

JOE'S JEANS INC.
Form 10-K
February 28, 2012

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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, 2011
Commission file number: 0-18926**

JOE'S JEANS INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

11-2928178
(I.R.S. Employer
Identification No.)

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

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant based on the closing price of the registrant's common stock on The Nasdaq Stock Market, Inc. as of May 31, 2011, was approximately \$41,301,000.00.

The number of shares of the registrant's common stock outstanding as of February 28, 2012 was 66,205,824.

Documents incorporated by reference: **None.**

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JOE'S JEANS INC.
FORM 10-K ANNUAL REPORT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011

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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 will be unsuccessful in gauging fashion trends and changing customer preferences;

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

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

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

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

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

successful implementation of any growth or strategic plans;

effective inventory management;

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;

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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;

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a possible oversupply of denim in the marketplace; and

other risks.

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

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

ITEM 1. BUSINESS

Overview

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

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

After the acquisition, we focused our business on opening retail stores, improving international sales, increasing sales from our men's collection and enhancing the quality, fit and products available in our collection beyond denim bottoms. We opened our first full price retail store in October 2008 in Chicago, Illinois and currently operate five full price retail stores and 17 outlet stores in outlet centers around the country. We believe that retail stores will enhance our net sales and gross profit and the outlet stores will allow us to sell our overstock or slow moving items at higher profit margins. We continue to look for other retail leases for fiscal 2012 and beyond, but remain cautious about our retail store plans.

Beginning in 2009, we began to re-examine our collection pieces and re-launched several product categories with their own unique branding along with the Joe's® logo or name. In the fall of fiscal 2009, we launched a line of unisex woven shirts in different fits and fabrications called The Shirt by Joe's, which was followed by items in other distinct product categories. In the Fall of 2011, we returned to branding our products cohesively under the name Joe's®. We believe that other products, such as tees, tops and non-denim bottoms, when added to our core and fashion denim, will add to our overall business in fiscal 2012. In addition, we see growth for fiscal 2012 coming from our men's and international business. We are also in the process of developing expanded product lines at lower price points to enhance our business.

Our principal business activity is now the design, development and worldwide marketing of our Joe's® products, which include denim jeans, related casual wear and accessories. Since the Joe's® brand

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was established in 2001, it is recognized in the premium denim industry, an industry term for denim jeans with price points generally of \$120 or more, for its quality, fit and fashion-forward designs. We focus on design, development and marketing and rely on third parties to manufacture our apparel products. We sell our products to numerous retailers, which include major department stores, specialty stores, and distributors around the world and through our retail stores.

Principal Products and Revenue Sources

Our principal apparel products bear the Joe's® brand name. Our Joe's® product line includes women's and men's denim jeans, pants, shirts, sweaters, jackets and other apparel products. We also offer women's handbags and clutches, children's products, shoes, belts and leather goods under various license agreements and receive royalty payments based upon net sales of these products. Joe's® products are marketed to U.S. retailers through third party showrooms located in New York and Los Angeles and to international retailers through international distributors, agents or licensed stores in the various countries. Joe's® women's product line represents our largest source of revenue and consists primarily of denim jeans and pants in a variety of different fits, fabrics, washes and detailing. Every season, we offer new and core basic styles to appeal to trendsetters and fashion-forward consumers. We believe our attention to fitting different body types gives us an advantage in the marketplace, as we can offer the consumer a product designed and tailored to fit her needs. We have branded the different fit styles 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:

Best Friend a relaxed loose fit;

Chelsea an ultra slim, skinny fit;

Cigarette a straight and narrow fit;

Ex-Lover a relaxed fit;

Honey a curvy fit;

Icon a high waist fit;

Provocateur a petite fit with a shorter inseam;

Rocker a lean flare fit;

Socialite a classic bootcut fit;

Stardust a super flare fit;

Starlet a slim legged bootcut fit;

Twiggy a taller fit with a longer inseam; and

Visionaire a high waist bootcut fit.

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For our men's denim line, we carried over the concept from our women's line of offering a variety of different fits, fabrics, washes and detailing in our product selection. Similar to our women's line, we offer certain core basic styles every season in addition to new styles. We also brand the fit styles, which include the Brixton, the Classic, the Outsider, the Rebel and the Rocker.

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

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

Product Design, Development and Sourcing

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

We rely on third party manufacturers to manufacture all of our products for distribution. 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.

During fiscal 2010, we outsourced a portion of our warehouse and distribution services for the picking, packing and shipping of our Joe's® products to retailers. After the end of fiscal 2010, we relocated our warehouse and distribution services to the site of our corporate headquarters and assumed all aspects of warehousing and distribution 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 Joe's® brand.

In the event we terminate any of our relationships with third parties or the economic climate or other factors result in a significant reduction in the number of contractors, our business could be negatively impacted. At this time, we believe that we would be able to find alternative sources for

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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.

Merger Agreement, License Agreements and Trademarks

In February 2001, we acquired license rights to the name Joe's Jeans, the JD stylized logo and the Joe's® mark for most apparel and accessory products from JD Holdings, the successor-in-interest to JD Design. The license agreement contained a 10-year term with two 10-year renewal periods and required us to pay a three percent royalty on the net sales of Joe's® products to JD Holdings. However, as we began to focus our operations on the Joe's® brand, we believed that by owning all rights to the Joe's® marks outright, we would eliminate any risks associated with the potential termination of the license agreement and be able to control the direction of the brand and our company. On February 6, 2007, we entered into a merger agreement with JD Holdings to acquire JD Holdings, which included all right, title and interest in the Joe's® brand and related marks. In exchange for the business of JD Holdings, after approval by our stockholders, we issued to Joe Dahan, the sole stockholder of JD Holdings, 14,000,000 shares of our common stock and \$300,000 in cash. As part of the merger consideration, we are also obligated to pay Mr. Dahan a percentage of our gross profits above \$11,251,000 until 2017. Mr. Dahan will be entitled to the following: (i) 11.33 percent of the gross profit from \$11,251,000 to \$22,500,000; (ii) 3 percent of the gross profit from \$22,501,000 to \$31,500,000;

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

We believe that selectively licensing the Joe's® brand for certain product categories will broaden and enhance the products available under the brand name. Also, by licensing categories, we will not incur significant capital investments or incremental operating expenses while providing us with royalty payments on net sales. There are certain minimum net sales that the licensees are required to meet and the agreements generally have certain terms with renewal rights. As of February 28, 2012, we had four active license agreements for bags, belts, children's products and shoes.

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

In addition to the above, in the United States, we own five registrations for certain pocket stitch designs for jeans. As of February 28, 2012, we own approximately ten U.S. registrations (excluding the aforementioned five registrations for certain pocket stitch designs for jeans) and 11 pending U.S. applications, all of which have successfully passed through publication and have been allowed.

With respect to foreign jurisdictions, we own, as of February 28, 2012, a variety of registrations and pending applications for the above-referenced marks as applied to apparel, footwear and related fashion accessories. Approximately 46 trademark registrations have issued in jurisdictions such as Australia, Canada, China, the European Community which comprises 27 member countries, Hong Kong, India, Japan, South Korea, Mexico, New Zealand, Russia, Switzerland and Turkey. We continue to prosecute 19 trademark applications in Mexico, Kuwait, and the United Arab Emirates that we believe are necessary in order to protect and enforce our rights.

Sales, Distribution and Outsourcing Agreements

Domestically, we sell our Joe's® products to retailers and specialty stores through independent third party showrooms located in Los Angeles and New York and through our own retail stores. At the showrooms, retailers review the latest collections offered and place orders. The showroom representatives provide us with purchase orders from the retailers and other specialty store buyers. Pursuant to our arrangement with each of these showrooms, we pay sales commissions at an agreed upon percentage of sales less discounts, returns and other credit allowances.

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

From time to time, we previously outsourced our product fulfillment services, including our warehousing, distribution and customer service needs for our Joe's® products. In fiscal 2011, we relocated our warehouse to the site of our corporate headquarters and assumed all aspects of warehousing and distribution internally.

Advertising, Marketing and Promotion

Historically, our advertising campaign for our Joe's® brand has been limited to strategic placement of advertising in areas of high concentration of fashion advertising through billboard advertisement in

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Los Angeles, California, space on the tops of taxi cabs in New York City and, to a limited extent, print ads in magazines. We generally locate short term billboard advertising space in various locations in and around New York City and Los Angeles. During fiscal 2011, we also placed ad campaigns in print magazines, such as *InStyle*, *Elle*, *Vogue*, *Teen Vogue*, *Harper's*, *GQ*, and *Vanity Fair*, to support and promote the Joe's® brand and products. In addition, we utilize a public relation firm to strategically place our products in magazines, editorials and with stylists. We also have an internal visual merchandiser who works with our retail stores and other customers to create the Joe's® presentation of products to enhance sales. For example, many of our customers' stores have denim focus areas located within a department that are dedicated to selling and showcasing our Joe's® merchandise on a year round basis.

Customers

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

We currently sell to domestic department stores such as Macy's Inc., which includes Bloomingdale's and Macy's, Neiman Marcus, Nordstrom, Saks Fifth Avenue, Von Maur, Lord & Taylor, Dillard's and Belk stores and specialty retailers such as American Rag, Anthropologie, E-Street Denim, Fred Segal, Kitson, M. Frederic, National Jeans/Denim Habitat, Piperlime, Revolve Clothing, Ron Herman, Scoop NYC and Shop Bop in the United States. We sell internationally to retailers such as Galleries Lafayette, Franck & Fils Le Bon Marche and Le Printemps in France; Barney's Japan, Isetan, Kitson and Mitsukoshi in Japan; Harrod's and House of Fraser in the United Kingdom; Ztampz in Hong Kong; Biesse, Excelsior, Gio Moretti and Morini in Italy; Abseits and Eickhoff in Germany; Carouzos in Greece; Envols in China; TSUM in Russia; Santa Eulalia in Spain; NK in Sweden; and Beymen in Turkey.

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

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

For fiscal 2011, our ten largest customers and customer groups accounted for approximately 62 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 largest customer is Nordstrom Inc. and is the only customer that represented over 10 percent of our net sales in fiscal 2011.

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

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time between the time we book an order and when we ship it. Our primary booking periods for the retail sales seasons are as follows:

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

We have historically experienced and expect to continue to experience seasonal fluctuations in our net sales. A significant amount of our net sales are realized during the third and fourth quarter when we ship orders taken during earlier months. For fiscal 2011, we funded our liquidity needs through cash from operations and cash availability under our financing agreements with CIT Commercial Services, a unit of CIT Group Inc., or CIT. If sales are materially different from seasonal norms, our annual operating results could be materially affected. Accordingly, our results for the individual quarters are not necessarily indicative of the results to be expected for the entire year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" for further discussion of our financing agreements with CIT.

Credit and Collection

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

Backlog

Although we may, at any given time, have significant business booked in advance of ship dates, customers' purchase orders are typically filled and shipped within two to six weeks. As of November 30, 2011, we had backlog of \$28,650,000 compared to \$22,540,000 as of November 30, 2010. The amount of outstanding customer purchase orders at a particular time is influenced by numerous factors, including the product mix, timing of the receipt and processing of customer purchase orders, shipping schedules for the product and specific customer shipping windows. Due to these factors, a comparison of outstanding customer purchase orders from period to period is not necessarily meaningful and may not be indicative of eventual actual shipments.

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Competition

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

Import and Export Restrictions and Other Governmental Regulations

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

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

Employees

As of February 28, 2012, we had 320 total employees, which included 187 full-time, 120 part-time and 13 temporary employees. We consider our relationships with our employees to be good.

Financial Information about Geographic Areas

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

Manufacturing and Distribution Relationships

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

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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.

| | 2011 | 2010 |
|---------------|-------|-------|
| United States | 20.7% | 22.4% |
| Mexico | 58.5% | 46.4% |
| Europe | 2.5% | 0.6% |
| Asia | 15.8% | 20.0% |
| Morocco | 2.4% | 10.6% |
| | 100% | 100% |

Available Information

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

ITEM 1A. RISK FACTORS

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

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

Our ability to operate profitably depends on our ability to implement our strategic plan with success. During fiscal 2011, we recognized growth for our Joe's® brand through increases in our men's domestic and retail sales and by diversifying our product offering to include products such as shirts, tees and pants. We sell our Joe's® products internationally through individual distribution and agent agreements in various countries or through licensed stores. In addition, for countries such as Japan, we had for part of fiscal 2011 specific distribution and licensing agreements to distribute, develop and manufacture products specifically for the Japanese market. We believe that by working directly with our distributors and agents abroad, we can exercise more control and guidance over sales.

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

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recorded a retail store impairment charge of \$1,144,000 related to the property and equipment at two of our full price retail stores. Based on the operating performance of these stores, we believed that we could not recover the carrying value of the property and equipment at these stores. Due to this impairment, our SG&A expenses increased in third quarter of fiscal 2011.

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

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

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

We are currently not compliant with the Nasdaq Capital Market's continued listing requirements. If we do not regain 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.

On June 8, 2011, we received a letter, the Notification Letter, from Nasdaq notifying us that we no longer meet the 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. Accordingly to Nasdaq Listing Rule 5810(c)(3)(A), we were afforded 180 calendar days, or until December 5, 2011, to regain compliance with the Bid Price Rule. In connection with the Notification Letter, on November 28, 2011, we submitted a letter to Nasdaq requesting an additional 180 calendar day period in which to regain compliance with the Bid Price Rule. The Company received a letter, the Second Notification Letter, from Nasdaq on December 6, 2011 notifying us that we are eligible for an additional 180 calendar day period in which to regain compliance with the Bid Price Rule and that we have until June 4, 2012 to demonstrate compliance by maintaining a minimum closing bid price of at least \$1.00 for a minimum of 10 consecutive trading days. This Second Notification Letter had no immediate effect on the listing of our common stock. We intend to monitor the bid price of our common stock and consider available options, including an intent to cure our deficiency during the second compliance period by effecting a reverse stock split, if necessary. However, if we do not regain compliance by June 4, 2012, Nasdaq will provide written notification to us that our common stock will be subject to delisting from the Nasdaq Capital Market.

While we believe we will be able to comply with the Nasdaq requirements in the applicable time periods, 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 in the applicable time periods, 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

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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.

We may implement a reverse stock split, which will reduce our trading volume and may result in a decrease in our market capitalization.

As discussed in the risk factor above, we may need to conduct a reverse stock split to the extent that we are not compliant with Nasdaq's minimum bid price requirement by June 4, 2012. In this regard, we will seek stockholder approval of such reverse stock split by holding a special meeting of our stockholders in advance of June 4, 2012, if necessary. If approved by stockholders, the reverse stock split would be implemented at any time until June 4, 2012 upon a determination by our Board of Directors that the reverse stock split is in the best interests of the company and our stockholders. We have been notified by Nasdaq that if compliance cannot be demonstrated by June 4, 2012, the Nasdaq staff will provide written notification that our securities will be delisted. In determining whether to proceed with the reverse split and proposing the ratio range of the split, the Board of Directors will consider a number of factors, including additional funding requirements, the amount of our authorized but unissued common stock, market conditions, existing and expected trading prices of our common stock and Nasdaq listing requirements. Although we believe it is likely that the per share market price of our common stock will increase after a reverse split, we cannot guarantee that our common stock price will increase, and even if it does, we cannot guarantee that the price increase (i) will be proportionate to the reverse split ratio, (ii) will last in the marketplace for any length of time, (iii) will be sufficient to meet the listing requirements of Nasdaq or (iv) will not result in a decrease of our market capitalization.

