JOE'S JEANS INC.
Form 10-K
February 13, 2014



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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

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

**For the fiscal year ended November 30, 2013**
**Commission file number: 0-18926**

# JOE'S JEANS INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **11-2928178** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**2340 South Eastern Avenue, Commerce, California 90040**
(Address of principal executive offices, including zip code)

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

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

**Common Stock, $0.10 par value**
(Title of Class)

**The Nasdaq Stock Market, LLC**
**(NASDAQ Capital Market)**
(Name of exchange on which registered)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

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

Indicate by check mark whether the registrant 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 ý No o

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant based on the closing price of the registrant's common stock on The Nasdaq Stock Market, LLC as of May 31, 2013, was approximately $89,492,000.00.

The number of shares of the registrant's common stock outstanding as of February 13, 2014 was 68,730,977.

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

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**JOE'S JEANS INC.**

**FORM 10-K ANNUAL REPORT**

**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2013**

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## PART I

**Forward-Looking Statements**

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

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

- the risk that we 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;

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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

other risks.

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

We undertake no obligation to publicly revise these forward-looking statements to reflect events, circumstances or the occurrence of unanticipated events that occur subsequent to the date of this Annual Report, except as may be required by law. As used in this Annual Report, the terms "we," "us," "our," "Joe's®," "Hudson®," "Hudson" and "Joe's Jeans" refer to Joe's Jeans Inc. and our subsidiaries and affiliates, which includes our wholly owned subsidiary, Hudson and its subsidiaries, unless the context indicates otherwise. 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.

## ITEM 1. BUSINESS

### Overview

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

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 payable on April 1, 2014 to certain option holders of Hudson. This acquisition provides us with an additional proven premium denim brand and 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 represents approximately 40 percent of our consolidated total assets

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at November 30, 2013 and approximately three percent of consolidated net loss for the year ended November 30, 2013.

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 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. 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.

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 products under the Hudson® brand name.

In October 2008, we opened our first full price Joe's® branded retail store in Chicago, Illinois. We currently operate 11 full price Joe's® retail stores and 19 Joe's® outlet stores in outlet centers, shopping malls and street locations around the country. We believe that retail stores enhance our net sales and gross profit and the outlet stores allow us to sell our overstock or slow moving items at higher profit margins. We continue to look for additional leases for further expansion, but have no signed leases for store openings in 2014 or beyond.

In the first quarter of fiscal 2012, we launched a new brand, else , 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.

During fiscal 2013, we recognized growth through increases in our retail sales, our Joe's® wholesale 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. Therefore, our results of operations for the fiscal year 2013 are not necessarily indicative of future results. However, we expect the acquisition to enhance our sales and operating income as we integrate their operations into ours to realize cost savings and other operational benefits or synergies.

**Principal Products and Revenue Sources**

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

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

Our Joe's® children's product offerings include basic denim bottoms, tops, t-shirts and jackets for infants, toddlers, girls and boys. Since 2009, we have licensed this category to a related party in exchange for certain guaranteed minimums and royalty payments based upon net sales. Through licensing, we believe that we are able to produce and sell these products without requiring any additional capital investment or incremental operating expenses.

Our Hudson® product line includes women's, men's and children's denim jeans, pants and other bottoms. Similar to the evolution of Joe's®, we expect to look into offering a range of products under the Hudson® brand name.

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 our 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 products are marketed to U.S. retailers through third party and company owned showrooms located in New York, Los Angeles and other major cities in the U.S. and to international retailers through international distributors, agents or licensed stores in the various countries. Our Retail segment is comprised of sales of our products to consumers through Joe's® full-price retail stores and outlet stores and through our retail internet sites for both our Joe's® and Hudson® products. 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 brands.

**Product Design, Development and Sourcing**

Our Joe's® product development is managed internally by a team of designers led by Joe Dahan, our Creative Director, and our Hudson® product development is managed by head designer, Ben Taverniti. Each design team is responsible for the creation, development and coordination of the product group offerings within each collection. We typically develop four collections per year for spring, summer, fall/back-to-school, and winter/holiday, with certain core basic styles offered throughout the year. Both Joe Dahan and Ben Taverniti are instrumental parts of our design process. When we acquired both brands, we also assumed or entered into employment agreements with both designers. Neither the loss of Mr. Dahan nor Mr. Taverniti as an employee would change any rights we have to the brands they design, respectively. While each person's current employment agreement contains customary provisions related to continued employment, we believe that should either employee's employment terminate, we would be able to find alternative sources for the development and design of our products. See "Risk Factors  Our future success depends on our ability to attract and retain talented personnel and retain our key employees, including our chief executive officer and creative director."

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

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

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

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

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

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

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**Trademarks and License Agreements**

We own a variety of pending applications and registrations throughout the world for a variety of trademarks and service marks, in addition to the common law rights associated therewith for our various brands.

For our Joe's® brand, these marks include the "Joe's" and "JD" logos and "Joe's Jeans" as applied to apparel, footwear and/or other fashion accessories in numerous classes as well as for retail store services for such goods. For our Hudson® brand, these marks include the "Hudson" and "Hudson" logos and "Let Yourself Go" as applied to apparel, as well as for online retail store services for such goods.

In addition to the above, in the United States, we own five trademark registrations for certain pocket stitch designs for jeans for Joe's® and have two trademarks published for back pockets designs for Hudson®. As of February 13, 2014, we own approximately 12 U.S. trademark registrations (excluding the aforementioned five trademark registrations for certain pocket stitch designs for jeans), of which two are for Hudson® and three pending U.S. trademark applications (of which one application is for the mark else and two are for Hudson®). As of February 13, 2014, we also own a variety of registrations and pending applications for the above-referenced marks as applied to apparel, footwear, and related fashion accessories in various foreign jurisdictions throughout the world. More specifically, approximately 79 registrations have been issued in jurisdictions such as Australia, Canada, China, the European Community which comprises 28 member countries, Hong Kong, India, Japan, South Korea, Mexico, New Zealand, Norway, Russia, Switzerland and Turkey, with two of the aforementioned 57 "foreign registrations" are for else and 22 of the aforementioned 57 "foreign registrations" are for Hudson®. Moreover, we continue to prosecute 62 applications in China, the European Community, Kuwait, Philippines, Thailand, Turkey, and the United Arab Emirates that we believe are necessary in order to protect and enforce our rights abroad. Of the 62 "foreign applications", two applications are for else in China, one application is for else in the European Union, and one application is for else in Turkey.

