JOE'S JEANS INC.
Form 10-Q
July 10, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended May 31, 2014

OR

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

For the transition period from to

Commission File Number: 0-18926

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)	(Zip Code)

(323) 837-3700

(Registrant s telephone number, including area code)

NO CHANGE

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

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. x Yes o No

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

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

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

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

The number of shares of the registrant s common stock outstanding as of July 10, 2014 was 69,186,577.

Table of Contents

JOE S JEANS INC.

QUARTERLY REPORT ON FORM 10-Q

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

JOE S JEANS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	May 31, 2014 (unaudited)	November 30, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 424	$ 785
Accounts receivable, net	4,829	4,621
Due from factor	26,838	31,434
Inventories, net	58,240	52,670
Deferred income taxes, net	3,114	3,114
Prepaid expenses and other current assets	2,708	2,178
Total current assets	96,153	94,802
Property and equipment, net	6,463	7,393
Goodwill	34,230	33,812
Intangible assets	81,943	83,110
Deferred financing costs	1,821	2,031
Other assets	1,817	1,875
Total assets	$ 222,427	$ 223,023
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 23,086	$ 26,436
Line of credit	23,741	17,673
Contingent consideration buy-out payable-short term	3,133	3,072
Promissory tax note issued		1,235
Total current liabilities	49,960	48,416
Long term debt	58,944	58,840
Convertible notes	23,449	27,912
Deferred income taxes, net	17,420	16,202
Contingent consideration buy-out payable-long term	1,629	3,230
Deferred rent	2,632	2,404
Other liabilities	250	250
Total liabilities	154,284	157,254
Commitments and contingencies		
Stockholders equity		

Common stock, $0.10 par value: 100,000 shares authorized, 69,519 shares issued and 68,995 outstanding (2014) and 68,878 shares issued and 68,549 outstanding (2013)		6,954		6,890
Additional paid-in capital		110,309		107,933
Accumulated deficit		(45,802)		(45,963)
Treasury stock, 524 shares (2014), 329 shares (2013)		(3,318)		(3,091)
Total stockholders equity		68,143		65,769
Total liabilities and stockholders equity	$	222,427	$	223,023

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

Table of Contents

JOE S JEANS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)

(in thousands, except per share data)

	Three months ended		Six months ended	
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
	(unaudited)		(unaudited)	
Net sales	$ 48,167	$ 30,874	$ 95,511	$ 60,304
Cost of goods sold	25,594	17,369	51,453	32,484
Gross profit	22,573	13,505	44,058	27,820
Operating expenses				
Selling, general and administrative	18,125	10,840	37,077	22,327
Depreciation and amortization	1,160	542	2,387	1,034
Contingent consideration buy-out expense				8,732
	19,285	11,382	39,464	32,093
Operating income (loss)	3,288	2,123	4,594	(4,273)
Interest expense	3,355	127	6,676	197
Other income	(4,818)		(2,268)	
Income (loss) before provision for taxes	4,751	1,996	186	(4,470)
Income tax expense	2,412	823	25	745
Net income (loss) and comprehensive income (loss)	$ 2,339	$ 1,173	$ 161	$ (5,215)
Earnings (loss) per common share - basic	$ 0.03	$ 0.02	$ 0.00	$ (0.08)
Earnings (loss) per common share - diluted	$ 0.01	$ 0.02	$ 0.00	$ (0.08)
Weighted average shares outstanding				
Basic	68,148	67,047	68,045	66,849
Diluted	87,096	68,411	87,212	66,849

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

Table of Contents

JOE S JEANS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six months ended May 31, 2014 (unaudited)	May 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash (used in) provided by operating activities	$ (4,039)	$ 1,262
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(290)	(913)
Purchase of Hudson Clothing, Inc., net of cash acquired	(418)	
Net cash used in investing activities	(708)	(913)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	6,068	
Repayment of term loan	(15)	
Payment of promissory tax note	(1,235)	
Advances from factor, net		1,396
Proceeds from exercise of options		27
Purchase of restricted stock	(227)	
Payment of taxes on restricted stock units	(205)	(255)
Net cash provided by financing activities	4,386	1,168
NET CHANGE IN CASH AND CASH EQUIVALENTS	(361)	1,517
CASH AND CASH EQUIVALENTS, at beginning of period	785	13,426
CASH AND CASH EQUIVALENTS, at end of period	$ 424	$ 14,943

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

Table of Contents

JOE S JEANS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total Stockholders Equity
Balance, November 30, 2012	67,294	$ 6,732	$ 106,747	$ (38,649)	$ (3,091)	71,739
Net loss and comprehensive loss (unaudited)				(5,215)		(5,215)
Exercise of stock options (unaudited)	20	2	25			27
Stock-based compensation, net of withholding taxes (unaudited)			649			649
Issuance of restricted stock (unaudited)	1,088	109	(109)			
Balance, May 31, 2013 (unaudited)	68,402	$ 6,843	$ 107,312	$ (43,864)	$ (3,091)	$ 67,200
Balance, November 30, 2013	68,878	$ 6,890	$ 107,933	$ (45,963)	$ (3,091)	$ 65,769
Net income and comprehensive income (unaudited)				161		161
Embedded conversion feature, net of taxes (unaudited)			2,058			2,058
Stock repurchase (unaudited)					(227)	(227)
Stock-based compensation, net of withholding taxes (unaudited)			382			382
Issuance of restricted stock (unaudited)	641	64	(64)			
Balance, May 31, 2014 (unaudited)	69,519	$ 6,954	$ 110,309	$ (45,802)	$ (3,318)	$ 68,143

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

Table of Contents

JOE S JEANS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Joe s Jeans Inc., or Joe s, we or us, which include the accounts of our wholly-owned subsidiaries, for the three and six months ended May 31, 2014 and 2013 and the related footnote information have been prepared on a basis consistent with our audited consolidated financial statements as of November 30, 2013 contained in our Annual Report on Form 10-K, or the Annual Report. Our fiscal year end is November 30.

Our principal business activity involves the design, development and worldwide marketing of apparel products, which include denim jeans, related casual wear and accessories that bear the brands Joe s® and Hudson®. Our primary current operating subsidiaries are Joe s Jeans Subsidiary Inc., or Joe s Jeans Subsidiary and Hudson Clothing LLC, or Hudson. In addition, we have other subsidiaries, including Joe s Jeans Retail Subsidiary, Inc., Innovo West Sales Inc., Hudson Clothing Holdings, Inc. and HC Acquisition Inc. All significant inter-company transactions have been eliminated. We completed the acquisition of Hudson on September 30, 2013 and the information presented includes the results of operations of Hudson from the date of acquisition.

Our reportable business segments are Wholesale and Retail. We manage, evaluate and aggregate our operating segments for segment reporting purposes primarily on the basis of business activity and operation. Our Wholesale segment is comprised of sales of Joe s® and Hudson® products to retailers, specialty stores and international distributors, includes revenue from licensing agreements and records expenses from sales, trade shows, distribution, product samples and customer service departments. Our Retail segment is comprised of sales to consumers through full price retail stores, outlet stores and through our online retail sites at *www.joesjeans.com* and *www.hudsonjeans.com*. We opened our first full price retail store in October 2008 in Chicago, Illinois and we currently operate 13 full price retail stores and 20 outlet stores in outlet centers, malls and street locations around the country for our Joe s® brand. Our Corporate and other expense is comprised of expenses from corporate operations, which include the executive, finance, legal, human resources, design and production departments and general advertising expenses associated with our brands.