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

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

In addition, the reduced availability of credit is having a significant negative impact on businesses around the world, and the impact of this reduced availability on our suppliers and other vendors cannot be predicted. The inability of suppliers and other vendors to access liquidity, or the insolvency of suppliers and other vendors, could lead to their failure to deliver our merchandise or other services

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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 Joe's® brand. If we are unable to adapt to changing fashion trends, our business and financial condition could be adversely effected.

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

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

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

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

consumer demand,

consumer purchases of discretionary items,

general economic conditions, or

fashion trends,

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

We face intense competition in the denim industry. 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

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

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

maintaining favorable brand recognition,

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

appropriately pricing products,

providing strong and effective marketing support,

creating an acceptable value proposition for retail customers,

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

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

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

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

Our 10 largest customers and customer groups accounted for approximately 62 percent of our net sales during fiscal 2011. We do not enter into any type of long-term agreements or firm commitment orders with any of our customers. Instead, we enter into a number of individual purchase order commitments with our customers. A decision by the controlling owner of a group of stores or any other significant customer, including our limited number of private label customers, whether motivated by competitive conditions, financial difficulties or otherwise, to decrease the amount of merchandise purchased from us, or to change their manner of doing business with us, could have a material adverse effect on our financial condition and results of operations if we are unable to find an alternative customer for our products in a timely manner.

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

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

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

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

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

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

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

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

We are dependent on our relationships with our vendors.

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

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

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

Our primary sources of liquidity are: (i) cash from sales of our Joe's® products; and (ii) cash from sales of our accounts receivables and advances against inventory. We are dependent on credit arrangements with suppliers and factoring and inventory based agreements for working capital needs. From time to time, we have conducted equity financing through private placement transactions and obtained increases in our cash availability from CIT Commercial Services, Inc., a unit of CIT Group, or CIT. During fiscal 2011, our primary methods to obtain the cash necessary for operating needs were through the sales of Joe's® products, sales of our accounts receivable pursuant to our factoring agreements and obtaining advances under our inventory security agreements with CIT. CIT has from time to time experienced economic uncertainty regarding its continued ability to operate, including filing a petition for bankruptcy in 2009. However, during this time period, CIT continued to fund us with no change to our arrangements with them. We cannot give you any assurance that should CIT experience uncertainty or insufficient cash flows again that they will continue to be able to fund us in the future.

As of November 30, 2011, our cash availability with CIT was approximately \$1,134,000 under our agreements. This amount fluctuates on a daily basis based upon invoicing and collection related activity by CIT on our behalf. CIT has the ability to terminate the agreements we have with them upon notice or require additional collateral to secure its advances. We do not have any provisions in the agreements 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 2012, we may experience losses and negative cash flows. We cannot give you any assurance that we will in fact continue to operate profitably in the future. We believe in the event our agreements with CIT are terminated, we will be able to find alternative sources for obtaining the case for our operating needs, including, entering into factoring or inventory security agreements with another lender.

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

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

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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 28, 2012, our executive officers and directors, in the aggregate, beneficially owned approximately 25 percent of our common stock, including options exercisable and restricted common stock units vesting within 60 days. In particular, Joe Dahan, an executive officer and member of our Board of Directors, beneficially owned approximately 18 percent of our total shares outstanding and is our largest stockholder. As a result, such persons are in a position to exert significant control over us and have the ability to substantially influence all matters submitted to our stockholders for approval, including the election and removal of directors, any merger, consolidation or sale of all or substantially all of our assets, an increase in the number of shares authorized for issuance under our stock option plans, and to control our management and affairs. Accordingly, such concentration of ownership may have the effect of delaying, deferring or preventing a change in or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our business, even if such a transaction would be beneficial to other stockholders.

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

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

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

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

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and consumer's response to those new products. Therefore, loss of Mr. Dahan's services could have an impact on our ability to operate on a daily basis.

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

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

Our common stock price is volatile and may decrease.

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

annual and quarterly variations in actual or anticipated operating results,

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

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

changes in market valuations of other denim apparel companies,

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

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

general conditions in the apparel industry.

In the 52 week period prior to the filing of this Annual Report, the closing price of our common stock has ranged from \$0.51 to \$1.14. 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.

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 summer, which coincides with our second and third 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 2011, 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 Joe's® products are sometimes the target of counterfeiters. As a result, there are often products that are imitations or "knock-offs" of our Joe's® products that can be found in the marketplace or consumers can find products that are confusingly similar to ours. We intend to continue to vigorously defend our trademarks and products bearing our trademarks, however, we cannot assure you that our efforts will be adequate to prosecute and block all sales of infringing products from the marketplace.

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

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

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

unexpected changes in regulatory requirements, and

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new tariffs or other barriers to some international markets.

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

political instability,

changes in diplomatic and trade relationships, and

general economic fluctuations in specific countries or markets.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

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

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

We operate 22 retail store locations under non-cancelable operating lease agreements expiring on various dates through 2023 or five or ten years from the opening date of the store. These facilities are all located in the United States. As of November 30, 2011, we had 22 stores open and operating and signed leases to open two additional stores. Our retail square footage as of November 30, 2011 was approximately 46,582 square feet in the aggregate. Our retail stores range in size from 1,359 to 3,025 square feet.

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

ITEM 3. LEGAL PROCEEDINGS

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

(b) None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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

(a) Our common stock is currently traded under the symbol "JOEZ" on The Nasdaq Capital Market maintained by The Nasdaq Stock Market, Inc., 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 |
|---------------------------|---------|---------|
| <i>Fiscal 2011</i> | | |
| First Quarter | \$ 1.67 | \$ 1.07 |
| Second Quarter | \$ 1.14 | \$ 0.83 |
| Third Quarter | \$ 0.95 | \$ 0.62 |
| Fourth Quarter | \$ 0.70 | \$ 0.51 |
| <i>Fiscal 2010</i> | | |
| First Quarter | \$ 2.33 | \$ 1.10 |
| Second Quarter | \$ 3.45 | \$ 1.90 |
| Third Quarter | \$ 2.36 | \$ 1.81 |
| Fourth Quarter | \$ 2.20 | \$ 1.55 |

As of November 30, 2011, there were approximately 846 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)

| Period | (a) Total Number of Shares (or Units) Purchased | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---------------------|--|---|--|---|
| 9/01/11 - 9/30/11 | 0 | 0 | 0 | 0 |
| 10/01/11 - 10/31/11 | 57,399 | \$ 0.59 | 0(1) | 0(1) |
| 11/01/11 - 11/30/11 | 0 | 0 | 0 | 0 |
| Total | 57,399 | | | |

(1) On October 8, 2011, we agreed to repurchase, at a price of \$0.59, which was the closing price of our common stock on such date, 57,399 shares in the aggregate of our common stock that were previously granted pursuant to a restricted stock agreements for

payment of tax withholding

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obligations by Marc Crossman. We expect to continue to repurchase shares of our common stock pursuant to the award agreements on certain vesting dates of the grants.

ITEM 6. SELECTED FINANCIAL DATA

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

| | Year ended | | | | |
|---|---------------------------------------|-----------|-------------|-----------|-----------|
| | (in thousands, except per share data) | | | | |
| | 11/30/11 | 11/30/10 | 11/30/09 | 11/29/08 | 11/30/07 |
| Net sales | \$ 95,420 | \$ 98,176 | \$ 80,116 | \$ 69,174 | \$ 62,767 |
| Cost of goods sold | 52,056 | 51,963 | 40,331 | 36,543 | 36,137 |
| Gross profit | 43,364 | 46,213 | 39,785 | 32,631 | 26,630 |
| Operating expenses | | | | | |
| Selling, general and administrative | 41,617 | 39,349 | 30,726 | 26,161 | 23,085 |
| Depreciation and amortization | 1,168 | 843 | 536 | 350 | 359 |
| Retail stores impairment | 1,144 | | | | |
| | 43,929 | 40,192 | 31,262 | 26,511 | 23,444 |
| Operating (loss) income | (565) | 6,021 | 8,523 | 6,120 | 3,186 |
| Interest expense | 484 | 464 | 388 | 633 | 828 |
| Other (expense) income, net | | | | | (13) |
| (Loss) income before taxes | (1,049) | 5,557 | 8,135 | 5,487 | 2,345 |
| Income tax provision (benefit) | 316 | 2,956 | (16,385)(1) | 585 | 91 |
| Net (loss) income | \$ (1,365) | \$ 2,601 | \$ 24,520 | \$ 4,902 | \$ 2,254 |
| (Loss) earnings per common share Basic | \$ (0.02) | \$ 0.04 | \$ 0.41 | \$ 0.08 | \$ 0.05 |
| (Loss) earnings per common share Diluted | \$ (0.02) | \$ 0.04 | \$ 0.40 | \$ 0.08 | \$ 0.05 |
| Weighted average shares outstanding | | | | | |
| Basic | 64,001 | 62,362 | 60,053 | 59,420 | 43,840 |
| Diluted | 64,001 | 64,505 | 61,121 | 59,671 | 45,000 |
| Balance sheet data: | | | | | |
| Total assets | \$ 80,162 | \$ 81,469 | \$ 79,624 | \$ 57,669 | \$ 47,626 |
| Stockholders' equity | 64,757 | 64,873 | 61,506 | 36,085 | 30,396 |

(1)

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

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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, 2011, 2010 and 2009, respectively. This discussion should be read in conjunction with our Consolidated Financial Statements, Notes to Consolidated Financial Statements and supplemental information in Item 8 of this Annual Report. The discussion and analysis contains statements that may be considered forward-looking. These statements contain a number of risks and uncertainties as discussed, under the heading "Forward-Looking Statements" of this Annual Report that could cause actual results to differ materially. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Our future results, performance or achievements could differ materially from those expressed or implied in these forward-looking statements. We do not undertake to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

Executive Overview

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

The focus of our operations has been on our Joe's® brand. Our transition plan, which began in 2006, included selling the assets or ceasing operations of our other branded and private label apparel products and acquiring the Joe's® brand and marks through merger.

Beginning in 2009, we began to re-examine our collection pieces and re-launched several categories with their own unique branding along with the Joe's® logo or name. In the fall of fiscal 2009, we launched a line of unisex woven shirts in different fits and fabrications called The Shirt by Joe's, which was followed by items in other distinct product categories and branded as such. In the Fall of 2011, we returned to branding our products cohesively under the name Joe's®. During fiscal 2011, we recognized growth for our Joe's® brand through increases in our retail sales, our men's domestic sales and by diversifying our product offering to include other products such as tops, tees, and pants in fabrications other than denim.

For 2012, we believe that our growth drivers will be dependent upon the performance of our retail stores, continued increases in sales from our international and men's sales, performance of our licensee's under their respective agreements for bags, belts, children's products, shoes and enhancement of products available to our customer's branded with our Joe's name and logos. When we commenced fiscal 2011, we operated 17 retail stores, four of which were full price stores and 13 of which were outlet stores. During fiscal 2011, we added five retail stores, four of which were outlet stores and one of which was a full price retail store. We have plans to open additional outlet stores in fiscal 2012 and are looking for additional leases for further expansion. We believe that through our retail stores, we are able to enhance our net sales and gross profit and sell overstock or slow moving items at higher profit margins. In addition, we selectively license the Joe's® brand for other product categories. By licensing certain product categories, we do not incur significant capital investments or incremental operating expenses and at the same time, we receive royalty payments on net sales, which contribute to our

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overall growth. We are also in the process of developing expanded product lines at lower price points to enhance our business.

Our business is seasonal. The majority of the marketing and sales orders take place from late fall to early spring. The greatest volume of shipments and actual sales are generally made from late spring through the summer, which coincides with our second and third fiscal quarters, and our cash flow is strongest in our third and fourth fiscal quarters. Due to the seasonality of our business, as well as the evolution and changes in our business and product mix, often our quarterly or yearly results are not necessarily indicative of the results for the next quarter or year. Furthermore, because of the growing number of full-price retail and outlet stores opened at different points in fiscal 2010 and 2011, we continue to assess the seasonality of our business on our retail segment and its potential impact on our financial results.

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

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

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

Table of Contents**Results of Operations**

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

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

Fiscal Year 2011 Overview**Net Sales**

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

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

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

Gross Profit

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

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

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

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

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

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

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

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

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

Operating (Loss) Income

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

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

Interest Expense

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

Income Taxes

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

Net (Loss) Income

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

Comparison of Fiscal Year Ended November 30, 2010 to Fiscal Year Ended November 30, 2009

| | Year ended | | | |
|-------------------------------------|----------------|-----------|-------------|----------|
| | (in thousands) | | | |
| | 11/30/10 | 11/30/09 | \$ Change | % Change |
| Net sales | \$ 98,176 | \$ 80,116 | \$ 18,060 | 23% |
| Cost of goods sold | 51,963 | 40,331 | 11,632 | 29% |
| Gross profit | 46,213 | 39,785 | 6,428 | 16% |
| Gross margin | 47% | 50% | (3)% | (6)% |
| Selling, general and administrative | 39,349 | 30,726 | 8,623 | 28% |
| Depreciation and amortization | 843 | 536 | 307 | 57% |
| Income from operations | 6,021 | 8,523 | (2,502) | (29)% |
| Interest expense | 464 | 388 | 76 | 20% |
| Income before taxes | 5,557 | 8,135 | (2,578) | (32)% |
| Income tax provision (benefit) | 2,956 | (16,385) | 19,341 | (118)% |
| Net income | \$ 2,601 | \$ 24,520 | \$ (21,919) | (89)% |

Table of Contents**Results of Operations**

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

| | Year ended (in thousands) | | | |
|---------------------------------|------------------------------|-----------|------------|----------|
| | 11/30/10 | 11/30/09 | \$ Change | % Change |
| Net sales | | | | |
| Wholesale | \$ 85,141 | \$ 75,238 | \$ 9,903 | 13% |
| Retail | 13,035 | 4,878 | 8,157 | 167% |
| | \$ 98,176 | \$ 80,116 | \$ 18,060 | 23% |
| Gross Profit: | | | | |
| Wholesale | \$ 38,324 | \$ 36,605 | \$ 1,719 | 5% |
| Retail | 7,889 | 3,180 | 4,709 | 148% |
| | \$ 46,213 | \$ 39,785 | \$ 6,428 | 16% |
| Operating income (loss): | | | | |
| Wholesale | \$ 23,887 | \$ 24,748 | \$ (861) | (3)% |
| Retail | (42) | (668) | 626 | 94% |
| Corporate and other | (17,824) | (15,557) | (2,267) | (15)% |
| | \$ 6,021 | \$ 8,523 | \$ (2,502) | (29)% |

Fiscal Year 2010 Overview**Net Sales**

Our net sales increased to \$98,176,000 in fiscal 2010 from \$80,116,000 in fiscal 2009, a 23 percent increase. More specifically, our wholesale net sales increased to \$85,141,000 for fiscal 2010 from \$75,238,000 for fiscal 2009, a 13 percent increase. This increase in our wholesale sales can be attributed to the addition of new product categories such as unisex woven shirts, tees and non-denim pants for men and women, an increase in our overall men's sales and an increase in international sales.

Our retail net sales increased to \$13,035,000 for fiscal 2010 from \$4,878,000 for fiscal 2009, a 167 percent increase. The primary reason for this increase was the opening of eleven additional retail stores since the end of fiscal 2009 that contributed to overall sales for this segment.