We also selectively license our Joe's® and Hudson® brands for certain product categories or for retail stores in foreign jurisdictions. Licensing categories broadens and enhances the products available under the brand name. In addition, we do not incur significant capital investments or incremental operating expenses while providing us with royalty payments on net sales or purchases of product for sale at the retail stores. There are certain minimum net sales that the licensees are required to meet, and the agreements generally have renewal rights. As of February 13, 2014, we had three active license agreements for children's products for both Joe's® and Hudson® and Joe's® shoes and three active licenses for the operation of Joe's® retail stores in Canada, Thailand and the Philippines.

**Sales, Distribution and Outsourcing Agreements**

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

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

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**Advertising, Marketing and Promotion**

Our advertising campaigns for our brands have been limited to strategic placement of advertising in areas of high concentration of fashion advertising through billboard advertisement in Los Angeles, California, space on the tops of taxi cabs in New York City, print ads in magazines and on specialty online websites. We generally locate short-term billboard advertising space in various locations in and around New York City and Los Angeles. During fiscal 2013, we also placed ad campaigns in print magazines, such as *InStyle, Elle, Vogue, Teen Vogue, Harper's, GQ* and *Vanity Fair*, to support and promote our brands and products. In addition, we utilize a public relations firm to strategically place our products in magazines, editorials and with stylists. We also have an internal visual merchandiser who works with our retail stores and other customers to create the presentation of our products to enhance sales. For example, many of our customers' stores have denim focus areas located within a department that are dedicated to selling and showcasing our merchandise on a year-round basis.

**Customers**

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

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

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

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

For fiscal 2013, our ten largest customers and customer groups accounted for approximately 64 percent of our net sales. We believe that we would be able to find alternative customers to purchase our products in the event of the loss of any of these existing customers. For example, our two largest customers are Nordstrom Inc. and Macy's Inc. and represent the only two customers that were over 10 percent of our net sales in fiscal 2013.

**Seasonality of Business and Working Capital**

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

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

We have historically experienced and expect to continue to experience seasonal fluctuations in our net sales. A significant amount of our net sales are realized during the third and fourth quarter when we ship orders taken during earlier months. For fiscal 2013, we funded our liquidity needs through cash from operations and cash availability under our financing agreements with CIT Commercial Services, a unit of CIT Group Inc., or CIT and we plan to fund our liquidity needs through cash from operations and cash availability under our financing agreements with CIT in 2014. If sales are materially different from seasonal norms, our annual operating results could be materially affected. Accordingly, our results for the individual quarters are not necessarily indicative of the results to be expected for the entire year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" for further discussion of our financing agreements with CIT.

**Credit and Collection**

We currently extend credit to a majority of our larger customers, who purchase our products from us at wholesale prices. Our decision to extend credit is based on factors such as credit approval by CIT under our factoring arrangements, past credit history, reputation of creditworthiness within our industry and timelines of payments made to us. We generally extend this credit without requiring collateral. A small percentage of our customers are required to pay by either cash before delivery, credit card or cash on delivery, or C.O.D., which is also based on such factors as lack of credit history, reputation (or lack thereof) within our industry and/or prior payment history. For those customers to whom we extend credit, typical terms are net 30 to 60 days. Based on industry practices, financial awareness of the customers with whom we conduct business and business experience of our industry, our management exercises professional judgment in determining which customers will be extended credit. We are exposed to some collection risk for receivables which were factored with recourse where CIT did not accept the credit risk. However, the aggregate amount of exposure is generally low and, therefore, we believe that the credit risk associated with our extension of credit is minimal.

**Backlog**

Although we may, at any given time, have significant business booked in advance of ship dates, customers' purchase orders are typically filled and shipped within two to six weeks. As of November 30, 2013, we had backlog of $44,400,000 compared to $27,900,000 as of November 30, 2012. The amount of outstanding customer purchase orders at a particular time includes Hudson, as a result of the acquisition in September 2013 and is influenced by numerous factors, including the product mix, timing of the receipt and processing of customer purchase orders, shipping schedules for the product and specific customer shipping windows. Due to these factors, a comparison of outstanding customer purchase orders from period to period is not necessarily meaningful and may not be indicative of eventual actual shipments.

**Competition**

The apparel industry in which we operate is fragmented and highly competitive in the United States and on a worldwide basis. We compete for consumers with a large number of apparel companies similar to ours. Our primary branded competitors include True Religion, Seven for All Mankind,

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Citizens of Humanity and J Brand. We do not hold a dominant competitive position, and our ability to sell our products is dependent upon the anticipated popularity of our designs and brand name, the price and quality of our products and our ability to meet our customers' delivery schedules. We believe the range of fits and uniqueness of our designs differentiates us from our competitors and we believe that we are competitive with companies producing goods of like quality and pricing. We believe that we can maintain our competitive position through new product development, creating product identity and brand awareness and competitive pricing. Many of our competitors may possess greater financial, technical and other resources, and the intense competition and the rapid changes in consumer preferences constitute significant risk factors in our operations. As we expand globally, we will continue to encounter additional sources of competition. See "Risk Factors  We face intense competition in the denim industry."

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

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

Our import operations are subject to international trade agreements and regulations such as the North American Free Trade Agreement and other bilateral textile agreements between the United States and a number of foreign countries, including Morocco, Hong Kong, China, Taiwan and Korea. Some of these agreements impose quotas on the amount and type of goods that can be imported into the United States from these countries. Such agreements also allow the United States to impose, at any time, restraints on the importation of categories of merchandise that, under the terms of the agreements, are not subject to specified limits. Some of our imported products are also subject to United States customs duties and, in the ordinary course of business, we are from time to time subject to claims by the United States Customs Service for duties and other charges. In addition, exports of our products to certain countries are subject to quotas, duties, tariffs or other restrictions that could result in increases in the cost of our products generally and might adversely affect our sales and profitability.

**Employees**

As of February 13, 2014, we had 561 total employees, which included 368 full-time, 190 part-time and three temporary employees. The increase in employees is primarily due to the acquisition of Hudson, who employed 132 total employees, which included 130 full-time, two part-time and no temporary employees. We consider our relationships with our employees to be good.

**Financial Information about Geographic Areas**

See "Notes to Consolidated Financial Statements  Note 13  Segment Reporting and Operations by Geographical Areas" for discussion of financial information about geographical areas.