These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto contained in our Annual Report. In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring adjustments), which management considers necessary to present fairly our financial position, results of operations and cash flows for the interim periods presented. The results for the three and six months ended May 31, 2014 are not necessarily indicative of the results anticipated for the entire year ending November 30, 2014. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

NOTE 2 ADOPTION OF ACCOUNTING PRINCIPLES

In February 2013, the Financial Accounting Standards Board, or FASB, issued a standard that revised the disclosure requirements for items reclassified out of accumulated other comprehensive income and requires entities to present information about significant items reclassified out of accumulated other comprehensive income by component either (1) on the face of the statement where net income is presented or (2) as a separate disclosure in the notes to the financial statements. This guidance is effective for annual reporting periods beginning after December 15, 2012. We adopted this guidance effective for our first quarter of fiscal 2014. The adoption of this guidance did not have a material effect on our financial statements.

Table of Contents

In March 2013, the FASB issued a standard which requires the release of a cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. This guidance is effective for annual reporting periods beginning after December 15, 2013. The adoption of this amendment will not have a material effect on our financial statements.

In July 2013, the FASB issued a standard clarify the presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss or a tax credit carryforward exists as of the reporting date. This guidance is effective for annual reporting periods beginning after December 15, 2013. The adoption of this amendment will not have a material effect on our financial statements.

In April 2014, the FASB issued authoritative guidance which raises the threshold for disposals to qualify as discontinued operations. Under this new guidance, a discontinued operation is (1) a component of an entity or group of components that have been disposed of or are classified as held for sale and represent a strategic shift that has or will have a major effect on an entity s operations and financial results, or (2) an acquired business that is classified as held for sale on the acquisition date. This guidance also requires expanded or new disclosures for discontinued operations, individually material disposals that do not meet the definition of a discontinued operation, an entity s continuing involvement with a discontinued operation following disposal and retained equity method investments in a discontinued operation. This guidance is effective for fiscal periods beginning after December 15, 2014. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued a comprehensive new revenue recognition standard which will supersede previous existing revenue recognition guidance. The standard creates a five-step model for revenue recognition that requires companies to exercise judgment when considering contract terms and relevant facts and circumstances. The five-step model includes (1) identifying the contract, (2) identifying the separate performance obligations in the contract, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations and (5) recognizing revenue when each performance obligation has been satisfied. The standard also requires expanded disclosures surrounding revenue recognition. The standard is effective for fiscal periods beginning after December 15, 2016 and allows for either full retrospective or modified retrospective adoption. We are currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

NOTE 3 ACCOUNTS RECEIVABLE, INVENTORY ADVANCES AND DUE FROM FACTOR

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

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

	May 31, 2014	November 30, 2013
Non-recourse receivables assigned to factor	$ 24,437	$ 32,194
Client recourse receivables	6,479	3,220
Total receivables assigned to factor	30,916	35,414

Allowance for customer credits	(4,078)	(3,980)
Due from factor	$ 26,838	$ 31,434
Non-factored accounts receivable	$ 5,834	$ 5,396
Allowance for customer credits	(687)	(478)
Allowance for doubtful accounts	(318)	(297)
Accounts receivable, net of allowance	$ 4,829	$ 4,621

Table of Contents

Of the total amount of receivables sold by us as of May 31, 2014 and November 30, 2013, we hold the risk of payment of $6,479,000 and $3,220,000, respectively, in the event of non-payment by the customers.

CIT Commercial Services

Prior to our acquisition of Hudson on September 30, 2013, our Joe s Jeans Subsidiary was a party to an accounts receivable factoring agreement and an inventory security agreement with CIT. The agreements prior to September 30, 2013 were structured so that we had the ability to obtain cash by selling to CIT certain of our accounts receivable and advances for up to 50 percent of the value of certain eligible inventory. The accounts receivables were 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 permitted us to sell our accounts receivables at the maximum level of 85 percent and allowed advances of up to $6,000,000 for eligible inventory. CIT had the ability, in its discretion at any time or from time to time, to adjust or revise any limits on the amount of loans or advances made to us pursuant to both of these agreements and to impose surcharges on our rates for certain of our customers. In addition, cross guarantees were executed by and among us and all of our parent and subsidiaries to guarantee each entity s obligations. In connection with the agreements prior to September 30, 2013, certain assets were pledged to CIT, including our entire inventory, merchandise and/or goods, including raw materials through finished goods and receivables. However, our trademarks were not encumbered under those agreements.

This accounts receivable agreement could be terminated by CIT upon 60 days written notice or immediately upon the occurrence of an event of default as defined in the agreement. In June 2013, we entered into an amendment to the accounts receivable agreement that permitted us to terminate the accounts receivable agreement upon 30 days written notice prior to September 30, 2013, or thereafter upon 60 days written notice provided that the minimum factoring fees have been paid for the respective period or if CIT fails to fund us for five consecutive days. The inventory agreement could be terminated once all obligations were paid under both agreements or if an event of default occurred as defined in the agreement. On September 30, 2013, we entered into an amended and restated factoring agreement with CIT that amended and restated our existing factoring agreement and replaced all prior agreements relating to factoring and inventory security.

Under the agreements that terminated on September 30, 2013, we paid to CIT a factoring rate of 0.55 percent for accounts for which CIT had the credit risk, subject to discretionary surcharges, up to $40,000,000 of invoices factored, 0.50 percent over $40,000,000 of invoices factored and 0.35 percent for accounts for which we had the credit risk. The interest rate associated with borrowings under the inventory lines and factoring facility was 0.25 percent plus the Chase prime rate, which was 3.25 percent prior to September 30, 2013. In the event we needed additional funds, we also had 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 our overall availability.

Amended and Restated Factoring Agreement

On September 30, 2013, we entered into an amended and restated factoring agreement, or the Amended and Restated Factoring Agreement, with CIT, which replaces all prior agreements relating to factoring and inventory security. The Amended and Restated Factoring Agreement provides that we sell and assign to CIT certain of our accounts receivable, including accounts arising from or related to sales of inventory and the rendition of services. We will pay a factoring rate of 0.50 percent for accounts for which CIT bears the credit risk, subject to discretionary surcharges, and 0.35 percent for accounts for which we bear the credit risk, but in no event less than $3.50 per invoice. The interest rate associated with borrowings under the factoring facility will be equal to the interest rate then in effect for Revolving A Loans pursuant to the revolving credit agreement. The Amended and Restated Factoring Agreement may be terminated by CIT upon 60 days written notice or immediately upon the occurrence of an event of default as defined in the agreement. The accounts receivable agreement may be terminated by us upon 60 days written notice prior to September 30, 2018 or annually with 60 days written notice prior to September 30th of each year thereafter. The Amended and Restated Factoring Agreement remains effective until it is terminated.

Table of Contents

As of May 31, 2014, our cash balance was $424,000 and our borrowing base cash availability with CIT was approximately $18,000,000. This amount with CIT fluctuates on a daily basis based upon invoicing and collection related activity by CIT for the receivables sold. See also Note 12 Debt for a further discussion of our debt arrangements with CIT and other lenders.

NOTE 4 INVENTORIES, NET

Inventories are 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):

	May 31, 2014	November 30, 2013
Finished goods	$ 32,383	$ 30,129
Finished goods consigned to others	1,383	1,066
Work in progress	5,098	5,057
Raw materials	21,470	18,406
	60,334	54,658
Less allowance for obsolescence and slow moving items	(2,094)	(1,988)
	$ 58,240	$ 52,670

We did not record any charges to our inventory reserve allowance for the three and six months ended May 31, 2014 or year ended November 30, 2013.

