

JOE'S JEANS INC.
Form 10-Q
April 11, 2011
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2011

OR

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

For the transition period from to

Commission File Number: 0-18926

JOE S JEANS INC.

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of incorporation or organization)

11-2928178

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

2340 South Eastern Avenue, Commerce, California

(Address of principal executive offices)

90040

(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. Yes 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). Yes 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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of the registrant's common stock outstanding as of April 11, 2011 was 64,440,542.

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JOE S JEANS INC.

QUARTERLY REPORT ON FORM 10-Q

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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)

	February 28, 2011 (unaudited)	November 30, 2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 7,995	\$ 6,410
Accounts receivable, net	2,541	2,374
Inventories, net	27,411	30,245
Due from related parties	13	38
Deferred income taxes, net	3,225	3,225
Prepaid expenses and other current assets	662	1,092
Total current assets	41,847	43,384
Property and equipment, net	6,217	5,721
Goodwill	3,836	3,836
Intangible assets	24,000	24,000
Deferred income taxes, net	4,179	4,179
Other assets	424	349
Total assets	\$ 80,503	\$ 81,469
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 7,958	\$ 10,373
Due to factor	5,975	4,972
Due to related parties	374	333
Total current liabilities	14,307	15,678
Deferred rent	1,044	918
Total liabilities	15,351	16,596
Commitments and contingencies		
Stockholders equity		
Common stock, \$0.10 par value: 100,000 shares authorized, 64,712 shares issued and 64,440 outstanding (2011) and 64,131 shares issued and 63,859 outstanding (2010)	6,473	6,415
Additional paid-in capital	104,395	104,364
Accumulated deficit	(42,659)	(42,849)
Treasury stock, 272 shares	(3,057)	(3,057)

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Total stockholders' equity		65,152		64,873
Total liabilities and stockholders' equity	\$	80,503	\$	81,469

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

Table of Contents**JOE S JEANS INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(in thousands, except per share data)

	Three months ended	
	February 28, 2011	February 28, 2010
	(unaudited)	
Net sales	\$ 21,180	\$ 23,184
Cost of goods sold	10,795	11,818
Gross profit	10,385	11,366
Operating expenses		
Selling, general and administrative	9,589	9,734
Depreciation and amortization	273	213
	9,862	9,947
Operating income	523	1,419
Interest expense	125	91
Income before provision for taxes	398	1,328
Income taxes	208	634
Net income	\$ 190	\$ 694
Earnings per common share - basic	\$ 0.00	\$ 0.01
Earnings per common share - diluted	\$ 0.00	\$ 0.01
Weighted average shares outstanding		
Basic	63,697	61,034
Diluted	64,617	63,133

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

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JOE S JEANS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three months ended	
	February 28, 2011	February 28, 2010
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash provided by (used in) operating activities	\$ 1,670	\$ (1,978)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(769)	(92)
Net cash used in investing activities	(769)	(92)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payments to) factor borrowing, net	1,003	(389)
Proceeds from exercise of warrants		653
Proceeds from exercise of options		10
Taxes on net settled options exercised		(653)
Payment of taxes on restricted stock units	(319)	(123)
Net cash provided by (used in) financing activities	684	(502)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,585	(2,572)
CASH AND CASH EQUIVALENTS, at beginning of period	6,410	13,195
CASH AND CASH EQUIVALENTS, at end of period	\$ 7,995	\$ 10,623

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

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JOE S JEANS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