**Manufacturing and Distribution Relationships**

Our denim products are manufactured by contractors located in Mexico, China, and Los Angeles, California. Our non-denim products are primarily manufactured in the United States, Mexico, Peru, Portugal, and Asia, including Hong Kong, China, India and Korea. Our products are distributed out of

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Los Angeles or directly from the factory to the customer. The following table represents the percentage of denim and non-denim products manufactured in the various countries or on the geographic continent as a percentage of all products manufactured during the fiscal year.

| | 2013 | 2012 |
|---|---|---|
| United States | 23.6% | 20.8% |
| Mexico | 57.2% | 51.5% |
| Europe | 1.3% | 1.3% |
| Asia | 18.0% | 26.4% |
| | 100% | 100% |

**Available Information**

Our primary corporate website address is www.joesjeans.com. We make available on or through our website, without charge, our Annual Report, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. Additionally, we routinely post additional important information including press releases, investor presentations and notices of upcoming events, under the "Investor Relations" section of our website and we recognize our website as a channel of distribution to reach public investors and as a means of disclosing material non-public information for complying with disclosure obligations under SEC Regulation FD. Investors may be notified of postings to the website by signing up for email alerts. Although we maintain a website at www.joesjeans.com, we do not intend that the information available through our website be incorporated into this Annual Report. In addition, any materials filed with, or furnished to, the SEC may be read and copied at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or viewed on line at www.sec.gov. Information regarding the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

**Executive Officers and Directors**

The following table sets forth certain information regarding our executive officers and directors as of February 13, 2014:

*Executive Officers*

| Name | Age | Position |
|---|---|---|
| Marc B. Crossman | 42 | Chief Executive Officer, (Principal Executive Officer), President and Director |
| Hamish Sandhu | 51 | Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) |
| Joe Dahan | 46 | Creative Director and Director |
| Peter Kim | 43 | Chief Executive Officer of Hudson subsidiary and Director |

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

Hamish Sandhu has served as our Chief Financial Officer since August 2007. From January 2006 until August 2007, Mr. Sandhu was Chief Financial Officer of California Tan, Inc., a consumer products

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company manufacturing and marketing lotion and equipment to the indoor tanning industry. From September 2001 until December 2005, Mr. Sandhu was Chief Financial Officer of Ancra International LLC, a manufacturer of aircraft cargo systems and trucking restraint products.

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

Peter Kim has served as the Chief Executive Officer of our Hudson subsidiary and a member of our Board of Directors since September 2013. Peter Kim founded Hudson and has been Chief Executive Officer and a director of Hudson since 2002.

*Board of Directors*

| Name | Age | Position |
|---|---|---|
| Samuel J. (Sam) Furrow | 72 | Chairman of the Board of Directors of Joe's; Chairman, Furrow Auction Company and Knoxville Motor Company |
| Marc B. Crossman | 42 | Chief Executive Officer, President, and Director of Joe's |
| Joe Dahan | 46 | Creative Director and Director of Joe's |
| Joanne Calabrese | 55 | Senior Vice President Americas Region, Fossil, Inc. |
| Kelly Hoffman | 55 | Chief Executive Officer and Director, Ring Energy, Inc. |
| Peter Kim | 43 | Chief Executive Officer of Hudson subsidiary and Director of Joe's |
| Suhail R. Rizvi | 48 | Chairman and Chief Investment Officer, Rizvi--Traverse Management LLC |
| Kent Savage | 52 | General Partner, Savage Interests LP; Chief Executive Officer, Icon.me, LLC |

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## ITEM 1A. RISK FACTORS

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

***We incurred substantial indebtedness to finance the acquisition of Hudson and are subject to compliance with those financing agreements, which may decrease business flexibility and adversely affect financial results.***

We incurred substantial indebtedness to finance the acquisition of Hudson, including approximately $32,445,000 in the aggregate principal amount of convertible notes, a $50,000,000 revolving credit facility and a $60,000,000 term loan facility. In addition, Hudson is now a borrower and/or credit party under these financing agreements. In connection with the revolving and term loan agreements, we have certain restrictions on our ability and our subsidiaries' ability to incur indebtedness; create liens; consolidate, merge, liquidate or dissolve; sell, lease or otherwise transfer any assets; substantially change the nature of the business; make investments or acquisitions; pay dividends; enter into transactions with affiliates; amend material documents, prepay indebtedness and make capital expenditures. In addition, all of our assets, including our trademarks, secure our obligations under the revolving and term loan agreements.

The restrictive financial and other covenants to which we have agreed in connection with the incurrence of such debt, and our increased indebtedness and higher debt-to-equity ratio in comparison to that on a recent historical basis may have the effect, among other things, of reducing our flexibility to respond to changing business and economic conditions, thereby placing us at a competitive disadvantage compared to competitors that have less indebtedness. This may make us more vulnerable to general adverse economic and industry conditions. The increased indebtedness will also increase borrowing costs and the covenants in the agreements limit our ability to obtain additional financing to fund working capital, capital expenditures, acquisitions or general corporate requirements. We are also required to dedicate a larger portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow for other purposes, including working capital, capital expenditures and general corporate purposes.

In addition, our revolving credit facility contains certain financial and maintenance covenants, including covenants related to minimum availability, fixed charge coverage ratio and our capital expenditures. Our term loan facility also contains certain financial and maintenance covenants, including covenants related to minimum availability, fixed charge coverage ratio, minimum consolidated EBITDA requirements, leverage ratio and capital expenditures. Such financial and maintenance covenants, together with restrictive r covenants, could limit our ability to respond to market conditions or provide for unanticipated capital investments necessary to conduct our business. In addition, our failure to comply with the various covenants under our credit facilities could have material adverse consequences to us. Such noncompliance may result in our inability to borrow under our revolving credit facility, which we utilize to access our working capital, and as a result may adversely affect our ability to finance our operations or pursue any expansion plans. Our revolving and term loan agreements contain cross-default provisions such that an event of default under either of such agreements will result in an event of default under the other agreement. An event of default under the revolving and term loan agreements could also result in the acceleration of all of indebtedness under either or both of such credit facilities, which would adversely affect our ability to obtain financing necessary to operate our business. Upon the occurrence of an "event of default" under our revolving and term loan agreements, all of our assets could be subject to liquidation by the creditors, which liquidation could result in no assets being left for the stockholders after the creditors receive their required payment.

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***All of our assets are pledged under our agreements with CIT and Garrison Loan Agency Services LLC, or Garrison.***

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

***We have incurred, and will continue to incur significant transaction and acquisition-related costs in connection with the acquisition.***

We have incurred, and expect to continue to incur a number of non-recurring costs associated with integrating the operations of Hudson. The substantial majority of non-recurring expenses resulting from the acquisition have been and will be comprised of transaction costs related to the acquisition, facilities and systems consolidation costs and employment related costs. We will also incur transaction fees and costs related to formulating integration plans. Additional unanticipated costs may be incurred in the integration of Hudson's business. Although we expect that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the businesses, should allow us to more than offset incremental transaction and acquisition-related costs over time, this net benefit may not be achieved in the near term, or at all.

