ii) an increase of $6,001,000 in gross profit which translated into a 47 percent overall gross margin for the full fiscal year compared to a 42 percent overall gross margin in fiscal 2007.

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, 2009, we generated $10,599,000 of cash flow from operations and received $229,000 in advances from factor borrowing. The primary uses for our cash were for purchases of property and equipment in the amount of $873,000 primarily in connection with the opening of our retail stores and a payment of $225,000 for taxes on the vesting of restricted stock units for our employees. Our cash balance increased by $9,730,000 and was $13,195,000 as of November 30, 2009.

Table of Contents

Historically, we have been 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 through guarantees by certain related parties.

During fiscal 2009, 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. 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 agreements allow 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 and among us and all of our subsidiaries to guarantee each subsidiary's obligations. As of November 30, 2009, our cash availability with CIT was approximately $1,476,000. This amount fluctuates on a daily basis based upon invoicing and collection related activity by CIT on our behalf. In connection with the agreements with CIT, most of our tangible assets are pledged to CIT, including all of our inventory, merchandise, and/or goods, including raw materials through finished goods and receivables. Our trademarks are not encumbered.

The agreements may be terminated by CIT upon 60 days prior written notice or immediately upon the occurrence of an event of default, as defined in the agreement. The agreements may be terminated by us upon 60 days advanced written notice prior to June 30, 2010 or earlier provided that the minimum factoring fees have been paid for the respective period. We are currently in the process of renegotiating a renewal of these agreements with CIT and exploring alternative arrangements with other lenders. We expect to be able to renew these agreements or enter into new ones on comparable terms.

The factoring rate that we pay to CIT to factor accounts is 0.6 percent for accounts which CIT bears the credit risk, subject to discretionary surcharges, and 0.4 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, 2009, we had $14,402,000 of factored receivables with CIT and a loan balance of $4,580,000 for inventory advances. We had two letters of credit in the aggregate amount of $495,000 outstanding as of November 30, 2009.

For fiscal 2010, our primary capital needs are for (i) operating expenses; (ii) working capital necessary to fund inventory purchases; (iii) capital expenditures for the potential purchase of new corporate headquarters, and additional retail store openings; (iv) financing extensions of trade credit to our customers; and (v) payment for the contingent consideration pursuant to the merger agreement with JD Holdings. 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.

Table of Contents

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 2010. 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.

Commitments and Contractual Obligations

The following table sets forth our contractual obligations and commercial commitments for our continuing operations as of November 30, 2009:

	Payments due by period (in thousands)						
	Total	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**
Operating lease obligations	$ 19,107	$ 1,708	$ 1,832	$ 1,894	$ 1,962	$ 2,032	$ 9,679
Purchase obligations	7,204	7,204					
Letters of credit	347	347					
	$ 26,658	$ 9,259	$ 1,832	$ 1,894	$ 1,962	$ 2,032	$ 9,679

We also have 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

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

Table of Contents

goods. Such returns are estimated based on historical experience and an allowance is provided at the time of sale.

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. In 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. For all other customers, we recognize reserves for bad debts and charge-backs based on our historical collection experience. If collection experience deteriorates (i.e., an unexpected material adverse change in a major customer's ability to meet its financial obligations to us), the estimates of the recoverability of amounts due to us could be reduced by a material amount.

The balance in the allowance for customer credits and doubtful accounts as of November 30, 2009 and November 30, 2008 was $831,000 and $660,000 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.

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. For fiscal 2009, we did not 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.

Under the FASB standards, we are required to 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.

Table of Contents

Our annual impairment testing date is September 30 of each year. For fiscal 2009, 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;

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

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

an additional 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 FASB standards for 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.

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. Based on management's assessment of these items during fiscal 2009, 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 as of November 30, 2008 was released and recorded as a credit to income tax benefit during fiscal 2009.

Contingencies

We account for contingencies in accordance with FASB standards that require 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

Table of Contents

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 FASB 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 8 Stockholders' Equity Stock Incentive Plans" for additional discussion.

Recent Accounting Pronouncements

In December 2007, the FASB issued a standard on business combinations that significantly changes the accounting for business combinations. Under the standard, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions and includes a substantial number of new disclosure requirements. The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which is the year beginning December 1, 2009 for us. We do not expect that this standard will have any impact on our financial statements unless we enter into an applicable transaction in the future.

In December 2007, the FASB issued a standard that establishes new accounting and reporting standards for a non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. The standard clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its

Table of Contents

controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date and includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, which is the year beginning December 1, 2009 for us. We do not expect that it will have any impact on our financial statements unless we enter into an applicable transaction in the future.

In April 2008, the FASB issued a standard that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset in order to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2008, which is the year beginning December 1, 2009 for us, and interim periods within that fiscal year. The adoption of this standard did not have a material impact on our financial position or results from operations.

In June 2008, the FASB provided guidance for accounting for nonrefundable maintenance deposits paid by a lessee to a lessor and provides revenue recognition accounting guidance for the lessor. This standard is effective for fiscal years beginning after December 15, 2008 and is not applicable to us.

In May 2008, the FASB issued a standard that identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles. The standard is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411 "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." We do not expect the adoption to impact our results of operations, financial position or cash flows.

In April 2009, the FASB issued changes regarding interim disclosures about fair value of financial instruments. The changes enhance consistency in financial reporting by increasing the frequency of fair value disclosures from annually to quarterly. The changes require disclosures on a quarterly basis of qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. The disclosure requirement became effective beginning with our first interim reporting period ending after June 15, 2009. The adoption of this change did not have a material impact on our results of operations or financial condition.

In May 2009, the FASB issued a standard related to subsequent events. The standard is effective for interim or annual periods ending after June 15, 2009 and establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Entities are also required to disclose the date through which subsequent events have been evaluated and the basis for that date. We have evaluated subsequent events through the date of issuance of these financial statements.

In June 2009, the FASB issued a standard related to the FASB accounting standards codification and the hierarchy of generally accepted accounting principles. The standard will become the source of authoritative U.S. generally accepted accounting principles, or GAAP, recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this standard, the codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the codification will become non-authoritative. This standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this standard did not have a material impact on our results of operations, financial condition or cash flows.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks arising from transactions in the normal course of our business. Such risk is principally associated with interest rates and changes in our credit standing.

Interest Rate Risk

Our obligations under our receivable and inventory agreements with CIT bear interest at floating rates (primarily JP Morgan Chase prime rate). As a result, we are sensitive to changes in prevailing interest rates. We believe that a one percent increase or decrease in market interest rates that affect our financial instruments would have an immaterial impact on earnings or cash flow during the next fiscal year.

Foreign Currency Exchange Rates

Foreign currency exposures arise from transactions, including firm commitments and anticipated contracts, denominated in a currency other than an entity's functional currency and from foreign-denominated revenues translated into U.S. dollars. Changes in currency exchange rates may affect the relative prices at which we and our foreign competitors sell products in the same market and collect receivables from such sales. We generally sell our products in U.S. dollars. However, we sell an limited amount of our products to certain countries in Euros. We currently do not hedge our exposure to changes in foreign currency exchange rates as the amount of products sold would not be significantly impacted by rate fluctuations. We cannot assure you that foreign currency fluctuations will not have a material adverse impact on our financial condition and results of operations in the future.

We also source most of our products outside of the U.S. However, we generally purchase our products in U.S. dollars. The cost of these products may be affected by changes in the value of the relevant currencies; however, our exposure to currency exchange rates is limited as a result of such companies outside of the U.S. accepting payment in U.S. dollars.

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.

ITEM 9A(T). 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.

Table of Contents

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, 2009. Management's annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to the temporary rules of the SEC that permit us to provide only management's report in this Annual Report.

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

We did not fail to file any reports required to be filed on Form 8-K for the last fiscal quarter.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information with respect to our directors and executive officers and their ages and positions as of February 3, 2010, is as follows:

Name	Age	Position	Year First Elected Director
Samuel J. (Sam) Furrow	68	Chairman of the Board of Directors	1998
Marc B. Crossman	38	Chief Executive Officer, President, and Director	1999
Hamish Sandhu	47	Chief Financial Officer	N/A
Joseph M. Dahan	42	Creative Director and Director	2007
Kelly Hoffman(2)(3)	52	Director	2004
Thomas O'Riordan(1)(2)(3)	53	Director	2006
Suhail R. Rizvi(1)(2)(3)	44	Director	2003
Kent Savage(1)(2)(3)	48	Director	2003

(1) Member of the Audit Committee

(2) Member of the Compensation and Stock Option Committee

(3) Member of the Nominating and Governance Committee

Table of Contents

Samuel J. (Sam) Furrow has served as Chairman of our Board of Directors since October 1998. Mr. Furrow became a member of our Board of Directors in April 1998 and served as our Chief Executive Officer from October 1998 until December 2000. Mr. Furrow also has been Chairman of the Board of Furrow Auction Company, a real estate and equipment sales company with its headquarters in Knoxville, Tennessee, since April 1968; Chairman of Furrow-Justice Machinery Corporation, a six-branch industrial and construction equipment dealer, since 1983; owner of Knoxville Motor Company-Mercedes Benz and Land Rover of Knoxville since December 1980 and July 1997, respectively. Mr. Furrow received his undergraduate and J.D. degrees from the University of Tennessee. Sam Furrow is the father of our former Chief Executive Officer and Director, Samuel J. (Jay) Furrow, Jr.

Marc B. Crossman has served as our Chief Executive Officer since January 2006, our President since September 2004 and a member of our Board of Directors since January 1999. From March 2003 until August 2007, Mr. Crossman served as our Chief Financial Officer. From January 1999 until March 2003, Mr. Crossman served as a Vice President and Equity Analyst with J.P. Morgan Securities Inc. From September 1997 until January 1999, Mr. Crossman served as a Vice President and Equity Analyst with CIBC Oppenheimer Corporation. Mr. Crossman received his B.S. degree in Mathematics from Vanderbilt University.

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. Mr. Sandhu began his career at Deloitte & Touche LLP. Prior to that, Mr. Sandhu held various Chief Financial and Corporate Controller positions at other manufacturing and distribution based companies. Mr. Sandhu has a B.A. degree in Economics and Accounting from Australian National University and holds a Certified Public Accountant's license.

Joe Dahan has served as the president and head designer for our Joe's Jeans subsidiary since its formation in February 2001, Creative Director and a member of our Board of Directors since October 2007. Mr. Dahan is responsible for the design, development and marketing of Joe's products. From 1996 until 2001, Mr. Dahan was the head designer for Azteca Production International, Inc., or Azteca, where he was responsible for the design, development and merchandising of product lines developed by Azteca, a manufacturer of branded and private label denim products. From 1989 until 1996, Mr. Dahan was engaged in the design and development of apparel products for a company of which he was an owner and operator. Mr. Dahan became our Creative Director and a member of our Board of Directors in connection with the completion of a merger between us and JD Holdings in October 2007.

Kelly Hoffman has served as a member of our Board of Directors since June 2004. Mr. Hoffman has served as Chairman of the Board of Directors and Chief Executive Officer of Varsity Media Group Inc., a new media company dedicated to teenagers, since he founded the company in 1998. From 1991 until 1998, Mr. Hoffman owned AOCO Operating, a company that raised capital for the acquisition of property in Texas, Louisiana and New Mexico. From 1989 until 1991, Mr. Hoffman served in a similar position for Texakoma Financial, an oil and gas partnership that raised capital for acquisition of property in Texas, Louisiana and New Mexico. Prior to that, Mr. Hoffman served in various sales and marketing positions for PAZ Syndicate, a conglomerate based in Tel Aviv, Israel that owned diverse interests worldwide. Prior to that, Mr. Hoffman specialized in securing capital from investors for investment in various limited partnerships in the oil and gas industry for Paso Energy. Mr. Hoffman began his oil and gas career at Amoco Production Company in Texas in various positions. Mr. Hoffman attended Texas Tech University and majored in Business Administration.

Table of Contents

Thomas O'Riordan has served as a member of our Board of Directors since April 2006. Since August 2009 and from 1988 to 1995, Mr. O'Riordan has served as President of Tom O'Riordan & Associates, a sales and marketing company focused on the athletic footwear, apparel and sporting goods industries. Prior to that, from March 2007 to August 2009, Mr. O'Riordan has served as Chief Executive Officer of American Sporting Goods Corporation, a privately held manufacturer and retailer of athletic footwear with such brands as And1, Avia, Ryka, Yukon, Triple 5 Soul, NSS and Nevados. From 2004 to 2007, Mr. O'Riordan acted in an executive consulting and advisory capacity to the senior management team of Fila Holding Company, a publicly traded manufacturer and retailer of branded footwear, apparel and accessories, and to other investment advisors and funds in the retail and consumer products sector. From 1999 to 2004, Mr. O'Riordan served in various executive management capacities with Fila Holding Company, ultimately serving as Chief Executive Officer from 2003 to 2004. From 1995 until 1998, Mr. O'Riordan served as Director of Operations of Adidas America, a publicly traded manufacturer and retailer of branded athletic footwear, apparel and accessories. Mr. O'Riordan began his career in sales for Brooks Shoe Company. Mr. O'Riordan received his B.S. degree in Marketing and Management from Rider University.

Suhail R. Rizvi has served as a member of our Board of Directors since April 2003. Since 2004, Mr. Rizvi has served as founder and Chief Investment Officer of Rizvi--Traverse Management LLC and other related funds. Mr. Rizvi has over twenty years of private equity investing experience for his own account and as a fiduciary for institutional investors through various entities or funds as founder, principal or manager. Mr. Rizvi also serves as Chairman of the Board of Directors of AG Holdings, a diversified investment company with interests in various manufacturing companies and as a member of the Board of Directors for International Creative Management, Inc. a global talent and literary agency. Mr. Rizvi received his B.S. degree in Economics from the Wharton School of the University of Pennsylvania and sits on the Wharton Undergraduate Executive Board.