	Common Stock Shares	Par Value	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total Stockholders Equity
Balance, November 30, 2009	61,494	\$ 6,151	\$ 103,605	\$ (45,450)	\$ (2,800)	\$ 61,506
Net income (unaudited)				694		694
Stock-based compensation, net of withholding taxes (unaudited)			295			295
Exercise of warrants (unaudited)	480	48	605			653
Net settled warrants exercised (unaudited)	86	9	(9)			
Exercise of stock options (unaudited)	8	1	9			10
Net settled options exercised (unaudited)	647	65	(65)			
Taxes on net settled options exercised (unaudited)			(653)			(653)
Issuance of restricted stock (unaudited)	287	29	(29)			
Balance, February 28, 2010 (unaudited)	63,002	\$ 6,303	\$ 103,758	\$ (44,756)	\$ (2,800)	\$ 62,505
Balance, November 30, 2010	64,131	\$ 6,415	\$ 104,364	\$ (42,849)	\$ (3,057)	\$ 64,873
Net income (unaudited)				190		190
Stock-based compensation, net of withholding taxes (unaudited)			89			89
Issuance of restricted stock (unaudited)	581	58	(58)			
Balance, February 28, 2011 (unaudited)	64,712	\$ 6,473	\$ 104,395	\$ (42,659)	\$ (3,057)	\$ 65,152

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

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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 months ended February 28, 2011 and 2010 and the related footnote information have been prepared on a basis consistent with our audited consolidated financial statements as of November 30, 2010 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. Our primary current operating subsidiary is Joe s Jeans Subsidiary Inc., or Joe s Jeans Subsidiary. All significant inter-company transactions have been eliminated. We operate in two primary business segments: Wholesale and Retail. Our Wholesale segment is comprised of sales to retailers, specialty stores and distributors and includes expenses from marketing, sales, distribution and customer service departments. Also, some international sales are made directly to wholesale customers who operate retail stores. Our Retail segment is comprised of sales to consumers through full-price retail stores, outlet stores and through the www.joesjeans.com/shop internet site. We opened our first full price retail store in October 2008 in Chicago, Illinois and currently operate four full price retail stores and thirteen outlet stores in outlet centers around the country. Our Corporate and other is comprised of corporate operations, which include the executive, finance, legal, and human resources departments, design and production.

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

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

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,

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results of operations and cash flows for the interim periods presented. The results for the three months ended February 28, 2011 are not necessarily indicative of the results anticipated for the entire year ending November 30, 2011. 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.

Table of Contents**NOTE 2 ADOPTION OF ACCOUNTING PRINCIPLES**

In May 2009, the Financial Accounting Standards Board, or 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 disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In February 2010, the FASB issued an update to a standard to amend the topic of Subsequent Events. As a result of this update, we will no longer disclose the date through which we evaluated subsequent events in the financial statements - either in originally issued financial statements or reissued financial statements. This change addresses practice issues for us with respect to processes around issuing financial statements and Securities and Exchange Commission or SEC registration requirements (e.g., incorporation by reference of previously issued financial statements). In addition, we will not have to disclose the date that financial statements were reissued unless the financial statements are revised - for either an error correction or other retrospective application of GAAP. We will evaluate subsequent events through the date that the financial statements are issued. We adopted this guidance in the second fiscal quarter of 2010, and this guidance did not have a material impact on our financial statements.

In December 2009, we adopted an update to a standard related to determining whether instruments granted in share-based payment transactions are participating securities. This update defines unvested share-based payment awards that contain nonforfeitable rights to dividends as participating securities that should be included in computing earnings per share, or EPS, using the two-class method. Certain of our non-vested restricted stock awards previously granted qualify as participating securities. As required, all current and prior period EPS were evaluated. The adoption did not have a material impact on our EPS.

NOTE 3 ACCOUNTS RECEIVABLE, INVENTORY ADVANCES AND DUE TO FACTOR

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

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

	February 28, 2011		November 30, 2010	
Non-recourse receivables assigned to factor	\$	13,357	\$	13,571
Client recourse receivables		339		146
Total receivables assigned to factor		13,696		13,717
Allowance for customer credits		(2,789)		(2,967)
Net loan balance from factored accounts receivable		(11,224)		(10,013)
Net loan balance from inventory advances		(5,658)		(5,709)
Due to factor	\$	(5,975)	\$	(4,972)
Non-factored accounts receivable	\$	3,579	\$	3,263
Allowance for customer credits		(483)	\$	(440)
Allowance for doubtful accounts		(555)		(449)
Accounts receivable, net of allowance	\$	2,541	\$	2,374

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Of the total amount of receivables sold by us as of February 28, 2011 and November 30, 2010, we hold the risk of payment of \$339,000 and \$146,000, respectively, in the event of non-payment by the customers.