***If we are unable to manage our growth after the addition of the Hudson business, our business and financial results could suffer.***

Our future financial results will depend in part on our ability to profitably manage our core businesses, including any growth related to the acquisition of Hudson. Over the past several years, both of Hudson and Joe's have engaged in the identification of, and competition for, growth and expansion opportunities. In order to achieve those initiatives, we will need to, among other things, recruit, train, retain and effectively manage employees and expand our operations and financial control systems. If we are unable to manage our businesses effectively and profitably, our business and financial results could suffer.

***The acquisition may not achieve its intended results and could adversely affect our financial results.***

We entered into the stock purchase agreement in connection with the acquisition of Hudson with the expectation that the acquisition would result in various benefits, including, among other things, cost savings, operating efficiencies and growth opportunities. Our ability to achieve the anticipated benefits of the acquisition is subject to a number of uncertainties, including whether the business of Hudson is integrated in an efficient and effective manner. Failure to achieve these anticipated benefits could result in increased costs, decreases in the amount of expected revenues generated by the combined company and diversion of management's time and energy and could have an adverse effect on the combined company's business, financial results and prospects.

***Our success will depend on increasing our sales, opening and operating our retail stores and integrating Hudson into our operations.***

Our ability to operate profitably depends on our ability to implement our strategic plan with success, including the integration of Hudson into our operations. During fiscal 2013, we recognized growth for our Joe's® brand through increases in our Joe's® men's domestic and retail sales.

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

In addition, our future success will depend on our ability to successfully and efficiently integrate Hudson's business, operations and personnel. Even if integration is successful, the financial performance of the acquired business may not be as expected and there can be no assurance we will realize anticipated revenue and earnings enhancements and other anticipated synergies from the acquisition of Hudson. Failure to achieve the anticipated benefit could result in increased costs or decreases in the amount of expected revenues and could adversely affect our future business, financial condition, operating results and prospects.

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

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

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

***Our ability to attract customers to our stores depends heavily on successfully locating our stores in suitable locations and any impairment of a store location, including any decrease in customer traffic, could cause our sales to be less than expected.***

Our approach to identifying locations for our retail stores typically favors street and mall locations near luxury and contemporary retailers that we believe are consistent with our key customers' demographics and shopping preferences. Sales at these stores are derived, in part, from the volume of foot traffic in these locations. Changes in areas around our existing retail locations that result in reductions in customer foot traffic or otherwise render the locations unsuitable could cause our sales to be less than expected and the related leases are generally non-cancelable. Store locations may become unsuitable due to, and our sales volume and customer traffic generally may be harmed by, among other things:

- economic downturns in a particular area;

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- competition from nearby retailers selling similar apparel;
- changing consumer demographics in a particular market;
- changing preferences of consumers in a particular market;
- the closing or decline in popularity of other businesses located near our store; and
- store impairments due to acts of God or terrorism.

Our ability to successfully open and operate new retail stores depends on many factors, including, among others, our ability to:

- identify new markets where our products and brand image will be accepted or the performance of our retail stores will be successful;
- obtain desired locations, including store size and adjacencies, in targeted malls or streets;
- negotiate acceptable lease terms, including desired rent and tenant improvement allowances, to secure suitable store locations;
- achieve brand awareness, affinity and purchase intent in the new markets;
- hire, train and retain store associates and field management;
- assimilate new store associates and field management into our corporate culture;
- source and supply sufficient inventory levels; and
- successfully integrate new retail stores into our existing operations and information technology systems.

As of February 13, 2014, we had 34 stores, which consist of 14 full price retail stores and 20 outlet locations. We plan to continue to increase our store base; however, we do not have any signed leases for store openings in 2014 or beyond. Our new stores may not be immediately profitable and we may incur losses until these stores become profitable. Unavailability of desired store locations, delays in the acquisition or opening of new stores, delays or costs resulting from a decrease in commercial development due to capital restraints, difficulties in staffing and operating new store locations or a lack of customer acceptance of stores in new market areas may negatively impact our new store growth and the costs or the profitability associated with new stores. There can be no assurance that we will open new stores in fiscal 2014 or thereafter. Any failure to successfully open and operate new stores may adversely affect our business, financial condition and operating results.

***We may be unable to maintain or grow comparable store sales or average sales per square foot at the same rates that we have achieved in the past, which could cause our share price to decline.***

We may not be able to maintain or grow at the same rates of comparable store sales growth that we have achieved historically. In addition, we may not be able to maintain or grow our historic average sales per square foot as we move into new markets. If our future comparable store sales or average sales per square foot decline or fail to meet market expectations, the price of our common stock could decline. In addition, the aggregate results of operations through our wholesale partners and at our retail locations have fluctuated in the past and can be expected to continue to fluctuate in the future. A variety of factors affect both comparable store sales and average sales per square foot, including, among others, consumer spending patterns, fashion trends, competition, current economic conditions, pricing, inflation, the timing of the release of new merchandise and promotional events, changes in our product assortment, the success of marketing programs and weather conditions. If we misjudge the market for our products, we may incur excess inventory for some of our products and miss opportunities for other products. These factors may cause our comparable store sales results and

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average sales per square foot in the future to be materially lower than recent periods or our expectations, which could harm our results of operations and result in a decline in the price of our common stock.

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

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

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

In addition, the reduced availability of credit is having a significant negative impact on businesses around the world, and the impact of this reduced availability on our suppliers and other vendors cannot be predicted. The inability of suppliers and other vendors to access liquidity, or the insolvency of suppliers and other vendors, could lead to their failure to deliver our merchandise or other services that we require. Worsening economic conditions could also impair our ability to collect amounts as they become due from our customers, or other third parties that do business with us. We also face the increased risk of order reductions or cancellations when dealing with financially ailing customers or customers struggling with economic uncertainty.

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

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

We attempt to minimize our risk associated with delivering items through early order commitments by retailers. We must generally place production orders with manufacturers before we have received all

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of a season's orders and orders may be cancelled by retailers before shipment. Therefore, if we fail to anticipate accurately and respond to consumer preferences, we could experience lower sales, excess inventories or lower profit margins, any of which could have a material adverse effect on our results of operations and financial condition.