Kent Savage has served as a member of our Board of Directors since July 2003. Since June 2006, Mr. Savage has served as Founder and CEO of Famecast, Inc., a privately held interactive branded entertainment and contest management company. Beginning in June 2005, Mr. Savage consulted with Famecast, Inc. on all aspects of the company's founding. From January 2004 until June 2005, Mr. Savage served as Chief Executive Officer for Digital Lifestyles Group, Inc. (DLFG.PK), a publicly traded manufacturer and distributor of personal computers. Between February 2003 and January 2004, Mr. Savage served in various consulting capacities to start-up companies. From September 2002 until February 2003, Mr. Savage served as co-founder, Chief Sales and Marketing Officer for TippingPoint Technologies (NASDAQ: TPTI), which was acquired by 3Com. From February 1999 until August 2001, Mr. Savage served as co-founder, CEO and President for Netpliance, Inc. From April 1998 until February 1999, Mr. Savage served as General Manager, Broadband for Cisco Systems Inc. Service Provider Line of Business. From July 1996 until April 1998, Mr. Savage served as Vice President, Sales and Marketing for NetSpeed, Inc. Mr. Savage received his B.S. degree in Business from Oklahoma State University, attended University of Virginia's Executive Leadership Program, and received his M.B.A. degree from Southern Methodist University.

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* 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 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.

Table of Contents

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* 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. Savage, Rizvi, and O'Riordan. Mr. Savage 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 Mr. Rizvi 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* under our Investor Relations heading.

Nominating and Governance Committee

The Nominating and Governance Committee is currently comprised of Messrs. Rizvi, Hoffman, O'Riordan and Savage. Mr. Rizvi serves as Chairman of the Nominating and Governance Committee.

The Nominating and Governance Committee has a charter that details its duties and responsibilities, which was adopted by our Board of Directors on May 22, 2003. Currently, all Nominating and Governance Committee members are "independent" under NASDAQ listing standards. There is no specific procedure outlined in the charter for the Nominating and Governance Committee to consider nominees to our Board of Directors that are recommended by our common stockholders, but such nominees will be considered in accordance with the principal responsibilities of the Nominating and Governance Committee, our bylaws and all applicable rules and regulations relating to such nominations by our common stockholders. The Nominating and Governance Committee has the responsibility for developing criteria for the selection of new directors and nominees for vacancies. The members of the Nominating and Governance Committee have the discretion to choose candidates that have the desired experience, mix of skills and other qualities to assure appropriate composition while taking into account the current members and our specific needs and the needs of our Board of Directors. To date, no more specific criteria has been developed than that set forth in the charter. Furthermore, we have not had a common stockholder propose a nominee to our Board of Directors nor have we paid any third party a fee to assist us in the process of identifying or evaluating candidates for our Board of Directors. A copy of the Nominating and Governance Committee charter can be found on our website at *www.joesjeans.com* under our Investor Relations heading.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, officers and persons who beneficially own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC on a timely basis. Directors, officers and greater than ten percent beneficial owners are required by the SEC's regulations to furnish us with copies of all Section 16(a) forms they file.

Table of Contents

Based solely on a review of copies of such forms furnished to us and certain of our internal records, or upon written representations from officers, directors and greater than ten percent beneficial owners that no Form 5 was required, we believe that during the year ended November 30, 2009, all Section 16(a) filing requirements applicable to our directors, officers and greater than ten percent beneficial owners were satisfied on a timely basis, except as follows: one Form 4 for Kelly Hoffman relating to four individual sale transactions that were not timely filed.

ITEM 11. EXECUTIVE COMPENSATION.

Executive Officer Compensation

The following table provides certain summary information concerning the compensation earned by our Named Executive Officers in the position of the Principal Executive Officer, Principal Financial Officer, and Creative Director for services rendered in all capacities to us for the fiscal year ended November 30, 2009.

Summary Compensation Table

Name and Principal Position	Year	Salary	Bonus	Stock awards(1)	Option awards(2)	All other compensation(3)	Total
Marc Crossman	2009	$ 429,000	$ 375,000	$ 527,000(8)	$	$ 58,000	$ 1,389,000
Chief Executive Officer	2008	429,000(5)	325,000	429,000(7)		55,000	1,238,000
and President	2007	375,000	300,000(4)	375,000(6)		73,000	1,123,000
Hamish Sandhu	2009	255,000		108,000(11)		27,000	390,000
Chief Financial Officer	2008	207,000		82,000(10)		11,000	300,000
	2007	51,000(9)			123,000(12)		174,000
Joseph Dahan	2009	300,000		319,000(15)		1,711,000(16)	2,330,000
Creative Director	2008	300,000		300,000(14)		1,625,000(16)	2,225,000
	2007	104,000(13)				161,000(16)	265,000

(1) Represents restricted common stock and restricted common stock units, or RSUs, issued pursuant to our 2004 Stock Incentive Plan and reflects the dollar amount of compensation expense recognized by us in our financial statements for reporting purposes in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), later codified in Accounting Standards Codification 718, or ASC 718. For a discussion on the assumptions made regarding the valuation of the stock awards and option awards, please see "Note 8 Stockholders' Equity Stock Incentive Plans" in our Notes to Consolidated Financial Statements.

(2) Represents stock options issued pursuant to our 2004 Stock Incentive Plan and reflects the dollar amount of compensation expense recognized by us in our financial statements for reporting purposes in accordance ASC 718. For a discussion on the assumptions made regarding the valuation of the stock awards and option awards, please see "Note 8 Stockholders' Equity Stock Incentive Plans" in our Notes to Consolidated Financial Statements.

Table of Contents

(3)

The following table details the components of this column.

Name and principal position	Year	Benefit of company paid health insurance(a)	Benefit of company paid life insurance(a)	Unused vacation payout(b)	401(k) match	Contingent consideration(c)	Total
Marc Crossman	2009	$ 15,000	$ 7,000	$ 31,000	$ 5,000	$	$ 58,000
	2008	15,000		35,000	5,000		55,000
	2007	21,000		46,000	6,000		73,000
Hamish Sandhu	2009	16,000		6,000	5,000		27,000
	2008	4,000		3,000	4,000		11,000
	2007						
Joseph Dahan	2009	15,000		32,000		1,664,000	1,711,000
	2008	10,000		17,000		1,598,000	1,625,000
	2007	30,000		5,000		126,000	161,000

(a)

This amount represents health and life insurance premiums paid on behalf of the Named Executive Officer in excess of premiums paid for other employees.

(b)

This amount represents a pay out for earned but unused vacation at the Named Executive Officers daily rate. In accordance with our employee handbook, all regular full-time employees are eligible to be paid out for earned but unused vacation at the end of each fiscal year.

(c)

This amount represents contingent consideration payments paid to Mr. Dahan in connection with the merger agreement with JD Holdings. The payments are not part of his employment agreement, but included in the merger agreement and he is entitled to the payments irrespective of his employment status.

(4)

Of the total bonus approved for fiscal 2007, $150,000 was paid in fiscal 2007 and the remaining $150,000 was paid in connection with the execution of an employment agreement during the second quarter of fiscal 2008.

(5)

Includes a $35,000 payment made subsequent to the fiscal year that represents an increase in base salary retroactive to December 1, 2007 in connection with the execution of an employment agreement in the second quarter of fiscal 2008.

(6)

The restricted common stock was granted to Mr. Crossman on October 15, 2007 and vest as follows: one-third of the shares vested on October 15, 2008, one-third of the shares vested on October 15, 2009, and one-third of the shares vest on October 15, 2010.

(7)

The restricted common stock units or RSU, were granted to Mr. Crossman on November 6, 2008 and vest as follows: one-third of the shares vested on November 6, 2009, one-third of the shares vest on November 6, 2010, and one-third of the shares vest on November 6, 2011.

(8)

The restricted common stock was granted to Mr. Crossman on October 8, 2009 and November 9, 2009 and vest one-third on each year thereafter from the date of grant.

(9)

Mr. Sandhu commenced employment with us on August 27, 2007 as our Chief Financial Officer.

(10)

The RSUs were granted to Mr. Sandhu on November 6, 2008 and vest as follows: one-eighth of the shares vest on June 18, 2009 and the remaining RSUs vest every six months thereafter over a four year period.

(11)

The RSUs were granted to Mr. Sandhu on October 8, 2009 and vest as follows: one-eighth of the shares vest on June 18, 2010 and the remaining RSUs vest every six months thereafter over a four year period.

(12)

On December 18, 2007, Mr. Sandhu elected to forfeit and cancel his stock option award in exchange for a grant of 100,000 RSUs on the same terms and conditions granted to other non-officer employees. The RSUs vest every six months over a four year period after December 18, 2007.

(13)

Mr. Dahan was appointed Creative Director on October 25, 2007 and previously served as an employee and president of our Joe's Subsidiary. This amount represents the full compensation paid to him in connection with his employment for fiscal 2007.

(14)

The RSUs were granted to Mr. Dahan on November 6, 2008 and vest as follows: one-eighth of the shares vest on June 18, 2009 and the remaining RSUs vest every six months thereafter over a four year period.

Table of Contents

(15) The RSUs were granted to Mr. Dahan on October 8, 2009 and vest as follows: one-eighth of the shares vest on June 18, 2010 and the remaining RSUs vest every six months thereafter over a four year period.

(16) For a discussion on the discussion of the contingent consideration payments, please see "Employment Agreements Joseph Dahan."

Bonuses

Historically, the Compensation Committee has not granted a bonus to our Chief Executive Officer. Recognizing the importance of this element of compensation, in fiscal 2008, the Compensation Committee included in Mr. Crossman's employment agreement a bonus provision which targeted his bonus at 50 percent of his base salary based upon certain discretionary performance measures. The Compensation Committee discussed the formal criteria for Mr. Crossman's 2008 performance measures noting that the performance measures set for this fiscal year would be utilized in future fiscal years. The Committee discussed various methods of measurement noting that the following were drivers to our overall performance. Those methods of measurement included Earnings Before Income, Taxes and Depreciation (EBITDA), net profits, store performance, net sales, gross margins and inventory. After this discussion, the Compensation Committee decided to utilize EBITDA and net sales weighted equally as the performance measures for Mr. Crossman's bonus for fiscal 2009. Based upon these performance measures, the Compensation Committee noted that Mr. Crossman had exceeded expectations on both EBITDA and net sales and thus the bonus target of 50 percent was increased to 75 percent and his bonus for fiscal 2009 was $375,000.

Long-Term Incentive Compensation

Our Compensation Committee administers our 2004 Stock Incentive Plan and believes that the long-term commitment of our employees, including our Named Executive Officers, is an important factor in our future performance. The primary element used to promote the long-term performance and commitment of our Named Executive Officers is long-term incentive compensation through grants of stock options and restricted stock. In fiscal 2007, the Compensation Committee shifted from its past practice of granting options to purchase shares of our common stock to granting restricted common stock. This decision to change past practices was in part due to fluctuations in the market price of our common stock and the decision to re-price out-of-the-money incentive stock options in fiscal 2006 as part of a retention incentive. The Compensation Committee believes that equity grants with time-based vesting restrictions aid in retention and better align the interests of our Named Executive Officers with those of our stockholders. Further, the equity grants motivate our Named Executive Officers to make long-term decisions that are in our best interest and to provide incentive to maximize stockholder value.

We do not coordinate the timing of equity award grants with the release of financial results or other material announcements by us and generally, we have made annual equity grants to our Chief Executive Officer and non-employee directors in connection with our annual meeting of stockholders.

We believe that providing Named Executive Officers who have responsibility for our management and growth with an opportunity to increase their stock ownership aligns the interests of the executive officers with those of our stockholders. Accordingly, the Compensation Committee also considers equity grants to be an important aspect in compensating and providing incentives to management and employees. The Compensation Committee determines the number of shares for each stock incentive grant based upon the executive officer's role and responsibilities, the executive officer's base salary, the recommendation of our Chief Executive Officer of the job performance of the individual. For the equity grants to our Chief Executive Officer and our non-employee directors, the Compensation Committee also utilized the data presented and compared with comparable awards to individuals in similar positions in our industry.

Table of Contents

Based upon this data, Mr. Crossman's employment agreement contained a provision which set forth his long-term incentive compensation through a grant of restricted stock or restricted stock units pursuant to the 2004 Incentive Plan with a fair market value equal to 100 percent of his base salary. For fiscal 2009, Mr. Crossman received two separate grants of restricted stock in the amount of 469,454 shares and 143,832 shares that each vest 1/3 on each anniversary date of the grant in 2010, 2011 and 2012, respectively. Mr. Dahan and Mr. Sandhu, our other Named Executive Officers, each received a grant of restricted stock units, or RSUs, in the amount of 455,000 and 155,000, respectively, that vest in an amount equal to 1/8 of the total grant on June 18, 2010 and thereafter every six months until the RSUs are fully vested on December 18, 2013.

Outstanding Equity Award at Fiscal Year-End

The following table sets forth information regarding outstanding equity awards held by our Named Executive Officers during our fiscal year ended November 30, 2009:

	Option awards				Stock awards			
Name	Number of securities underlying unexercised options Exercisable	Number of securities underlying unexercised options Unexercisable	Option exercise price	Option expiration date	Number of shares or units of stock that have not vested	Market value of shares or units of stock that have not vested	Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested	Equity incentive plan awards: Market or payout value of unearned shares, units or other rights that have not vested
Marc Crossman							613,286(1)	$ 791,139
							520,364(2)	$ 671,270
							78,617(3)	$ 101,416
	25,641(4)		$ 0.39	13-Dec-10				
	10,000(4)		$ 1.00	17-Apr-12				
	7,874(4)		$ 1.27	27-Nov-12				
	1,000,000(4)		$ 1.02	22-May-13				
	200,000(4)		$ 1.63	3-Sep-14				
	250,000(4)		$ 1.02	13-Jun-15				
Hamish Sandhu							155,000(5)	$ 199,950
							131,250(6)	$ 169,313
							62,500(7)	$ 80,625
Joseph Dahan							455,000(5)	$ 586,950
							477,750(6)	$ 616,298
	200,000(8)		$ 1.02	4-Aug-15				

(1) These shares vest as follows: (i) 156,485 shares vest on October 8, 2010 and 47,944 shares vest on November 9, 2010; (ii) 156,485 shares vest on October 8, 2011 and 47,944 shares vest on November 9, 2011; and (iii) 156,484 shares vest on October 8, 2012 and 47,944 shares vest on November 9, 2012, respectively.

(2) These RSUs vest as follows: one-third of the shares vest on November 6, 2009, one-third of the shares vest on November 6, 2010, and one-third of the shares vest on November 6, 2011.

(3)

These shares vest as follows: one-third of the shares vest on October 15, 2008; one-third of the shares vest on October 15, 2009 and one-third of the shares vest on October 15, 2010.

(4)

Each of these grants of stock options are fully vested and were fully vested as of the following dates: December 13, 2001, April 17, 2003, November 27, 2003, March 25, 2005, September 3, 2005 and June 13, 2005, respectively.