Gross Profit

Our gross profit increased to \$46,213,000 for fiscal 2010 from \$39,785,000 for fiscal 2009, a 16 percent increase. Our overall gross margin decreased to 47 percent for fiscal 2010 from 50 percent for fiscal 2009.

Our wholesale gross profit increased to \$38,324,000 for fiscal 2010 from \$36,605,000 for fiscal 2009, a five percent increase. Our wholesale gross profit increase was primarily due to our increase in net sales. However, our wholesale gross margin percentage decreased to 45 percent in fiscal 2010 from 49 percent in fiscal 2009 primarily due to the addition of a greater percentage of sales from non-denim products, which carry lower gross margins, and our product placement mix with our wholesale customers in fiscal 2010 compared to fiscal 2009. We continue to evaluate our sourcing options for the production of our new product lines.

Our retail gross profit increased to \$7,889,000 for fiscal 2010 from \$3,180,000 for fiscal 2009, a 148 percent increase. Our retail gross margin percentage decreased to 61 percent in fiscal 2010 from

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65 percent in fiscal 2009 primarily due to the mix and sales attributable to our store base, which includes an increased number of outlet locations in fiscal 2010 compared to fiscal 2009. In fiscal 2010, we operated 13 outlet stores and four full price retail stores. During fiscal 2009, we operated four outlet stores and two full price retail stores.

Selling, General and Administrative Expense, including Depreciation and Amortization

Selling, general and administrative, or SG&A, expenses increased to \$40,192,000 for fiscal 2010 from \$31,262,000 for fiscal 2009, a 29 percent increase. Our SG&A include expenses related to employee and employee related benefits, sales commissions, payments of the earn-out in connection with the 2007 merger with JD Holdings, advertising, sample production, facilities and distribution related costs, professional fees, stock-based compensation, factor and bank fees and depreciation and amortization.

Our wholesale SG&A expense increased to \$14,437,000 for fiscal 2010 from \$11,857,000 for fiscal 2009, a 22 percent increase. Our wholesale SG&A expense was impacted by the addition of headcount to support the growth in our wholesale operations and sample and advertising expense associated with our new product lines, additional commissions associated with our sales growth, additional professional fees associated with growth domestically and internationally and an increase in fees associated with a greater amount of invoices factored under our factoring line of credit.

Our retail SG&A expense increased to \$7,931,000 for fiscal 2010 from \$3,848,000 for fiscal 2009, a 106 percent increase. Our retail SG&A expense increased due to the addition of costs associated with opening and operating 11 new retail stores since the end of fiscal 2009 which include additional store payroll and store rents. Also impacting our SG&A expense is additional depreciation for leasehold improvements at our 11 additional retail stores that we opened in fiscal 2010 that we did not have in fiscal 2009.

Our corporate and other SG&A expense increased to \$17,824,000 for fiscal 2010 from \$15,557,000 for fiscal 2009, a 15 percent increase. Our corporate and other SG&A expense includes general overhead associated with running our operations and increased as a result of our overall growth in our business. Our SG&A expense increased as a result of increased costs associated with additional headcount, employee and employee related benefits, increased facilities and distribution costs due to the move of our corporate headquarters in the first quarter of fiscal 2010 and increased stock based compensation expense due to increases in our stock price number of shares granted due to our growth in employee headcount eligible for grants.

Operating Income

Our wholesale operating income decreased by \$861,000 to \$23,887,000 for fiscal 2010 from \$24,748,000 for fiscal 2009, a three percent decrease. Our retail operating loss decreased by \$626,000 to \$42,000 for fiscal 2010 from an operating loss of \$668,000 fiscal 2009. Our corporate and other operating expense increased by \$2,267,000 due to an increase in general overhead costs and resulted in a net decline in our operating income to \$6,021,000 for fiscal 2010 from \$8,523,000 for fiscal 2009.

Interest Expense

Our interest expense increased to \$464,000 for fiscal 2010 from \$388,000 for fiscal 2009, a 20 percent increase. Our interest expense is primarily associated with interest expense from our factoring facility and inventory lines of credit used to help support our working capital needs. The increase in interest expense is primarily due to a higher average loan balance under our factoring facility as a result of our increase in net sales.

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Income Taxes

Our effective tax rate was 53 percent for fiscal 2010 compared to a negative 201 percent in fiscal 2009. In 2009, our valuation allowance of \$20,291,000 that was recorded against deferred tax assets was fully released and this resulted in a net tax benefit of \$16,385,000. For fiscal 2010, no valuation allowance is necessary as we believe our deferred tax assets will be fully realized. Further, the effective tax rate differs from the statutory corporate tax rate in part due to permanent book/tax differences related to the costs of acquiring a trademark and due to state taxes for various jurisdictions where we are subject to taxation. These factors were the primary drivers resulting in a higher effective tax rate for fiscal 2010. Overall, for fiscal 2010, our income tax expense was \$2,956,000 compared to an income tax benefit of \$16,385,000 in fiscal 2009, or a 118 percent decrease.

Net Income

We generated net income of \$2,601,000 in fiscal 2010 compared to \$24,520,000 in fiscal 2009. The change in our net income in fiscal 2010 is largely the result of the release of our valuation allowance of \$20,291,000 as of November 30, 2008 that was recorded as a credit to income tax benefit during fiscal 2009 and resulted in a net tax benefit of \$16,385,000.

Liquidity and Capital Resources

Our primary sources of liquidity are: (i) cash from sales of our products; and (ii) sales from accounts receivable factoring facilities and advances against inventory. For the year ended November 30, 2011, we generated \$10,606,000 of cash flow from operations and used \$2,055,000 in investing activities for purchases of property and equipment mostly in connection with the opening and operation of our new and existing retail stores. We used \$2,271,000 in financing activities. This was comprised of \$1,707,000 in repayments in factored borrowings and payments of (i) \$530,000 for taxes on restricted stock units, and (ii) \$34,000 to purchase 57,400 treasury shares. Our cash balance increased to \$12,690,000 as of November 30, 2011.

Historically, we have been dependent on credit arrangements with suppliers and factoring and inventory based agreements for working capital needs. Our primary methods to obtain the cash necessary for operating needs are through the sales of Joe's® products, sales of our accounts receivable pursuant to our factoring agreements, obtaining advances under our inventory security agreements with CIT and utilizing existing cash balances. The accounts receivable are sold for up to 85 percent of the face amount on either a recourse or non-recourse basis depending on the creditworthiness of the customer. In addition, the inventory agreement allows us to obtain advances for up to 50 percent of the value of certain eligible inventory. CIT currently permits us to sell our accounts receivable at the maximum level of 85 percent and allows advances of up to \$6,000,000 for eligible inventory. CIT has the ability, in its discretion at any time or from time to time, to adjust or revise any limits on the amount of loans or advances made to us pursuant to these agreements and to impose surcharges on our rates for certain of our customers. As further assurance to CIT, cross guarantees were executed by and among us and all of our subsidiaries to guarantee each entity's obligations. As of November 30, 2011, our cash availability with CIT was approximately \$1,134,000. This amount fluctuates on a daily basis based upon invoicing and collection related activity by CIT on our behalf. In connection with both of the agreements with CIT, most of our tangible assets are pledged to CIT, including all inventory, merchandise, and/or goods, including raw materials through finished goods and receivables. Our trademarks are not encumbered.

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In May 2010, the parties amended the accounts receivable agreement to provide for a change in the factoring fees, an extension of the agreement and additional termination rights. The accounts receivable agreement may be terminated by CIT upon 60 days' written notice or immediately upon the occurrence of an event of default as defined in the agreement. The accounts receivable agreement may be terminated by us upon 60 days' written notice prior to June 30, 2012, or earlier provided that the minimum factoring fees have been paid for the respective period or CIT fails to fund us for five consecutive days. The inventory agreement may be terminated once all obligations are paid under both agreements or if an event of default occurs as defined in the agreement.

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

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

As of November 30, 2011, we had a net loan balance of \$10,857,000 for factored receivables, a loan balance of \$4,910,000 for inventory advances and four letters of credit outstanding in the aggregate amount of \$650,000.

For fiscal 2012, our primary capital needs are for (i) operating expenses; (ii) working capital necessary to fund inventory purchases; (iii) capital expenditures for potential additional retail store openings; (iv) financing extensions of trade credit to our customers; and (v) payment for the contingent consideration pursuant to the merger agreement with JD Holdings. We anticipate funding our operations through working capital generated by the following: (i) cash flow from sales of our products; (ii) managing our operating expenses and inventory levels; (iii) maximizing trade payables with our domestic and international suppliers; (iv) increasing collection efforts on existing accounts receivables; and (v) utilizing our receivable and inventory-based agreements with CIT.

Based on our cash on hand, cash flow from operations and the expected cash availability under our agreements with CIT, we believe that we have the working capital resources necessary to meet our projected operational needs for fiscal 2012. However, if we require more capital for growth or experience operating losses, we believe that it will be necessary to obtain additional working capital through credit arrangements or debt or equity financings. We believe that any additional capital, to the extent needed, may be obtained from additional sales of equity securities or other loans or credit arrangements. There can be no assurance that this or other financings will be available if needed. Our inability to fulfill any interim working capital requirements would force us to constrict our operations.

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

Table of Contents**Commitments and Contractual Obligations**

The following table sets forth our contractual obligations and commercial commitments for our continuing operations as of November 30, 2011:

| | Payments due by period (in thousands) | | | | | | |
|-----------------------------|--|----------|----------|----------|----------|----------|------------|
| | Total | 2012 | 2013 | 2014 | 2015 | 2016 | Thereafter |
| Operating lease obligations | \$ 43,494 | \$ 4,707 | \$ 5,008 | \$ 4,825 | \$ 4,936 | \$ 4,939 | \$ 19,079 |
| Purchase obligations | 3,019 | 3,019 | | | | | |
| Letters of credit | 650 | 650 | | | | | |
| | \$ 47,163 | \$ 8,376 | \$ 5,008 | \$ 4,825 | \$ 4,936 | \$ 4,939 | \$ 19,079 |

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

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

Management's Discussion of Critical Accounting Policies

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

Revenue Recognition

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

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

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portion of the upfront payments are included in deferred royalties and accrued expenses depending on the long or short term nature of the payments to be recognized. As of November 30, 2011, we have recognized all of the advanced payments under our licensing agreements as income.

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

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

The balance in the allowance for customer credits and doubtful accounts as of November 30, 2011 and November 30, 2010 was \$678,000 and \$889,000, respectively, for non-factored accounts receivables.

Inventory

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

Valuation of Long-lived and Intangible Assets and Goodwill

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

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

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

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

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

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

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

Additional Merger Consideration (Contingent Consideration)

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

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

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

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

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

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

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

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

Income Taxes

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

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routinely monitor the potential impact of these situations. Based on management's assessment of these items during fiscal 2009, we determined that it was more likely than not that the deferred tax assets would be fully utilized. Accordingly, the valuation allowance of \$20,291,000 as of November 30, 2008 was released and recorded as a credit to income tax benefit during fiscal 2009.

Contingencies

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

Stock Based Compensation

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

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued revised guidance for the accounting of transfers of financial assets. This guidance is intended to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in

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transferred financial assets. The adoption of this accounting guidance did not have a material impact on our financial position, results of operations or liquidity.

In June 2009, the FASB issued revised guidance for the accounting of variable interest entities, which replaces the quantitative-based risks and rewards approach with a qualitative approach that focuses on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance. This accounting guidance also requires an ongoing reassessment of whether an entity is the primary beneficiary and requires additional disclosures about an enterprise's involvement in variable interest entities. The adoption of this accounting guidance did not have a material impact on our financial position, results of operations or liquidity.

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

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

In December 2010, the FASB issued an update to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This accounting guidance will be effective for financial statements issued for fiscal years beginning after December 15, 2010, and interim periods within those fiscal years. Early adoption is not permitted. We do not believe that adoption of this guidance will have a material impact on our financial position and results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

Our obligations under our receivable and inventory agreements with CIT bear interest at floating rates (primarily JP Morgan Chase prime rate). As a result, we are sensitive to changes in prevailing interest rates. We believe that a one percent increase or decrease in market interest rates that affect

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our financial instruments would have an immaterial impact on earnings or cash flow during the next fiscal year.

Foreign Currency Exchange Rates

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

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

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management's Annual Report On Internal Control Over Financial Reporting

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

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Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of November 30, 2011.

Changes in Internal Control Over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

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

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

Information with respect to our directors and executive officers and their ages and positions as of February 28, 2012, is as follows:

| Name | Age | Position | Year First Elected Director |
|---------------------------|-----|---|-----------------------------|
| Samuel J. (Sam) Furrow | 70 | Chairman of the Board of Directors Chief Executive Officer, President, and Director | 1998 |
| Marc B. Crossman | 40 | Chief Financial Officer | 1999 |
| Hamish Sandhu | 49 | Creative Director and Director | N/A |
| Joe Dahan | 44 | Director | 2007 |
| Kelly Hoffman(2)(3) | 53 | Director | 2004 |
| Thomas O'Riordan(1)(2)(3) | 55 | Director | 2006 |
| Suhail R. Rizvi(1)(2)(3) | 46 | Director | 2003 |
| Kent Savage(1)(3) | 50 | Director | 2003 |

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- (1) Member of the Audit Committee
- (2) Member of the Compensation and Stock Option Committee
- (3) Member of the Nominating and Governance Committee

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

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Marc B. Crossman has served as our Chief Executive Officer since January 2006, our President since September 2004 and a member of our Board of Directors since January 1999. From March 2003 until August 2007, Mr. Crossman served as our Chief Financial Officer. From January 1999 until March 2003, Mr. Crossman served as a Vice President and Equity Analyst with J.P. Morgan Securities Inc. From September 1997 until January 1999, Mr. Crossman served as a Vice President and Equity Analyst with CIBC Oppenheimer Corporation. Mr. Crossman received his B.S. degree in Mathematics from Vanderbilt University. With Mr. Crossman's background as an equity analyst and his tenure with the Company and a member of the Board of Directors since 1999, Mr. Crossman provides strategic guidance and experience for all aspects of our operations, including our capital and strategic matters.

Joe Dahan has served as the president and head designer for our Joe's Jeans subsidiary since its formation in February 2001, and as Creative Director and a member of our Board of Directors since October 2007. Mr. Dahan is responsible for the design, development and marketing of Joe's products. From 1996 until 2001, Mr. Dahan was the head designer for Azteca Production International, Inc., or Azteca, where he was responsible for the design, development and merchandising of product lines developed by Azteca, a manufacturer of branded and private label denim products. From 1989 until 1996, Mr. Dahan was engaged in the design and development of apparel products for a company of which he was an owner and operator. Mr. Dahan's significant experience in the apparel industry brings expertise related to the creative and strategic direction of our brand from season to season and our operational matters.

Kelly Hoffman has served as a member of our Board of Directors since June 2004. Since December 2011, Mr. Hoffman has served as a consultant to numerous companies in the oil and gas industry. From April 2008 until December 2011, Mr. Hoffman served as President of Victory Park Resources, a privately held exploration and production company specializing in the acquisition of oil and gas producing properties in Oklahoma, Texas and New Mexico. From 1998 until September 2009, Mr. Hoffman served as Chairman of the Board of Directors and Chief Executive Officer of Varsity Media Group Inc., a technology and new media company. From 1991 until 1998, Mr. Hoffman owned AOCO Operating, a company that raised capital for the acquisition of property in Texas, Louisiana and New Mexico. Mr. Hoffman began his oil and gas career at Amoco Production Company in Texas in various positions. Mr. Hoffman attended Texas Tech University and majored in Business Administration. Mr. Hoffman's experience with starting up and running various companies has provided us with practical knowledge and guidance on operations.