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CIT Commercial Services

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

As of February 28, 2011, our cash availability with CIT was approximately \$1,000,000. 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, our trademarks are not encumbered.

In May 2010, the parties amended the accounts receivable agreement to provide for a change in the factoring fees, an extension of the agreement and additional termination rights. The accounts receivable agreement may be terminated by CIT upon 60 days' written notice or immediately upon the occurrence of an event of default as defined in the agreement. The accounts receivable agreement may be terminated by us upon 60 days' written notice prior to June 30, 2011, or earlier provided that the minimum factoring fees have been paid for the respective period or CIT fails to fund us for five consecutive days. The inventory agreement may be terminated once all obligations are paid under both agreements or if an event of default occurs as defined in the agreement. We do not expect to terminate the agreements and expect them to renew on the same terms and conditions on June 30, 2011.

From June 1 to June 30, 2010, we paid to CIT a factoring rate of 0.6 percent to factor accounts which CIT bore the credit risk, subject to discretionary surcharges, and 0.4 percent for accounts which Joe's bore the credit risk. The interest rate associated with borrowings under the inventory lines and factoring facility is 0.25 percent plus the Chase prime rate. Beginning July 1, 2010, the factoring rate changed to 0.55 percent for accounts which CIT bears the credit risk, subject to discretionary surcharges, up to \$40,000,000 of invoices factored, 0.50 percent over \$40,000,000 of invoices factored and 0.35 percent for accounts which we bear the credit risk. The interest rate associated with borrowings under the inventory lines and factoring facility is 0.25 percent plus the Chase prime rate. As of February 28, 2011, the Chase prime rate was 3.25 percent.

In the event we need additional funds, we have also established a letter of credit facility with CIT to allow us to open letters of credit for a fee of 0.25 percent of the letter of credit face value with international and domestic suppliers, subject to availability. At February 28, 2011, we had one letter of credit outstanding in the aggregate amount of \$4,000.

Table of Contents**NOTE 4 INVENTORIES**

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):

	February 28, 2011	November 30, 2010
Finished goods	\$ 20,298	\$ 23,347
Finished goods consigned to others	337	376
Work in progress	1,534	1,508
Raw materials	6,513	6,081
	28,682	31,312
Less allowance for obsolescence and slow moving items	(1,271)	(1,067)
	\$ 27,411	\$ 30,245

Joe's did not record any charges to its inventory reserve allowance for the three month period ended February 28, 2011 and 2010, respectively.

NOTE 5 RELATED PARTY TRANSACTIONS

As of February 28, 2011 and November 30, 2010, our related party balance consisted of amounts due to and due from certain related parties, as further described below, as follows (in thousands):

	February 28, 2011	November 30, 2010
Due from related parties		
Kids Jeans LLC	\$ 13	\$ 13
Albert Dahan		25
Total due from related parties	\$ 13	\$ 38
Due to related parties		
Joe Dahan	\$ 374	\$ 333
Albert Dahan		
Total due to related parties	\$ 374	\$ 333

Joe Dahan

As part of the consideration paid in connection with the merger, Mr. Dahan is entitled to a certain percentage of our gross profit in any applicable fiscal year until October 2017. See Note 9 - Contingent Consideration Payments for a further discussion on the contingent consideration.

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For the three months ended February 28, 2011 and 2010, expenses of \$451,000 and \$464,000, respectively, were recorded in the statement of income related to the contingent consideration payments made to Mr. Dahan under this agreement.

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 first quarter of fiscal 2011 and 2010, payments of \$158,000, and \$122,000, respectively, were made to Mr. Albert Dahan under this arrangement.

Effective as of June 1, 2009, we entered into a license agreement for the license of the children's product line with Kids Jeans LLC, or Kids LLC, an entity in which Mr. Albert Dahan holds an interest and has voting control. Under the

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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 pays us 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. We expect to recognize the royalty revenue based upon a percentage as set forth in the agreement of the licensee's 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. All of the advanced payments have been recognized as income, and no additional advances have been received after the first year advance.