NOTE 5 RELATED PARTY TRANSACTIONS

Joe Dahan

Since the acquisition of the Joe s® brand as a result of a merger in October 2007 through February 18, 2013, Mr. Dahan was entitled to a certain percentage of our gross profit in any applicable fiscal year until October 2017. At the time of the acquisition, pursuant to ASC 805 *Business Combinations,* we assessed this original contingent consideration arrangement as compensatory and expensed such amounts over the term of the earn out period at the defined percentage amounts. For the three and six months ended May 31, 2013, expense of $0 and $311,000, respectively, was recorded in the statement of net (loss) income and comprehensive (loss) income related to the contingent consideration expense made to Mr. Dahan under the original agreement. For the three and six months ended May 31, 2014, we did not have any expense related to the contingent consideration expense made to Mr. Dahan under the original agreement since we entered into the new agreement with him as described below.

On February 18, 2013, we entered into a new agreement with Mr. Dahan that fixed the overall amount to be paid by us for the remaining months of year six through year 10 in the original merger agreement at $9,168,000 through weekly installment payments beginning on February 22, 2013 until November 27, 2015. In the first quarter of fiscal 2013, we recorded a charge of $8,732,000 as contingent consideration buy-out expense in connection with this agreement. This amount represented the net present value of the total fixed amount that Mr. Dahan would receive. The entire amount was expensed during the first quarter of fiscal 2013 as the amount payable represented a present obligation due to Mr. Dahan. On September 30, 2013, in connection with entry into new credit facilities relating to the acquisition of Hudson, Mr. Dahan, CIT, Garrison and all of our loan parties entered into an earn out subordination agreement, which provides, among other things, that any payment, whether in cash, in kind, securities or any other property, in connection with the our obligations to Mr. Dahan is expressly junior and subordinated in right of payment to all amounts due and owing upon any indebtedness outstanding under the revolving credit facility and the term loan facility. We are permitted to make certain amount of weekly installment payments of our obligations in the absence of an insolvency proceeding or any event of default under the revolving credit agreement or the term loan credit agreement.

Table of Contents

See Note 9 Commitments and Contingencies - Contingent Consideration Payments, Buy Out Agreement and Earnout Subordination Agreement for a further discussion on these agreements with Mr. Dahan.

Ambre Dahan

In January 2013, we entered in to a consulting arrangement with Ambre Dahan, the spouse of Mr. Joe Dahan, for design director services that pays her $175,000 per annum on a bi-weekly basis. For the three months ended May 31, 2014 and 2013, we paid Ms. Dahan $40,000 and $40,000, respectively, under this arrangement. For the six months ended May 31, 2014 and 2013, we paid Ms. Dahan $87,000 and $67,000, respectively, under this arrangement. This arrangement may be terminated at any time by the parties. Mr. Dahan is not a party to this arrangement, and we do not consider this arrangement material to us.

Albert Dahan

In April 2009, we entered into a commission-based sales agreement with Albert Dahan, brother of Joe Dahan, for the sale of our products into the off-price channels of distribution. Under the agreement, Mr. Albert Dahan is entitled to a commission for purchase orders entered into by us where he acts as a sales person. The agreement may be terminated at any time for any reason or no reason with or without notice. For the three months ended May 31, 2014 and 2013, payments of $0 and $123,000, respectively, were made to Mr. Albert Dahan under this arrangement. For the six months ended May 31, 2014 and 2013, payments of $0 and $243,000, respectively, were made to Mr. Albert Dahan under this arrangement.

In October 2011, we entered into an agreement with Ever Blue LLC, or Ever Blue, an entity for which Albert Dahan is the sole member, for the sale of children s products. Ever Blue 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, Ever Blue pays to us a royalty on net sales with certain guaranteed minimum sales for each term. In connection with this agreement, we provided initial funding to Ever Blue for inventory purchases, which such amount has been repaid in full. For the three months ended May 31, 2014 and 2013, we recognized $60,000 and $154,000, respectively, in royalty income under the license agreement. For the six months ended May 31, 2014 and 2013, we recognized $308,000 and $334,000, respectively, in royalty income under the license agreement.

Peter Kim

We have entered into several agreements, including a stock purchase agreement, a convertible note, a registration rights agreement, an employment agreement and a non-competition agreement with Peter Kim, CEO of our Hudson subsidiary and member of our Board of Directors, in connection with the acquisition of Hudson. See Note 11 Acquisition of Hudson and Note 12 Debt for a further discussion of those agreements.

NOTE 6 EARNINGS PER SHARE

Earnings per share are computed using weighted average common shares and dilutive common equivalent shares outstanding. Potentially dilutive shares consist of outstanding options, shares issuable upon the assumed conversion of convertible notes, restricted stock and unvested RSUs. A reconciliation of the numerator and denominator of basic earnings per share and diluted earnings per share is as follows:

Table of Contents

	Three months ended (in thousands, except per share data)		Six months ended (in thousands, except per share data)	
	May 31, 2014	**May 31, 2013**	**May 31, 2014**	**May 31, 2013**
Basic earnings (loss) per share computation:				
Numerator:				
Net earnings (loss) and comprehensive earnings (loss)	$ 2,339	$ 1,173	$ 161	$ (5,215)
Denominator:				
Weighted average common shares outstanding	68,148	67,047	68,045	66,849
Earnings (loss) per common share - basic				
Net earnings (loss) and comprehensive earnings (loss)	$ 0.03	$ 0.02	$ 0.00	$ (0.08)
Diluted earnings (loss) per share computation:				
Numerator:				
Net earnings (loss) and comprehensive earnings (loss)	$ 2,339	$ 1,173	$ 161	$ (5,215)
Convertible notes interest expense, net of taxes	557		1,960	
Other Income - Gain from change in fair value of conversion derivative, net of taxes	(2,371)		(1,965)	
Numerator for dilutive earnings (loss) per share	$ 525	$ 1,173	$ 156	$ (5,215)
Denominator:				
Weighted average common shares outstanding	68,148	67,047	68,045	66,849
Effect of dilutive securities:				
Convertible note shares	18,430		18,369	
Restricted shares, RSU s and options	518	1,364	798	
Dilutive potential common shares	87,096	68,411	87,212	66,849
Earnings (loss) per common share - diluted				
Net earnings (loss) and comprehensive earnings (loss)	$ 0.01	$ 0.02	$ 0.00	$ (0.08)

For the three months ended May 31, 2014, and 2013, currently exercisable options, convertible notes, unvested restricted shares and unvested RSUs in the aggregate of 21,510,929 and 450,000, respectively, have been excluded from the calculation of the diluted loss per share as their effect would have been anti-dilutive. For the six months ended May 31, 2014, and 2013, currently exercisable options, convertible notes, unvested restricted shares and unvested RSUs in the aggregate of 21,510,929 and 4,164,822, respectively, have been excluded from the calculation of the diluted loss per share as their effect would have been anti-dilutive.

Shares Reserved for Future Issuance

As of May 31, 2014, shares reserved for future issuance include (i) 775,000 shares of common stock issuable upon the exercise of stock options granted under the incentive plans; (ii) 1,472,575 shares of common stock issuable upon the vesting of RSUs; and (iii) an aggregate of 2,988,654 shares of common stock available for future issuance under the Amended and Restated 2004 Stock Incentive Plan; and (iv) 18,471,051 shares of common stock issuable pursuant to the convertible notes.

NOTE 7 INCOME TAXES

We utilize the liability method of accounting for income taxes in accordance with FASB Accounting Standards Codification, or ASC, 740. Under the liability method, deferred taxes are determined based on the temporary differences between the financial statements and tax bases of assets and liabilities using enacted tax rates.

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. Quarterly, management reassesses the need for a valuation allowance. Realization of deferred income tax assets is dependent upon taxable income in prior carryback years, estimates of future taxable income, tax planning strategies and reversals of existing taxable temporary differences. Based on our assessment of these items for fiscal 2013, 2012 and 2011, we determined that the deferred tax assets were more likely than not to be realized with the exception of a valuation allowance of $342,000 that was recorded against a state net operating loss deferred tax asset during fiscal 2013.