Thomas O'Riordan has served as a member of our Board of Directors since April 2006. Since August 2009 and from 1988 to 1995, Mr. O'Riordan served as President of Tom O'Riordan & Associates, a sales and marketing company focused on the athletic footwear, apparel and sporting goods industries. From January 2010 until August 2011, Mr. O'Riordan served as Chief Operating Officer of CHEP USA, a global leader in pallet and container pooling services serving many of the world's largest companies. Prior to that, from March 2007 to July 2009, Mr. O'Riordan served as Chief Executive Officer of American Sporting Goods Corporation, a privately held manufacturer and retailer of athletic footwear with such brands as And1, Avia, Ryka, Yukon, Triple 5 Soul, NSS and Nevados. From 2004 to 2007, Mr. O'Riordan acted in an executive consulting and advisory capacity to the senior management team of Fila Holding Company, a publicly traded manufacturer and retailer of branded footwear, apparel and accessories, and to other investment advisors and funds in the retail and consumer products sector. From 1999 to 2004, Mr. O'Riordan served in various executive management capacities with Fila Holding Company, ultimately serving as Chief Executive Officer from 2003 to 2004. From 1995 until 1998, Mr. O'Riordan served as Director of Operations of Adidas America, a publicly traded manufacturer and retailer of branded athletic footwear, apparel and accessories. Mr. O'Riordan began his career in sales for Brooks Shoe Company. Mr. O'Riordan received his B.S. degree in Marketing and Management from Rider University. Mr. O'Riordan's retail, apparel and footwear

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industry knowledge enables him to offer advice and guidance to our management as we grow our operations and open retail stores.

Suhail R. Rizvi has served as a member of our Board of Directors since April 2003. Since 2004, Mr. Rizvi has served as founder and Chief Investment Officer of Rizvi--Traverse Management LLC and other related funds. Mr. Rizvi has over twenty years of private equity investing experience for his own account and as a fiduciary for institutional investors through various entities or funds as founder, principal or manager. Mr. Rizvi also serves on the Board of Directors of Summit Entertainment LLC, International Creative Management, Inc., Ziegler Capital Management and Key Air. Mr. Rizvi received his B.S. degree in Economics from the Wharton School of the University of Pennsylvania and sits on the Wharton Undergraduate Executive Board. Mr. Rizvi's experience as an executive and private equity investor brings strong financial and strategic expertise to our Board and management to assist in achieving stockholder value.

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

Hamish Sandhu has served as our Chief Financial Officer since August 2007. From January 2006 until August 2007, Mr. Sandhu was Chief Financial Officer of California Tan, Inc., a consumer products company manufacturing and marketing lotion and equipment to the indoor tanning industry. From September 2001 until December 2005, Mr. Sandhu was Chief Financial Officer of Ancra International LLC, a manufacturer of aircraft cargo systems and trucking restraint products. Mr. Sandhu began his career at Deloitte & Touche LLP. Prior to that, Mr. Sandhu held various Chief Financial and Corporate Controller positions at other manufacturing and distribution based companies. Mr. Sandhu has a B.A. degree in Economics and Accounting from Australian National University and holds a Certified Public Accountant's license.

Code of Business Conduct and Ethics

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

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

Audit Committee

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

Nominating and Governance Committee

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

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

Section 16(a) Beneficial Ownership Reporting Compliance

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

Based solely on a review of copies of such forms furnished to us and certain of our internal records, or upon written representations from officers, directors and greater than ten percent beneficial owners that no Form 5 was required, we believe that during the year ended November 30, 2011, all

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Section 16(a) filing requirements applicable to our directors, officers and greater than ten percent beneficial owners were satisfied on a timely basis.

ITEM 11. EXECUTIVE COMPENSATION.

Executive Officer Compensation

This discussion and analysis will focus on the following: (1) the objectives of the executive compensation policies and practices, (2) the objectives that the compensation program is designed to reward; (3) each element of compensation, (4) the rationale for each element of compensation, (5) the methodologies utilized by us in determining the amounts to pay for each element, and (6) how an element of compensation and our rationale for each element fit together within our overall compensation objectives. This discussion relates to our Principal Executive Officer, Principal Financial Officer, and our Creative Director, or collectively, our Named Executive Officers.

Compensation Philosophy

Our executive compensation program is designed to provide proper incentive to management to maximize performance in order to encourage creation of stockholder value and achievement of strategic corporate objectives, attract and retain qualified, skilled and dedicated executives on a long-term basis, reward past performance and provide incentives for future performance.

In keeping with these objectives, our goal is to (1) align the interests of the executive officers with the interests of our stockholders, (2) ensure the long-term commitment of our management team, and (3) ensure accountability for both our overall performance and the individual's performance and contribution.

In setting the level of cash and equity compensation, the Compensation Committee of our Board of Directors considers various factors, including our overall performance and the individual's performance during the year, the uniqueness and relative performance of the executive's skill set, the expected future contribution to us and competitive conditions. In addition, the Compensation Committee considered our stockholder 'say on pay' vote at our annual meeting in October 2011 and continued to apply the same principles in determining the amounts and types of executive compensation.

Elements of Compensation

Our compensation structure for our Named Executive Officers consists of a combination of (1) base salary, (2) long-term incentive awards (equity awards), (3) company paid benefits, and (4) discretionary bonuses. The Compensation Committee also takes into account certain change in control provisions available to our Named Executive Officers.

Both of Mr. Crossman, our President and Chief Executive Office, and Mr. Dahan, our Creative Director, have employment agreements. Mr. Sandhu is an at-will employee. Mr. Sandhu was given an employment offer letter in connection with his offer of employment as our Chief Financial Officer in August 2007.

Engagement of Compensation Consultant

In September 2007, our Compensation Committee engaged a compensation consultant, Mercer Human Resources Consulting, to serve as an independent advisor to the Compensation Committee to conduct a review of the compensation for our Chief Executive Officer and non-employee Directors, examine the pay level and practices of a group of peer companies similar in terms of size and industry, highlight trends in such compensation and provide recommendations regarding our practices. Mercer prepared for our Compensation Committee a competitive analysis of compensation utilizing comparable

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company compensation data, including size and industry appropriate survey data and advice around short and long-term incentive programs. The information prepared by Mercer provided the Compensation Committee with data to allow them to evaluate and determine an appropriate amount for a bonus and equity award grant for our Chief Executive Officer for fiscal 2007 and compensation for non-employee directors. More particularly, this information provided the basis for discussion of compensation for inclusion in the employment agreement for fiscal 2008 for our Chief Executive Officer and was utilized in connection with evaluating compensation for non-employee directors.

The peer companies selected for comparison purposes included other apparel, footwear and accessories companies of a comparable size with publicly available information. The companies in the peer group selected in 2007 were as follows: True Religion; Cutter & Buck; Lacrosse Footwear; Iconix Brand Group; Everlast Worldwide; Sport-Haley; Chaus; Cygne Designs; Isaacs IC & Co.; Nitches; Cherokee; and People's Liberation.

The information presented included data for the 75th percentile, 50th percentile, and 25th percentile. Our Compensation Committee determined that based upon the data presented, the total direct compensation for our Chief Executive Officer in prior years was just below the 25th percentile due to a lack of cash bonus opportunity. Thus, the Compensation Committee believed that a cash bonus would be an important element of compensation for our Chief Executive Officer.

Base Salary

Our Compensation Committee reviews base salary for Chief Executive Officer on an annual basis, and considers the recommendation by the Chief Executive Officer for the other Named Executive Officers other than the Chief Executive Officer. The Compensation Committee utilized the data from Mercer as a basis for the discussion of our Chief Executive Officer's salary for fiscal 2008. In fiscal 2008, our Chief Executive Officer's base salary was increased to \$429,300, which represented the amount in the 50th percentile of the peer group companies. Our Chief Executive Officer's base salary, as well as the base salary of our other Named Executive Officers, has remained unchanged since fiscal 2008.

Bonuses

Historically, the Compensation Committee did not grant a bonus to our Chief Executive Officer. Recognizing the importance of this element of compensation, in fiscal 2008, the Compensation Committee included in Mr. Crossman's employment agreement a bonus provision which targeted his bonus at 50 percent of his base salary based upon certain performance measures. The Compensation Committee discussed the formal criteria for Mr. Crossman's 2008 performance measures noting that the performance measures set for this fiscal year would be utilized in future fiscal years. The Committee discussed various methods of measurement noting that the following were drivers to our overall performance. Those methods of measurement included Earnings Before Income, Taxes and Depreciation (EBITDA), net profits, store performance, net sales, gross margins and inventory. After this discussion, the Compensation Committee decided to utilize EBITDA and net sales weighted equally as the performance measures for Mr. Crossman's bonus. In February 2012, the Compensation Committee awarded a bonus to Mr. Crossman in the amount of \$184,313.

Long-Term Incentive Compensation

Our Compensation Committee administers our stock incentive plans and believes that the long-term commitment of our employees, including our Named Executive Officers, is an important factor in our future performance. The primary element used to promote the long-term performance and commitment of our Named Executive Officers is long-term incentive compensation through grants of stock options and restricted stock. In fiscal 2007, the Compensation Committee shifted from its past

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practice of granting options to purchase shares of our common stock to granting restricted common stock. This decision to change past practices was in part due to fluctuations in the market price of our common stock and the decision to re-price out-of-the-money incentive stock options in fiscal 2006 as part of a retention incentive. The Compensation Committee believes that equity grants with time-based vesting restrictions aid in retention and better align the interests of our Named Executive Officers with those of our stockholders. Further, the equity grants motivate our Named Executive Officers to make long-term decisions that are in our best interest and to provide incentive to maximize stockholder value.

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

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

Based upon this data, Mr. Crossman's employment agreement contained a provision which set forth his long-term incentive compensation through a grant of restricted stock or restricted stock units pursuant to the 2004 Incentive Plan with a fair market value equal to 100 percent of his base salary. For fiscal 2010, Mr. Crossman received a grant of restricted stock in the amount of 260,182 shares that vest $\frac{1}{3}$ on each anniversary date of the grant in 2012, 2013 and 2014, respectively. Mr. Dahan and Mr. Sandhu, our other Named Executive Officers, each received a grant of restricted stock units, or RSUs, in the amount of 181,818 and 69,545, respectively, that vest in an amount equal to $\frac{1}{8}$ of the total grant on June 18, 2011 and thereafter every six months until the Restricted Common Stock Units, or RSUs, are fully vested on December 18, 2014. In February 2012, Mr. Crossman received a grant of restricted stock in the amount of 670,781 shares that vest $\frac{1}{3}$ on each anniversary date of the grant in 2013, 2014 and 2015, respectively, in accordance with the terms of his employment agreement for fiscal 2011. As of February 28, 2012, no other Named Executive Officer has received a stock award.

Benefits

Benefits offered to our Named Executive Officers are substantially the same as those offered to all our regular employees and generally include medical insurance, dental insurance, 401(k) plan, disability insurance, life insurance and flexible spending account. For our Named Executive Officers, we pay all premiums associated with such benefits as described in the footnote 6 to the Summary Compensation Table.

Change in Control Provisions

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

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Relationship Between Elements and Objectives

In determining the total amount and mixture of the compensation package for our Chief Executive Officer, our Compensation Committee subjectively considers individual performance, including past and expected contributions, overall performance of the company as a whole, long-term goals and such other factors as our Compensation Committee determines appropriate. The use of both cash compensation (salary and bonus) and long-term compensation (equity awards) achieves the objectives of attracting, motivating and retaining our Chief Executive Officer, other Named Executive Officers and employees. Long-term compensation realized through the use of equity awards achieves the objectives of aligning management's interests with stockholders' interests and ensuring the long-term commitment of the management team. For fiscal 2010, the Compensation Committee considered, evaluated and discussed the data presented to provide the basis for its discussion and decision regarding compensation and has not yet met to determine any compensation for fiscal 2011.

Executive Management's Involvement in Compensation Policies

Our Compensation Committee determines the compensation of our Chief Executive Officer and directors and reviewed and approved our compensation of our Creative Director and Chief Financial Officer based upon the recommendation from our Chief Executive Officer regarding expected contributions, long term goals and other factors appropriate to the respective positions. Our Compensation Committee approves all grants of equity compensation, including the pool for non-officer employees.

Tax Considerations

We generally intend to qualify executive compensation for deductibility without limitation under section 162(m) of the Internal Revenue Code. Section 162(m) provides that, for purposes of the regular income tax and the alternative minimum tax, the otherwise allowable deduction for compensation paid or accrued with respect to a covered employee of a publicly-held corporation (other than certain exempt performance-based compensation) is limited to no more than \$1 million per year and approved by "outside directors" within the meaning of Section 162(m). In fiscal 2010 and fiscal 2011, certain payments or awards to an executive exceeded the \$1 million limit and did not otherwise meet the requirements of Section 162(m). Thus, such payments are not deductible.

Pension Benefits

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

Nonqualified Deferred Compensation

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

Executive Officer Compensation

The following table provides certain summary information concerning the compensation earned by our Named Executive Officers in the position of the Principal Executive Officer, Principal Financial Officer, and Creative Director for services rendered in all capacities to us for the fiscal year ended November 30, 2011.

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| Name and Principal Position | Year | Salary(1) | Bonus | Stock awards(2) | All other compensation(3) | Total |
|---|------|------------|---------------|-----------------|---------------------------|--------------|
| Marc Crossman Chief Executive Officer and President | 2011 | \$ 462,000 | \$ 328,000(4) | \$ 429,000(5) | \$ 23,000 | \$ 1,242,000 |
| | 2010 | 462,000 | 375,000 | | 22,000 | 859,000 |
| Hamish Sandhu Chief Financial Officer | 2011 | 267,000 | | 115,000(6) | 23,000 | 405,000 |
| | 2010 | 267,000 | | | 24,000 | 291,000 |
| Joseph Dahan Creative Director | 2011 | 317,000 | | 300,000(7) | 1,775,000(8) | 2,392,000 |
| | 2010 | 317,000 | 250,000 | | 1,801,000(8) | 2,368,000 |

- (1) Salary amount includes a payout for earned but unused vacation at the Named Executive Officers daily rate. In accordance with our employee handbook, all regular full-time employees are eligible to be paid out for earned but unused vacation at the end of each fiscal year.
- (2) Represents restricted common stock and restricted common stock units, or RSUs, issued pursuant to our 2004 Stock Incentive Plan and reflects the dollar amount of compensation expense recognized by us in our financial statements for reporting purposes in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004), later codified in Accounting Standards Codification 718, or ASC 718. For a discussion on the assumptions made regarding the valuation of the stock awards and option awards, please see "Note 7 Stockholders' Equity Stock Incentive Plans" in our Notes to Consolidated Financial Statements.
- (3) The following table details the components of this column.

| Name and principal position | Year | Benefit of company paid health insurance(a) | 401(k) match | Contingent consideration(b) | Total |
|-----------------------------|------|---|--------------|-----------------------------|-----------|
| Marc Crossman | 2011 | \$ 18,000 | \$ 5,000 | \$ | \$ 23,000 |
| | 2010 | 16,000 | 6,000 | | 22,000 |
| Hamish Sandhu | 2011 | 18,000 | 5,000 | | 23,000 |
| | 2010 | 19,000 | 5,000 | | 24,000 |
| Joseph Dahan | 2011 | 18,000 | | 1,757,000 | 1,775,000 |
| | 2010 | 16,000 | | 1,785,000 | 1,801,000 |

- (a) This amount represents health premiums paid on behalf of the Named Executive Officer in excess of premiums paid for other employees.
- (b) This amount represents contingent consideration payments paid to Mr. Dahan in connection with the merger agreement with JD Holdings. The payments are not part of his employment agreement, but included in the merger agreement and he is entitled to the payments irrespective of his employment status.
- (4) Mr. Crossman was awarded a bonus in January 2011 for his service for fiscal 2010 and thus, is included in compensation for fiscal 2011.