NOTE 6 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:

	Three months ended (in thousands, except per share data)	
	February 28, 2011	February 28, 2010
Basic earnings per share computation:		
Numerator:		
Net income	\$ 190	\$ 694
Denominator:		
Weighted average common shares outstanding	63,697	61,034
Income per common share - basic		
Net income	\$ 0.00	\$ 0.01
Diluted earnings per share computation:		
Numerator:		
Net income	\$ 190	\$ 694
Denominator:		
Weighted average common shares outstanding	63,697	61,034
Effect of dilutive securities:		
Restricted shares, RSUs and options	920	2,099
Dilutive potential common shares	64,617	63,133
Income per common share - dilutive		
Net income	\$ 0.00	\$ 0.01

For the three months ended February 28, 2011 and 2010, currently exercisable options in the aggregate of 675,000 and 900,000, respectively, have been excluded from the calculation of diluted income per share because the exercise prices of such options and unvested restricted shares and RSUs were out-of-the-money.

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Shares Reserved for Future Issuance

As of February 28, 2011, shares reserved for future issuance include (i) 868,290 shares of common stock issuable upon the exercise of stock options granted under the incentive plans; (ii) 2,857,715 shares of common stock issuable upon the vesting of RSUs; and (iii) an aggregate of 3,436,408 shares of common stock available for future issuance under the 2004 Stock Incentive Plan.

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.

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

We 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 2006. There are currently no ongoing federal or state income tax examination or an examinations.

We had net operating loss carryforwards of \$40,144,000 at the end of fiscal 2010 for federal tax purposes that will expire through 2026. We also had \$25,489,000 of net operating loss carryforwards available for California which begin to expire in 2014.

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

NOTE 8 STOCKHOLDERS EQUITY

Stock Incentive Plans

In September 2000, we adopted the 2000 Director Stock Incentive Plan, or the 2000 Director Plan, under which nonqualified stock options were granted to members of our Board of Directors in lieu of cash director fees. After the adoption of the 2004 Stock Incentive Plan in June 2004, we no longer granted options pursuant to the 2000 Director Plan; however, the plan remains in effect for awards outstanding as of the adoption of the 2004 Stock Incentive Plan. As of February 28, 2011, options to purchase up to 93,290 shares of common stock remained outstanding under the 2000 Director Plan.

On June 3, 2004, we adopted the 2004 Stock Incentive Plan, or the 2004 Incentive Plan, and have amended it to increase the number of shares authorized for issuance to 12,265,172 shares of common stock. 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. 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 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, we have issued both restricted common stock and restricted common stock units, or RSUs, to

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our officers, directors and employees pursuant to the 2004 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 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 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. 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 February 28, 2011, 3,436,408 shares remained available for issuance under the 2004 Incentive 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, 2010, there was a total of \$406,000 of stock based compensation expense recognized during the three months ended February 28, 2011.

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 first quarter of fiscal 2011 (in actual amounts) for service as a member:

Granted as of:	February 28, 2011	
	Number of options	Exercise price
2002	40,000	\$ 1.00
2002	31,496	\$ 1.27
2003	30,768	\$ 1.30
2004	320,000	\$ 1.58
2005	300,000	\$ 5.91
2006	450,000	\$ 1.02
	Number of restricted shares issued	
2007		320,000
2008		473,455
2009		371,436
2010		131,828
2011		

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Exercise prices for options outstanding as of February 28, 2011 are as follows:

Exercise Price	Options Outstanding and Exercisable	
	Number of shares	Weighted-Average Remaining Contractual Life
\$1.00 - \$1.02	140,000	3.9
\$1.27 - \$1.30	53,290	1.9
\$1.58 - \$1.63	225,000	3.5
\$5.91	450,000	4.3
	868,290	3.9

The following table summarizes the stock option activity by plan for the respective periods (in actual amounts):