Table of Contents

We are subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. To the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carryforward amount. We are no longer subject to U.S. federal and California income tax examinations by tax authorities for years prior to 2009. We are currently not subject to any examinations, except for an examination by the State of Florida. We do not expect the out come of this audit to have a significant impact on our financial results.

We had net operating loss carryforwards of $24,909,000 at the end of fiscal 2013 for federal tax purposes that will expire from fiscal 2019 through 2027. We also had $22,467,000 of net operating loss carryforwards available for California which begin to expire from fiscal 2014 through fiscal 2020.

Certain limitations may be placed on net operating loss carryforwards as a result of changes in control as defined in Section 382 of the Internal Revenue Code. In the event a change in control occurs, it will have the effect of limiting the annual usage of the carryforwards in future years. Additional changes in control in future periods could result in further limitations of our ability to offset taxable income. Management believes that certain changes in control have occurred which resulted in limitations on our net operating loss carryforwards.

NOTE 8 STOCKHOLDERS EQUITY

Stock Incentive Plans

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

The shares of common stock issued upon exercise of a previously granted stock option or a grant of restricted common stock or RSUs are considered new issuances from shares reserved for issuance in connection with the adoption of the various plans. We require that the option holder provide a written notice of exercise in accordance with the option agreement and plan to the stock plan administrator and full payment for the shares be made prior to issuance. All issuances are made under the terms and conditions set forth in the applicable plan. As of May 31, 2014, 2,988,654 shares remained available for issuance under the Restated Plan.

For all stock compensation awards that contain graded vesting with time-based service conditions, we have elected to apply a straight-line recognition method to account for all of these awards. For existing grants that were not fully vested at November 30, 2013, there was a total of $352,000 and $455,000 of stock based compensation expense recognized during the three months ended May 31, 2014 and 2013, respectively, and $587,000 and $904,000 of stock based compensation expense recognized during the six months ended May 31, 2014 and 2013.

Table of Contents

The following summarizes option grants, restricted common stock and RSUs issued to members of the Board of Directors for the fiscal years 2002 through the second quarter of fiscal 2014 (in actual amounts) for service as a member:

Granted as of:	May 31, 2014 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 isssued
2007		320,000
2008		473,455
2009		371,436
2010		131,828
2011		
2012		617,449
2013		
2014		219,678

Exercise prices for all options outstanding as of May 31, 2014 were as follows:

	Options Outstanding and Exercisable	
Exercise Price	**Number of shares**	**Weighted-Average Remaining Contractual Life**
$1.00 - $1.02	100,000	1.8
$1.58 - $1.63	225,000	0.2
$5.91	450,000	1.0
	775,000	0.9

Table of Contents

The following table summarizes stock option activity by plan for the six months ended May 31, 2014 and 2013, (in actual amounts). There are no stock options outstanding under our Restated Plan.

	Total Number of Shares	2004 Incentive Plan	2000 Director Plan
Outstanding at November 30, 2013	775,000	775,000	
Granted			
Exercised			
Forfeited / Expired			
Outstanding and exercisable at May 31, 2014	775,000	775,000	
Outstanding at November 30, 2012	796,794	775,000	21,794
Granted			
Exercised	(21,794)		(21,794)
Forfeited / Expired			
Outstanding and exercisable at May 31, 2013	775,000	775,000	

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, 2013	775,000	$ 4.03		
Granted				
Exercised				
Expired				
Forfeited				$
Outstanding and exercisable at May 31, 2014	775,000	$ 4.03	0.9	$
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, 2012	796,794	$ 3.96		
Granted				
Exercised	(21,794)	1.30		
Expired				
Forfeited				
Outstanding and exercisable at May 31, 2013	775,000	$ 4.03	1.9	$ 88,250
Weighted average per option fair value of options granted during the year		N/A		

Table of Contents

As of May 31, 2014, there was $1,988,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the 2004 Incentive Plan and the Restated Plan. That unrecognized compensation cost is expected to be recognized over a weighted-average period of 2 years.

A summary of the status of restricted common stock and RSUs as of November 30, 2012 and November 30, 2013, and changes during the six months ended May 31, 2014 and 2013, are presented below (in actual amounts):

				Weighted-Average Grant-Date Fair Value	
	Restricted Shares	**Restricted Stock Units**	**Total Shares**	**Restricted Shares**	**Restricted Stock Units**
Outstanding at November 30, 2013	954,798	1,661,330	2,616,128	$ 0.90	$ 0.93
Granted	288,121	362,242	650,363	1.49	1.49
Issued	(450,616)	(352,394)	(803,010)	0.95	1.06
Cancelled		(187,888)	(187,888)		0.98
Forfeited		(10,715)	(10,715)		0.70
Outstanding at May 31, 2014	792,303	1,472,575	2,264,878	$ 1.08	$ 1.04
Outstanding at November 30, 2012	844,236	2,713,605	3,557,841	$ 0.85	$ 0.89
Granted	420,882	631,059	1,051,941	1.02	1.02
Issued	(310,320)	(667,598)	(977,918)	0.92	0.81
Cancelled		(239,011)	(239,011)		0.82
Forfeited		(3,031)	(3,031)		0.70
Outstanding at May 31, 2013	954,798	2,435,024	3,389,822	$ 0.90	$ 0.94

In the three months ended May 31, 2014, we did not grant any RSUs or shares of restricted stock. In the six months ended May 31, 2014, we granted 362,242 RSUs and 288,121 shares of restricted stock. In the three months ended May 31, 2013, we did not grant any RSUs or shares of restricted stock and in the six months ended May 31, 2013, we granted 631,059 RSUs and 420,882 shares of restricted stock. In the three months ended May 31, 2014, we (i) issued 58,914 shares of restricted stock and common stock to holders of RSUs, respectively, in connection with the granting of restricted stock or vesting of RSUs, and (ii) withheld, canceled or forfeited 13,837 RSUs. In the six months ended May 31, 2014, we (i) issued 803,010 shares of restricted stock and common stock to holders of RSUs, respectively, in connection with the granting of restricted stock or vesting of RSUs, and (ii) withheld, canceled or forfeited 198,603 RSUs and retired into treasury 194,901 shares of restricted stock. In the three months ended May 31, 2013, we (i) issued 87,247 shares of restricted stock and common stock to holders of RSUs, respectively in connection with the granting of restricted stock or vesting of RSUs, and (ii) withheld, canceled or forfeited 10,111 RSUs. In the six months ended May 31, 2013, we (i) issued 977,918 shares of restricted stock and common stock to holders of RSUs, respectively in connection with the granting of restricted stock or vesting of RSUs, and (ii) withheld, canceled or forfeited 242,042 RSUs.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Contingent Consideration Payments, Buy-Out Agreement and Earnout Subordination Agreement

As part of the consideration paid in connection with the merger with JD Holdings in October of 2007 and without regard to continued employment, until February 12, 2013, Mr. Dahan was entitled to a certain percentage of the gross profit earned by us in any applicable fiscal year until October 2017. Mr. Dahan was 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; and (iv) one percent of the gross profit above $40,501,000. The payments were paid in advance on a monthly basis based upon estimates of gross profits after

Table of Contents

the assumption that the payments were likely to be paid. At the end of each quarter, any overpayments were offset against future payments and any significant underpayments were made. No payments were made if the gross profit was less than $11,250,000. Gross Profit was defined as net sales of the Joe s® brand less cost of goods sold. We accounted for such payments as compensation expense.