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- (5) The restricted common stock was granted to Mr. Crossman on January 3, 2011 for service for 2010 and vests one-third on each year thereafter from the date of grant. This figure represents the remaining amount to vest. See also footnote (2) above for discussion on compensation amount.
- (6) The RSUs were granted to Mr. Sandhu on January 3, 2011 for service for 2010 and vest as follows: one-eighth of the shares began vesting on June 18, 2011 and the remaining RSUs vest every six months thereafter over a four year period. This figure represents the remaining amount to vest. See also footnote (2) above for discussion on compensation amount.
- (7) The RSUs were granted to Mr. Dahan on January 3, 2011 for service for 2010 and vest as follows: one-eighth of the shares began vesting on June 18, 2011 and the remaining RSUs vest every six months thereafter over a four year period. This figure represents the remaining amount to vest. See also footnote (2) above for discussion on compensation amount.
- (8) For a discussion on the contingent consideration payments, please see "Employment Agreements Joseph Dahan."

Grants of Plan-Based Awards

Our Named Executive Officers did not receive any awards pursuant to our 2004 Stock Incentive Plan in fiscal 2010. Rather, the grants of plan based awards were made in January 2011. In February 2012, Mr. Crossman received a grant of restricted stock in accordance with the terms of his employment agreement for fiscal 2011. As of February 28, 2012, no other Named Executive Officer has received a stock award.

Outstanding Equity Award at Fiscal Year-End

The following table sets forth information regarding outstanding equity awards held by our Named Executive Officers during our fiscal year ended November 30, 2011:

| Name | Option awards | | | | Stock awards | | Equity incentive plan awards: |
|---------------|---|---|-----------------------|------------------------|---|---|---|
| | Number of securities underlying unexercised options | Number of securities underlying unexercised options | Option exercise price | Option expiration date | Number of shares or units of stock that have not vested | Market value of shares or units of stock that have not vested | Equity incentive plan awards: Number of unearned shares, units or other rights that have not vested |
| Marc Crossman | | | | | | | 260,182(1) \$ |
| | | | | | | | 135,295 |
| | | | | | | | 204,428(2) \$ |
| | | | | | | | 106,303 |
| Hamish Sandhu | | | | | | | 60,852(4) \$ |
| | | | | | | | 31,643 |
| | | | | | | | 96,875(5) \$ |
| | | | | | | | 50,375 |
| Joseph Dahan | | | | | | | 56,250(6) \$ |
| | | | | | | | 29,250 |
| | | | | | | | 12,500(7) \$ |
| | | | | | | | 6,500 |
| Joseph Dahan | | | | | | | 159,091(4) \$ |
| | | | | | | | 82,727 |
| | | | | | | | 284,375(5) \$ |
| | | | | | | 147,875 | |
| | | | | | | 204,750(6) \$ | |
| | | | | | | | 106,470 |

(1)

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These shares vest as follows: one-third of the shares vest on January 3, 2012; one-third of the shares vest on January 3, 2013; and one-third of the shares vest on January 3, 2014.

(2)

These shares vest as follows: 156,484 shares vest on October 8, 2012 and 47,944 shares vest on November 9, 2012, respectively. This figure represents the remaining amount to vest.

(3)

Each of these grants of stock options are fully vested and were fully vested as of the following dates: April 17, 2003, November 27, 2003 and September 3, 2005, respectively. This figure represents the remaining amount to vest.

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- (4) These RSUs vest as follows: one-eighth of the RSUs began vesting on June 18, 2011 and the remaining RSUs vest every six months thereafter over a four year period. This figure represents the remaining amount to vest.
- (5) These RSUs vest as follows: one-eighth of the RSUs began vesting on June 18, 2010 and the remaining RSUs vest every six months thereafter over a four year period. This figure represents the remaining amount to vest.
- (6) These RSUs vest as follows: one-eighth of the RSUs began vesting on June 18, 2009 and the remaining RSUs vest every six months thereafter over a four year period. This figure represents the remaining amount to vest.
- (7) On December 18, 2007, Mr. Sandhu elected to forfeit and cancel his stock option award in exchange for a grant of 100,000 restricted common stock units on the same terms and conditions granted to other non-officer employees. The restricted common stock units are scheduled to vest every six months over a four year period after December 18, 2007. Mr. Sandhu's stock option award was scheduled to vest on a monthly basis over a two year period on the 27th day of each month beginning on September 27, 2007. This figure represents the remaining amount to vest.

Option Exercises and Stock Vested

There were no option exercises by our Named Executive Officers in our fiscal year ended November 30, 2011. During fiscal 2011, 847,531 shares of restricted stock or RSUs vested for our Named Executive Officers.

| Name | Stock Awards | |
|---------------|--|------------------------------------|
| | Number of shares acquired on Exercise (#) | Value Realized on Exercise (\$) |
| Marc Crossman | 464,611 | \$ 319,000 |
| Hamish Sandhu | 109,943 | \$ 99,000 |
| Joseph Dahan | 272,977 | \$ 192,000 |

Employment Contracts and Termination of Employment and Change in Control Arrangements*Change in Control Provisions*

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

Marc Crossman

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

Under the terms of the Crossman Employment Agreement, Mr. Crossman receives an annual salary of \$429,300 and is entitled to receive other cash and non-cash compensation, including an annual discretionary bonus targeted at 50% of his base salary based upon the achievement of financial and other performance criteria as set forth in the Crossman Employment Agreement, an annual grant of equity compensation pursuant to the 2004 Stock Incentive Plan, and life and disability insurance policies paid on his behalf. The Crossman Employment Agreement is effective as of December 1, 2007, the commencement of our 2008 fiscal year, and had an initial term of two years, which automatically renewed for another two year period on December 1, 2009 and December 1, 2011. The Crossman

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Employment Agreement automatically renews for additional two year periods if neither Joe's nor Mr. Crossman provide 180 days' advanced notice of non-renewal prior to the end of the term or upon the occurrence of a change in control.

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

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

Joseph M. Dahan

In connection with the completion of a merger between us, our Joe's Subsidiary and JD Holdings, Mr. Dahan's employment agreement automatically became effective for service as our Creative Director. Under the employment agreement, the initial term of employment is five years with automatic renewals for successive one year periods thereafter, unless terminated earlier. Mr. Dahan is entitled to an annual salary of \$300,000 and other discretionary benefits that the Compensation Committee of the Board of Directors may deem appropriate in its sole and absolute discretion.

Under the terms of the employment agreement, we may terminate Mr. Dahan for Cause or if he becomes Disabled. "Cause" is defined as (i) a conviction, plea of guilty or nolo contendere to a felony or a crime of moral turpitude; (ii) a material breach of any provision of the employment agreement that is not cured within 45 days of receipt of written notice of such breach; (iii) the solicitation, persuasion or attempt at persuasion for any employee, consultant, contractor, customer or potential customer to engage in an act prohibited by the employment agreement; or (iv) a violation of any of our policies in our handbook or code of ethics and such violation constitutes a breach of the Code of Ethics or warrants termination. "Disability" is defined as inability to perform duties for 180 consecutive days or shorter periods aggregating 270 days during any 12 month period.

Should we terminate Mr. Dahan's employment for Cause or Disability, we would only be required to pay him through the date of termination. We may terminate Mr. Dahan's employment without Cause at any time upon two weeks' notice, provided that we pay him the present value of the annual salary amounts otherwise due to him for the remainder of the initial term of employment or any renewal term. Mr. Dahan may terminate his employment for Good Reason at any time within 30 days written notice. "Good Reason" is defined as (i) a material breach of the employment agreement by us that is not cured within 30 days of written notice; or (ii) Mr. Dahan's decision to terminate employment at any time after 18 months following a Change in Control. A "Change in Control" is defined as (i) the sale or disposal of all or substantially all of the assets; (ii) the merger or consolidation with another company provided that our stockholders as a group no longer own at least 50 percent of the voting power of the surviving corporation; (iii) any person or entity becoming the beneficial owner of 50 percent or more of our combined voting power; or (iv) the approval by our stockholders to liquidate or dissolve. In the event that Mr. Dahan terminates his employment for Good Reason, then he will be entitled to the present value of the annual salary amounts otherwise due to him for the remainder of the initial term of employment or any renewal term. Further, Mr. Dahan may

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terminate his employment for any reason upon ten business days' notice and only be entitled to his salary as of the date of termination on a pro rata basis.

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

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

Hamish Sandhu

In connection with Mr. Sandhu's appointment as CFO, we entered into a written offer letter whereby Mr. Sandhu agreed to serve as our CFO. Under the terms of the offer letter, Mr. Sandhu's annual base salary was \$205,000, which was increased to \$255,000 in November 2008. In addition, Mr. Sandhu received a grant on August 27, 2007, pursuant to our 2004 Stock Incentive Plan, to purchase up to 100,000 shares of our common stock at an exercise price equal to the closing price of our common stock on that date. The option was forfeited in connection with a subsequent grant of RSUs in December 2007. We also agreed to pay the full cost of participation in our health insurance plan for Mr. Sandhu and his family. Notwithstanding anything to the contrary, Mr. Sandhu is an employee at-will and has not entered into an employment agreement with us.

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

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

Table of Contents**Director Compensation**

Historically, our non-employee directors have been compensated for service through an equity grant or on a cash basis. Our directors are not compensated in any other manner; however, they are reimbursed for travel and business expenses associated with attending our annual meeting if the Director's schedule permits such attendance. Attendance in person is not required, but we try to accommodate schedules in planning the date and encourage our directors and director nominees to attend the annual meeting of stockholders. In fiscal 2011, all directors, except for Suhail Rizvi, attended our annual meeting in person. No compensation was approved for non-employee directors during fiscal 2011. After the end of our fiscal year for 2011, on December 6, 2011, the Compensation Committee of the Board approved grants of RSUs with a fair market value of \$70,000 to each non-employee director, which the non-employee director had the option to elect all RSUs or $\frac{1}{3}$ of the fair market value in cash and $\frac{2}{3}$ in RSUs or the entire award in cash to be paid quarterly. The following non-employee directors each received 118,644 RSUs: Sam Furrow and Suhail Rizvi. The following non-employee director received 79,096 RSUs and \$23,333 in cash: Kent Savage. Tom O'Riordan and Kelly Hoffman each received \$70,000 as a cash retainer. The RSUs vest and the cash amounts are paid on a quarterly basis over the course of 12 months. This amount was determined based upon the peer group analysis and was in the 50th percentile of peer group companies.

| Name | Fees earned or paid in cash | Stock Awards(1) | Total |
|---------------|--------------------------------|-----------------|------------|
| Sam Furrow | \$ | \$ 70,000 | \$ 70,000 |
| Suhail Rizvi | | 70,000 | 70,000 |
| Kent Savage | 23,333 | 46,667 | 70,000 |
| Tom O'Riordan | 70,000 | | 70,000 |
| Kelly Hoffman | 70,000 | | 70,000 |
| | \$ 163,333 | \$ 186,667 | \$ 350,000 |

(1)

Represents 118,644 or 79,096 shares of RSUs granted to our non-employee directors on December 6, 2011 (subsequent to the end of fiscal 2011) pursuant to the Amended Stock Incentive Plan and reflects the dollar amount of compensation expense recognized by us in our financial statements for reporting purposes in accordance ASC 718. The RSUs vest on a quarterly basis over a 12 month period with the first tranche vesting on March 6, 2012. For a discussion on the assumptions made regarding the valuation of the stock awards, please see "Note 7 Stockholders' Equity Stock Incentive Plans" in our Notes to Consolidated Financial Statements. There were no stock awards made or compensation approved during fiscal 2011.

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

The following table provides information as of February 28, 2012 concerning beneficial ownership of common stock held by (1) each person or entity known by us to beneficially own more than 5 percent of our outstanding common stock, (2) each of our directors and nominees for election as a director, (3) each of our named executive officers, and (4) all of our directors and executive officers as a group. The information as to beneficial ownership has been furnished by our respective common stockholders, directors and executive officers, and, unless otherwise indicated, each of our common stockholders has sole voting and investment power with respect to the shares beneficially owned. Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities.

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Unless indicated below, to our knowledge, the persons and entities named in the table below have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Pursuant to the rules of the SEC, certain shares of our common stock that a beneficial owner set forth in this table has a right to acquire within 60 days of the date hereof (pursuant to the exercise of options or warrants for the purchase of shares of common stock) are deemed to be outstanding for the purpose of computing the percentage ownership of that owner, but are not deemed outstanding for the purpose of computing percentage ownership of any other beneficial owner shown in the table. Percentages are calculated based on 66,205,824 shares outstanding as of February 28, 2012. The address for the officers and directors is our corporate office located at 2340 South Eastern Avenue, Commerce, California, 90040.

| Beneficial Owner | Number of Shares Beneficially Owned | Percentage of Common Stock |
|---|--|-------------------------------|
| Marc B. Crossman Chief Executive Officer, President and Director | 2,338,406(1) | 3.52% |
| Hamish Sandhu Chief Financial Officer | 75,120(2) | * |
| Joseph M. Dahan Creative Director and Director | 11,496,259(3) | 17.36% |
| Samuel J. (Sam) Furrow Chairman of Board of Directors | 1,946,060(4) | 2.93% |
| Kelly Hoffman Director | 127,945(5) | * |
| Tom O'Riordan Director | 90,664 | * |
| Suhail R. Rizvi Director | 119,209(6) | * |
| Kent Savage Director | 358,768(7) | * |
| All directors and executive officers, as a group (8 persons) | 16,552,431 | 24.77% |

*

Represents beneficial ownership of less than 1%.

(1)

Includes (i) 2,070,532 shares held for Mr. Crossman's personal account including (a) 670,781 shares of restricted common stock which vest ratably as follows: one-third on February 16, 2013, one-third on February 16, 2014, one-third on February 16, 2015; (b) 173,455 shares of restricted common stock which vest ratably as follows: one-half on January 3, 2013; and one-half on January 3, 2014; (c) 156,484 shares of restricted common stock which vest on October 8, 2012; and (d) 47,944 shares of restricted common stock which vest on November 6, 2012; (ii) 50,000 shares held for the accounts in trust for Mr. Crossman's minor children, which Mr. Crossman's father is the trustee; and (iii) 217,874 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Crossman's personal account. Mr. Crossman disclaims beneficial ownership of shares held for the accounts in trust for his minor children.