Table of Contents

(5) These RSUs vest as follows: one-eighth of the RSUs vest on June 18, 2010 and the remaining RSUs vest every six months thereafter over a four year period.

(6) These RSUs vest as follows: one-eighth of the RSUs vest on June 18, 2009 and the remaining RSUs vest every six months thereafter over a four year period.

(7) On December 18, 2007, Mr. Sandhu elected to forfeit and cancel his stock option award in exchange for a grant of 100,000 restricted common stock units on the same terms and conditions granted to other non-officer employees. The restricted common stock units are scheduled to vest every six months over a four year period after December 18, 2007. Mr. Sandhu's stock option award was scheduled to vest on a monthly basis over a two year period on the 27th day of each month beginning on September 27, 2007.

(8) These grants of stock options are fully vested and were fully vested as of August 4, 2005.

Option Exercises and Stock Vested

There were no option exercises by our Named Executive Officers in our fiscal year ended November 30, 2009. During fiscal 2009, 450,798 shares of restricted stock or RSUs vested for our Named Executive Officers.

Name	Number of shares acquired on Exercise (#)	Value Realized on Exercise ($)
Marc Crossman	338,798	$ 412,000
Hamish Sandhu	43,750	$ 30,000
Joseph Dahan	68,250	$ 55,000

Benefits

Benefits offered to our Named Executive Officers are substantially the same as those offered to all our regular employees and generally include medical insurance, dental insurance, 401(k) plan, disability insurance, life insurance and flexible spending account. For our Named Executive Officers, we pay all premiums associated with such benefits as described in the footnote 10 to the Summary Compensation Table.

Pension Benefits

We do not provide any pension benefits to any of our Named Executive Officers or employees.

Nonqualified Deferred Compensation

We do not provide any non-qualified deferred compensation to any of our Named Executive Officers or employees.

Employment Contracts and Termination of Employment and Change in Control Arrangements

Change in Control Provisions

Our Chief Executive Officer, our Creative Director and our Chief Financial Officer have change in control provisions in each person's employment agreement and employment offer letter, respectively. These provisions provide these Named Executive Officers with certain compensation arrangements in the event that a change in control occurs. In addition, our 2004 Stock Incentive Plan contains a change in control provision which provides for the immediate vesting in full of all grants or lapse of all restrictions for all grantees, including our Named Executive Officers, in the event a change in control occurs.

Table of Contents

Marc Crossman

On May 30, 2008, we entered into an Executive Employment Agreement, or the Crossman Employment Agreement, with Mr. Crossman to serve as our President and Chief Executive Officer. Mr. Crossman has been serving as our President since September 2004 and as Chief Executive Officer since January 2006 under an employment at-will arrangement. In connection with the execution of the Crossman Employment Agreement, Mr. Crossman received the second payment of his bonus for fiscal 2007 in the amount of $150,000, as described above.

Under the terms of the Crossman Employment Agreement, Mr. Crossman receives an annual salary of $429,300 and is entitled to receive other cash and non-cash compensation, including an annual discretionary bonus targeted at 50% of his base salary based upon the achievement of financial and other performance criteria as set forth in the Crossman Employment Agreement, an annual grant of equity compensation pursuant to the 2004 Stock Incentive Plan, and life and disability insurance policies paid on his behalf. The Crossman Employment Agreement is effective as of December 1, 2007, the commencement of our 2008 fiscal year, and had an initial term of two years, which automatically renewed for another two year period on December 1, 2009. The Crossman Employment Agreement automatically renews for additional two year periods if neither Joe's nor Mr. Crossman provide 180 days' advanced notice of non-renewal prior to the end of the term or upon the occurrence of a change in control.

In the event that Mr. Crossman's employment is terminated by us other than for cause, terminated by Mr. Crossman for good reason, terminated by us within 18 months following a change in control and without cause, or terminated by Mr. Crossman within 18 months following a change in control and for good reason, Mr. Crossman will be entitled to certain severance payments and benefits, including an amount equal to 24 months of his prior year's base salary and bonus in exchange for his execution of a release of claims. Mr. Crossman will not be entitled to severance benefits if he dies during the term of his employment, he is terminated for cause or due to disability, he terminates his employment for a reason other than a good reason, or revokes his agreement to release us from any and all claims related to his employment.

Mr. Crossman is subject to confidentiality, non-solicitation and non-competition restrictions during the term of his employment and is subject to the confidentiality and non-solicitation provisions for a period of two years following termination of his employment.

Joseph M. Dahan

In connection with the completion of a merger between us, our Joe's Subsidiary and JD Holdings, Mr. Dahan's employment agreement automatically became effective for service as our Creative Director. Under the employment agreement, the initial term of employment is five years with automatic renewals for successive one year periods thereafter, unless terminated earlier. 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. "Cause" is defined as (i) a conviction, plea of guilty or nolo contendere to a felony or a crime of moral turpitude; (ii) a material breach of any provision of the employment agreement that is not cured within 45 days of receipt of written notice of such breach; (iii) the solicitation, persuasion or attempt at persuasion for any employee, consultant, contractor, customer or potential customer to engage in an act prohibited by the employment agreement; or (iv) a violation of any of our policies in our handbook or code of ethics and such violation constitutes a breach of the Code of Ethics or warrants termination. "Disability" is defined as inability to perform duties for 180 consecutive days or shorter periods aggregating 270 days during any 12 month period.

Table of Contents

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 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 within 30 days written notice. "Good Reason" is defined as (i) a material breach of the employment agreement by us that is not cured within 30 days of written notice; or (ii) Mr. Dahan's decision to terminate employment at any time after 18 months following a Change in Control. A "Change in Control" is defined as (i) the sale or disposal of all or substantially all of the assets; (ii) the merger or consolidation with another company provided that our stockholders as a group no longer own at least 50 percent of the voting power of the surviving corporation; (iii) any person or entity becoming the beneficial owner of 50 percent or more of our combined voting power; or (iv) the approval by our stockholders to liquidate or dissolve. 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 initial term of employment or any renewal term. 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 us of all intellectual property, including future designs and trademarks, alternative dispute resolution and Mr. Dahan's duties and responsibilities to us as Creative Director.

In addition, pursuant to the merger agreement, Mr. Dahan is entitled to, for 120 months following October 25, 2007, irrespective of his employment status, the following additional payments based upon our achievement of certain gross profit thresholds on sales from our Joe's® brand products. If our gross profit is less than $11,250,000 in the applicable fiscal year, then Mr. Dahan does not receive any additional payment. If our gross profit is from $11,251,000 to $22,500,000, then Mr. Dahan receives a payment of 11.33% of the gross profit earned in the applicable fiscal year. Thereafter, he earns (i) three percent of the gross profit from $22,501,000 to $31,500,000; (ii) two percent of the gross profit from $31,501,000 to $40,500,000; and (iii) one percent of the gross profit above $40,501,000 in the applicable fiscal year. We account for these contingent payments as compensation expense.

Hamish Sandhu

In connection with Mr. Sandhu's appointment as CFO, we entered into a written offer letter whereby Mr. Sandhu agreed to serve as our CFO. Under the terms of the offer letter, Mr. Sandhu's annual base salary was $205,000, which was increased to $255,000 in November 2008. In addition, Mr. Sandhu received a grant on August 27, 2007, pursuant to our 2004 Stock Incentive Plan, to purchase up to 100,000 shares of our common stock at an exercise price equal to the closing price of our common stock on that date. The option was forfeited in connection with a subsequent grant of RSUs in December 2007. We also agreed to pay the full cost of participation in our health insurance plan for Mr. Sandhu and his family. Mr. Sandhu will also be entitled to six months of his monthly base salary as a severance payment in the event that a Change in Control occurs during the four years following August 27, 2007 and his employment is subsequently terminated. For purposes of the offer letter, a "Change in Control" shall be deemed to have occurred upon the closing of a transaction which: (i) we sell or otherwise dispose of all or substantially all of our assets; or (ii) there is a merger or consolidation of us with any other corporation or corporations, provided that our shareholders, as a group, do not hold, immediately after such event, at least 50 percent of the voting power of the surviving or successor corporation. Notwithstanding anything to the contrary, Mr. Sandhu is an employee at-will and has not entered into an employment agreement with us.

Table of Contents

On December 18, 2007, we entered into a Restricted Stock Unit Agreement, or RSU Award whereby we granted Mr. Sandhu an award of restricted stock units representing the right to receive 100,000 shares of our common stock, or the Restricted Stock Units, pursuant to the 2004 Stock Incentive Plan. The Restricted Stock Units are scheduled to vest every six months over a four year period. In conjunction with this award, Mr. Sandhu agreed to terminate his employee stock option to purchase 100,000 shares of our common stock granted pursuant to the 2004 Stock Incentive Plan on August 27, 2007. Mr. Sandhu agreed to forfeit the 100,000 shares he was entitled to acquire under the terms of the stock option, which was scheduled to vest on a monthly basis over a two year period.

2004 Stock Incentive Plan, Restricted Stock Agreement and Restricted Stock Unit Awards

Under the terms of the 2004 Stock Incentive Plan, all unvested awards accelerate and immediately vest upon the occurrence of a Change in Control for all grantees. Further, Mr. Crossman's Restricted Stock Agreement and each RSU Award contains certain provisions regarding the terms and conditions of the grant. Each vests upon the earliest to occur of the participant's Death, Disability (each as defined in the Plan), or separation from service by us without Just Cause (as defined below). Upon a separation from service for any other reason (including, without limitation, termination by us for Just Cause or by participant for any reason) prior to the date that participant becomes 100 percent vested in the award, the unvested units or shares are forfeited immediately. Under the award agreements, "Just Cause" means (a) a conviction for, or a plea of guilty or nolo contendere to, a felony or any other crime which involves fraud, dishonesty or moral turpitude, or (b) a material breach of any written employment policies or rules, including the our Code of Business Conduct and Ethics.

Director Compensation

Historically, our non-employee directors have been compensated for service through an equity grant. Our directors are not compensated in any other manner, however, they are reimbursed for travel and business expenses associated with attending our annual meeting if the Director's schedule permits such attendance. Attendance in person is not required, but we try to accommodate schedules in planning the date and encourage our directors and director nominees to attend the annual meeting of stockholders. In fiscal 2009, all directors attended our annual meeting in person. Consistent with its past practices, on October 8, 2009, the Compensation Committee of the Board approved grants of RSUs with a fair market value of $60,000 to each non-employee director, which the non-employee director had the option to elect all RSUs or 1/3 of the fair market value in cash the 2/3 in RSUs in order to pay certain personal income tax obligations that each would incur as a result of the grant. The following non-employee directors each received 85,716 RSUs: Sam Furrow, Kent Savage and Suhail Rizvi. The following non-employee directors each received 57,144 RSUs and $20,000 in cash: Kelly Hoffman and Tom O'Riordan. The RSUs vest and the cash amounts are paid on a quarterly basis over

Table of Contents

the course of 12 months. This amount was determined based upon the peer group analysis and was in the 50th percentile of peer group companies.

Name	Fees earned or paid in cash	Stock Awards(1)	Total
Sam Furrow	$	$ 60,000	$ 60,000
Kent Savage		60,000	60,000
Tom O'Riordan	20,000	40,000	60,000
Suhail Rizvi		60,000	60,000
Kelly Hoffman	20,000	40,000	60,000
	$ 40,000	$ 260,000	$ 300,000

(1) Represents 85,716 or 57,144 shares of RSUs granted to our non-employee directors on October 8, 2009 pursuant to the 2004 Stock Incentive Plan and reflects the dollar amount of compensation expense recognized by us in our financial statements for reporting purposes in accordance ASC 718. The RSUs vest on a quarterly basis over a 12 month period with the first tranche vested on January 8, 2010. For a discussion on the assumptions made regarding the valuation of the stock awards, please see "Note 8 Stockholders' Equity Stock Incentive Plans" in our Notes to Consolidated Financial Statements.

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

The following table provides information as of February 3, 2010 concerning beneficial ownership of common stock held by (1) each person or entity known by us to beneficially own more than 5 percent of our outstanding common stock, (2) each of our directors and nominees for election as a director, (3) each of our named executive officers, and (4) all of our directors and executive officers as a group. The information as to beneficial ownership has been furnished by our respective common stockholders, directors and executive officers, and, unless otherwise indicated, each of our common stockholders has sole voting and investment power with respect to the shares beneficially owned. Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities.

Unless indicated below, to our knowledge, the persons and entities named in the table below have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Pursuant to the rules of the SEC, certain shares of our common stock that a beneficial owner set forth in this table has a right to acquire within 60 days of the date hereof (pursuant to the exercise of options or warrants for the purchase of shares of common stock) are deemed to be outstanding for the purpose of computing the percentage ownership of that owner, but are not deemed outstanding for the purpose of computing percentage ownership of any other beneficial owner shown in the table. Percentages are calculated based on 61,612,826 shares

Table of Contents

outstanding as of February 3, 2010. The address for the officers and directors is our corporate office located at 2340 South Eastern Avenue, Commerce, California, 90040.

Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Common Stock
Marc B. Crossman Chief Executive Officer, President and Director	2,701,227(1)	4.28%
Hamish Sandhu Chief Financial Officer	94,047(2)	*
Joseph M. Dahan Creative Director and Director	13,306,818(3)	21.53%
Samuel J. (Sam) Furrow Chairman of Board of Directors	2,991,325(4)	4.84%
Kelly Hoffman Director	96,844(5)	*
Tom O'Riordan Director	246,463(6)	*
Suhail R. Rizvi Director	247,822(7)	*
Kent Savage Director	401,199(8)	*
BSS-Joe's Investors, LLC and Barry S. Sternlicht 591 West Putnam Avenue Greenwich, Connecticut 06830	5,482,325(9)	8.86%
MFC Global Investment Management (U.S.), LLC 101 Huntington Avenue Boston, Massachusetts 02199	6,010,000(10)	9.75%
Windsong DB, LLC 1599 Post Road East Westport, Connecticut 06880	5,540,925(11)	8.96%
All directors and executive officers, as a group (8 persons)	20,085,745	30.66%

* Represents beneficial ownership of less than 1%.