On February 18, 2013, we entered into an agreement with Mr. Dahan that provided certainty of payments to him by removing the contingencies related to the contingent consideration payments to be made to Mr. Dahan as an earn out under the original merger agreement. This agreement fixed the overall amount to be paid by us for the remaining months of year six through year 10 in the original merger agreement. The payments are now made over an accelerated time period until November 2015 instead of October 2017. Under the agreement, beginning on February 22, 2013 until November 27, 2015, Mr. Dahan is entitled to receive the total aggregate fixed amount of $9,168,000 through weekly installment payments. In the first quarter of fiscal 2013, we recorded a charge of $8,732,000 as contingent consideration buy-out expense in connection with this agreement. This amount represented the net present value of the total fixed amount that Mr. Dahan would receive. The entire amount was expensed during the first quarter of fiscal 2013 as the amount payable represented a present obligation due to Mr. Dahan. Mr. Dahan is not required to perform any services or remain employed to receive the fixed amount. Mr. Dahan also agreed to an additional restrictive covenant relating to non-competition and non-solicitation until November 30, 2016 that added to the original restrictive covenant in the merger agreement.

Retail Leases

We lease retail store locations under operating lease agreements expiring on various dates through 2023 or 3 to 10 years from the rent commencement date and have one temporary space for a term of nine months. Some of these leases require us to make periodic payments for property taxes, utilities and common area operating expenses. Certain retail store leases provide for rents based upon the minimum annual rental amount and a percentage of annual sales volume, generally ranging from 6 percent to 8 percent, 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 May 31, 2014, the future minimum rental payments under non-cancelable retail operating leases with lease terms in excess of one year were as follows (in thousands):

2014	Remainder of the year	$	3,977
2015			7,818
2016			7,737
2017			7,721
2018			7,551
Thereafter			16,741
		$	51,545

Convertible Notes, Promissory Tax Notes, Revolving Credit Facility and Term Loan Credit Facility

See Note 12 Debt for a further discussion on the commitments related to acquisition which included the issuance of the convertible notes, the promissory tax notes, the revolving credit facility and the term loan credit facility.

Table of Contents

NOTE 10 SEGMENT INFORMATION

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

	Three months ended		Six months ended	
	(dollar values in thousands)			
	May 31, 2014	May 31, 2013	May 31, 2014	May 31, 2013
Net sales:				
Wholesale	$ 40,401	$ 24,366	$ 80,016	$ 47,453
Retail	7,766	6,508	15,495	12,851
	$ 48,167	$ 30,874	$ 95,511	$ 60,304
Gross profit:				
Wholesale	$ 17,218	$ 8,955	$ 33,978	$ 19,187
Retail	5,355	4,550	10,080	8,633
	$ 22,573	$ 13,505	$ 44,058	$ 27,820
Operating (loss) income:				
Wholesale	$ 11,560	$ 5,716	$ 21,931	$ 12,420
Retail	103	132	(885)	(194)
Corporate and other	(8,375)	(3,725)	(16,452)	(16,499)
	$ 3,288	$ 2,123	$ 4,594	$ (4,273)

	Six months ended	
	May 31, 2014	May 31, 2013
Capital expenditures:		
Wholesale	$ 118	$ 18
Retail		895
Corporate and other	172	
	$ 290	$ 913

	May 31, 2014	November 30, 2013
Total assets:		
Wholesale	$ 92,784	$ 91,312
Retail	11,037	12,117
Corporate and other	118,606	119,594
	$ 222,427	$ 223,023

NOTE 11 - ACQUISITION OF HUDSON

On September 30, 2013, we completed the acquisition of Hudson and purchased all of the outstanding equity interests for an aggregate purchase price of approximately $94,102,000, consisting of $65,416,000 in cash, approximately $27,451,000 in convertible notes, net of discount, and $1,235,000 in aggregate principal amount of promissory notes bearing no interest to certain former option holders of Hudson that we subsequently paid on April 1, 2014.

In addition, in connection with the acquisition, we, along with all of our subsidiaries entered into: (i) a revolving credit agreement with CIT as administrative agent, collateral agent, documentation agent and syndication agent, CIT Finance LLC, as sole lead arranger and sole bookrunner, and the lenders party thereto, and (ii) a term loan credit agreement with Garrison Loan Agency Services LLC, as administrative agent, collateral agent, lead arranger, documentation agent and syndication agent, and the lenders party thereto, or Garrison. In addition, we entered into an amended and restated factoring agreement with CIT that amends and restates our existing factoring agreement. See Note 12 Debt for a description of our debt arrangements.

Table of Contents

Management expects to complete the purchase price allocations during fiscal 2014. We are in the process of completing the amounts assigned to assets and liabilities, acquired intangible assets and the related impact on goodwill for the acquisition. More specifically, open items include finalizing the amounts associated with the tax refunds due to the sellers. Adjustments in the second quarter of fiscal 2014 that were recorded against goodwill totaled $418,000 as a result of finalizing the working capital and certain deferred income tax balances.

The assets acquired in this acquisition consisted of tangible and intangible assets acquired and liabilities assumed. The differences between the fair value of the consideration paid and the estimated fair value of the assets and liabilities has been recorded as goodwill. We have determined that the useful life of the acquired trade name asset is indefinite, and therefore, no amortization expense will initially need to be recognized. The useful life of the acquired customer relationships and design assets are finite and will be amortized over their useful lives. However, we will test 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.

Table of Contents

Under the purchase method of accounting, the total consideration as shown in the table below is allocated to the assets based on their estimated fair values as of the date of the completion of the acquisition. The consideration is allocated as follows:

Assets and liabilities assumed:		
Cash and cash equivalents	$	198
Accounts receivable		1,263
Due from factor		13,806
Inventories		22,230
Prepaid expenses and other assets		2,183
Property and equipment		726
Other assets		239
Accounts payable and accrued expenses		(9,566)
Other current liabilities		(3,132)
Due to factor		(7,411)
Deferred income taxes, net		(16,328)
Intangible assets acquired:		
Trade names		44,400
Customer relationships		2,700
Design		12,400
Net assets acquired		63,708
Goodwill created by the acquisition		30,394
Total consideration transferred	$	94,102
Total Purchase Price		
Cash	$	65,416
Promissory notes		1,235
Convertible notes (Face value $32,445 less discount)		27,451
Total Purchase Price	$	94,102

NOTE 12 - DEBT

Convertible Notes

The convertible notes were issued with different interest rates and conversion features for Hudson s management stockholders and Fireman, respectively. Interest on the convertible notes is paid in a combination of cash and additional paid in kind notes, or PIK Notes. Convertible notes in an aggregate principal amount of approximately $22,885,000 (face amount) were issued to Hudson s management stockholders, are structurally and contractually subordinated to our senior debt and mature on March 31, 2019. All of the notes are expressly junior and subordinated in right of payment to all amounts due and owing upon any indebtedness outstanding under the revolving credit facility and the term loan facility (as discussed below).

The management notes accrue interest quarterly on the outstanding principal amount (i) from September 30, 2013 until the earlier to occur of the date of conversion of the notes or November 30, 2014 at a rate of 10 percent per annum, which is payable 7.68 percent in cash and 2.32 percent in PIK Notes, (ii) from December 1, 2014 until the earlier to occur of the date of conversion of the notes or September 30, 2016 at a rate of 10 percent per annum payable in cash, and (iii) from October 1, 2016 until the earlier to occur of the date of conversion of the notes or the date such principal amount is paid in full at a rate of 10.928 percent per annum payable in cash. Payment of interest at the cash pay rate under clause

Table of Contents

(ii) or (iii), as applicable, for any payment date will be subject to satisfaction of certain financial conditions for us. The management notes become convertible by each of the holders beginning on September 30, 2015 until maturity on March 31, 2019 into shares of our common stock, cash, or a combination of cash and common stock, at our election, upon conversion by the holder or for cash at maturity.