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- (2) Excludes the following shares not exercisable or vested within 60 days: 167,159 shares of RSUs held for Mr. Sandhu's personal account which vest over a four year period and are issued ratably every six months on December 18 and June 18 of the respective years.
- (3) Includes (i) 11,473,998 shares held for the personal account of Mr. Dahan; and (ii) 22,261 shares held for the account of Mr. Dahan's spouse. Excludes the following shares not exercisable or vested within 60 days: (i) 500,364 RSUs held for Mr. Dahan's personal account which vest and are issued ratably every six months on December 18 and June 18 of the respective years after the grant; and (ii) 56,514 RSUs held for the account of Mr. Dahan's spouse which vest and are issued ratably every six months on December 18 and June 18 of the respective years after the grant. Mr. Dahan disclaims beneficial ownership of shares held for the account of his spouse.
- (4) Includes (i) 1,825,533 shares held for the personal account of Mr. Furrow; (ii) 15,300 shares held for the account of Mr. Furrow's spouse; (iii) 75,566 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options; and (iii) 29,661 RSUs held for Mr. Furrow's personal account which vest on March 6, 2012. Excludes the following shares not exercisable or vested within 60 days: (i) 88,983 RSUs held for Mr. Furrow's personal account which vest and are issued ratably on a quarterly basis with the first tranche vested on March 6, 2012 (within 60 days) and thereafter until the shares are fully vested on December 6, 2012. Mr. Furrow disclaims beneficial ownership of shares held for the account of his spouse. Mr. Furrow has pledged under the terms of certain loan agreements and lines of credit an aggregate of 1,755,984 shares of common stock held in his personal account.
- (5) Includes (i) 77,945 shares held for Mr. Hoffman's personal account; and (ii) 50,000 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Hoffman's personal account.
- (6) Includes (i) 39,548 shares held for the personal account of Mr. Rizvi; (ii) 50,000 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Rizvi's personal account; and (iii) 29,661 RSUs held for Mr. Rizvi's personal account which vest on March 6, 2012. Excludes 88,983 RSUs held for Mr. Rizvi's personal account which vest and are issued ratably on a quarterly basis with the first tranche vested on March 6, 2012 (within 60 days) and thereafter until the shares are fully vested on December 6, 2012.
- (7) Includes (i) 178,744 shares held for the personal account of Mr. Savage; (ii) 10,250 shares held for the account of Savage Interests LP, a limited partnership which Mr. Savage and his spouse are limited partners; (iii) 150,000 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Savage's personal account; and (iv) 19,774 RSUs held for Mr. Savage's personal account which vest on March 6, 2012. Excludes 59,322 RSUs held for Mr. Savage's personal account which vest and are issued ratably on a quarterly basis with the first tranche vested on March 6, 2012 (within 60 days) and thereafter until the shares are fully vested on December 6, 2012. Mr. Savage disclaims beneficial ownership of such shares held for the account of Savage Interests LP except to the extent of his pecuniary interest in such shares.

Equity Compensation Plan Information

The following table sets forth certain information about our common stock that may be issued upon the exercise of options, warrants and rights under all of the our compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance as of November 30, 2011, which includes our Amended and Restated 2004 Stock Incentive Plan, our 2004

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Stock Incentive Plan and our 2000 Director Stock Incentive Plan. We stopped granting options under our 2004 Stock Incentive Plan and 2000 Director Stock Incentive Plan after the adoption and approval of our Amended and Restated 2004 Stock Incentive Plan on October 26, 2011 and our 2004 Stock Incentive Plan on June 3, 2004, respectively.

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|---|--|---|---|
| Equity compensation plans approved by security holders(1) | | | |
| Amended and Restated Stock Incentive Plan | | \$ | 6,825,000 |
| 2004 Incentive Plan | 775,000 | \$ 4.03 | N/A(2) |
| 2000 Director Plan | 93,290 | \$ 1.16 | N/A(2) |
| | 868,290 | \$ 3.73 | 6,825,000 |

- (1) See "Amended and Restated 2004 Stock Incentive Plan," "2004 Stock Incentive Plan" and "2000 Director Stock Incentive Plan" described in "Notes to Consolidated Financial Statements Note 7 Stockholders' Equity Stock Incentive Plans" for a further description of our equity compensation plans.
- (2) While there are shares available, we no longer grant options under our 2000 Director Stock Incentive Plan since the adoption and approval of our 2004 Stock Incentive Plan on June 3, 2004 or our 2004 Stock Incentive Plan since the adoption and approval of our Amended and Restated 2004 Stock Incentive Plan on October 26, 2011.

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

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

Joe Dahan

As part of the consideration paid in connection with the merger with JD Holdings that was consummated in October 2007, Mr. Dahan is entitled to a certain percentage of the gross profit earned by us in any applicable fiscal year until October 2017. Mr. Dahan will be entitled to the following: (i) 11.33 percent of the gross profit from \$11,251,000 to \$22,500,000; (ii) 3 percent of the gross profit from \$22,501,000 to \$31,500,000; (iii) 2 percent of the gross profit from \$31,501,000 to \$40,500,000; and (iv) 1 percent of the gross profit above \$40,501,000.

For fiscal 2011, 2010 and 2009, payments of \$1,757,000, \$1,785,000, and \$1,672,000, respectively, were made to Mr. Dahan.

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Albert Dahan

In April 2009, Joe's entered into a commission-based sales agreement with Albert Dahan, brother of Joe Dahan, for the sale of its products into the off-price channels of distribution. Under the agreement, Mr. Albert Dahan is entitled to a commission for purchase orders entered into by Joe's where he acts as a sales person for Joe's. The agreement may be terminated at any time for any reason or no reason with or without notice. For fiscal 2011, 2010 and 2009, payments of \$580,000, \$719,000 and \$413,000, respectively, were made to Mr. Albert Dahan under this arrangement.

Effective as of June 1, 2009, we entered into a license agreement for the license of the children's product line with Kids Jeans LLC, or Kids LLC, an entity in which Mr. Albert Dahan holds an interest and has voting control. Under the terms of the license, Kids LLC had an exclusive right to produce, distribute and sell children's products bearing the Joe's® brand on a worldwide basis, subject to certain limitations on the channels of distribution. In exchange for the license, Kids LLC paid us a royalty payment of 20 percent on the first \$5,000,000 in net sales, or \$1,000,000. In April 2011, we terminated the license agreement and in June 2011, we entered into a settlement agreement with Kids LLC. Pursuant to the terms of the settlement agreement, Kids LLC agreed to pay to us approximately \$450,000 in exchange for Kids LLC's right to continue to sell children's apparel products until September 30, 2011 or December 31, 2011, depending on the product to be sold and customer to whom it will be sold. In exchange, the parties entered into mutual releases with respect to all claims related to the subject matter. In October 2011, we entered into a new agreement, or New Agreement, similar to the previous one, with Ever Blue LLC, or Ever Blue, an entity which Albert Dahan is the sole member, for the continued sale of children's products. In exchange for the license, Ever Blue pays to us a royalty on net sales with certain guaranteed minimum sales for each term. In connection with the New Agreement, we provided initial funding to Ever Blue for inventory purchases. The amount outstanding at November 30, 2011 was \$529,000 and is due on demand.

Director Independence

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

Kelly Hoffman

Thomas O'Riordan

Suhail Rizvi

Kent Savage

Sam Furrow

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

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

For the fiscal years ended November 30, 2011 and 2010, Ernst & Young LLP, or E&Y, billed the approximate fees as described below.

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Audit Fees

Fees for audit services totaled approximately \$433,000 for the year ended November 30, 2011 and \$432,000 for the year ended November 30, 2010, including fees associated with the annual audit and reviews of our quarterly reports on Form 10-Q.

Audit-Related Fees

There were no fees for audit-related services for the years ended November 30, 2011 and 2010.

Tax Fees

Fees for tax services, including tax compliance and return preparation, tax advice, and tax planning, totaled approximately \$76,000 for the year ended November 30, 2011 and \$100,000 for the year ended November 30, 2010.

All Other Fees

There were no other fees for the years ended November 30, 2011 and November 30, 2010.

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

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

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)

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

1 and 2. Financial Statements and Financial Statement Schedules

Audited Consolidated Financial Statements:

| | |
|---|-------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | <u>F-1</u> |
| <u>Consolidated Balance Sheets at November 30, 2011 and 2010</u> | <u>F-2</u> |
| <u>Consolidated Statements of Operations for the years ended November 30, 2011, 2010 and 2009</u> | <u>F-3</u> |
| <u>Consolidated Statements of Stockholders' Equity for the years ended November 30, 2011, 2010 and 2009</u> | <u>F-4</u> |
| <u>Consolidated Statements of Cash Flows for the years ended November 30, 2011, 2010 and 2009</u> | <u>F-5</u> |
| <u>Notes to Consolidated Financial Statements</u> | <u>F-6</u> |
| <u>Schedule II Valuation of Qualifying Accounts</u> | <u>F-30</u> |

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

| Exhibit Number | Description | Document if Incorporated by Reference |
|----------------|---|--|
| 3.1 | Seventh Amended and Restated Certificate of Incorporation of the Registrant | Exhibit 4.1 to Current Report on Form 8-K filed on October 15, 2007 |
| 3.2 | Amended and Restated Bylaws of Registrant | Exhibit 4.2 to Registration Statement on Form S-8 filed on November 12, 1993 |
| 10.1 | Amended and Restated Employment Agreement by and between Joe's Jeans Inc. and Joseph M. Dahan to be effective upon closing of the Merger Agreement (Schedule 6.2(c) to Merger Agreement) | Exhibit 10.1 to Current Report on Form 8-K filed on June 26, 2007 |
| 10.2 | Investor Rights Agreement by and between Joe's Jeans Inc. and Joseph M. Dahan | Exhibit 10.2 to Current Report on Form 8-K filed on October 31, 2007 |
| 10.3 | Factoring Agreement dated June 1, 2001 between Joe's Jeans, Inc. and CIT Commercial Services | Exhibit 10.4 to Quarterly Report on Form 10-Q for the period ended August 30, 2003 filed on October 14, 2003 |
| 10.4 | Inventory Security Agreement dated August 20, 2002 between Joe's Jeans Inc. and CIT Commercial Services | Exhibit 10.7 to Quarterly Report on Form 10-Q for the period ended August 30, 2003 filed on October 14, 2003 |
| 10.5 | Amendment to Factoring Agreement originally dated June 1, 2001 between Joe's Jeans Inc. and CIT Commercial Services dated effective April 23, 2003 | Exhibit 10.6 to Quarterly Report on Form 10-Q for the period ended May 31, 2003 filed on July 15, 2003 |
| 10.7 | 2000 Director Option Plan | Attachment E to Definitive Proxy Statement on Schedule 14A filed on September 19, 2000 |
| 10.8 | 2004 Stock Incentive Plan | Exhibit A to Definitive Merger Proxy Statement on Schedule 14A filed on September 10, 2009 |
| 10.12 | Offer Letter by and between Innovo Group Inc. and Hamish Sandhu | Exhibit 10.1 to the Current Report on Form 8-K filed on August 27, 2007 |
| 10.13 | Amendment to Factoring Agreement by and among Joe's Jeans Subsidiary Inc. (formerly Joe's Jeans Inc.), Joe's Jeans Inc. (formerly Innovo Group Inc.) and The CIT Group/Commercial Services, Inc. dated October 24, 2007 | Exhibit 10.1 to the Current Report on Form 8-K filed on October 30, 2007 |
| 10.14 | Amendment to Guaranty Agreement by and between Joe's Jeans Inc. (formerly Innovo Group Inc.) and The CIT Group/Commercial Services, Inc. dated October 24, 2007 | Exhibit 10.2 to the Current Report on Form 8-K filed on October 30, 2007 |
| 10.16 | Form of Restricted Stock Agreement for Members of the Board of Directors | Exhibit 10.1 to the Current Report on Form 8-K filed on December 21, 2007 |

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| Exhibit Number | Description | Document if Incorporated by Reference |
|----------------|---|---|
| 10.17 | Restricted Stock Agreement for Marc B. Crossman | Exhibit 10.2 to the Current Report on Form 8-K filed on December 21, 2007 |
| 10.18 | Form of Restricted Stock Unit Agreement | Exhibit 10.3 to the Current Report on Form 8-K filed on December 21, 2007 |
| 10.19 | Executive Employment Agreement by and between Joe's Jeans Inc. and Marc B. Crossman dated May 30, 2008 | Exhibit 10.1 to the Current Report on Form 8-K filed on June 5, 2008 |
| 10.20 | Letter Agreement with Pixior LLC | Exhibit 10.20 to the Annual Report on Form 10-K for the year ended November 30, 2008 filed on April 29, 2009 |
| 10.21 | Global Customer Surcharge Letter Agreement with The CIT Group/Commercial Services, Inc. dated March 11, 2009 | Exhibit 10.1 to the Current Report on Form 8-K filed on March 17, 2009 |
| 10.22 | Form of Restricted Stock Agreement | Exhibit 10.3 to Current Report on Form 8-K filed on October 14, 2009 |
| 10.23 | Agreement with Dependable Distribution Centers dated January 8, 2010 | Exhibit 10.23 to the Annual Report on Form 10-K for the year ended November 30, 2009 filed on February 3, 2010 |
| 10.25 | Form of Stock Option Agreement | Exhibit 10.1 to Quarterly Report on Form 10-Q for the period ended February 28, 2010 filed on April 8, 2010 |
| 10.26 | Amendment to Factoring Agreement by and among Joe's Jeans Subsidiary Inc., Joe's Jeans Inc. and The CIT Group/Commercial Services, Inc. dated May 5, 2010 | Exhibit 10.1 to Current Report on Form 8-K filed on May 11, 2010 |
| 10.27 | Gross Lease Agreement by and between Mass Transit Properties LLC and Joe's Jeans Inc. | Exhibit 10.27 to the Annual Report on Form 10-K for the year ended November 30, 2010 filed on February 10, 2011 |
| 10.28 | Amended and Restated 2004 Stock Incentive Plan | Exhibit A to Definitive Proxy Statement on Schedule 14A filed on September 19, 2011 |
| 10.29 | Form of Restricted Stock Agreement | Exhibit 10.2 to the Current Report on Form 8-K filed on February 17, 2012 |
| 10.30 | Form of Restricted Stock Unit Agreement | Filed herewith |
| 14 | Code of Business Conduct and Ethics adopted as of May 22, 2003 | Exhibit 14 to the Annual Report on Form 10-K for the year ended November 29, 2003 filed on February 27, 2004 |
| 21 | Subsidiaries of the Registrant | Filed herewith |
| 23 | Consent of Independent Registered Public Accounting Firm | Filed herewith |
| 24.1 | Power of Attorney (included on signature page) | Filed herewith |

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| Exhibit Number | Description | Document if Incorporated by Reference |
|-----------------------|--|--|
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended. | Filed herewith |
| 31.2 | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Filed herewith |
| 32 | Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | Filed herewith |
| 101.1* | The following materials from Joe's Jeans Inc.'s Annual Report on Form 10-K for the year ended November 30, 2011, formatted in XBRL (eXtensible Business Reporting Language); (i) Consolidated Balance Sheets at November 30, 2011 and 2010, (ii) Consolidated Statements of Operations for the years ended November 30, 2011, 2010 and 2009, (iii) Consolidated Statements of Stockholders' Equity for the years ended November 30, 2011, 2010 and 2009, (iv) Consolidated Statements of Cash Flows for the years ended November 30, 2011, 2010 and 2009, and (v) Notes to Consolidated Financial Statements | Filed herewith |

*

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

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Joe's Jeans Inc. and Subsidiaries