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

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

- consumer demand,
- consumer purchases of discretionary items,
- general economic conditions, or
- fashion trends,

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

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

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

- anticipating and responding to changing consumer demands in a timely manner,
- maintaining favorable brand recognition,
- developing innovative, high-quality products in sizes, colors and styles that appeal to consumers,
- appropriately pricing products,
- providing strong and effective marketing support,
- creating an acceptable value proposition for retail customers,
- ensuring product availability and optimizing supply chain efficiencies with manufacturers and retailers, and

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

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

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***A substantial portion of our net sales and gross profit is derived from a small number of large customers, and the loss of any of these large customers could have a material adverse effect on our financial condition and results of operations.***

We are substantially dependent on our 10 largest customers and customer groups, which accounted for approximately 64 percent of our net sales during fiscal 2013. Our two largest customers, Nordstrom Inc. and Macy's Inc., each individually accounted for over 10 percent of our net sales in fiscal 2013. We do not enter into any type of long-term agreements or firm commitment orders with any of our customers. Instead, we enter into a number of individual purchase order commitments with our customers. A decision by the controlling owner of a group of stores or any other significant customer, including our limited number of private label customers, whether motivated by competitive conditions, financial difficulties or otherwise, to decrease the amount of merchandise purchased from us, to change their manner of doing business with us, to cancel orders previously placed in advance of shipment dates or a decision to cease carrying our products could have a material adverse effect on our financial condition and results of operations if we are unable to find an alternative customer for our products in a timely manner.

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

We sell our products primarily to retail and distribution companies around the world based on pre-qualified payment terms. Financial difficulties of a customer could cause us to curtail business with that customer. We may also assume more credit risk relating to that customer's receivables. We are dependent primarily on lines of credit that we establish from time to time with customers, and should a substantial number of customers become unable to pay to us their respective debts as they become due, we may be unable to collect some or all of the monies owed by those customers. In particular, because of the concentration of our customer and customer groups, our results of operations could be adversely affected if any one of these customers fails to satisfy its payments obligations to us when due.

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

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

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

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

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

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

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

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

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

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

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

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

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

***In order to effectively manage growth, we are dependent on our financing arrangements and our cash flow from operations. In addition, a default under one of our financing agreements creates a default under our other financing agreements and could force us to pay all of our debt at the same time, which would have a material adverse effect on our business and financial results.***

Prior to the acquisition of Hudson in fiscal 2013, our primary sources of liquidity were: (i) cash from sales of our products; (ii) sales from accounts receivable factoring facilities and advances against inventory; and (iii) utilizing existing cash balances. Beginning September 30, 2013, in connection with the acquisition of Hudson, we entered into an amended and restated accounts receivable factoring facility and revolving credit agreement with CIT Commercial Services, a unit of CIT Group Inc., or CIT, that provided advances to us for eligible accounts receivable and eligible inventory up to $50,000,000, based upon the value of the eligible accounts receivable and inventory less any reserves imposed by CIT. The initial proceeds from the advances under this revolving credit facility, which included accounts receivable and inventory borrowing, were used to pay a portion of the consideration for the acquisition and fees and expenses associated with the acquisition, and the remainder was used to repay our existing factor loans and for working capital and other general corporate purposes.

We are dependent on credit arrangements with suppliers and our revolving credit agreement for working capital needs with CIT. We cannot give you any assurance that should CIT experience uncertainty or insufficient cash flows that they will continue to be able to fund us in the future.

As of November 30, 2013, our cash balance was $785,000 and our cash availability with CIT was approximately $25,715,000 under our revolving credit facility. This amount with CIT fluctuates on a daily basis based upon invoicing and collection related activity by CIT on our behalf. CIT has the ability to terminate the agreements we have with them upon notice or require additional collateral or impose reserves to secure its advances. We do not have any provisions in the agreements that protect us in the event of a default by CIT. If CIT elects to terminate the agreements, we could be forced to pay our liability with CIT and CIT may also elect to take possession of the pledged collateral, which includes raw materials through finished goods and receivables. Although we have undertaken numerous measures to increase sales and cash flow, control inventory costs and operate more efficiently so that we may be able to fund our operations for fiscal 2014, we may experience losses and negative cash flows. In addition, our revolving credit facility and our term loan facility are structured such that if we default under one agreement, we default under the other agreement. Thus, in the event of a default, we would be required to pay all of our obligations under both agreements. We cannot give you any assurance that we will in fact continue to operate profitably in the future. While we may be able to find alternative sources for obtaining the cash for our operating needs, including entering into factoring or inventory security agreements with another lender, it may be difficult to do so with our current debt structure.

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

As of February 13, 2014, our executive officers and directors, in the aggregate, beneficially owned approximately 24 percent of our common stock, including options exercisable and restricted common stock units vesting within 60 days. In particular, Joe Dahan, an executive officer and member of our Board of Directors, beneficially owned approximately 17 percent of our total shares outstanding and is our largest stockholder. As a result, such persons are in a position to exert significant control over us and have the ability to substantially influence all matters submitted to our stockholders for approval, including the election and removal of directors, any merger, consolidation or sale of all or substantially all of our assets, an increase in the number of shares authorized for issuance under our stock option plans, and to control our management and affairs. Accordingly, such concentration of ownership may have the effect of delaying, deferring or preventing a change in or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our business, even if such a transaction would be beneficial to other stockholders.

In addition, as of February 13, 2014, Peter Kim, the CEO of our Hudson subsidiary and a member of our Board of Directors, owns approximately $14,300,000 in the aggregate principal amount of convertible notes, which subject to receipt of stockholder approval to comply with NASDAQ rules and an increase in the number of our authorized shares, if necessary, would be convertible on September 30, 2015 into approximately 8,000,000 shares of our common stock, at the current conversion price, which would represent approximately 10 percent of our total shares outstanding.

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

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

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

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

***Our existing stockholders may be diluted if we choose to settle the convertible notes by issuing shares of our common stock.***

Under the terms of the convertible notes issued in connection with the acquisition of Hudson, we choose how we settle the conversion of the notes. We can settle by issuing shares of common stock, cash, or a combination of cash and common stock, at our election. 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, subject to receipt of stockholder approval to comply with NASDAQ rules and an increase in the number of our authorized shares, if necessary. Prior to receipt of such stockholder approval, the conversion rights will be limited to approximately 13,600,000 shares of common stock. If we settle through the issuance of our common stock, this would result in a reduction of the percentage of ownership interest held by our existing stockholders. Also, the addition of a substantial number of shares of our common stock into the market or the registration of any other securities may significantly and negatively affect the prevailing market price for our common stock.