	Total Number of Shares	2004 Incentive Plan	2000 Director Plan
Outstanding at November 30, 2010	868,290	775,000	93,290
Granted			
Exercised			
Forfeited / Cancelled			
Outstanding and exercisable at February 28, 2011	868,290	775,000	93,290
Outstanding at November 30, 2009	3,226,046	3,022,500	203,546
Granted			
Exercised	(1,840,192)	(1,832,500)	(7,692)
Forfeited / Cancelled			
Outstanding and exercisable at February 28, 2010	1,385,854	1,190,000	195,854

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Stock 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, 2010	868,290	\$ 3.73		
Granted				
Exercised				
Expired				
Forfeited				
Outstanding and exercisable at February 28, 2011	868,290	\$ 3.73	3.9	\$ 12,000
Weighted average per option fair value of options granted during the year			N/A	

	Options	Weighted average exercise price	Weighted average remaining contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at November 30, 2009	3,226,046	\$ 1.78		
Granted				
Exercised	(1,840,192)	1.01		
Expired				
Forfeited				
Outstanding and exercisable at February 28, 2010	1,385,854	\$ 2.82	4.5	\$ 788,773
Weighted average per option fair value of options granted during the year			N/A	

As of February 28, 2011, there was \$3,175,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the 2004 Incentive Plan. That unrecognized compensation cost is expected to be recognized over a weighted-average period of 2.4 years.

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A summary of the status of restricted common stock and RSUs as of November 30, 2009 and November 30, 2010, and changes during the three months ended February 28, 2010 and 2011, respectively, are presented below:

	Restricted Shares	Restricted Stock Units	Total Shares	Weighted-Average Grant-Date Fair Value	
				Restricted Shares	Restricted Stock Units
Outstanding at November 30, 2010	408,857	3,126,967	3,535,824	\$ 0.86	\$ 0.90
Granted	260,182	251,363	511,545	1.65	1.65
Vested					
Issued		(320,854)	(320,854)		0.98
Cancelled		(199,761)	(199,761)		0.87
Forfeited					
Outstanding at February 28, 2011	669,039	2,857,715	3,526,754	\$ 1.17	\$ 0.96
Outstanding at November 30, 2009	691,903	4,773,979	5,465,882	\$ 0.94	\$ 0.84
Granted					
Vested					
Issued		(286,549)	(286,549)		0.71
Cancelled		(112,088)	(112,088)		0.71
Forfeited		(31,118)	(31,118)		1.10
Outstanding at February 28, 2010	691,903	4,344,224	5,036,127	\$ 0.94	\$ 0.85

In the three months ended February 28, 2011, there were 511,545 shares of restricted stock or RSUs granted. In the three months ended February 28, 2011, we issued 320,854 shares of its common stock to holders of RSUs, respectively, and withheld or cancelled 199,761 RSUs.

NOTE 9 COMMITMENTS AND CONTINGENCIES*Contingent Consideration Payments*

As part of the consideration paid in connection with the merger and without regard to continued employment, Mr. Dahan is entitled to a certain percentage of the gross profit earned by us in any applicable fiscal year until October 2017. Mr. Dahan is entitled to the following: (i) 11.33 percent of the gross profit from \$11,251,000 to \$22,500,000; (ii) three percent of the gross profit from \$22,501,000 to \$31,500,000; (iii) two percent of the gross profit from \$31,501,000 to \$40,500,000; (iv) one percent of the gross profit above \$40,501,000. The payments may be paid in advance on a monthly basis based upon estimates of gross profits after the assumption has been reached that the payments are likely to be paid. At the end of each quarter, any overpayments are offset against future payments and any significant underpayments are made. No payments are made if the gross profit is less than \$11,250,000. Gross Profit is defined as net sales of the Joe's® brand less cost of goods sold. See Note 5 Related Party Transactions for payments made to Mr. Dahan.