The approximately $9,560,000 (face amount) in aggregate principal amount of convertible notes issued to Fireman are structurally and contractually subordinated to our senior debt and mature on March 31, 2019. The Fireman note accrues interest quarterly on the outstanding principal amount (i) from September 30, 2013 until the earlier to occur of the date of conversion of the notes or November 30, 2014 at a rate of 6.5 percent per annum, which is payable 3 percent in cash and 3.5 percent in PIK Notes, (ii) from December 1, 2014 until the earlier to occur of the date of conversion of the notes or September 30, 2016 at a rate of 6.5 percent per annum payable in cash, and (iii) from October 1, 2016 until the earlier to occur of the date of conversion of the notes or the date such principal amount is paid in full at a rate of 7 percent per annum payable in cash. Payment of interest at the cash pay rate under clause (ii) or (iii), as applicable, for any payment date will be subject to satisfaction of certain financial conditions for us. The Fireman note becomes convertible by the holder on October 14, 2014 until maturity on March 31, 2019 into shares of common stock, cash, or a combination of cash and common stock, at our election, upon conversion by the holder or for cash at maturity.

Each of the notes are convertible, in whole but not in part, at a conversion price of $1.78 per share, subject to certain adjustments, into approximately 18,200,000 shares of our common stock. The Fireman note may be converted at its sole election and the management notes may be converted at either a majority of the holders election or individually, depending on the holder. If the we elect to pay cash with respect to a conversion of the notes, the amount of cash to be paid per share will be equal to (a) the number of shares of common stock issuable upon such conversion multiplied by (b) the average of the closing prices for the common stock over the 20 trading day period immediately preceding the notice of conversion. We will have the right to prepay all or any portion of the principal amount of the notes at any time by paying 103 percent of the principal amount of the portion of any management note subject to prepayment or 100 percent of the principal amount of the portion of the Fireman note subject to prepayment. At our Annual Meeting of Stockholders on May 8, 2014, our stockholders approved our ability to issue shares above a 13,600,000 cap that was in place at the time the original notes were issued.

In connection with the quarterly interest payments on January 1, 2014 and April 1, 2014, we issued a total of approximately $218,000 and $215,000, respectively, in the aggregate principal amount of convertible notes as PIK notes to the holders of the convertible notes.

The holders of the convertible notes also have demand and piggyback registration rights associated with their notes in a separate agreement pursuant to which they have the right to require us to prepare and file a registration statement on Form S-1 or S-3 or any similar form or successor to such forms under the Securities Act, or any other appropriate form under the Securities Act or the Exchange Act, for the resale of all or part of their shares that may be issued under the convertible notes.

Embedded Conversion Derivative

FASB Accounting Standards Codification (ASC) Topic 470 (ASC 470), *Accounting for Convertible Debt Instruments That May be Settled in Cash upon Conversion (Including Partial Cash Settlement)* requires the issuer of convertible debt that may be settled in shares or cash upon conversion at their option, such as our convertible notes, to account for their liability and equity components separately by bifurcating the embedded conversion derivative, or the derivative, from the host debt instrument. Although ASC 470 has no impact on our actual past or future cash flows, it requires us to record non-cash interest expense as the debt discount is amortized.

As a result of the issuance of convertible notes in September 2013, the total potential shares of common stock that could be issued exceeded the amount of shares we were eligible to issue under NASDAQ rules as of that date. Therefore, we were required to value the derivative and recognize the fair value as a long-term liability. The fair value of this derivative at the time of issuance of the convertible notes was $5,496,000 and was recorded as the original debt discount for the purposes of accounting for the debt component of the convertible notes. This debt discount on the Fireman and management notes are being amortized as interest expense using an effective interest rate of 8.32 percent and 4.31 percent, respectively, over the 5.5 year life of the convertible notes.

Table of Contents

On May 8, 2014, we obtained stockholder approval for our ability to issue the common stock underlying the convertible notes in compliance with NASDAQ rules. The derivative liability has been reassessed and it was determined that it should be reclassified to stockholders equity as of May 8, 2014. We determined the fair value of the derivative using a binomial lattice model at that date. The key assumptions for determining the fair value at May 8, 2014 included the remaining time to maturity of approximately four years and ten months, volatility of 60 percent, and the risk-free interest rate of 1.63 percent. The fair value of the embedded conversion derivative was $5,700,000 and $3,430,000 at November 30, 2013 and May 8, 2014, respectively. The decrease in the fair value of the embedded conversion derivative from November 30, 2013 to May 8, 2014 resulted in a gain of $4,820,000, which has been recorded as other income. The primary reason for the decrease in fair value was due to the change in our stock price as compared to the conversion price.

The following table (in thousands) is a summary of the recorded value of the convertible note as of May 31, 2014. The value of the convertible note reflects the present value of the contractual cash flows from the convertible notes and resulted in an original issue discount of $10,490,000 including the additional original discount attributed to the embedded conversion derivative of $5,496,000, that were recorded on September 30, 2013, the issuance date.

		Balance May 31, 2014
Convertible notes - Face value	$	32,445
Less: Original issue discount		(4,994)
Less: Debt discount related to the embedded derivative liability		(5,496)
Convertible notes recorded value on issue date		21,955
Add: PIK notes issued		433
Accretion of debt discounts		1,062
Convertible notes value		23,450
Plus: Embedded derivative liability - fair market value		
Debt as of May 31, 2014	$	23,450

The following table (in thousands) is a summary of our total interest expense as follow:

	Three monthes ended				Six monthes ended			
		May 31, 2014		May 31, 2013		May 31, 2014		May 31, 2013
Contractual coupon interest	$	2,791	$	127	$	5,543	$	197
Amortization of discount and deferred financing costs		564				1,133		
Total interest expense	$	3,355	$	127	$	6,676	$	197

Promissory Notes

In connection with the acquisition, we issued approximately $1,235,000 in aggregate principal amount of promissory notes bearing no interest to certain option holders of Hudson that we subsequently paid on April 1, 2014.

Revolving Credit Agreement

The revolving credit agreement with CIT provides us with a revolving credit facility up to $50,000,000 comprised of a revolving A-1 commitment of up to $1,000,000 and a revolving A commitment of up to $50,000,000 minus the revolving A-1 commitment. Our actual maximum credit availability under the revolving facility varies from time to time and is determined by calculating a borrowing base, which is based on the value of the eligible accounts and eligible inventory minus reserves imposed by CIT. The revolving facility also provides for swingline loans, up to $5,000,000 sublimit, and letters of credit, up to $1,000,000 sublimit. Proceeds from advances under the revolving facility may be used for working capital needs and general corporate purposes and were initially used to pay a portion of the consideration for the acquisition and fees and expenses associated with the acquisition and to repay our existing factor loans. As of May 31, 2014, $23,741,000 was outstanding under our revolving credit facility and approximately $18,000,000 was available to us.

Table of Contents

All unpaid loans under the revolving facility mature on September 30, 2018. We have the right at any time and from time to time to terminate the commitments under the revolving facility by paying in full or prepay any borrowings, in whole or in part, without terminating or reducing the commitment. If we terminate the revolving facility in full prior to the second anniversary of the date, we are required to pay a prepayment fee of one percent or 0.5 percent of the commitments terminated depending on when we make the prepayment.

The revolving facility is guaranteed by us and all of our subsidiaries, and secured by liens on substantially all assets owned by us, including a first-priority lien on certain property, including principally trade accounts, inventory, certain related assets and proceeds of the foregoing, subject to permitted liens and exceptions, and a second-priority lien on all other assets, including intellectual property owned by us, which secures the term loan facility on a first-priority basis.