Index to Consolidated Financial Statements

Audited Consolidated Financial Statements:

| | |
|---|-------------|
| <u>Report of Independent Registered Public Accounting Firm</u> | <u>F-1</u> |
| <u>Consolidated Balance Sheets at November 30, 2011 and 2010</u> | <u>F-2</u> |
| <u>Consolidated Statements of Operations for the years ended November 30, 2011, 2010 and 2009</u> | <u>F-3</u> |
| <u>Consolidated Statements of Stockholders' Equity for the years ended November 30, 2011, 2010 and 2009</u> | <u>F-4</u> |
| <u>Consolidated Statements of Cash Flows for the years ended November 30, 2011, 2010 and 2009</u> | <u>F-5</u> |
| <u>Notes to Consolidated Financial Statements</u> | <u>F-6</u> |
| <u>Schedule II Valuation of Qualifying Accounts</u> | <u>F-30</u> |

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Joe's Jeans Inc. and subsidiaries, (the "Company"), as of November 30, 2011 and 2010, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended November 30, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We are not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Joe's Jeans Inc. and subsidiaries at November 30, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended November 30, 2011, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Los Angeles, California
February 28, 2012

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

| | November 30, 2011 | November 30, 2010 |
|--|-------------------|-------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 12,690 | \$ 6,410 |
| Accounts receivable, net | 1,542 | 2,374 |
| Inventories, net | 23,262 | 30,245 |
| Due from related parties | 612 | 38 |
| Deferred income taxes, net | 2,644 | 3,225 |
| Prepaid expenses and other current assets | 769 | 1,092 |
| Total current assets | 41,519 | 43,384 |
| Property and equipment, net | 5,464 | 5,721 |
| Goodwill | 3,836 | 3,836 |
| Intangible assets | 24,000 | 24,000 |
| Deferred income taxes, net | 4,663 | 4,179 |
| Other assets | 680 | 349 |
| Total assets | \$ 80,162 | \$ 81,469 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 10,499 | \$ 10,373 |
| Due to factor | 3,265 | 4,972 |
| Due to related parties | 357 | 333 |
| Total current liabilities | 14,121 | 15,678 |
| Deferred rent | 1,284 | 918 |
| Total liabilities | 15,405 | 16,596 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Common stock, \$0.10 par value: 100,000 shares authorized, 65,477 shares issued and 65,148 outstanding (2011) and 64,131 shares issued and 63,859 outstanding (2010) | 6,550 | 6,415 |
| Additional paid-in capital | 105,512 | 104,364 |
| Accumulated deficit | (44,214) | (42,849) |
| Treasury stock, 329 shares (2011) and 272 shares (2010) | (3,091) | (3,057) |
| Total stockholders' equity | 64,757 | 64,873 |
| Total liabilities and stockholders' equity | \$ 80,162 | \$ 81,469 |

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

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

| | Year ended | | |
|---|-------------------|-------------------|-------------------|
| | November 30, 2011 | November 30, 2010 | November 30, 2009 |
| Net sales | \$ 95,420 | \$ 98,176 | \$ 80,116 |
| Cost of goods sold | 52,056 | 51,963 | 40,331 |
| Gross profit | 43,364 | 46,213 | 39,785 |
| Operating expenses | | | |
| Selling, general and administrative | 41,617 | 39,349 | 30,726 |
| Depreciation and amortization | 1,168 | 843 | 536 |
| Retail stores impairment | 1,144 | | |
| | 43,929 | 40,192 | 31,262 |
| Operating (loss) income | (565) | 6,021 | 8,523 |
| Interest expense | 484 | 464 | 388 |
| (Loss) income before taxes | (1,049) | 5,557 | 8,135 |
| Income tax provision (benefit) | 316 | 2,956 | (16,385) |
| Net (loss) income | \$ (1,365) | \$ 2,601 | \$ 24,520 |
| (Loss) earnings per common share basic | \$ (0.02) | \$ 0.04 | \$ 0.41 |
| (Loss) earnings per common share diluted | \$ (0.02) | \$ 0.04 | \$ 0.40 |
| Weighted average shares outstanding | | | |
| Basic | 64,001 | 62,362 | 60,053 |
| Diluted | 64,001 | 64,505 | 61,121 |

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

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JOE'S JEANS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in thousands)

| | Common Stock | | Additional | Accumulated | Treasury | Total |
|---|--------------|-----------|--------------------|-------------|------------|-------------------------|
| | Shares | Par Value | Paid-In Capital | Deficit | Stock | Stockholders' Equity |
| Balance, November 30, 2008 | 59,946 | \$ 5,996 | \$ 102,859 | \$ (69,970) | \$ (2,800) | \$ 36,085 |
| Net income | | | | 24,520 | | 24,520 |
| Stock-based compensation, net of withholding taxes | | | 844 | | | 844 |
| Issuance of restricted common stock | 1,548 | 155 | (155) | | | |
| Excess tax benefit on stock-based compensation | | | 57 | | | 57 |
| Balance, November 30, 2009 | 61,494 | 6,151 | 103,605 | (45,450) | (2,800) | 61,506 |
| Net income | | | | 2,601 | | 2,601 |
| Stock-based compensation, net of withholding taxes | | | 801 | | | 801 |
| Stock repurchase | | | | | (257) | (257) |
| Exercise of warrants | 566 | 57 | 596 | | | 653 |
| Exercise of stock options | 110 | 11 | 39 | | | 50 |
| Net settled options exercised | 832 | 83 | (83) | | | |
| Taxes on net settled options exercised | | | (653) | | | (653) |
| Issuance of restricted common stock | 1,129 | 113 | (113) | | | |
| Excess tax benefit on stock-based compensation | | | 172 | | | 172 |
| Balance, November 30, 2010 | 64,131 | 6,415 | 104,364 | (42,849) | (3,057) | 64,873 |
| Net loss | | | | (1,365) | | (1,365) |
| Stock-based compensation, net of withholding taxes | | | 1,278 | | | 1,278 |
| Stock repurchase | | | | | (34) | (34) |
| Issuance of restricted common stock | 1,346 | 135 | (135) | | | |
| Excess tax benefit on stock-based compensation | | | 5 | | | 5 |
| Balance, November 30, 2011 | 65,477 | \$ 6,550 | \$ 105,512 | \$ (44,214) | \$ (3,091) | \$ 64,757 |

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

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

(in thousands)

| | Year ended | | |
|--|-------------------|-------------------|-------------------|
| | November 30, 2011 | November 30, 2010 | November 30, 2009 |
| Net (loss) income | \$ (1,365) | \$ 2,601 | \$ 24,520 |
| Adjustment to reconcile net income to net cash (used in) provided by operating activities: | | | |
| Depreciation and amortization | 1,168 | 843 | 536 |
| Retail stores impairment | 1,144 | | |
| Stock-based compensation | 1,808 | 1,671 | 1,069 |
| Excess tax benefit on stock-based compensation | 5 | 172 | 57 |
| Release of valuation allowance for deferred tax assets | | | (20,291) |
| Provision for non-factored customer credits and doubtful accounts | (211) | 58 | 171 |
| Decrease in deferred taxes | 97 | 2,295 | |
| Decrease in valuation allowance of deferred taxes | | | 992 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 1,043 | (701) | (1,037) |
| Inventories | 6,983 | (7,358) | (616) |
| Prepaid expenses and other assets | (8) | (537) | (497) |
| Accounts payable and accrued expenses | 126 | (3,217) | 4,962 |
| Due to/from related parties | (550) | 251 | (161) |
| Deferred revenue | | (615) | 615 |
| Deferred rent | 366 | 388 | 279 |
| Net cash provided by (used in) operating activities | 10,606 | (4,149) | 10,599 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of property and equipment | (2,055) | (3,402) | (873) |
| Net cash used in investing activities | (2,055) | (3,402) | (873) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| (Payments on) proceeds from factor borrowing, net | (1,707) | 1,843 | 229 |
| Exercise of stock options | | 50 | |
| Purchase of treasury stock | (34) | (257) | |
| Payment of taxes on restricted stock units | (530) | (870) | (225) |
| Payment of taxes on net settled options exercised | | (653) | |
| Exercise of warrants | | 653 | |
| Net cash (used in) provided by financing activities | (2,271) | 766 | 4 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 6,280 | (6,785) | 9,730 |
| CASH AND CASH EQUIVALENTS, at beginning of year | 6,410 | 13,195 | 3,465 |
| CASH AND CASH EQUIVALENTS, at end of year | \$ 12,690 | \$ 6,410 | \$ 13,195 |

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

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JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business Description and Basis of Presentation

Our principal business activity involves the design, development and worldwide marketing of apparel products. Our primary current operating subsidiary is Joe's Jeans Subsidiary Inc., or Joe's Jeans Subsidiary. All significant inter-company transactions have been eliminated. We operate in two primary business segments: Wholesale and Retail. Our Wholesale segment is comprised of sales to retailers, specialty stores and distributors and includes revenue from licensing agreements and records expenses from marketing, sales, distribution and customer service departments. Also, some international sales are made directly to wholesale customers who operate retail stores. Our Retail segment is comprised of sales to consumers through full-price retail stores, outlet stores and through the www.joesjeans.com/shop internet site. We opened our first full price retail store in October 2008 in Chicago, Illinois and currently operate five full price retail stores and 17 outlet stores in outlet centers around the country. Our Corporate and other is comprised of expenses of our corporate operations, which include the executive, finance, legal, and human resources departments, design and production. Our fiscal year end is November 30. Each fiscal year, as presented, is 52 weeks.

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

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

2. Summary of Significant Accounting Policies

Use of Estimates

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

Revenue Recognition

Wholesale revenues are recorded on the accrual basis of accounting when title transfers to the customer, which is typically at the shipping point. We record estimated reductions to revenue for

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JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

customer programs, including co-op advertising, other advertising programs or allowances, based upon a percentage of sales. We also allow for returns based upon pre-approval or in the case of damaged goods. Such returns are estimated based on historical experience and an allowance is provided at the time of sale.

Retail store revenue is recognized net of estimated returns at the time of sale to consumers. E-commerce sales of products ordered through our retail internet site known as www.joesjeans.com are recognized upon estimated delivery and receipt of the shipment by the customers. E-commerce revenue is also reduced by an estimate of returns. Retail store revenue and E-commerce revenue exclude sales taxes. Revenue from licensing arrangements are recognized when earned in accordance with the terms of the underlying agreements, generally based upon the higher of (a) contractually guaranteed minimum royalty levels; and (b) estimates of sales and royalty data received from our licensees. Payments received in consideration of the grant of a license or advanced royalty payments are recognized ratably as revenue over the term of the license agreement and are reflected under the caption of "Deferred Licensing Revenue" on the Consolidated Balance Sheets. The revenue recognized ratably over the term of the license agreement will not exceed royalty payments received. The unrecognized portion of the upfront payments are included in deferred royalties and accrued expenses depending on the long or short term nature of the payments to be recognized. There were no advanced payments under our licensing agreements during our fiscal year ended November 30, 2011 and 2010.

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

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

Inventory

Inventory is valued at the lower of cost or market with cost determined by the first-in, first-out method. Inventory consists of finished goods, work-in-process and raw materials. We continually evaluate our inventories by assessing slow moving current product. Market value of non-current inventory is estimated based on historical sales trends for this category of inventory for individual product lines, the impact of market trends, an evaluation of economic conditions and the value of current orders relating to future sales of this type of inventory. Inventory reserves establish a new cost basis for inventory. Such reserves are not reversed until the related inventory is sold or otherwise disposed. Costs capitalized in inventory include the purchase price of raw materials, contract labor and finished goods, plus in-bound transportation costs and import fees and duties. During the third quarter of fiscal 2011, we wrote down certain finished goods inventory by \$1,620,000, representing the lower of cost or market adjustment.

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JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

Costs of Goods Sold

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

Selling, General and Administrative Expenses

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

Earnings Per Share

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

Advertising Costs

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

Advertising and tradeshow expenses included in selling, general and administrative expenses were approximately \$4,025,000, \$2,368,000 and \$2,462,000 for fiscal 2011, 2010 and 2009, respectively.

Financial Instruments

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

Impairment of Long-Lived Assets and Intangibles

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

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

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

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JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

A significant negative industry or economic trend.

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

During the third quarter of fiscal 2011, we recorded store impairment charges of \$1,144,000 related to two of our full price retail stores. Based on the operating performance of these stores, we believed that we could not recover the carrying value of property and equipment located at these stores.

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

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

Our annual impairment testing date is September 30 of each year. For fiscal 2011 and 2010, we determined that there was no impairment of our goodwill or indefinite lived intangible assets.

Cash Equivalents

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

Concentration of Credit Risk

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

We do not require collateral for trade accounts receivable. However, we sell a portion of our accounts receivable to CIT Commercial Services, Inc., or CIT, on a non-recourse basis. In that instance, we are no longer at risk if the customer fails to pay. However, for accounts receivable that are not sold to CIT or sold on a recourse basis, we continue to be at risk if these customers fail to pay. We provide an allowance for estimated losses to be incurred in the collection of accounts receivable based upon the

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

aging of outstanding balances and other account monitoring analysis. The net carrying value approximates the fair value for these assets. Such losses have historically been within management's expectations. Uncollectible accounts are written off once collection efforts are deemed by management to have been exhausted.

For fiscal 2011, 2010 and 2009, sales to customers or customer groups representing greater than 10 percent of net sales are as follows:

| | 2011 | 2010 | 2009 |
|-----------------|-------|-------|-------|
| Nordstrom, Inc. | 25.5% | 21.7% | 20.2% |
| Macy's Inc. | * | 11.0% | 14.9% |
| Anthropologie | * | * | 11.4% |

*

Less than 10%.

Our 10 largest customers and customer groups accounted for approximately 62 percent of our net sales during fiscal 2011. In addition, our international sales were \$4,568,000, \$6,233,000 and \$5,719,000 in fiscal 2011, 2010 and 2009, respectively.

Stock-Based Compensation

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

Property and Equipment

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

Income Taxes

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

Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The likelihood of a material change in our expected realization of these assets

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JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Summary of Significant Accounting Policies (Continued)

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

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

Reclassifications

Certain reclassifications have been made to prior year consolidated financial statements to conform to the current year presentation.

Other Recently Issued Financial Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued revised guidance for the accounting of transfers of financial assets. This guidance is intended to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. The adoption of this accounting guidance did not have a material impact on our financial position, results of operations or liquidity.

In June 2009, the FASB issued revised guidance for the accounting of variable interest entities, which replaces the quantitative-based risks and rewards approach with a qualitative approach that focuses on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance. This accounting guidance also requires an ongoing reassessment of whether an entity is the primary beneficiary and requires additional disclosures about an enterprise's involvement in variable interest entities. The adoption of this accounting guidance did not have a material impact on our financial position, results of operations or liquidity.

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

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

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

In December 2010, the FASB issued an update to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This accounting guidance will be effective for financial statements issued for fiscal years beginning after December 15, 2010, and interim periods within those fiscal years. Early adoption is not permitted. We do not believe that adoption of this guidance will have a material impact on our financial position and results of operations.