(1) Includes (i) 1,157,712 shares held for Mr. Crossman's personal account including (a) 78,617 shares of restricted common stock which vest on October 15, 2010; (b) 469,454 shares of restricted common stock which vest ratably as follows: one-third on October 8, 2010; one-third on October 8, 2011; and one-third on October 8, 2012; and (c) 143,832 shares of restricted common stock which vest ratably as follows: one-third on November 6, 2010; one-third on November 6, 2011; and one-third on November 6, 2012 (ii) 50,000 shares held for the accounts in trust for Mr. Crossman's minor children, which Mr. Crossman's father is the trustee; and (iii) 1,493,515 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Crossman's personal account. Mr. Crossman disclaims beneficial ownership of shares held for the accounts in trust for his minor children. Excludes the following shares not exercisable or vested within 60 days: (i) 520,364 RSUs which vest ratably as follows: one-third on November 6, 2010; and one-third on November 6, 2011.

Table of Contents

(2) Excludes the following shares not exercisable or vested within 60 days: 317,500 shares of RSUs held for Mr. Sandhu's personal account which vest over a four year period and are issued ratably every six months on December 18 and June 18 of the respective years.

(3) Includes (i) 13,106,818 shares held for the personal account of Mr. Dahan; and (ii) 200,000 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Dahan's personal account. Excludes the following shares not exercisable or vested within 60 days: (i) 864,500 RSUs held for Mr. Dahan's personal account which vest and are issued ratably every six months on December 18 and June 18 of the respective years after the grant; and (ii) 53,030 RSUs held for the account of Mr. Dahan's spouse which vest and are issued ratably every six months on December 18 and June 18 of the respective years after the grant.

(4) Includes (i) 2,733,389 shares held for the personal account of Mr. Furrow; (ii) 15,300 shares held for the account of Mr. Furrow's spouse; (iii) 221,207 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options and 21,429 RSUs that vest within 60 days held for Mr. Furrow's personal account. Excludes the following shares not exercisable or vested within 60 days: (i) 42,858 RSUs held for Mr. Furrow's personal account which vest and are issued ratably on a quarterly basis with the first tranche vested on January 8, 2010 and thereafter until the shares are fully vested on October 8, 2010. Mr. Furrow disclaims beneficial ownership of shares held for the account of his spouse. Mr. Furrow has pledged under the terms of certain loan agreements and lines of credit an aggregate of 1,961,969 shares of common stock held in his personal account.

(5) Includes (i) 32,558 shares held for Mr. Hoffman's personal account; and (ii) 50,000 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options and 14,286 RSUs that vest within 60 days held for Mr. Hoffman's personal account. Excludes 28,572 RSUs held for Mr. Hoffman's personal account which vest and are issued ratably on a quarterly basis with the first tranche vested on January 8, 2010 and thereafter until the shares are fully vested on October 8, 2010.

(6) Includes (i) 157,177 shares held for the personal account of Mr. O'Riordan; and (ii) 75,000 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options and 14,286 RSUs that vest within 60 days held for Mr. O'Riordan's personal account. Excludes 28,572 RSUs held for Mr. O'Riordan's personal account which vest and are issued ratably on a quarterly basis with the first tranche vested on on January 8, 2010 and thereafter until the shares are fully vested on October 8, 2010.

(7) Includes (i) 48,701 shares held for the personal account of Mr. Rizvi; (ii) 177,692 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options and 21,429 RSUs that vest within 60 days held for Mr. Rizvi's personal account. Excludes 42,858 RSUs held for Mr. Rizvi's personal account which vest and are issued ratably on a quarterly basis with the first tranche vested on January 8, 2010 and thereafter until the shares are fully vested on October 8, 2010.

(8) Includes (i) 174,520 shares held for the personal account of Mr. Savage; (ii) 10,250 shares held for the account of Savage Interests LP, a limited partnership which Mr. Savage and his spouse are limited partners; (iii) 195,000 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options and 21,429 RSUs that vest within 60 days held for Mr. Savage's personal account. Excludes 42,858 RSUs held for Mr. Savage's personal account which vest and are issued ratably on a quarterly basis with the first tranche vested on January 8, 2010 and thereafter until the shares are fully vested on October 8, 2010. Mr. Savage disclaims beneficial ownership of such shares held for the account of Savage Interests LP except to the extent of his pecuniary interest in such shares.

Table of Contents

(9) Includes (i) 5,242,325 shares held for the account of BSS-Joe's Investors, LLC, an entity which Barry S. Sternlicht holds the majority of the membership interests; and (ii) a warrant to purchase up to 240,000 shares of common stock at an exercise price of $1.36 per share. Barry S. Sternlicht, as holder of the majority of the membership interest, has sole voting or investment control over these shares. This information is based upon a Schedule 13D/A filed with the SEC on July 10, 2007.

(10) MFC Global (U.S.) has the sole power to vote or direct the voting of the shares of common stock and the sole power to dispose or direct the disposition of the shares of common stock beneficially owned. However, through its parent-subsidiary relationship, Manulife Financial Corporation may be deemed to have beneficial ownership of these same shares. This information is based upon a Schedule 13D/A filed with the SEC on February 20, 2009.

(11) Includes (i) 5,242,325 shares held for the account of Windsong, DB, LLC, an entity which William Sweedler holds the majority of the membership interests and 58,600 shares of common stock held personally by William Sweedler; and (ii) a warrant to purchase up to 240,000 shares of common stock at an exercise price of $1.36 per share. William Sweedler, as holder of the majority of the membership interest, has sole voting or investment control over these shares. This information is based upon a Schedule 13D/A filed with the SEC on July 10, 2007 and July 11, 2007.

Equity Compensation Plan Information

The following table sets forth certain information about our common stock that may be issued upon the exercise of options, warrants and rights under all of the our compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance as of November 30, 2009, which includes our 2004 Stock Incentive Plan and our 2000 Director Stock Incentive Plan. We stopped granting options under our 2000 Director Stock Incentive Plan after the adoption and approval of our 2004 Stock Incentive Plan on June 3, 2004.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders(1)			
2004 Incentive Plan	3,022,500	$ 1.80	1,814,492
2000 Director Plan	203,546	$ 0.78	N/A(2)
	3,226,046	$ 1.74	1,814,492

(1) See "2004 Stock Incentive Plan" and "2000 Director Stock Incentive Plan" described in "Notes to Consolidated Financial Statements Note 8 Stockholders' Equity Stock Incentive Plans" for a further description of our equity compensation plans.

(2) While there are shares available, we no longer grant options under our 2000 Director Stock Incentive Plan since the adoption and approval of our 2004 Stock Incentive Plan on June 3, 2004.

Table of Contents

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

Our Audit Committee charter provides that that all transactions between us and persons or entities affiliated with our officers, directors or principal common stockholders must be approved by our Audit Committee. We believe that this policy requiring that any material transaction between us and such related parties be approved by our Audit Committee ensures that such transactions are on terms no less favorable to us than reasonably could have been obtained in arms' length transactions with independent third parties.

Joe Dahan/JD Holdings Inc.

On February 7, 2001, we acquired a license for the rights to the Joe's® brand from JD Design LLC, which was subsequently merged with and into JD Holdings. Joe Dahan, our Creative Director and member of the Board of Directors was the sole stockholder of JD Holdings. Under the license agreement, JD Holdings was entitled to a royalty of three percent on net sales of licensed products. In October 2005, we granted JD Holdings the right to develop the children's branded apparel line under an amendment to its master license agreement in exchange for a five percent royalty on net sales of those products. On October 25, 2007, in connection with the acquisition of JD Holdings by us, the license agreement terminated.

As part of the consideration paid in connection with the merger, 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 will be entitled to the following: (i) 11.33 percent of the gross profit from $11,251,000 to $22,500,000; (ii) 3 percent of the gross profit from $22,501,000 to $31,500,000; (iii) 2 percent of the gross profit from $31,501,000 to $40,500,000; and (iv) 1 percent of the gross profit above $40,501,000.

For fiscal 2009, 2008 and 2007, the following table sets forth payments made to Mr. Dahan or his related entities.

	(in thousands)		
	2009	**2008**	**2007**
Expense (income):			
Contigent consideration payments	$ 1,672	$ 1,723	$
Joe's Jeans royalty expense			1,647
Joes Kids license, royalty income			(88)

Victor Dahan

Victor Dahan, brother of Joe Dahan, is the managing member of Shipson LLC, or Shipson, and Joe's previously outsourced its E-shop on the Joe's Jeans website to his company. Joe's ceased doing business with Shipson in February 2008. As of the termination date of the relationship, Shipson owed Joe's approximately $192,000, for outstanding purchase orders that were fully reserved for in Joe's year end financial statements for fiscal 2008. During May 2009, Shipson returned $51,000 in goods and agreed to pay $141,000 for the outstanding purchase orders pursuant to a settlement agreement.

Albert Dahan

In April 2009, Joe's has entered into a commission-based sales agreement with Albert Dahan, brother of Joe Dahan, for the sale of its 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 Joe's where he acts as a sales person for Joe's. The agreement may be terminated at any time for any reason or no reason with or without notice. As of November 30, 2009, payments made to Mr. Albert Dahan under this arrangement totaled $413,000.

Table of Contents

Effective as of June 1, 2009, Joe's entered into a license agreement for the license of the children's product line with Kids Jeans LLC, or Kids LLC, an entity which Mr. Albert Dahan holds an interest where he has voting control over the entity. Under the terms of the license, Kids LLC has 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 will pay to Joe's a royalty payment of 20 percent on the first $5,000,000 in net sales and 10 percent thereafter. The initial term of the agreement is for three years until June 30, 2012 and is subject to certain guaranteed minimum net sales and royalty payment requirements during the initial term and for renewal. Kids LLC advanced $1,000,000 as a payment against the first year's guaranteed minimum royalties. This amount has been reflected under the caption of "Deferred Licensing Revenue" on the Condensed Consolidated Balance Sheets. Joe's expects to recognize the royalty revenue based upon a percentage as set forth in the agreement of the licensees actual net sales or minimum net sales, whichever is greater. Payments received in consideration of the grant of the 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 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, 2009, $450,000 of the advanced payment has been recognized as income.

Director Independence

Currently, the following members of our Board of Directors are considered "independent" under NASDAQ listing standards and as such term is defined in the rules and regulations of the SEC:

Kelly Hoffman

Thomas O'Riordan

Suhail Rizvi

Kent Savage

Sam Furrow

In making its determination that the foregoing directors are independent, the Board considered all relevant facts and circumstances. The Board considered the transactions with various Board members and concluded that they do not have any impact on the respective member's independence. We do not have any past or present members serving on our Audit Committee, Compensation and Stock Option Committee and Nominating and Governance Committee that are not considered to be independent.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

For the fiscal years ended November 30, 2009 and 2008, E&Y billed the approximate fees as described below.

Audit Fees

Fees for audit services totaled approximately $532,000 for the year ended November 30, 2009 and $528,000 for the year ended November 30, 2008, including fees associated with the annual audit, reviews of our quarterly reports on Form 10-Q, and assistance with and review of registration statements filed with the SEC including consents and comfort letters related to registration statements for equity issuances and our stock incentive plan.

Audit-Related Fees

There were no fees for audit-related services for the years ended November 30, 2009 and 2008.

Table of Contents

Tax Fees

Fees for tax services, including tax compliance and return preparation, tax advice, and tax planning, totaled approximately $148,000 for the year ended November 30, 2009 and $137,000 for the year ended November 30, 2008.

All Other Fees

There were no other fees for the years ended November 30, 2009 and November 30, 2008.

The Audit Committee has adopted a policy which requires the Audit Committee's pre-approval of audit and non-audit services performed by the independent auditor to assure that the provision of such services does not impair the auditor's independence. The Audit Committee approves such services on an on-going basis prior to the incurrence of any such audit and non-audit services. The Audit Committee pre-approved all of the audit and non-audit services rendered by E&Y listed above.

The Audit Committee has determined that the services provided by E&Y were compatible with maintaining E&Y's independence.

Table of Contents

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, 2009 and 2008	F-2
Consolidated Statements of Income for the years ended November 30, 2009, 2008 and 2007	F-3
Consolidated Statements of Stockholders' Equity for the years ended November 30, 2009, 2008 and 2007	F-4
Consolidated Statements of Cash Flows for the years ended November 30, 2009, 2008 and 2007	F-5
Notes to Consolidated Financial Statements	F-6
Schedule II Valuation of Qualifying Accounts	F-36

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

Exhibit Number	Description	Document if Incorporated by Reference
2.1	Agreement and Plan of Merger dated February 6, 2007 by and among Innovo Group Inc., Joe's Jeans, Inc., JD Holdings, Inc. and Joseph M. Dahan*	Exhibit 2.1 to the Quarterly Report on Form 10-Q for the period ended February 24, 2007 filed on April 10, 2007
2.2	First Amendment to Agreement and Plan of Merger dated June 25, 2007 by and among Innovo Group Inc., Joe's Jeans, Inc., JD Holdings, Inc. and Joseph M. Dahan*	Exhibit 2.1 to Current Report on Form 8-K filed on June 26, 2007
2.3	Exhibit A to Agreement and Plan of Merger Amended and Restated Plan of Merger	Exhibit 2.2 to Current Report on Form 8-K filed on June 26, 2007
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
4.1	Form of Securities Purchase Agreement dated December 19, 2006	Exhibit 4.1 to Current Report on Form 8-K filed on December 26, 2006
4.2	Form of Common Stock Purchase Warrant dated December 19, 2006	Exhibit 4.2 to Current Report on Form 8-K filed on December 26, 2006
4.3	Form of Common Stock Purchase Warrant dated December 26, 2006	Exhibit 4.1 to Current Report on Form 8-K filed on January 3, 2007

Table of Contents

Exhibit Number	Description	Document if Incorporated by Reference
4.4	Form of Securities Purchase Agreement dated June 27, 2007	Exhibit 4.1 to Current Report on Form 8-K filed on July 3, 2007
4.5	Form of Common Stock Purchase Warrant dated June 27, 2007	Exhibit 4.2 to Current Report on Form 8-K filed on July 3, 2007
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
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
10.6	2000 Employee Stock Incentive Plan, as amended	Attachment D to Definitive Proxy Statement on Schedule 14A filed on September 19, 2000
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
10.9	Separation Agreement by and between Innovo Group Inc. and Samuel J. Furrow, Jr.	Exhibit 10.1 to the Current Report on Form 8-K/A filed on February 2, 2006
10.10	Dissolution Agreement with Beyond Blue Inc. dated February 1, 2007	Exhibit 10.1 to the Current Report on Form 8-K filed on February 7, 2007
10.11	Settlement Agreement and Release with Beyond Blue Inc. dated July 3, 2007	Exhibit 10.11 to the Annual Report on Form 10-K for the year ended November 30, 2008 filed on April 29, 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

Table of Contents

Exhibit Number	Description	Document if Incorporated by Reference
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
10.15	Termination Agreement by and between Joe's Jeans Inc. and JD Holdings, Inc. dated October 25, 2007	Exhibit 10.3 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	Filed herewith
10.24	Purchase Agreement with 405 Mateo Real Estate LLC dated January 11, 2010	Filed herewith
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

Table of Contents

Exhibit Number	Description	Document if Incorporated by Reference
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 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	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

*

We have omitted certain schedules and exhibits pursuant to Item 601(b)(2) of Regulation S-K and shall furnish supplementally to the Commission copies of any of the omitted schedules and exhibits upon request.