Advances under the revolving facility are in the form of either base rate loans or LIBOR rate loans. The interest rate for base rate loans under the revolving A commitment fluctuates and is equal to (x) the Alternate Base Rate, which is the greatest of (a) the JPMorgan Chase Bank prime rate; (b) the Federal funds rate plus 0.50 percent; and (c) the 90-Day LIBO Rate, which is the rate per annum equal to the 90 day LIBOR published in the New York City edition of the Wall Street Journal under Money Rates, plus 1 percent, in each case, plus (y) 1.5 percent. The interest rate for LIBOR rate loans under the revolving A commitment is equal to the 90-Day LIBO Rate per annum plus 2.5 percent. The interest rate for base rate loans and LIBOR rate loans under the revolving A-1 commitment is equal to (i) Alternate Base Rate plus 2.5 percent and (ii) the 90-Day LIBO Rate plus 3.5 percent, respectively. Interest on the Revolving Facility is payable on the first day of each calendar month and the maturity date. Among other fees, we pay a commitment fee of 0.25 percent per annum (due quarterly) on the average daily amount of the unused revolving commitment under the revolving facility. We also pay fees with respect to any letters of credit.

The revolving facility contains usual and customary negative covenants for transactions of this type, including, but not limited to, restrictions on our ability and our subsidiaries ability, to create or incur indebtedness; create liens; consolidate, merge, liquidate or dissolve; sell, lease or otherwise transfer any of its assets; substantially change the nature of its business; make investments or acquisitions; pay dividends; enter into transactions with affiliates; amend material documents, prepay certain indebtedness and make capital expenditures. The negative covenants are subject to certain exceptions as specified in the revolving credit agreement.

In addition, the revolving credit agreement requires us to (a) maintain (i) at all times availability under the revolving facility of not less than $5,000,000 and (ii) at all times the sum of availability under the revolving facility plus up to $2,500,000 of unrestricted cash of not less than $7,500,000; and (b) maintain a minimum fixed charge coverage ratio calculated for each four fiscal quarter period at levels set forth in the revolving facility.

As of May 31, 2014, we were in compliance with the covenants under the revolving credit agreement.

Term Loan Credit Agreement

The term loan credit agreement entered into with Garrison provided for term loans of up to $60,000,000 and was fully funded to us as of September 30, 2013. The term loan proceeds were used to finance a portion of the consideration for the acquisition, to pay fees and expenses associated with the acquisition and for working capital needs and other general corporate purposes.

The term loan matures on September 30, 2018. We are allowed to prepay the term loan at any time, in whole or in part, subject to the payment of a prepayment fee if we prepay prior to September 30, 2016. The prepayment fee is 3 percent if we prepay prior to September 30, 2014 and reduces by 1 percent per year until September 30, 2016. In addition, we are required to make prepayments out of extraordinary receipts, certain percentage of the excess cash flow and certain net proceeds of certain asset sales or equity issuances, in each case (other than a prepayment in connection with excess cash flow), subject to the payment of the prepayment fee as set forth above.

Table of Contents

The term loan facility is guaranteed by us and all of our subsidiaries and is secured by liens on substantially all assets owned by us, including a first-priority lien on intellectual property owned by us and a second-priority lien on the revolving credit priority collateral.

The interest rate for the term loan fluctuates and is equal to the rate per annum equal to the British Banker Association Interest Settlement Rate for deposits in Dollars with a term of three months, as appears on the Bloomberg BBAM Screen, plus 10.75 percent. Interest is payable on the first day of each calendar month and the maturity date.

The term loan credit agreement contains usual and customary negative covenants for transactions of this type, including, but not limited to, restrictions on our ability and our subsidiaries ability to create or incur indebtedness; create liens; consolidate, merge, liquidate or dissolve; sell, lease or otherwise transfer any of its assets; substantially change the nature of its business; make investments or acquisitions; pay dividends; enter into transactions with affiliates; amend material documents, prepay certain indebtedness and make capital expenditures. The negative covenants are subject to certain exceptions as specified in the term loan credit agreement.

In addition, the term loan credit agreement also requires us to maintain (a) (i) at all times, availability under the revolving credit facility of not less than $5,000,000 and (ii) at all times as tested on each date that a borrowing certificate is delivered, the sum of availability under the revolving credit facility plus up to $2,500,000 of unrestricted cash of not less than $7,500,000; (b) a minimum fixed charge coverage ratio, (c) a minimum EBITDA, and (d) a leverage ratio not more than the maximum leverage coverage ratio as set forth in the term loan credit agreement.

As of May 31, 2014, we were in compliance with the covenants under the term loan credit agreement.

Amended and Restated Factoring Agreement

See Note 3 Accounts Receivable, Inventory Advances and Due To Factor for a discussion of our Amended and Restated Factoring Agreement.

NOTE 13 - FAIR VALUE DISCLOSURES

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Accounting guidance also establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of us. Unobservable inputs are inputs that reflect our assumptions about the factors market participants would use in valuing the asset or liability. The guidance establishes three levels of inputs that may be used to measure fair value:

Level 1-Quoted prices in active markets for identical assets or liabilities.

Level 2-Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3-Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Table of Contents

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurements. We review the fair value hierarchy classification on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The following table presents our fair value hierarchy for liabilities measured at fair value on a recurring basis as of May 31, 2014 and November 30, 2013 (in thousands):

	As of May 31, 2014				As of November 30, 2013			
	Total	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**
Embedded conversion derivative	$	$	$	$	$ 5,700	$	$	$ 5,700

A reconciliation of the changes in Level 3 fair value measurements is as follows as of May 31, 2014 (in thousands):

	Convertible Notes Embedded Derivative
Balance at November 30, 2013	$ 5,700
Purchases, issuances and settlements	
Total gain included in other expense	(2,270)
Reclassification to stockholder equity	(3,430)
Balance at May 31, 2014	$

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

When used in this Quarterly Report on Form 10-Q, or Quarterly Report, the words may, will, expect, anticipate, intend, estimate, contin believe, plan, project, will be, will continue, will likely result, and similar expressions are intended to identify forward-looking statements Similarly, statements that describe our future expectations, objectives and goals or contain projections of our future results of operations or financial condition are also forward-looking statements. Statements looking forward in time are included in this Quarterly Report pursuant to the safe harbor provision of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially, including, without limitation, the risk that we incurred substantial indebtedness to finance the acquisition of Hudson Clothing Holdings, Inc. and its subsidiaries, or collectively, Hudson, which may decrease our business flexibility and adversely affect our financial results; the risk that we may not be able to remain in compliance with the financial covenants under our financing agreements and that we pledged all our tangible and intangible assets as collateral under these agreements; the risk that we incurred and will continue to incur significant transaction and acquisition related costs in connection with the acquisition and integration of Hudson into our business plan; the risk that our existing stockholders may be diluted if we choose to settle the convertible notes by issuing shares of our common stock; the risk that we will be unsuccessful in integrating Hudson and achieving our intended results as a result of the acquisition of Hudson; the risk that we will be unsuccessful in gauging fashion trends and changing customer preferences; the risk that changes in general economic conditions, consumer confidence or consumer spending patterns will have a negative impact on our financial performance or strategies; the risks associated with leasing retail space and operating our own retail stores; the highly competitive nature of our business in the United States and internationally and our dependence on consumer spending patterns, which are influenced by numerous other factors; our ability to respond to the business environment and fashion trends; continued acceptance of our brands in the marketplace; our ability to meet and maintain requirements for listing on Nasdaq; successful implementation of any growth or strategic plans; effective inventory management; the risk of cyber attacks and other system risks; our ability to continue to have access on favorable terms to sufficient sources of liquidity necessary to fund ongoing cash requirements of our operations, which access may be adversely impacted by a number of factors, including the reduced availability of credit, generally, and the substantial tightening of the credit markets, including lending by financial institutions, who are sources of credit for us, the recent increase in the cost of capital, the level of our cash flows, which will be impacted by the level of consumer spending and retailer and consumer acceptance of its products; our ability to generate positive cash flow from operations; competitive factors, including the possibility of major customers sourcing product overseas in competition with our products; the risk that acts or omissions by our third party vendors could have a negative impact on our reputation; a possible oversupply of denim in the marketplace; and the risk factors contained in our reports filed with the Securities and Exchange Commission, or SEC, pursuant to the Securities Exchange Act of 1934, as amended, or Exchange Act, including our Annual Report on Form 10-K for the year ended November 30, 2013, or Annual Report, and in Part II, Item 1A of this Quarterly Report on Form 10-Q under the heading Risk Factors. 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 any obligation 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, except as required by law.