Retail Leases

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

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As of February 28, 2011, the future minimum rental payments under non-cancelable retail operating leases with lease terms in excess of one year were as follows (in thousands):

2011 Remainder of the year	\$	2,636
2012		3,640
2013		3,882
2014		4,144
2015		4,278
Thereafter		20,283
	\$	38,863

NOTE 10 SEGMENT INFORMATION

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

	Three months ended	
	(dollar values in thousands)	
	February 28, 2011	February 28, 2010
Net sales:		
Wholesale	\$ 17,497	\$ 21,386
Retail	3,683	1,798
	\$ 21,180	\$ 23,184
Gross Profit:		
Wholesale	\$ 7,893	\$ 10,188
Retail	2,492	1,178
	\$ 10,385	\$ 11,366
Operating income (loss):		
Wholesale	\$ 4,441	\$ 6,214
Retail	(119)	(12)
Corporate and other	(3,799)	(4,783)
	\$ 523	\$ 1,419

	Three months ended	
	(dollar values in thousands)	
	February 28, 2011	February 28, 2010
Capital expenditures:		
Wholesale	\$ 141	\$
Retail	610	81
Corporate and other	18	11
	\$ 769	\$ 92

	February 28, 2011	November 30, 2009
Total assets:		
Wholesale	\$ 44,643	\$ 49,171

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Retail	7,842	4,833
Corporate and other	28,018	28,181
	\$ 80,503	\$ 82,185

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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, continue, believe 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, continued acceptance of our product, product demand, competition, capital adequacy and the potential inability to raise additional capital if required, 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, 2010. 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 month period ended February 28, 2011 and 2010. This discussion should be read in conjunction with our Condensed Consolidated Financial Statements, Notes to 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 our Joe's® products, which include denim jeans, related casual wear and accessories. Since Joe's® was established in 2001, the brand is recognized in the premium denim industry, an industry term for denim jeans with price points generally of \$120 or more, for its quality, fit and fashion-forward designs. Because we focus on design, development and marketing, we rely on third parties to manufacture our apparel products. We sell our products through our own retail stores and 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. 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

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with Joe Dahan to serve as one of our executive officers. Mr. Dahan is our largest stockholder. As of April 11, 2011, he owned approximately 17 percent of our total shares outstanding and also is a member of our Board of Directors.

Beginning in 2009, we began to re-examine our collection pieces and re-launched several categories with their own unique branding along with the Joe's® logo or name. In the fall of fiscal 2009, we launched a line of unisex woven shirts in different fits and fabrications called The Shirt by Joe's, which was followed by The T, The Pant, The Bag and The Belt. We believe that these additional products added to our core and fashion denim will be a growth driver for our overall business in fiscal 2011.

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For the remainder of 2011, we believe that our growth drivers will be dependent upon 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, children's products, shoes and enhancement of the products available to our customer's branded with our Joe's name and logos, including woven shirts, tees and pants. At the beginning of fiscal 2010, we operated two full price stores and four outlet stores. Currently, we operate four full price retail stores and 15 outlet stores. We have plans to open additional outlet stores in fiscal 2011 and are looking for additional leases for further expansion. We believe that through our retail stores, we are able to enhance our net sales and gross profit and sell overstock or slow moving items at higher profit margins. In addition, we selectively license the Joe's® brand for other product categories. By licensing certain product categories, we do not incur significant capital 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 orders take place from late fall to early spring. The greatest volume of shipments and actual 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. Furthermore, because of the limited number of full price retail and outlet stores open during the first quarter of fiscal 2010 and the growing number of full-price retail and outlet stores opened throughout fiscal 2010, we continue to assess the seasonality of our business on our retail segment and its potential impact on our financial results.

We operate in two primary business segments: Wholesale and Retail. Our Wholesale segment is comprised of sales to retailers, specialty stores and distributors and includes expenses from marketing, sales, distribution and customer service departments. Also, some international sales are made directly to wholesale customers who operate retail stores. Our Retail segment is comprised of sales to consumers through full-price retail stores, outlet stores and through the www.joesjeans.com/shop internet site. Our Corporate and other is comprised of expenses from corporate operations, which include the executive, finance, legal, and human resources departments, design and production.

Comparison of Three Months Ended February 28, 2011 to Three Months Ended February 28, 2010

	Three months ended		
	(dollar values in thousands)		
February 28, 2011	February 28, 2010	\$ Change	% Change