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, 2009 and 2008 F-2

Consolidated Statements of Income for the years ended November 30, 2009, 2008 and 2007 F-3

Consolidated Statements of Stockholders' Equity for the years ended November 30, 2009, 2008 and 2007 F-4

Consolidated Statements of Cash Flows for the years ended November 30, 2009, 2008 and 2007 F-5

Notes to Consolidated Financial Statements F-6

Schedule II Valuation of Qualifying Accounts F-36

Table of Contents

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Joe's Jeans Inc. and subsidiaries as of November 30, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2009. 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 consolidated 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 were 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 control 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, 2009 and 2008 and the consolidated results of their operations and their cash flows for each of the three years in the period ended November 30, 2009 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 3, 2010

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	November 30, 2009	November 30, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 13,195	$ 3,465
Accounts receivable, net	1,731	865
Inventories, net	22,887	22,271
Due from related parties	210	
Deferred income taxes, net	4,893	
Prepaid expenses and other current assets	805	301
Total current assets	43,721	26,902
Property and equipment, net	3,162	2,825
Goodwill	3,836	3,836
Intangible assets, net	24,000	24,000
Deferred income taxes, net	4,806	
Other assets	99	106
Total assets	$ 79,624	$ 57,669
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 13,590	$ 8,628
Due to factor	3,129	2,900
Deferred licensing revenue	615	
Due to related parties	254	205
Total current liabilities	17,588	11,733
Long term deferred rent	530	251
Deferred income taxes, net		9,600
Total liabilities	18,118	21,584
Commitments and contingencies		
Stockholders' equity		
Common stock, $0.10 par value: 100,000 shares authorized, 61,494 shares issued and 61,354 outstanding (2009) and 59,946 shares issued and 59,806 outstanding (2008)	6,151	5,996
Additional paid-in capital	103,605	102,859
Accumulated deficit	(45,450)	(69,970)
Treasury stock, 140 shares	(2,800)	(2,800)
Total stockholders' equity	61,506	36,085
Total liabilities and stockholders' equity	$ 79,624	$ 57,669

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

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share data)

	Year ended		
	November 30, 2009	**November 30, 2008**	**November 30, 2007**
Net sales	$ 80,116	$ 69,174	$ 62,767
Cost of goods sold	40,331	36,543	36,137
Gross profit	39,785	32,631	26,630
Operating expenses			
Selling, general and administrative	30,726	26,161	23,085
Depreciation and amortization	536	350	359
	31,262	26,511	23,444
Income from operations	8,523	6,120	3,186
Interest expense	(388)	(633)	(828)
Other expense, net			(13)
Income before taxes	8,135	5,487	2,345
Income tax (benefit) expense	(16,385)	585	91
Net income	$ 24,520	$ 4,902	$ 2,254
Earnings per common share Basic	$ 0.41	$ 0.08	$ 0.05
Earnings per common share Diluted	$ 0.40	$ 0.08	$ 0.05
Weighted average shares outstanding			
Basic	60,053	59,420	43,840
Diluted	61,121	59,671	45,000

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	Accumulated	Treasury	Total Stockholders'
	Shares	Par Value	Capital	Deficit	Stock	Equity
Balance, November 25, 2006	34,455	$ 3,447	$ 79,763	$ (77,126)	$ (2,776)	$ 3,308
Net income				2,254		2,254
Stock-based compensation			34			34
Restricted common stock issued to Board of Directors	556	56	24			80
Exercise of stock options	367	37	301			338
Exercise of warrants	2,050	205	984			1,189
Common stock issued in private placements, net	8,434	843	4,683			5,526
Common stock issued in connection with merger	14,000	1,400	16,267			17,667
Balance, November 30, 2007	59,862	5,988	102,056	(74,872)	(2,776)	30,396
Net income				4,902		4,902
Stock-based compensation, net of withholding taxes			798			798
Stock repurchase					(24)	(24)
Issuance of restricted common stock	71	7	(7)			
Exercise of stock options	13	1	12			13
Balance, November 30, 2008	59,946	5,996	102,859	(69,970)	(2,800)	36,085
Net income				24,520		24,520
Stock-based compensation, net of withholding taxes			844			844
Issuance of restricted common stock	1,548	155	(155)			
Excess tax benefit on stock-based compensation			57			57
Balance, November 30, 2009	61,494	$ 6,151	$ 103,605	$ (45,450)	$ (2,800)	$ 61,506

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, 2009	November 30, 2008	November 30, 2007
Net income	$ 24,520	$ 4,902	$ 2,254
Adjustment to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	536	350	315
Amortization of intangibles			44
Stock-based compensation	1,069	842	114
Excess tax benefit on stock-based compensation	57		
Release of valuation allowance for deferred tax assets	(20,291)		
Provision for non-factored customer credits and doubtful accounts	171	8	184
Decrease in valuation allowance of deferred taxes	992		
Changes in operating assets and liabilities:			
Accounts receivable	(1,037)	(70)	(489)
Inventories	(616)	(1,468)	(14,536)
Prepaid expenses and other assets	(497)	(125)	445
Accounts payable and accrued expenses	4,962	840	969
Due to/from related parties	(161)	(943)	3,229
Deferred revenue	615		
Deferred rent	279	251	
Net cash provided by (used in) operating activities	10,599	4,587	(7,471)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales of property and equipment			2
Purchases of property and equipment	(873)	(2,383)	(272)
Expenditures in connection with merger		125	(518)
Net cash used in investing activities	(873)	(2,258)	(788)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (payments on) factor borrowing, net	229	(140)	2,152
Exercise of stock options		13	338
Purchase of treasury stock		(24)	
Payment of taxes on restricted stock units	(225)	(44)	
Exercise of warrants			1,189
Issuance of stock, net of registration expense			5,526
Net cash provided by (used in) financing activities	4	(195)	9,205
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,730	2,134	946
CASH AND CASH EQUIVALENTS, at beginning of year	3,465	1,331	385

CASH AND CASH EQUIVALENTS, at end of year	$ 13,195	$ 3,465	$ 1,331

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

Joe's Jeans Inc.'s, or Joe's, principal business activity involves the design, development and worldwide marketing of apparel products. Joe's primary current operating subsidiary is Joe's Jeans Subsidiary Inc. All significant inter-company transactions have been eliminated. Currently, Joe's has only one segment of operations, primarily apparel, which includes an immaterial amount of revenue from license agreements and from sales by its retail stores. On October 12, 2007, Joe's filed an amended and restated certificate of incorporation in Delaware to change its corporate name from Innovo Group Inc. to Joe's Jeans Inc. and to increase the shares of common stock authorized for issuance to 100,000,000.

Joe's fiscal year end is November 30. Effective October 11, 2007, Joe's changed from a thirteen-week quarterly reporting period to a last day of the month quarterly reporting period. This change was made to conform to standard quarterly accounting periods. Prior to a change in its fiscal year in October 2007, Joe's fiscal year end was the Saturday closest to November 30 based upon a 52 week period. Fiscal years as presented have 52 weeks and 6 days for the year ending November 30, 2007 and 52 weeks for the years ended November 30, 2009 and 2008. The modification of the fiscal years did not have a material effect on Joe's financial condition, results of operations or cash flows.

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.

Revenue Recognition

Revenues are recorded when title transfers to the customer, which is typically at the shipping point for most of our customers or when it reaches a designated consolidator for some major department store customers. Joe's records estimated reductions to revenue for customer programs, including co-op advertising, other advertising programs or allowances which are based upon a percentage of sales. Joe's also allows for returns based upon pre-approval or for damaged goods. Such returns are estimated based on historical experience and an allowance is provided at the time of sale.

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

Joe's evaluates its ability to collect on accounts receivable and charge-backs (disputes from the customer) based upon a combination of factors. In circumstances where Joe's is 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. For all other customers, Joe's recognizes reserves for bad debts and charge-backs based on historical collection experience. If collection experience deteriorates (i.e., an unexpected material adverse change in a major customer's ability to meet its financial obligations), the estimates of the recoverability of amounts due to Joe's could be reduced by a material amount. See "Note 3 Accounts Receivable, Inventory Advances and Due to Factor" for further discussion.

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

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. Joe's continually evaluates its 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 and finished goods, plus in-bound transportation costs and import fees and duties.

Costs of Goods Sold

The types of costs classified in costs of goods sold include product, freight in, freight out, inventory reserves, inventory markdowns and other various charges.

Selling, General and Administrative Expenses

The types of costs classified in selling, general and administrative expenses include salaries and benefits, travel and entertainment, professional fees, advertising, marketing, sample expenses, stock based compensation expenses and facilities, fulfillment and distribution.

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 loss from continuing operations 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 $2,462,000, $1,591,000 and $806,000 for fiscal 2009, 2008 and 2007, respectively.

Financial Instruments

The fair values of Joe's financial instruments (consisting 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. Joe's neither holds, nor is obligated under, financial instruments that possess off-balance sheet credit or market risk.

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

Impairment of Long-Lived Assets and Intangibles

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Certain finite-lived identifiable intangible assets are amortized using the straight line method over a life of 10 years. Amortization expense related to the license agreement pursuant to which Joe's originally acquired the right to use the Joe's® brand totaled $44,000 for fiscal 2007. In connection with the merger with JD Holdings, Inc., or JD Holdings, the license agreement was terminated and Joe's acquired JD Holdings, which included all right, title and interest in the Joe's®, Joe's Jeans and JD® logos and marks. Joe's has assigned an indefinite life to these intangible assets and therefore, no amortization expense was recognized after the date of acquisition. However, Joe's tests the assets for impairment annually as described below.

Goodwill and other indefinite lived intangibles are evaluated at least annually for impairment 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.

Joe's annual impairment testing date is September 30 of each year. On that date, Joe's determined that there was no impairment of its goodwill or indefinite lived intangible assets.

Cash Equivalents

Joe's considers 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. Joe's includes credit card receivables from retail and online store purchases in cash and cash equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject Joe's to significant concentrations of credit risk consist principally of cash, cash equivalents, accounts receivable and amounts due from factor. Joe's maintains cash and cash equivalents with various financial institutions. The policy is designed to limit exposure to any one institution. Joe's performs periodic evaluations of the relative credit rating of those financial institutions that are considered in Joe's investment strategy.

Joe's does not require collateral for trade accounts receivable. However, Joe's sells a portion of its accounts receivable to CIT Commercial Services, Inc., or CIT, on a non-recourse basis. In that instance, Joe's is 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, Joe's continues to be at risk if these customers fail to pay. Joe's provides an allowance for estimated losses to be incurred in the collection of accounts receivable based

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

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 2009, 2008 and 2007, sales to customers or customer groups representing greater than 10 percent of net sales are as follows:

	2009	2008	2007
Nordstrom, Inc.	20.2%	20.2%	17.9%
Macy's Inc.	14.9%	19.5%	17.6%
Anthropologie	11.4%	10.3%	*

* Less than 10%.

Joe's 10 largest customers and customer groups accounted for approximately 70 percent of its net sales during fiscal 2009. In addition, Joe's international sales were $5,719,000, $5,390,000 and $3,248,000 in fiscal 2009, 2008 and 2007, respectively.

Stock-Based Compensation

Joe's measures the cost of all employee stock-based compensation awards based on the grant date fair value of those awards using a Black-Scholes model and records 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, Joe's has 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.

Income Taxes

Joe's uses 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 Joe's expected realization of these

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

assets depends on its ability to generate sufficient future taxable income. Joe's ability to generate enough taxable income to utilize its deferred tax assets depends on many factors, among which is Joe's ability to deduct tax loss carry-forwards against future taxable income, the effectiveness of tax planning strategies and reversing deferred tax liabilities.

In July 2006, the Financial Accounting Standards Board, or FASB, issued a standard that establishes a single model to address accounting for uncertain tax positions. The standard clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. Joe's adopted the standard on December 1, 2007. As of the date of adoption, Joe's had no unrecognized tax benefits and the standard had no impact on Joe's consolidated financial statements. Joe's 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. Subsequent to Joe's adoption of the standard, no additional interest and penalties have been recognized in its consolidated financial statements.

Reclassifications

Certain reclassifications have been made to prior year consolidated financial statements to conform to the current year presentation. Immaterial amounts have been reclassified in the year end 2008 effective income tax rate schedule.

Other Recently Issued Financial Accounting Standards

In December 2007, the FASB issued a standard on business combinations that significantly changes the accounting for business combinations. Under the standard, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions and includes a substantial number of new disclosure requirements. The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, which is the year beginning December 1, 2009 for Joe's. Joe's does not expect that this standard will have any impact on its financial statements unless it enters into an applicable transaction in the future.

In December 2007, the FASB issued a standard that establishes new accounting and reporting standards for a non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements separate from the parent's equity. The amount of net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. The standard clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date and includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, which is the year beginning December 1, 2009 for Joe's. Joe's does not expect that

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

it will have any impact on its financial statements unless it enters into an applicable transaction in the future.

In April 2008, the FASB issued a standard that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset in order to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2008, which is the year beginning December 1, 2009 for Joe's, and interim periods within that fiscal year. The adoption of this standard did not have a material impact on its financial position or results from operations.

In June 2008, the FASB provided guidance for accounting for nonrefundable maintenance deposits paid by a lessee to a lessor and provides revenue recognition accounting guidance for the lessor. This standard is effective for fiscal years beginning after December 15, 2008 and is not applicable to Joe's.

In May 2008, the FASB issued a standard that identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles. The standard is effective 60 days following the Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411 "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." Joe's does not expect the adoption to impact our results of operations, financial position or cash flows.