Introduction

This discussion and analysis summarizes the significant factors affecting our results of operations and financial conditions during the three and six month periods ended May 31, 2014 and 2013. This discussion should be read in conjunction with our Audited Consolidated Financial Statements and the related notes thereto contained in our Annual Report and our Condensed Consolidated Financial Statements, Notes to Unaudited Condensed Consolidated Financial Statements and supplemental information contained in this Quarterly Report.

Executive Overview

Our principal business activity is the design, development and worldwide marketing of apparel products, which include denim jeans, related casual wear and accessories that bear the brand Joe s® and Hudson®. Joe s® was

Table of Contents

established in 2001 and the brand is recognized in the premium denim industry, an industry term for denim jeans with price points generally of $120 or more, for its quality, fit and fashion-forward designs. Hudson was established in 2002, and is similarly recognized as a premier designer and marketer of women s and men s premium branded denim apparel with similar price points to Joe s®. 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 for our Joe s® brand, and to numerous retailers, which include major department stores, specialty stores and distributors around the world.

On September 30, 2013, we acquired all of the outstanding equity interests in Hudson, a designer and marketer of women s and men s premium branded denim apparel, for an aggregate purchase price consisting of approximately $65,416,000 in cash and approximately $27,451,000 in convertible notes, net of discount. We also issued promissory notes, bearing no interest, for approximately $1,235,000 in aggregate principal amount to certain option holders of Hudson that we subsequently paid on April 1, 2014. This acquisition provides us with an additional proven premium denim brand, enhances our prospects for growth across wholesale, retail and e-commerce, both domestically and overseas, and creates the potential for improved purchasing authority with current and future vendors and other operational efficiencies. The acquired business represented approximately 40 percent of our consolidated total assets at November 30, 2013 and approximately 11 percent of consolidated net sales for the year ended November 30, 2013.

Our Joe s® product line includes women s and men s denim jeans, pants, shirts, sweaters, jackets and other apparel products. We also offer women s handbags and clutches, children s products, shoes, belts and leather goods produced by us or under various license agreements and we receive royalty payments based upon net sales from licensees. Our Hudson® product line includes women s, men s and children s denim jeans, pants, jackets and other bottoms. Similar to the evolution of Joe s®, we expect to look into offering a range of additional products under the Hudson® brand name.

In the first quarter of fiscal 2012, we launched a new brand, else , which was initially sold primarily at Macy s. The brand has price points starting at $68 and was created to reach young women who are looking for a premium denim-like product at a more affordable price. We have created a unique product that incorporates staple denim fits such as skinny, boot cut, cropped, and boyfriend, in a variety of styles, as well as shorts and denim jackets. We believe that the future of the else brand as we move beyond our distribution arrangement with Macy s is limited and we are evaluating its marketability internationally versus domestically.

Through May 31, 2014, we recognized growth through increases in our retail sales, and the addition of sales from our acquisition of Hudson. We acquired Hudson on September 30, 2013 and our results of operations reflect the consolidation of Hudson as one of our wholly owned subsidiaries from that date. Hudson s financial results are included in each of the two reportable segments in a manner consistent with our reporting structure. Therefore, our results of operations through May 31, 2014 are not necessarily indicative of future results.

For the remainder of 2014, we believe that our growth drivers will be dependent upon the integration and addition of sales from our acquisition of Hudson, cost savings resulting from operational benefits or synergies of the two brands, the performance of our retail stores, continued increases from our international and men s sales, performance of our licensee s under their respective agreements for children s products and shoes and enhancement of products available to our customers. Since our retail expansion commenced in 2008, we currently operate 33 retail stores, 13 of which are full price retail stores and 20 of which are outlet stores. During fiscal 2013, we opened an additional six stores, consisting of five full price retail stores and one outlet store. We continue to look for additional leases for further expansion, but we currently do not any signed leases for store openings in 2014 or beyond. We believe that through our retail stores, we are able to enhance our net sales and gross profit and sell overstock or slow moving items at higher profit margins. In addition, we selectively license our Joe s® and Hudson® brands 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. In addition, on September 30, 2013, we acquired Hudson, a designer and marketer of women s and men s premium branded denim apparel. Hudson operates as a wholly owned subsidiary and we expect Hudson will enhance our sales and operating income as we integrate their operations into ours to realize cost savings and other operational benefits or synergies. We funded the acquisition through a combination of the convertible notes, a revolving credit facility and term loan. In connection with these agreements, we have certain restrictions on our ability and our subsidiaries ability, to create or incur indebtedness; create

Table of Contents

liens; consolidate, merge, liquidate or dissolve; sell, lease or otherwise transfer any of its assets; substantially change the nature of its business; make investments or acquisitions; pay dividends; enter into transactions with affiliates; amend material documents, prepay certain indebtedness and make capital expenditures with certain exceptions. In addition, all of our assets, including our trademarks, are pledged as collateral under the loans. Hudson will continue to operate its brand separately, as a wholly owned subsidiary; however, we expect to integrate some of the non-design and marketing functions into ours.

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

Our reportable business segments are Wholesale and Retail. We manage, evaluate and aggregate our operating segments for segment reporting purposes primarily on the basis of business activity and operation. Our Wholesale segment is comprised of sales of Joe s® and Hudson® products to retailers, specialty stores and international distributors, revenue from licensing agreements and includes expenses from sales, trade shows, distribution, product samples and customer service departments. Our Retail segment is comprised of sales to consumers through full-price retail stores, outlet stores and through our online retail sites at *www.joesjeans.com* and *www.hudsonjeans.com*. Our Corporate and other is comprised of expenses from corporate operations, which include the executive, finance, legal, human resources, design and production departments and general advertising expenses associated with our products.

Comparison of Three Months Ended May 31, 2014 to Three Months Ended May 31, 2013

	Three months ended (dollar values in thousands)			
	May 31, 2014	**May 31, 2013**	**$ Change**	**% Change**
Net sales	$ 48,167	$ 30,874	$ 17,293	56%
Cost of goods sold	25,594	17,369	8,225	47%
Gross profit	22,573	13,505	9,068	67%
Gross margin	47%	44%		
Selling, general & administrative	18,125	10,840	7,285	67%
Depreciation & amortization	1,160	542	618	114%
Operating income	3,288	2,123	1,165	55%
Interest expense	3,355	127	3,228	2,542%
Other income	(4,818)		(4,818)	N/A
Income before provision for taxes	4,751	1,996	2,755	138%
Income tax expense	2,412	823	1,589	193%
Net income and comprehensive income	$ 2,339	$ 1,173	$ 1,166	99%

Table of Contents

Three Months Ended May 31, 2014 Overview

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

Three months ended