***In the event we seek additional capital through equity or debt offerings, our existing stockholders may be diluted or we may be unable to find additional capital on terms favorable to us and our stockholders. Furthermore, we may not be able to seek additional capital through equity or debt offerings under our revolving credit and term loan facilities.***

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

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

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

- annual and quarterly variations in actual or anticipated operating results,
- operating results that vary from the expectations of securities analysts and investors,
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors,

changes in market valuations of other denim apparel companies,

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

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

general conditions in the apparel industry.

In the 52 week period prior to the filing of this Annual Report, the closing price of our common stock has ranged from $2.04 to $1.02. In addition, stock markets generally have experienced price and volume trading volatility in recent years. This volatility has had an effect on the market prices of securities of many companies for reasons unrelated to the operating performance of the specific companies. These broad market fluctuations may negatively affect the market price of our common stock.

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

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

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

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

Our business is seasonal. The majority of our marketing and sales activities take place from late fall to early spring. Historically, our greatest volume of shipments and sales occur from late spring through the early fall, which coincides with our third and fourth fiscal quarters. This requires us to build-up inventories during our first and second fiscal quarters when our cash flow is weakest. Historically speaking, our cash flow is strongest in the third and fourth fiscal quarters. Unfavorable economic conditions affecting retailers during the fall and holiday seasons in any year could have a material adverse effect on our results of operations for the year. We are likely to experience periods of negative cash flow throughout each year, including, a drop-off in business commencing each December,

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which could force us to curtail operations if adequate liquidity is not available. We cannot assure you that the effects of such seasonality will diminish in the future. For fiscal 2013, we funded inventory purchases through cash from operations and cash availability under our financing agreements with CIT.

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

While we require our independent manufacturers to operate in compliance with applicable laws and regulations, we have no control over the ultimate actions of our independent manufacturers. Despite our lack of control, we have internal and vendor operating guidelines to promote ethical business practices and our staff periodically visits and monitors the operations of our independent manufacturers. We also use the services of a third party independent labor consulting service to conduct on site audits as required by state labor laws to help minimize our risk and exposure to unacceptable labor practice violations. The violation of labor or other laws by one of our independent manufacturers or the divergence of an independent manufacturer's labor practices from those generally accepted as ethical in the United States, could interrupt or otherwise disrupt the shipment of finished products to us or damage our reputation. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations. In particular, the laws governing garment manufacturers in the State of California impose joint liability upon us and our independent manufacturers for the labor practices of those independent manufacturers. As a result, should one of our independent manufacturers be found in violation of state labor laws, we could suffer financial or other unforeseen consequences.

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

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

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

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

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

- the burdens of complying with a variety of foreign laws and regulations,
- unexpected changes in regulatory requirements, and
- new tariffs or other barriers to some international markets.

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

- political instability,
- changes in diplomatic and trade relationships, and
- general economic fluctuations in specific countries or markets.

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

## ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

## ITEM 2. PROPERTIES

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

| Location | Use | Ownership Status | Approximate Area in Square Feet | Lease Expiration |
|---|---|---|---|---|
| Commerce, California | Warehouse, design and administrative offices | Leased | 89,230 | December 31, 2018 |
| Commerce, California | Design and administrative offices | Leased | 30,915 | May 31, 2015 |

We operate retail store locations under non-cancelable operating lease agreements expiring on various dates through 2023 or three or ten years from the opening date of the store. These facilities are all located in the United States. As of November 30, 2013, we had 34 stores open and operating. Our retail square footage as of November 30, 2013 was approximately 66,071 square feet in the aggregate. Our retail stores range in size from 941 to 3,025 square feet.

We believe that our existing facilities are well maintained, in good operating condition and are adequate for our present level of operations.

## ITEM 3. LEGAL PROCEEDINGS

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

(b) None.

## ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

| | High | Low |
|---|---|---|
| ***Fiscal 2013*** | | |
| First Quarter | $ 1.49 | $ 0.88 |
| Second Quarter | $ 2.01 | $ 1.39 |
| Third Quarter | $ 1.86 | $ 1.15 |
| Fourth Quarter | $ 1.26 | $ 1.03 |
| | | |
| ***Fiscal 2012*** | | |
| First Quarter | $ 0.86 | $ 0.51 |
| Second Quarter | $ 1.45 | $ 0.81 |
| Third Quarter | $ 1.26 | $ 0.89 |
| Fourth Quarter | $ 1.26 | $ 0.87 |

As of February 13, 2014, there were approximately 828 record holders of our common stock. We have never declared or paid a cash dividend and do not anticipate paying cash dividends on our common stock in the foreseeable future. In deciding whether to pay dividends on our common stock in the future, our board of directors will consider certain factors they may deem relevant, including our earnings and financial condition and our capital expenditure requirements.

**Equity Compensation Plan Information**

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

(b) None.

(c) None.

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## ITEM 6. SELECTED FINANCIAL DATA

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

| | Year ended | | | | |
|---|---|---|---|---|---|
| | 11/30/13(1) | 11/30/12 | 11/30/11 | 11/30/10 | 11/30/09 |
| | (in thousands, except per share data) | | | | |
| Net sales | $ 140,183 | $ 118,642 | $ 95,420 | $ 98,176 | $ 80,116 |
| Cost of goods sold | 77,844 | 62,472 | 52,056 | 51,963 | 40,331 |
| Gross profit | 62,339 | 56,170 | 43,364 | 46,213 | 39,785 |
| Operating expenses | | | | | |
| Selling, general and administrative | 54,126 | 43,997 | 41,617 | 39,349 | 30,726 |
| Depreciation and amortization | 2,541 | 1,456 | 1,168 | 843 | 536 |
| Contingent consideration buy-out expense | 8,732 | | | | |
| Retail stores impairment | | | 1,144 | | |
| | 65,399 | 45,453 | 43,929 | 40,192 | 31,262 |
| Operating (loss) income | (3,060) | 10,717 | (565) | 6,021 | 8,523 |
| Interest expense | 2,562 | 376 | 484 | 464 | 388 |
| Other expense | 209 | | | | |
| (Loss) income before taxes | (5,831) | 10,341 | (1,049) | 5,557 | 8,135 |
| Income tax provision (benefit) | 1,483 | 4,776 | 316 | 2,956 | (16,385)(2) |
| Net (loss) income and comprehensive (loss) income | $ (7,314) | $ 5,565 | $ (1,365) | $ 2,601 | $ 24,520 |
| **(Loss) earnings per common share basic** | $ (0.11) | $ 0.08 | $ (0.02) | $ 0.04 | $ 0.41 |
| **(Loss) earnings per common share diluted** | $ (0.11) | $ 0.08 | $ (0.02) | $ 0.04 | $ 0.40 |
| Weighted average shares outstanding | | | | | |
| Basic | 67,163 | 65,496 | 64,001 | 62,362 | 60,053 |
| Diluted | 67,163 | 66,849 | 64,001 | 64,505 | 61,121 |

| | | | | | |
|---|---|---|---|---|---|
| Balance sheet data: | | | | | |
| Total assets | $ 223,023 | $ 86,024 | $ 80,162 | $ 81,469 | $ 79,624 |
| Long term debt(3) | 89,982 | | | | |
| Stockholders' equity | 65,769 | 71,739 | 64,757 | 64,873 | 61,506 |

(1) Includes results of operation for Hudson from the acquisition date of September 30, 2013 through the end of our fiscal year ended November 30, 2013.