In April 2009, the FASB issued changes regarding interim disclosures about fair value of financial instruments. The changes enhance consistency in financial reporting by increasing the frequency of fair value disclosures from annually to quarterly. The changes require disclosures on a quarterly basis of qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. The disclosure requirement became effective beginning with its first interim reporting period ending after June 15, 2009. The adoption of this change did not have a material impact on Joe's results of operations or financial condition.

In May 2009, the FASB issued a standard related to subsequent events. The standard is effective for interim or annual periods ending after June 15, 2009 and establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Entities are also required to disclose the date through which subsequent events have been evaluated and the basis for that date. Joe's has evaluated subsequent events through the date of issuance of these financial statements.

In June 2009, the FASB issued a standard related to the FASB accounting standards codification and the hierarchy of generally accepted accounting principles. The standard will become the source of authoritative U.S. generally accepted accounting principles, or GAAP, recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this standard, the codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the codification will become non-authoritative. This standard is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of this standard did not have a material impact on Joe's results of operations, financial condition or cash flows.

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts Receivable, Inventory Advances and Due to Factor

Joe's 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 its factor, CIT.

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

	November 30, 2009	November 30, 2008
Non-recourse receivables assigned to factor	$ 14,139	$ 9,954
Client recourse receivables	263	1,444
Total receivables assigned to factor	14,402	11,398
Allowance for customer credits	(2,606)	(2,087)
Net loan balance from factored accounts receivable	(10,345)	(9,903)
Net loan balance from inventory advances	(4,580)	(2,308)
Due to factor	$ (3,129)	$ (2,900)
Non-factored accounts receivable	$ 2,562	$ 1,525
Allowance for customer credits	(330)	(120)
Allowance for doubtful accounts	(501)	(540)
Accounts receivable, net of allowance	$ 1,731	$ 865

Of the total amount of receivables sold by Joe's as of November 30, 2009 and 2008, Joe's had the risk of payment of $263,000 and $1,444,000, respectively, in the event of non-payment by the customers.

CIT Commercial Services

On June 1, 2001, the Joe's Jeans Subsidiary entered into an accounts receivable factoring agreement and an inventory security agreement with CIT. In prior years, Joe's other active subsidiaries also entered into substantially identical agreements. These agreements give Joe's the ability to obtain cash by selling to CIT certain of its accounts receivable and 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 Joe's to sell its 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 Joe's 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 and among Joe's and all of its subsidiaries to guarantee each subsidiaries' obligations.

As of November 30, 2009, Joe's cash availability with CIT was approximately $1,476,000. This amount 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, the Joe's trademarks are not encumbered.

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)

The agreements 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 agreements may be terminated by Joe's upon 60 days' written notice prior to June 30, 2010, or earlier provided that the minimum factoring fees have been paid for the respective period.

The factoring rate that Joe's pays to CIT to factor accounts is 0.6 percent for accounts which CIT bears the credit risk, subject to discretionary surcharges, and 0.4 percent for accounts which Joe's bears 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, 2009, the Chase prime rate was 3.25 percent.

In addition, in the event Joe's needs additional funds, Joe's has also established a letter of credit facility with CIT to allow it 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, 2009, Joe's had two letters of credit outstanding in the aggregate amount of $495,000, which expired in December 2009.

4. Merger Transaction

Merger Agreement

Joe's, 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 Joe's licensed the Joe's Brand. The license agreement terminated automatically upon completion of the merger. Joe's acquired JD Holdings in order to acquire the Joe's Brand which allowed it to expand it product offerings and the brand in the marketplace, including opening Joe's retail stores and entering into licenses for additional product categories. Joe's believed that the combined company created synergies to allow it to generate additional revenue from the brand recognition established by the denim business and increased market opportunity. Joe's also believed that the combined company and complete ownership of the Joe's Brand enhanced the value of Joe's from a stockholder and market participant point of view. Joe's believes that these factors support the amount of goodwill recorded.

Under the terms and subject to the conditions set forth in the Merger Agreement, on October 25, 2007, Joe's and JD Holdings 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, Joe's issued 14,000,000 shares of its 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, Joe's now owns all outstanding stock of JD Holdings and all rights, title and interest in the Joe's Brand.

Under the revised Merger Agreement, Mr. Dahan is entitled to, for a period of 120 months following October 25, 2007, a certain percentage of the gross profit earned by Joe's in any applicable fiscal year. See "Note 9 Commitments and Contingencies Contingent Consideration Payments" for further discussion of the contingent consideration obligation. In addition, the Merger Agreement

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Merger Transaction (Continued)

contains a restrictive covenant relating to non-competition and non-solicitation for one year following the termination of Mr. Dahan's service.

Upon completion of the merger, on October 25, 2007, Mr. Dahan became an officer, director and greater than 10 percent stockholder of Joe's and an Employment Agreement and Investor Rights Agreement became effective.

The merger has been accounted for as a business combination under applicable U.S. generally accepted accounting principles. Accordingly, management has allocated the purchase price to the assets and liabilities of JD Holdings in Joe's financial statements as of the completion of the merger at their respective fair values. At November 30, 2007, the valuations of intangible assets, income taxes and certain other items were preliminary. Management completed the initial purchase price allocation and finalized it prior to filing its Annual Report on Form 10-K for the fiscal year ended November 30, 2008.

Under the purchase method of accounting, the total consideration as shown in the table below is allocated to JD Holdings' intangible assets based on their estimated fair values as of the date of the completion of the merger. The consideration has been allocated as follows:

Allocation of Purchase Price		
Calculation of Consideration:		
Purchase of JD Holdings common shares(1)	$	17,667,000
Cash payments for JD Holdings shares(2)		300,000
Other(3)		269,000
Total consideration(4)	$	18,236,000
Consideration Allocated to Acquired Net Assets Based on Fair Value:		
JD Holdings historical book value of net assets acquired	$	
Adjustments to bring acquired assets and liabilities to fair value:		
Trademark contract right		24,000,000
Goodwill		3,836,000
Less deferred tax liability		(9,600,000)
Fair value of net assets acquired	$	18,236,000

(1) Represents the value of 14,000,000 shares of our common stock to be issued in exchange for the outstanding shares of JD Holdings common stock in the merger, based on 1,000 shares of JD Holdings common stock outstanding as of October 25, 2007 and based on the average price of $1.3975 of Joe's common stock as reported on NASDAQ for the two day period before and after the date the merger, as amended, was announced (June 25, 2007) less a 9.7% discount for the restrictions on resale as a result that the shares will not initially be registered for resale and will be contractually restricted for certain periods under the Merger Agreement The 9.7% discount on the 14,000,000 common shares was estimated based upon a Black-Sholes option pricing theory with the following assumptions (i) estimated dividend yield (0.00%); (ii) expected stock price volatility (82.80%); (iii) risk-free interest rate (5.26%); and (iv) expected life (1 month).

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Merger Transaction (Continued)

(2) Represents the cash consideration paid under the Merger Agreement.

(3) Includes direct merger costs, including financial advisory, legal, accounting and other costs.

(4) The contingent consideration, which is not contingent upon Mr. Dahan's continued employment, is not included in the fair value of the net assets acquired at the acquisition date. This contingent consideration will be accounted for as an operating expense.

The assets acquired in this merger consisted of all outstanding stock of JD Holdings and intangible assets. JD Holdings had an immaterial amount of other assets, including incidental office equipment that was distributed to Mr. Dahan as the sole stockholder prior to the closing of the transaction. Joe's has determined that the useful life of the acquired assets is indefinite and therefore no amortization expense needs to be recognized. However, Joe's tests the assets for impairment annually and/or if events or changes in circumstances indicate that the assets might be impaired. Additionally, a deferred tax liability has been established in the allocation of the purchase price with respect to the identified indefinite long lived intangible assets acquired and contingent consideration payments are recorded as an expense.

Employment Agreement

After completion of the merger, Joe's 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, Joe's may terminate Mr. Dahan for cause or if he becomes disabled, as defined in the agreement. Should Joe's terminate Mr. Dahan's employment for cause or disability, Joe's would only be required to pay him through the date of termination. Joe's may terminate Mr. Dahan's employment without cause at any time upon two weeks notice, provided that it pays 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 Joe's and the Joe's Brand as Creative Director.

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Merger Transaction (Continued)

Investor Rights Agreement

Upon the closing of the merger, Joe's also entered into an investor rights agreement. Pursuant to the investor rights agreement, Joe's 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 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. Joe's agreed to bear all expenses associated with registering these shares for resale and have granted to Mr. Dahan certain piggyback rights with respect to future registration statements filed by Joe's. 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.

5. Inventories

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, 2009	November 30, 2008
Finished goods	$ 13,093	$ 9,346
Finished goods consigned to others	139	84
Work in progress	3,092	1,744
Raw materials	7,746	12,141
	24,070	23,315
Less allowance for obsolescence and slow moving items	(1,183)	(1,044)
	$ 22,887	$ 22,271

Joe's recorded charges to its inventory reserve allowance of $28,000, $21,000 and $221,000 in fiscal 2009, 2008 and 2007, respectively.

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Property and Equipment

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

	Useful lives (years)	November 30, 2009	November 30, 2008
Computer and equipment	3 - 7	$ 1,290	$ 1,219
Furniture and fixtures	3 - 7	540	393
Leasehold improvements, primarily retail	5 - 10	2,924	2,269
		4,754	3,881
Less accumulated depreciation		(1,592)	(1,056)
Net property and equipment		$ 3,162	$ 2,825

Depreciation expenses aggregated $536,000, $350,000 and $315,000 for fiscal 2009, 2008 and 2007, respectively.

7. Income Taxes

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

	Year ended (in thousands)		
	2009	2008	2007
Current:			
Federal	$ 1,828	$ 460	$ 65
State	955	125	26
	2,783	585	91
Deferred:			
Federal	1,506	(382)	974
State	(383)	1,823	319
	1,123	1,441	1,293
Change in valuation allowance	(20,291)	(1,441)	(1,293)
Total	$ (16,385)	$ 585	$ 91

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. 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)	
	2009	2008
Deferred tax assets:		
Current:		
Allowance for customer credits and doubtful accounts	$ 1,375	$ 1,099
Inventory valuation	540	488
Benefit of net operating loss carryforwards	1,990	1,994
Stock compensation expense	103	136
Inventory capitalization	476	442
Other	409	159
Total current deferred tax assets	4,893	4,318
Valuation allowance		(4,318)
Total net current deferred taxes	4,893	
Noncurrent:		
Property and equipment basis difference	43	(104)
Benefit of net operating loss carryforwards	13,972	15,024
Stock compensation expense	179	232
Goodwill and intangible assets		689
Other	212	132
Total noncurrent deferred tax assets	14,406	15,973
Valuation allowance		(15,973)
Total net noncurrent deferred tax assets	14,406	
Deferred tax liabilities:		
Noncurrent:		
Long lived intangible asset	9,600	9,600
Total noncurrent deferred tax liabilities	9,600	9,600
Net noncurrent deferred tax assets (liabilities)	$ 4,806	$ (9,600)

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. Periodically, 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 Joe's assessment of these items during the fourth quarter of fiscal 2009, Joe's 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 as of November 30, 2008 was released and recorded as a credit to income tax benefit during fiscal 2009.

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Income Taxes (Continued)

For continuing operations, the reconciliation of the effective income tax rate to the federal statutory rate for the years ended is as follows:

	Year ended		
	2009	**2008**	**2007**
Computed tax (benefit) provision at the statutory rate	35.0%	35.0%	34.0%
State income tax	6.9%	5.8%	6.0%
Contigent consideration payments	7.0%	10.7%	1.0%
Change in valuation allowance	(249.5)%	(36.9)%	(37.0)%
Benefit from lower tax brackets	(1.0)%		
True ups and other adjustments	0.2%	(4.0)%	
Effective tax rate	(201.4)%	10.6%	4.0%

Joe's and its subsidiaries 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. Joe's is not currently under an Internal Revenue Service tax examination or an examination by any other state, local or foreign jurisdictions for any tax year except for New York. Joe's is currently under examination by the State of New York tax authorities for the tax years 2005 through 2007. Joe's does not expect this examination to have a material effect on its financial statements or results of operations upon conclusion of the examination. Joe's has identified its federal tax return and its state tax return in California as major tax jurisdictions. The only periods subject to examination for Joe's federal tax returns are years 2006 through 2008. The periods subject to examination for Joe's state tax returns in California are years 2005 through 2008.

Joe's had a net operating loss carryforward of $42,538,000 at the end of fiscal 2009 for federal tax purposes that expire through 2026. Joe's also has $25,553,000 of net operating loss carryforwards available for California which begin to expire in 2014. Joe's recorded an income tax benefit of $16,385,000, for fiscal 2009 and an income tax expense of $585,000 and $91,000 for fiscal 2008 and 2007, respectively. Joe's effective tax rate was a negative 201 percent for fiscal 2009, 11 percent for fiscal 2008 and four percent for fiscal 2007.

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 Joe's ability to offset taxable income. Management believes that certain changes in control have occurred which resulted in limitations on its net operating loss carryforwards.

As of November 30, 2009 and 2008, Joe's provided a liability of $89,000 and $0, respectively, for unrecognized tax benefits related to various federal and state income tax matters. These amounts, net

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Income Taxes (Continued)

of related tax benefits, impact the effective income tax rate if recognized. The following presents a rollforward of its unrecognized tax benefits (in thousands):

Balance at December 1, 2007	$
Increase in prior year tax positions	
Balance at November 30, 2008	
Increase for tax positions taken during the current period	89
Balance at November 30, 2009	$ 89

Joe's recognizes accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes in its statements of operations. For fiscal 2009 and 2008, Joe's did not record any significant accrued interest and penalties. Joe's does not expect any unrecognized tax benefit to reverse in fiscal 2010. Joe's files income tax returns in the U.S. under federal jurisdiction and in various states.

8. Stockholders' Equity

Issuances of Common Stock

In December 2006, Joe's issued 6,834,347 shares of its common stock at a purchase price of $0.53 per share, 2,050,304 warrants to purchase common stock at an exercise price of $0.58 per share and 125,000 warrants to purchase common stock at an exercise price of $0.66 per share in a private placement transaction. In June 2007, Joe's issued 1,600,000 shares of its common stock at a purchase price of $1.25 per share and 480,000 warrants to purchase shares of its common stock at a purchase price of $1.36 per share. See "Note 14 Private Placement Transactions" for a further discussion of this equity financing transaction.

On June 27, 2007, Joe's received notices from two holders of warrants that it was exercising certain previously issued warrants and issued 2,050,304 shares of its common stock. Joe's received gross proceeds of $1,189,000 in connection with the warrant exercise.

After approval by Joe's stockholders and in connection with the closing of the merger with JD Holdings, Joe's issued to Mr. Dahan, the sole stockholder, 14,000,000 shares of its common stock in exchange for all of its outstanding shares.

Warrants

Joe's has issued warrants in conjunction with various private placements of its common stock and debt to equity conversions. All warrants are currently exercisable. As of November 30, 2009, outstanding common stock warrants are as follows:

Exercise price	Shares	Issued	Expiration
$0.66	125,000	December 2006	December 2011
1.36	480,000	June 2007	June 2012
	605,000		

During fiscal 2009, 187,500 warrants expired unexercised and during fiscal 2008, 590,833 warrants expired unexercised.

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Stockholders' Equity (Continued)

Stock Incentive Plans

In March 2000, Joe's adopted the 2000 Employee Stock Option Plan, or the 2000 Employee Plan. In connection with stockholder approval of the 2004 Stock Incentive Plan, Joe's stated that it would no longer grant options pursuant to the 2000 Employee Plan. In December 2007, the outstanding options remaining under the 2000 Employee Plan expired and the 2000 Employee Plan automatically terminated.

In September 2000, Joe's adopted the 2000 Director Stock Incentive Plan, or the 2000 Director Plan, under which nonqualified stock options were granted to members of the Board of Directors in lieu of cash director fees. After the adoption of the 2004 Stock Incentive Plan in June 2004, Joe's no longer granted options pursuant to the 2000 Director Plan; however, it remains in effect for awards outstanding as of the adoption of the 2004 Stock Incentive Plan. As of November 30, 2009, options to purchase up to 203,546 shares of common stock remained outstanding under the 2000 Director Plan.

On June 3, 2004, Joe's adopted the 2004 Stock Incentive Plan, or the 2004 Incentive Plan, and has subsequently amended it to increase the number of shares authorized for issuance to 12,265,172 shares of common stock as of October 8, 2009. Under the 2004 Incentive 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 2004 Incentive Plan limits the number of shares that can be awarded to any employee in one year to 1,250,000. Exercise price for incentive options may not be less than the fair market value of Joe's 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 its Compensation and Stock Option Committee, or Compensation Committee. The 2004 Incentive 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, Joe's has issued both restricted common stock and restricted common stock units, or RSUs, to its officers, directors and employees pursuant to the 2004 Stock Incentive Plan. 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 Joe's. On the vesting date of the RSUs, Joe's expects to issue the shares of common stock to each participant upon vesting and expects 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 2004 Incentive Plan.

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. Joe's requires 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, 2009, 1,814,492 shares remained available for issuance under the 2004 Incentive Plan.

For all stock compensation awards that contain graded vesting with time-based service conditions, Joe's has 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, 2008, there was a total of $1,069,000 of stock based compensation expense recognized during fiscal 2009.

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Stockholders' Equity (Continued)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2007
Estimated dividend yield	0.00%
Expected stock price volatility	100.40%
Risk-free interest rate	4.20%
Expected life of options-in years	2.79 yrs

There were no options granted in fiscal 2009 or 2008 that required use of the Black-Scholes model. The Black-Scholes model was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. In addition, the assumptions used in option valuation models are subjective and can materially impact fair value estimates. Therefore, the actual value of stock options may differ materially to values computed under the Black-Scholes model.

The following summarizes option grants, restricted common stock and RSUs issued to members of the Board of Directors for the fiscal years 2002 through fiscal 2009 (in actual amounts) for service as a member:

	As of November 30, 2009	
	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/RSUs isssued
2007	320,000
2008	473,455
2009	371,436

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. 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, 2008	3,313,146	$ 1.76		
Granted				
Exercised				
Forfeited/expired	(87,100)	1.02		
Outstanding at November 30, 2009	3,226,046	$ 1.78	4.7	$ 687,786
Exercisable and vested at November 30, 2009	3,226,046	$ 1.78	4.7	$ 687,786
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, 2007	3,626,046	$ 1.80		
Granted				
Exercised	(12,900)	1.02		
Forfeited/expired	(300,000)	2.26		
Outstanding at November 30, 2008	3,313,146	$ 1.76	6.6	$
Exercisable and vested at November 30, 2008	3,313,146	$ 1.76	6.6	$
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 25, 2006	4,092,296	$ 1.68		
Granted	100,000	1.92		
Exercised	(366,250)	0.92		
Forfeited/expired	(200,000)	1.02		
Outstanding at November 30, 2007	3,626,046	$ 1.80	7.0	$ 1,047,465
Exercisable and vested at November 30, 2007	3,476,046	$ 1.82	6.9	$ 972,419

Weighted average per option fair value of options granted during the year	$	1.23

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Stockholders' Equity (Continued)

The total fair value of shares of stock options vested during the fiscal years ended November 30, 2008 and November 30, 2007, was $19,000 and $34,000, respectively. The weighted-average grant-date fair value of options granted during fiscal year 2007 was $1.23. The total intrinsic value of options exercised during the fiscal years ended November 30, 2008 and 2007 was $18,000, and $651,000, respectively.

Exercise prices for options outstanding and exercisable as of November 30, 2009 are as follows:

	Options Outstanding and Exercisable	
Exercise Price	Number of Shares	Weighted-Average Remaining Contractual Life
$0.39 - $0.41	190,064	3.7
$1.00 - $1.02	1,915,000	4.6
$1.27 - $1.30	60,982	3.2
$1.58 - $1.63	610,000	4.7
$5.91	450,000	5.5
	3,226,046	4.7

The following table summarizes stock option activity by plan.

	Total Number of Options	2004 Incentive Plan	2000 Director Plan
Outstanding at November 30, 2008	3,313,146	3,109,600	203,546
Granted			
Exercised			
Forfeited / Cancelled	(87,100)	(87,100)	
Outstanding at November 30, 2009	3,226,046	3,022,500	203,546
Exercisable and vested at November 30, 2009	3,226,046	3,022,500	203,546

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Stockholders' Equity (Continued)

A summary of the status of restricted common stock and RSUs as of November 30, 2008, and changes during the year ended November 30, 2009, are presented below:

	Restricted Shares	RSUs	Total Shares	Weighted-Average Grant-Date Fair Value Restricted Shares	RSUs
Outstanding at November 30, 2008	157,233	2,503,526	2,660,759	$ 1.59	$ 0.75
Granted	613,286	3,461,547	4,074,833	0.86	0.84
Vested	(78,616)		(78,616)	(1.59)	
Issued		(934,887)	(934,887)		0.66
Cancelled		(236,999)	(236,999)		0.68
Forfeited		(19,208)	(19,208)		0.70
Outstanding at November 30, 2009	691,903	4,773,979	5,465,882	$ 0.94	$ 0.84
Outstanding at November 30, 2007	529,182		529,182	$ 1.59	$
Granted		2,695,601	2,695,601		0.80
Vested	(371,949)		(371,949)	(1.59)	
Issued		(71,446)	(71,446)		1.46
Cancelled		(37,004)	(37,004)		1.46
Forfeited		(83,625)	(83,625)		1.46
Outstanding at November 30, 2008	157,233	2,503,526	2,660,759	$ 1.59	$ 0.75
Restricted stock at November 25, 2006					
Granted	555,849		555,849	$ 1.59	
Vested	(26,667)		(26,667)	(1.59)	
Forfeited					
Restricted stock at November 30, 2007	529,182		529,182	$ 1.59	

As of November 30, 2009, there was $4,361,000 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the 2004 Incentive Plan.

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Stockholders' Equity (Continued)

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. 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, 2009	November 30, 2008	November 30, 2007
Basic earnings per share computation:			
Numerator:			
Net income	$ 24,520	$ 4,902	$ 2,254
Denominator:			
Weighted average common shares outstanding	60,053	59,420	43,840
Income per common share basic	$ 0.41	$ 0.08	$ 0.05
Diluted earnings per share computation:			
Numerator:			
Net income	$ 24,520	$ 4,902	$ 2,254
Denominator:			
Weighted average common shares outstanding	60,053	59,420	43,840
Effect of dilutive securities:			
Restricted shares, RSU's, options and warrants	1,068	251	1,160
Dilutive potential common shares	61,121	59,671	45,000
Income per common share dilutive	$ 0.40	$ 0.08	$ 0.05

For fiscal 2009, 2008 and 2007, currently exercisable options and warrants in the aggregate of 3,640,982, 1,788,482 and 1,868,301, 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, 2009, shares reserved for future issuance include (i) 3,226,046 shares of common stock issuable upon the exercise of stock options granted under the incentive plans; (ii) 4,773,979 shares of common stock issuable upon the vesting of RSUs; (iii) an aggregate of 1,814,492 shares of common stock available for future issuance under the 2004 Stock Incentive Plan as of November 30, 2009; and (iv) 605,000 shares of common stock issuable upon the exercise of outstanding warrants.

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Commitments and Contingencies

Operating Lease Obligations and Other Obligations Related to Operations

Joe's leases certain equipment and office and retail space under separate lease arrangements. The leases generally contain renewal provisions. Equipment and office rental expenses under such leases for the years ended November 30, 2009, November 30, 2008 and November 25, 2007, were approximately $1,408,000, $499,000, and $512,000, respectively.

In July 2006, Joe's moved its headquarters and principal executive offices to a facility under a verbal month-to-month arrangement with a third party who provides its product fulfillment, warehousing and distribution services. Under this arrangement commencing in December 2007, Joe's paid a monthly fee of approximately $160,000 for allocated expenses associated with its use of office and warehouse space including its product fulfillment, warehousing and distribution services. Expenses under this arrangement were $2,668,000, $2,239,000 and $1,427,000 for fiscal 2009, 2008 and 2007, respectively. Joe's terminated this arrangement and entered into a new arrangement for office space, product fulfillment, warehousing and distribution services. See "Note 15 Subsequent Events" for a further discussion on this arrangement.

Joe's leases retail store locations under operating lease agreements expiring on various dates through 2019 or 10 years from the rent commencement date. Some of these leases require Joe's 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.

As of November 30, 2009, the future minimum rental payments under non-cancelable retail operating leases with lease terms in excess of one year were as follows (in thousands):

2010	$ 1,697
2011	1,828
2012	1,894
2013	1,962
2014	2,032
Thereafter	9,679
	$ 19,092

Advertising Commitments

During part of fiscal 2007, Joe's had advertising commitments with certain parties for billboard advertisements in Los Angeles, California, and advertising space on the tops of taxi cabs in New York City, New York. In January 2007, all advertising commitments had expired under the terms of the original commitments and were not renewed. In January 2008, Joe's entered into an agreement for short term billboard advertising space in various locations in and around New York and Los Angeles, but does not have any commitment to pay a minimum amount.

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Commitments and Contingencies (Continued)

Letters of Credit

Joe's has a contingent liability for $495,000 in open letters of credit as of November 30, 2009.

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 Joe's 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.

Litigation

Joe's is involved from time to time in routine legal matters incidental to its business. In the opinion of Joe's management, resolution of such matters will not have a material effect on its financial position or results of operations.

10. Segment Reporting and Operations by Geographic Areas

Segment Reporting

Joe's has only one segment of operations, primarily apparel, which includes an immaterial amount of revenue from license agreements and sales from its retail stores, including its e-commerce store.

Operations by Geographic Areas

Historically, Joe's presented information about operations in the United States and Asia with intercompany revenues and assets eliminated to arrive at the consolidated amounts. Joe's currently does 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)

11. Related Party and Other Transactions

As of November 30, 2009 and November 30, 2008, Joe's related party balance consisted of amounts due to and due from certain related parties, as further described below, as follows:

	2009	2008
Due from related parties		
Kids Jeans, LLC	$ 210	$
Total due from related parties	$ 210	$
Due to related parties		
Joe Dahan	$ 199	$ 196
Albert Dahan	46	
Commerce Investment Group and affliates	9	9
Total due to related parties	$ 254	$ 205

Joe Dahan/JD Holdings Inc.

On February 7, 2001, Joe's acquired a license for the rights to the Joe's® brand from JD Design LLC, which was subsequently merged with and into JD Holdings. Under the license agreement, JD Holdings was entitled to a royalty of three percent on net sales of licensed products. In October 2005, Joe's granted JD Holdings the right to develop the children's branded apparel line under an amendment to its master license agreement in exchange for a five percent royalty on net sales of those products. On October 25, 2007, in connection with the acquisition of JD Holdings by Joe's, the license agreement terminated.

As part of the consideration paid in connection with the merger, Mr. Dahan is entitled to a certain percentage of the gross profit earned by Joe's in any applicable fiscal year until October 2017. See "Note 4 Merger Transaction" for a further discussion on the merger agreement and the contingent consideration.

For fiscal 2009, 2008 and 2007, the following table sets forth payments made to Mr. Dahan or his related entities.

	(in thousands)		
	2009	2008	2007
Expense (income):			
Contigent consideration payments	$ 1,672	$ 1,723	$
Joe's Jeans royalty expense			1,647
Joes Kids license, royalty income			(88)

Victor Dahan

Victor Dahan, brother of Joe Dahan, is the managing member of Shipson LLC, or Shipson, and Joe's previously outsourced its E-shop on the Joe's Jeans website to his company. Joe's ceased doing business with Shipson in February 2008. As of the termination date of the relationship, Shipson owed Joe's approximately $192,000, for outstanding purchase orders that were fully reserved for in Joe's year

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Related Party and Other Transactions (Continued)

end financial statements for fiscal 2008. During May 2009, Shipson returned $51,000 in goods and agreed to pay $141,000 for the outstanding purchase orders pursuant to a settlement agreement.

Albert Dahan

In April 2009, Joe's entered into a commission-based sales agreement with Albert Dahan, brother of Joe Dahan, for the sale of its 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 Joe's where he acts as a sales person for Joe's. The agreement may be terminated at any time for any reason or no reason with or without notice. As of November 30, 2009, payments made to Mr. Albert Dahan under this arrangement totaled $413,000.