(2) In fiscal 2009, we determined that it was more likely than not that the deferred tax assets would be fully utilized. Accordingly, the valuation allowance of $20,291,000 was released and recorded as a credit to income tax benefit during fiscal 2009.

(3) Includes long term debt, convertible notes and contingent consideration buyout.

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

### Introduction

This discussion and analysis summarizes the significant factors affecting our results of operations and financial conditions during the fiscal years ended November 30, 2013, 2012 and 2011, respectively. This discussion should be read in conjunction with our Consolidated Financial Statements, Notes to Consolidated Financial Statements and supplemental information in Item 8 of this Annual Report. The discussion and analysis contains statements that may be considered forward-looking. These statements contain a number of risks and uncertainties, as discussed under the heading "Forward-Looking Statements" of this Annual Report that could cause actual results to differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Our future results, performance or achievements could differ materially from those expressed or implied in these forward-looking statements. We do not undertake to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. 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.

### 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 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. 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.

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 payable on April 1, 2014 to certain option holders of Hudson. This acquisition provides us with an additional proven premium denim brand and 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 represents approximately 40 percent of our consolidated total assets at November 30, 2013 and approximately three percent of consolidated net loss 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 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 products under the Hudson® brand name.

In the first quarter of fiscal 2012, we launched a new brand, else , 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.

During fiscal 2013, we recognized growth through increases in our retail sales, our Joe's® men's domestic 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 through the end of our fiscal year of November 30, 2013, which was approximately two months of operations, and its financial results are included in each of the two reportable segments in a manner consistent with our reporting structure. Therefore, our results of operations for the fiscal year 2013 are not necessarily indicative of future results.

For 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 34 retail stores, 14 of which are full price retail stores and 20 of which are outlet stores. During fiscal 2013, we opened an additional six stores, five full price retail stores and one outlet store. We continue to look for additional leases for further expansion, but have no signed leases for store openings in 2014 or beyond.

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.

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**Comparison of Fiscal Year Ended November 30, 2013 to Fiscal Year Ended November 30, 2012**

| | Year ended | | | |
|---|---|---|---|---|
| | 11/30/13 | 11/30/12 | $ Change | % Change |
| | (in thousands) | | | |
| Net sales | $ 140,183 | $ 118,642 | $ 21,541 | 18% |
| Cost of goods sold | 77,844 | 62,472 | 15,372 | 25% |
| Gross profit | 62,339 | 56,170 | 6,169 | 11% |
| Gross margin | 44% | 47% | (3)% | (5)% |
| Selling, general and administrative | 54,126 | 43,997 | 10,129 | 23% |
| Depreciation and amortization | 2,541 | 1,456 | 1,085 | 74% |
| Contingent consideration buy-out expense | 8,732 | | 8,732 | N/A |
| Operating (loss) income | (3,060) | 10,717 | (13,777) | 129% |
| Interest expense | 2,562 | 376 | 2,186 | 582% |
| Other expense | 209 | | 209 | N/A |
| (Loss) income before taxes | (5,831) | 10,341 | (16,172) | (156)% |
| Other expense, net | | | | |
| Income tax provision | 1,483 | 4,776 | (3,293) | (69)% |
| Net (loss) income and comprehensive (loss) income | $ (7,314) | $ 5,565 | $ (12,879) | 231% |

**Results of Operations**

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

| | Year ended | | | |
|---|---|---|---|---|
| | 11/30/13 | 11/30/12 | $ Change | % Change |
| | (in thousands) | | | |
| Net sales | | | | |
| Wholesale | $ 113,276 | $ 95,310 | $ 17,966 | 19% |
| Retail | 26,907 | 23,332 | 3,575 | 15% |
| | $ 140,183 | $ 118,642 | $ 21,541 | 18% |
| Gross Profit: | | | | |
| Wholesale | $ 44,511 | $ 39,895 | $ 4,616 | 12% |
| Retail | 17,828 | 16,275 | 1,553 | 10% |
| | $ 62,339 | $ 56,170 | $ 6,169 | 11% |
| Operating (loss) income: | | | | |
| Wholesale | $ 29,442 | $ 25,762 | $ 3,680 | 14% |

| | | | | |
|---|---|---|---|---|
| Retail | (1,139) | 1,489 | (2,628) | (176)% |
| Corporate and other | (31,363) | (16,534) | (14,829) | 90% |
| | $ (3,060) | $ 10,717 | $ (13,777) | (129)% |

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**Fiscal Year 2013 Overview**

**Net Sales**

Our net sales increased to $140,183,000 in fiscal 2013 from $118,642,000 in fiscal 2012, a 18 percent increase.

More specifically, our wholesale net sales increased to $113,276,000 for fiscal 2013 from $95,310,000 for fiscal 2012, a 19 percent increase. This increase in our wholesale sales is primarily attributed to a $2,345,000 or a two percent, increase in Joe's® wholesale sales and the addition of $15,621,000 in wholesale sales from Hudson® since our acquisition was completed on September 30, 2013.

Our retail net sales increased to $26,907,000 for fiscal 2013 from $23,332,000 for fiscal 2012, a 15 percent increase. The primary reason for this increase was the opening of six additional retail stores since the end of fiscal 2012 that contributed to the overall sales increase for this segment and $475,000 in retail sales from Hudson's® e-shop as a result of the acquisition. Same store sales for Joe's® stores opened at least 12 months, including our Joe's® e-shop, decreased by five percent. Same store sales for our brick and mortar Joe's® stores decreased by six percent. Same store sales for our Joe's® e-shop increased by four percent.

**Gross Profit**

Our gross profit increased to $62,339,000 for fiscal 2013 from $56,170,000 for fiscal 2012, an 11 percent increase. Our overall gross margin decreased to 44 percent for fiscal 2013 from 47 percent for fiscal 2012.

Our wholesale gross profit increased to $44,511,000 for fiscal 2013 from $39,895,000 for fiscal 2012, a 12 percent increase. Our wholesale gross profit grew for fiscal 2013 compared to fiscal 2012 due to the addition of sales from Hudson®. Gross profit attributable to Hudson totaled $5,227,000 for the period. Our wholesale gross margin for fiscal 2013 decreased to 39 percent compared to 42 percent for the prior year comparable period. The decrease in gross margin can be mostly attributed to an amortization charge of approximately $2,000,000 related to a fair value step up of inventory acquired from the acquisition and sold prior to our fiscal year end. In addition, our wholesale gross margins were impacted by our product placement mix with our wholesale customers.

Our retail gross profit increased to $17,828,000 for fiscal 2013 from $16,275,000 for fiscal 2012, a ten percent increase. We increased the number of store locations in fiscal 2013 compared to fiscal 2012. In fiscal 2013, we operated 20 outlet stores and 14 full price retail stores compared to 19 outlet stores and nine full price retail stores in fiscal 2012. Our retail gross margin percentage decreased to 66 percent from 70 percent in fiscal 2012 primarily due to more promotional activity at our retail stores due to heavier activity by our competitors than in the prior year period. Gross profit attributable to sales from Hudson's e-shop totaled $364,000 for the period.

**Selling, General and Administrative Expense, including Depreciation and Amortization**

Selling, general and administrative, or SG&A, expenses increased to $65,399,000 for fiscal 2013 from $45,453,000 for fiscal 2012, a 44 percent increase. Our SG&A includes expenses related to employee and employee related benefits, sales commissions, contingent consideration expense, advertising, sample production, facilities and distribution related costs, professional fees, stock-based compensation, factor and bank fees, transaction expenses in connection with the Hudson acquisition and depreciation and amortization.

Our wholesale SG&A expense increased to $15,069,000 for fiscal 2013 from $14,133,000 for fiscal 2012, a seven percent increase. Our wholesale SG&A expense was higher in fiscal 2013 mostly due to the additional SG&A expense of $1,521,000 associated with Hudson's operations. Our Joe's wholesale SG&A expense decreased by $591,000 to $13,542,000 from $14,133,000, or four percent, on a comparative basis mostly due to a decrease of $745,000 in sample expense and $429,000 in professional fees. These decreases were offset by an increase of $523,000 in advertising and trade show expense compared to the prior year period.

Our retail SG&A expense increased to$18,967,000 for fiscal 2013 from $14,786,000 for fiscal 2012, a 28 percent increase. Our retail SG&A expense increased due to the addition of costs associated with opening and operating six new retail stores since the end of fiscal 2012, which included additional store payroll, store rents and depreciation expense.

Our corporate and other SG&A expense increased to $31,363,000 for fiscal 2013 from $16,534,000 for fiscal 2012, a 90 percent increase. Our increase in corporate and other SG&A expense was primarily attributable to the contingent consideration buy out expense of $8,732,000 that we recorded in the first quarter of fiscal 2013 in connection with the new agreement entered into with Mr. Dahan, $4,262,000 of professional fees and other transaction expenses in connection with the purchase of Hudson and the addition of expenses for Hudson's corporate operations of $3,260,000 for the two months ended November 30, 2013. These increases were partially offset by a decrease of $1,551,000 in expense associated with payments to Mr. Dahan that are no longer required to be paid as of February 2013 as a result of the new agreement with him.

**Operating (Loss) Income**

We had an operating loss of $3,060,000 for fiscal 2013 compared to operating income of $10,717,000 for fiscal 2012. We generated an operating loss compared to operating income primarily due to higher SG&A expenses related to the acquisition of Hudson, the contingent consideration buy out expense recorded in the first quarter of fiscal 2013 and expenses related to increasing our retail store base.

Due to the addition of Hudson's operations, our wholesale operating income increased to $29,442,000 for fiscal 2013 from $25,762,000 for fiscal 2012, a 14 percent increase. As a result of lower gross margins and higher expenses associated with opening and operating new stores, we generated a retail operating loss of $1,139,000 for fiscal 2013 compared to retail operating income of $1,489,000 for fiscal 2012. Corporate operating loss increased to $31,363,000 from $16,534,000 mostly due to an increase in SG&A expenses related to the acquisition and the inclusion of Hudson's corporate expenses and the contingent consideration buy out expense recorded in the first quarter of fiscal 2013.

**Interest Expense**

Our interest expense increased to $2,562,000 for fiscal 2013 from $376,000 for fiscal 2012. Our interest expense is primarily associated with interest expense from our revolving and term loan credit agreements with CIT and Garrison and amortization of debt discounts and deferred financing costs associated the finance arrangements resulting from the Hudson acquisition.

**Other Expense**

Other expense mostly represents the change in fair value of the embedded conversion derivative from September 30, 2013 to November 30, 2013 and this change in value was $209,000 for fiscal 2013.

**Income Taxes**

Our effective tax rate was negative 25 percent for fiscal 2013 compared to 46 percent for fiscal 2012. For fiscal 2013, we had losses associated with our operations that would ordinarily result in a tax benefit. Due to unfavorable permanent book/tax differences associated with the costs of acquiring the trademark (in connection with the merger in 2007) and transaction costs (in connection with the acquisition of Hudson in 2013), we had income for tax purposes which resulted in a tax expense and caused the negative effective tax rate.

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**Net (Loss) Income and Comprehensive (Loss) Income**

We generated a net loss of $7,314,000 in fiscal 2013 compared to net income was $5,565,000 in fiscal 2012. The shift to net loss from net income was primarily due to an increase in SG&A expense associated with transaction and other expenses related to the acquisition and integration of Hudson into our consolidated financial statements, an increase in expenses related to increasing our retail store base and the contingent consideration buy out expense recorded in the first quarter of fiscal 2013.

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

| | Year ended | | | |
|---|---|---|---|---|
| | 11/30/12 | 11/30/11 | $ Change | % Change |
| | (in thousands) | | | |
| Net sales | $ 118,642 | $ 95,420 | $ 23,222 | 24% |
| Cost of goods sold | 62,472 | 52,056 | 10,416 | 20% |
| Gross profit | 56,170 | 43,364 | 12,806 | 30% |
| Gross margin | 47% | 45% | 2% | 4% |
| Selling, general and administrative | 43,997 | 41,617 | 2,380 | 6% |
| Depreciation and amortization | 1,456 | 1,168 | 288 | 25% |
| Retail stores impairment | | 1,144 | (1,144) | N/A |
| (Loss) income from operations | 10,717 | (565) | 11,282 | 1,997% |
| Interest expense | 376 | 484 | (108) | (22)% |