Effective as of June 1, 2009, Joe's entered into a license agreement for the license of the children's product line with Kids Jeans LLC, or Kids LLC, an entity which Mr. Albert Dahan holds an interest where he has voting control over the entity. Under the terms of the license, Kids LLC has 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 will pay to Joe's a royalty payment of 20 percent on the first $5,000,000 in net sales and 10 percent thereafter. The initial term of the agreement is for three years until June 30, 2012 and is subject to certain guaranteed minimum net sales and royalty payment requirements during the initial term and for renewal. Kids LLC advanced $1,000,000 as a payment against the first year's guaranteed minimum royalties. This amount has been reflected under the caption of "Deferred Licensing Revenue" on the Condensed Consolidated Balance Sheets. Joe's expects to recognize the royalty revenue based upon a percentage as set forth in the agreement of the licensees actual net sales or minimum net sales, whichever is greater. Payments received in consideration of the grant of the 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 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, 2009, $450,000 of the advanced payment has been recognized as income.

FameCast, Inc.

In the first quarter of fiscal 2009, Joe's entered into an agreement with FameCast, Inc., or FameCast, an entity which Kent Savage, a member of Joe's Board of Directors, serves as CEO and a founder. The agreement with FameCast is for web hosting and management for an integrated contest site within the *www.joesjeans.com* site. Under the terms of the agreement, the aggregate amount of the transaction with FameCast was $175,000.

Former Related Parties

Commerce Investment Group and affiliates

Historically, Joe's had a strategic relationship with certain of its former stockholders, Hubert Guez, Paul Guez and their affiliated companies, including Azteca, AZT and Commerce Investment Group LLC, or Commerce. By virtue of this relationship, Joe's entered into the following agreements, at various times, with Hubert Guez, Paul Guez and their affiliated companies, Azteca, AZT and/or Commerce, entities in which Hubert Guez and Paul Guez have controlling interests. Beginning in fiscal

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Related Party and Other Transactions (Continued)

2007, these entities were no longer considered related parties as they were no longer greater than 10 percent stockholders of Joe's. In fiscal 2008 or 2009, there was no activity related to these former related parties.

The following table represents charges from the affiliated companies pursuant to Joe's relationship with them, including its discontinued operations, as follows:

	(in thousands) 2007
Former related parties	
Purchase order arrangements	$ 10,727

Purchase Order Arrangement

Until August 2007, Joe's used AZT as a supplier on a purchase order basis for certain of its Joe's® denim products produced in Mexico. Under this arrangement, Joe's advanced the funds to purchase raw materials, which primarily included fabric, anticipated for production of its products. Joe's paid for the production cost less credit for the advances on raw materials. Joe's purchased these products in various stages of production from partial to completed finished goods. In August 2007, Joe's began using a different third party vendor for the production of its products in Mexico.

Aggregate balances by entities

As of November 30, 2009 and November 30, 2008, respectively, the balances due (to) or due from these related parties (collectively described as Commerce Investment Group and affiliates above) and certain of their affiliates are as follows (in thousands):

	2009	2008
Sweet Sportswear, LLC	$ (4)	$ (4)
Cygne Design Inc.	(5)	(5)
	$ (9)	$ (9)

12. Supplemental Cash Flow Information

	Year ended (in thousands) 2009	2008	2007
Significant non-cash transactions			
In fiscal 2007, Joe's Jeans issued 14,000,000 shares in connection with the merger with JD Holdings	$	$	$ 22,921
Additional cash flow information			
Cash paid during the year for interest	$ 430	$ 648	$ 830
Cash paid during the year for income taxes	$ 1,138	$ 820	$ 87

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. Employee Benefit Plans

On December 1, 2002, Joe's established a tax qualified defined contribution 401(k) Profit Sharing Plan, or the Plan. All employees who have worked for Joe's 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. Joe's contributions may be made on a discretionary basis. All employees who have worked 500 hours qualify for profit sharing in the event at the end of each year Joe's decides to do so. Costs of the Plan charged to operations for administrative fees, in actual numbers, were $6,000, $3,000 and $6,000 for fiscal 2009, 2008 and 2007, respectively. In addition, Joe's matches its employees' contributions under the Plan in the lesser of the following amounts: (i) up to 2 percent of the employee's compensation, or (ii) $^1/_3$ of the employee's contribution up to 6 percent of the employee's salary. For fiscal 2009, 2008 and 2007, Joe's contributed $59,000, $46,000 and $37,000, respectively, to employees under the match portion of the Plan.

14. Private Placement Transactions

In December 2006, Joe's consummated a private placement of its common stock and warrants to purchase common stock to two "accredited investors" pursuant to Rule 506 of Regulation D under the Securities Act. The proceeds from the transaction were used for general working capital purposes. The transaction raised gross proceeds of $3,622,000 or $4,811,000 assuming full exercise of all of the warrants issued.

Joe's issued 6,834,347 shares at a purchase price of $0.53 per share and warrants to purchase an additional 2,050,304 shares of common stock to these investors at an exercise price of $0.58 per share. In addition, on December 26, 2006, Joe's issued an additional 125,000 warrants with an exercise price of $0.66 per share to an individual, also an accredited investor, in exchange for introducing one of the investors to the company.

Each of the warrants issued includes a cashless exercise option, pursuant to which the holder can exercise the warrant without paying the exercise price in cash. If the holder elects to use this cashless exercise option, it will receive a fewer number of our shares than it would have received if the exercise price were paid in cash. The number of shares of common stock a holder of the warrant would receive in connection with a cashless exercise is determined in accordance with a formula set forth in the warrant. The warrants issued in connection with the private placement have a term of five years and were first exercisable on June 18, 2007 and June 25, 2007, respectively. On June 27, 2007, all but 125,000 of the warrants were exercised resulting in cash proceeds of approximately $1,189,000.

Joe's used the Black-Scholes pricing model to determine the fair value of each of the warrants granted in connection with this transaction. Joe's determined the fair value of the warrants at the date of grant using the Black-Scholes option pricing model based on the market value of the underlying common stock, a volatility rate of 82.80 percent and 82.84 percent, respectively, based upon the implied volatility in market traded stock over the same period as the vesting period, zero dividends, a risk free interest rate of 4.56 percent and an expected life of five years. The aggregate fair value of $56,000 of the 125,000 warrants issued was treated as a deal cost. In addition, Joe's incurred $28,831 in other transaction costs through May 26, 2007. All transaction costs to date have been charged against the gross proceeds and the net proceeds of $3,594,000 were allocated to the common stock and warrants based upon fair values.

In June 2007, Joe's consummated a private placement transaction on similar terms and conditions described above. The June 2007 transaction raised gross proceeds of approximately $2,000,000 initially

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Private Placement Transactions (Continued)

and an additional $653,000 assuming the full exercise of all of the warrants. The warrants issued have the same features as described above and first became exercisable on December 25, 2007.

Joe's used the Black-Scholes pricing model to determine the fair value of each of the additional warrants granted in connection with the June transaction. Joe's determined the fair value of the warrants at the date of grant using the Black-Scholes option pricing model based on the market value of the underlying common stock, a volatility rate of 88.7 percent based upon the implied volatility in market traded stock over the same period as the vesting period, zero dividends, a risk free interest rate of 5.03 percent and an expected life of five years. The aggregate fair value for the 480,000 warrants issued was $470,000.

15. Subsequent Events

Joe's has evaluated the period after the balance sheet date up through February 3, 2010, which is the date that the consolidated financial statements were issued. Joe's determined, other than noted below, that there were no subsequent events or transactions that required recognition or disclosure in the financial statements.

On January 8, 2010, Joe's entered into an agreement with Dependable Distributions Centers, or DDC, to provide warehouse storage and fulfillment services and corporate office space to it on a month to month basis. Under the terms of the agreement with DDC, Joe's will pay 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 DDC. The agreement may be cancelled by either party upon 30 days' written notice or if no storage or other services are performed for a period of 180 days. The agreement contains other customary terms and conditions related to the handling and storage of products, as well as the provision of services under the agreement.

On January 11, 2010, Joe's entered into a Purchase and Sale Agreement, or the Purchase Agreement, with 405 Mateo Real Estate, LLC, or the Seller. Under the terms of the Purchase Agreement, Joe's will purchase from the Seller a facility consisting of approximately 83,000 square feet located in downtown Los Angeles and all related leases and contracts, or the Property, for a purchase price of $6,750,000, subject to certain pro-rations and adjustments. Joe's intends to use the Property as its new corporate headquarters and distribution center.

Concurrently with the execution of the Purchase Agreement, Joe's placed a deposit of $500,000, or the Deposit, in an escrow account for a 45-day period, or the Feasibility Period, while it reviews the leases and other written agreements which affect the Property or its operation, environmental reports, title commitment, title survey, tax bills and other due diligence documents relating to the Property and the Seller satisfies various closing conditions specified in the Purchase Agreement. During the Feasibility Period, Joe's may, in its sole discretion, elect by written notice to the Seller to terminate the Purchase Agreement for any reason or no reason. Upon such termination, Joe's will be entitled to a refund of the Deposit, together with any interest thereon, if any. Should Joe's not provide a termination notice during the Feasibility Period, the balance of the purchase price, net of the Deposit, will be payable to the Seller at the closing of the transaction. The expected closing date is on or about March 29, 2010. The closing of the transaction is subject to customary closing conditions and deliveries.

Joe's terminated both its warehouse storage and fulfillment services agreement, or the Services Agreement, and its verbal lease for office space, or the Lease, with Pixior LLC, or Pixior effective as of

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Subsequent Events (Continued)

January 2010. The Services Agreement provided for warehouse storage and fulfillment services to be provided at a fixed rate per month and the Lease provided for rent to be paid at a fixed rate per month. Pursuant to a settlement agreement entered into among Joe's, Joe Dahan, Marc Crossman, Pixior and Yassine Amallal, the Services Agreement was terminated and the Lease was terminated effective upon completion of the move, the parties released all claims or causes of action that they may have against each other, their employees and officers and Joe's paid to Pixior a payment of $329,000, subject to adjustment after completion of the final inventory report and move.

In January 2010, Joe's relocated its corporate headquarters to 2340 S. Eastern Avenue, Commerce, California 90040. Joe's temporarily moved its corporate headquarters while it completes the purchase and build out of the new corporate office, warehouse and distribution space.

Table of Contents

JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended November 30, 2009 and November 30, 2008, as restated:

	Quarter ended (in thousands, except per share data)			
2009	**February 29**	**May 31**	**August 31**	**November 30**
Net sales	$ 16,482	$ 17,179	$ 21,238	$ 25,217
Gross profit	8,266	8,683	10,374	12,462
Income before taxes	940	1,551	2,758	2,886
Income tax (benefit) expense(1)	140	226	824	(17,575)
Net income	$ 800	$ 1,325	$ 1,934	$ 20,461
Net income per share:				
Basic				
Earnings from continuing operations	$ 0.01	$ 0.02	$ 0.03	$ 0.34
Diluted				
Earnings from continuing operations	$ 0.01	$ 0.02	$ 0.03	$ 0.33

	Quarter ended (in thousands, except per share data)			
2008	**February 24**	**May 26**	**August 25**	**November 30**
Net sales	$ 15,210	$ 17,955	$ 18,248	$ 17,761
Gross profit	6,788	8,438	8,945	8,460
Income before taxes	383	1,812	2,198	1,094
Income tax (benefit) expense	62	201	368	(46)
Net income	$ 321	$ 1,611	$ 1,830	$ 1,140
Net income per share:				
Basic				
Earnings from continuing operations	$ 0.01	$ 0.03	$ 0.03	$ 0.02
Diluted				
Earnings from continuing operations	$ 0.01	$ 0.03	$ 0.03	$ 0.02

(1) As discussed in footnote 7, "Income Taxes," Joe's 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 as of November 30, 2008 was released and recorded as a credit to income tax benefit during fiscal 2009.

Table of Contents

ITEM 16.2
Joe's Jeans Inc. and Subsidiaries

Schedule II
Valuation of Qualifying Accounts

Description	Balance at Beginning of Period	Additions Charged to Costs & Expenses	(in thousands) Charged to Other Accounts	Deductions(1)	Balance at End of Period
Allowance for doubtful accounts:					
Year ended November 30, 2009	$ 540	277		(316)	$ 501
Year ended November 30, 2008	$ 549	148		(157)	$ 540
Year ended November 30, 2007	$ 400	576		(427)	$ 549
Allowance for customer credits:					
Year ended November 30, 2009	$ 2,207	10,142		(9,413)	$ 2,936
Year ended November 30, 2008	$ 1,524	9,934		(9,251)	$ 2,207
Year ended November 30, 2007	$ 890	847		(213)	$ 1,524
Allowances for inventories:					
Year ended November 30, 2009	$ 1,044	167		(28)	$ 1,183
Year ended November 30, 2008	$ 614	451		(21)	$ 1,044
Year ended November 30, 2007	$ 519	316		(221)	$ 614
Allowance for deferred taxes:					
Year ended November 30, 2009	$ 20,291			(20,291)	$
Year ended November 30, 2008	$ 21,732			(1,441)	$ 20,291
Year ended November 30, 2007	$ 23,025			(1,293)	$ 21,732

(1) Deductions represent the actual amount of write-off of an asset against a reserve previously recorded, or in the case of inventories, a deduction could represent the write-off upon disposition or a markdown of carrying value. In the case of deferred taxes, deductions result from changes in timing differences on a year-to-year basis.

Table of Contents

SIGNATURES

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

February 3, 2010

JOE'S JEANS INC.

By: /s/ MARC B. CROSSMAN

Marc B. Crossman
Chief Executive Officer
(Principal Executive Officer) and President

By: /s/ HAMISH SANDHU

Hamish Sandhu
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Marc Crossman, his attorney-in-fact, each with the power of substitution for him or any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorney-in-fact, or his or her substitutes, may do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ MARC B. CROSSMAN Marc B. Crossman	Chief Executive Officer (Principal Executive Officer), President and Director	February 3, 2010
/s/ HAMISH SANDHU Hamish Sandhu	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 3, 2010
/s/ SAMUEL J. FURROW Samuel J. Furrow	Chairman of the Board of Directors	February 3, 2010
/s/ JOSEPH M. DAHAN Joseph M. Dahan	Director	February 3, 2010
/s/ KELLY HOFFMAN Kelly Hoffman	Director	February 3, 2010

Table of Contents

Signature	Capacity	Date
/s/ SUHAIL R. RIZVI Suhail R. Rizvi	Director	February 3, 2010
/s/ THOMAS O'RIORDAN Thomas O'Riordan	Director	February 3, 2010
/s/ KENT SAVAGE Kent Savage	Director	February 3, 2010