3. Accounts Receivable, Inventory Advances and Due to Factor

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

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

| | November 30, 2011 | November 30, 2010 |
|--|-------------------|-------------------|
| Non-recourse receivables assigned to factor | \$ 14,892 | \$ 13,571 |
| Client recourse receivables | 108 | 146 |
| Total receivables assigned to factor | 15,000 | 13,717 |
| Allowance for customer credits | (2,498) | (2,967) |
| Net loan balance from factored accounts receivable | (10,857) | (10,013) |
| Net loan balance from inventory advances | (4,910) | (5,709) |
| Due to factor | \$ (3,265) | \$ (4,972) |
| Non-factored accounts receivable | \$ 2,220 | \$ 3,263 |
| Allowance for customer credits | (358) | (440) |
| Allowance for doubtful accounts | (320) | (449) |
| Accounts receivable, net of allowance | \$ 1,542 | \$ 2,374 |

Of the total amount of receivables sold by us as of November 30, 2011 and November 30, 2010, we hold the risk of payment of \$108,000 and \$146,000, respectively, in the event of non-payment by the customers.

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JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Accounts Receivable, Inventory Advances and Due to Factor (Continued)

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

As of November 30, 2011, Joe's cash availability with CIT was approximately \$1,134,000. This amount fluctuates on a daily basis based upon invoicing and collection related activity by CIT for the receivables sold. In connection with the agreements with CIT, certain assets are pledged to CIT, including all of the inventory, merchandise and/or goods, including raw materials through finished goods and receivables. However, our trademarks are not encumbered.

In May 2010, the parties amended the accounts receivable agreement to provide for a change in the factoring fees, an extension of the agreement and additional termination rights. The accounts receivable agreement may be terminated by CIT upon 60 days' written notice or immediately upon the occurrence of an event of default as defined in the agreement. The accounts receivable agreement may be terminated by us upon 60 days' written notice prior to June 30, 2012, or earlier provided that the minimum factoring fees have been paid for the respective period or CIT fails to fund us for five consecutive days. The inventory agreement may be terminated once all obligations are paid under both agreements or if an event of default occurs as defined in the agreement.

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

In the event we need additional funds, we have also established a letter of credit facility with CIT to allow us to open letters of credit for a fee of 0.25 percent of the letter of credit face value with international and domestic suppliers, subject to availability. At November 30, 2011, we had four letters of credit outstanding in the aggregate amount of \$650,000.

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

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

| | November 30, 2011 | November 30, 2010 |
|---|-------------------|-------------------|
| Finished goods | \$ 13,512 | \$ 23,347 |
| Finished goods consigned to others | 238 | 376 |
| Work in progress | 2,052 | 1,508 |
| Raw materials | 8,574 | 6,081 |
| | 24,376 | 31,312 |
| Less allowance for obsolescence and slow moving items | (1,114) | (1,067) |
| | \$ 23,262 | \$ 30,245 |

We recorded charges to our inventory reserve allowance of \$128,000, \$0 and \$28,000 in fiscal 2011, 2010 and 2009, respectively.

5. Property and Equipment

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

| | Useful lives (years) | November 30, 2011 | November 30, 2010 |
|--|----------------------|-------------------|-------------------|
| Computer and equipment | 3 - 7 | \$ 1,753 | \$ 1,600 |
| Furniture and fixtures | 3 - 7 | 2,453 | 1,930 |
| Leasehold improvements, primarily retail | 5 - 10 | 4,001 | 4,437 |
| | | 8,207 | 7,967 |
| Less accumulated depreciation | | (2,743) | (2,246) |
| Net property and equipment | | \$ 5,464 | \$ 5,721 |

Depreciation expenses aggregated \$1,168,000, \$843,000 and \$536,000 for fiscal 2011, 2010 and 2009, respectively.

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

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

| | Year ended (in thousands) | | |
|-------------------------------|------------------------------|----------|-------------|
| | 2011 | 2010 | 2009 |
| Current: | | | |
| Federal | \$ 24 | \$ 255 | \$ 1,828 |
| State | 195 | 231 | 955 |
| | 219 | 486 | 2,783 |
| Deferred: | | | |
| Federal | 260 | 2,158 | 1,506 |
| State | (163) | 312 | (383) |
| | 97 | 2,470 | 1,123 |
| Change in valuation allowance | | | (20,291) |
| Total | \$ 316 | \$ 2,956 | \$ (16,385) |

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

| | Year ended (in thousands) | |
|--|------------------------------|----------|
| | 2011 | 2010 |
| Deferred tax assets: | | |
| Current: | | |
| Allowance for customer credits and doubtful accounts | \$ 1,259 | \$ 1,542 |
| Inventory valuation | 717 | 477 |
| Net benefit of net operating loss carryforwards | 98 | 93 |
| Stock compensation expense | 19 | 21 |
| Inventory capitalization | 390 | 913 |
| Other | 161 | 179 |
| Total current deferred taxes | \$ 2,644 | \$ 3,225 |
| Noncurrent: | | |
| Property and equipment basis difference | \$ (6) | \$ (644) |
| Benefit of net operating loss carryforwards | 13,599 | 14,015 |
| Stock compensation expense | 113 | 40 |
| Deferred Rent | 509 | 367 |
| Other | (38) | 1 |
| Total noncurrent deferred tax assets | 14,177 | 13,779 |

Deferred tax liabilities:

Noncurrent:

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| | | |
|---|----------|----------|
| Long lived intangible asset | 9,514 | 9,600 |
| Total noncurrent deferred tax liabilities | 9,514 | 9,600 |
| Net noncurrent deferred tax assets | \$ 4,663 | \$ 4,179 |

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

A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. Annually, management reassesses the need for a valuation allowance. Realization of deferred income tax assets is dependent upon taxable income in prior carryback years, estimates of future taxable income, tax planning strategies and reversals of existing taxable temporary differences. Based on our assessment of these items for fiscal 2011, 2010 and 2009, we determined that the deferred tax assets were more likely than not to be realized. Fiscal 2009 includes the reversal of a previously established valuation allowance of \$20,291,000.

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

| | Year ended | | |
|--|------------|-------|----------|
| | 2011 | 2010 | 2009 |
| Computed tax provision (benefit) at the statutory rate | 34.0% | 35.0% | 35.0% |
| State income tax | (2.0)% | 6.4% | 6.9% |
| Contingent consideration payments | (57.0)% | 11.0% | 7.0% |
| Change in valuation allowance | | | (249.5)% |
| Effect of uncertain tax positions | (1.5)% | | |
| Sec 162 (m) limitation | (3.2)% | | |
| Other adjustments | (0.4)% | 0.8% | (0.8)% |
| Effective tax rate | (30.1)% | 53.2% | (201.4)% |

We are subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. To the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carryforward amount. We are no longer subject to U.S. federal and California income tax examinations by tax authorities for years prior to fiscal 2008. Our federal income tax return for fiscal 2009 is currently under examination by the Internal Revenue Service, or IRS. We do not expect that this examination will have a material effect on our financial statements or results of operations upon conclusion of examination. There are currently no other examinations pending with any other jurisdictions.

We had net operating loss carryforwards of \$38,956,000 at the end of fiscal 2011 for federal tax purposes that will expire from fiscal 2018 through fiscal 2027. We also had \$25,489,000 of net operating loss carryforwards available for California that will expire from fiscal 2017 through fiscal 2020.

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

As of November 30, 2011 and 2010, we provided a liability of \$166,000 and \$101,000, respectively, for unrecognized tax benefits related to various federal and state income tax matters. Included in the balance sheet at November 30, 2011 is \$139,000, net of tax related benefits, that impact the effective

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

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

| | |
|--|--------|
| Balance at December 1, 2009 | \$ 89 |
| Decrease for tax positions taken during the prior period | (89) |
| Increase for tax positions taken during the current period | 101 |
| Balance at November 30, 2010 | 101 |
| Increase for tax positions taken during the prior period | 8 |
| Increase for tax positions taken during the current period | 57 |
| Balance at November 30, 2011 | \$ 166 |

We recognize accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes in its statements of operations. For fiscal 2011 and 2010, we had approximately \$16,000 and \$0, respectively, for the payment of interest and penalties accrued at November 30, 2011 and 2010, respectively.

We do not expect any unrecognized tax benefit to reverse in fiscal 2012. However, in fiscal 2012, we expect \$86,000 of the unrecognized tax benefits to be reclassified from an uncertain tax position liability to an income tax payable liability as a result of the ongoing Internal Revenue Service examination for 2009. We do not expect this reclassification to have an impact on the effective income tax rate.

7. Stockholders' Equity*Warrants*

Historically, we have issued warrants in conjunction with various private placements of our common stock, and debt to equity conversions. As of November 30, 2011, all outstanding common stock warrants have been exercised or have expired. During fiscal 2010, 605,000 warrants were exercised and no warrants expired unexercised. During fiscal 2009, 187,500 warrants expired unexercised.

Stock Incentive Plans

In September 2000, we adopted the 2000 Director Stock Incentive Plan, or the 2000 Director Plan, under which nonqualified stock options were granted to members of our Board of Directors in lieu of cash director fees. After the adoption of the 2004 Stock Incentive Plan in June 2004, we no longer granted options pursuant to the 2000 Director Plan; however, the plan remains in effect for awards outstanding as of the adoption of the 2004 Stock Incentive Plan. As of November 30, 2011, options to purchase up to 93,290 shares of common stock remained outstanding under the 2000 Director Plan.

On June 3, 2004, we adopted the 2004 Stock Incentive Plan, or the 2004 Incentive Plan, and in October 2011, we adopted an Amended and Restated Stock Incentive Plan, or the Restated Plan, to update it with respect to certain provisions and changes in the tax code since its original adoption. Under the Restated Plan, the number of shares authorized for issuance is 6,825,000 shares of common stock. After the adoption of the Restated Plan in October 2011, we will no longer grant awards pursuant to the 2004 Incentive Plan; however, it remains in effect for awards outstanding as of the adoption of the Restated Plan. Under the Restated Plan, grants may be made to employees, officers,

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

directors and consultants under a variety of awards based upon underlying equity, including, but not limited to, stock options, restricted common stock, restricted stock units or performance shares. The Restated Plan limits the number of shares that can be awarded to any employee in one year to 1,250,000. The exercise price for incentive options may not be less than the fair market value of our common stock on the date of grant and the exercise period may not exceed ten years. Vesting periods, terms and types of awards are determined by the Board of Directors and/or our Compensation and Stock Option Committee, or Compensation Committee. The Restated Plan includes a provision for the acceleration of vesting of all awards upon a change of control as well as a provision that allows forfeited or unexercised awards that have expired to be available again for future issuance. Since fiscal 2008, we have issued both restricted common stock and restricted common stock units, or RSUs, to our officers, directors and employees pursuant to our various plans. The RSUs represent the right to receive one share of common stock for each unit on the vesting date provided that the employee continues to be employed by us. On the vesting date of the RSUs, we expect to issue the shares of common stock to each participant upon vesting and expect to withhold an equivalent number of shares at fair market value on the vesting date to fulfill tax withholding obligations. Any RSUs withheld or forfeited will be shares available for issuance in accordance with the terms of the Restated Plan.

The shares of common stock issued upon exercise of a previously granted stock option or a grant of restricted common stock or RSUs are considered new issuances from shares reserved for issuance in connection with the adoption of the various plans. We require that the option holder provide a written notice of exercise in accordance with the option agreement and plan to the stock plan administrator and full payment for the shares be made prior to issuance. All issuances are made under the terms and conditions set forth in the applicable plan. As of November 30, 2011, 6,825,000 shares remained available for issuance under the Restated Plan.

For all stock compensation awards that contain graded vesting with time-based service conditions, we have elected to apply a straight-line recognition method to account for all of these awards. For existing grants that were not fully vested at November 30, 2011, there was a total of \$1,808,000 of stock based compensation expense recognized during fiscal 2011.

The following summarizes option grants, restricted common stock and RSUs issued to members of our Board of Directors for the fiscal years 2002 through fiscal 2011 (in actual amounts) for service as a member:

| Granted as of: | November 30, 2011 | |
|----------------|-------------------|----------------|
| | Number of options | Exercise price |
| 2002 | 40,000 | \$ 1.00 |
| 2002 | 31,496 | \$ 1.27 |
| 2003 | 30,768 | \$ 1.30 |
| 2004 | 320,000 | \$ 1.58 |
| 2005 | 300,000 | \$ 5.91 |
| 2006 | 450,000 | \$ 1.02 |

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JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Stockholders' Equity (Continued)

| | Number of restricted shares issued |
|------|---------------------------------------|
| 2007 | 320,000 |
| 2008 | 473,455 |
| 2009 | 371,436 |
| 2010 | 131,828 |
| 2011 | |

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

| | Options | Weighted average exercise price | Weighted average remaining contractual Life (Years) | Aggregate Intrinsic Value |
|--|---------|---------------------------------------|---|---------------------------------|
| Outstanding at November 30, 2010 | 868,290 | \$ 3.73 | | |
| Granted | | | | |
| Exercised | | | | |
| Forfeited/expired | | | | |
| Outstanding and exercisable at November 30, 2011 | 868,290 | \$ 3.73 | 3.1 | \$ |

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

N/A

| | Options | Weighted average exercise price | Weighted average remaining contractual Life (Years) | Aggregate Intrinsic Value |
|--|-------------|---------------------------------------|---|---------------------------------|
| Outstanding at November 30, 2009 | 3,226,046 | \$ 1.78 | | |
| Granted | | | | |
| Exercised | (2,357,756) | 1.08 | | |
| Forfeited/expired | | | | |
| Outstanding and exercisable at November 30, 2010 | 868,290 | \$ 3.73 | 4.1 | \$ 97,251 |

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

N/A

| | Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|--|-----------|---------------------------------------|--|---------------------------------|
| Outstanding at November 30, 2008 | 3,313,146 | \$ 1.76 | | |
| Granted | | | | |
| Exercised | | | | |
| Forfeited/expired | (87,100) | 1.02 | | |
| Outstanding and exercisable at November 30, 2009 | 3,226,046 | \$ 1.78 | 4.7 | \$ 687,786 |

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

N/A

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The total intrinsic value of options exercised during the fiscal years ended November 30, 2011, 2010 and 2009 was \$0, \$2,720,000 and \$0, respectively.

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

Exercise prices for options outstanding and exercisable as of November 30, 2011 are as follows:

| Exercise Price | Number of shares | Options Outstanding and Exercisable | |
|-----------------|------------------|---|--|
| | | Weighted-Average Remaining Contractual Life | |
| \$1.00 - \$1.02 | 140,000 | 3.2 | |
| \$1.27 - \$1.30 | 53,290 | 1.2 | |
| \$1.58 - \$1.63 | 225,000 | 2.7 | |
| \$5.91 | 450,000 | 3.5 | |
| | 868,290 | 3.1 | |

The following table summarizes stock option activity by plan.

| | Total Number of Shares | 2004 Incentive Plan | 2000 Director Plan |
|--|------------------------|---------------------|--------------------|
| Outstanding at November 30, 2010 | 868,290 | 775,000 | 93,290 |
| Granted | | | |
| Exercised | | | |
| Forfeited / Cancelled | | | |
| Outstanding and exercisable at November 30, 2011 | 868,290 | 775,000 | 93,290 |
| Outstanding at November 30, 2009 | 3,226,046 | 3,022,500 | 203,546 |
| Granted | | | |
| Exercised | (2,357,756) | (2,247,500) | (110,256) |
| Forfeited / Cancelled | | | |
| Outstanding and exercisable at November 30, 2010 | 868,290 | 775,000 | 93,290 |
| Outstanding at November 30, 2008 | 3,313,146 | 3,109,600 | 203,546 |
| Granted | | | |
| Exercised | | | |
| Forfeited / Cancelled | (87,100) | (87,100) | |
| Outstanding and exercisable at November 30, 2009 | 3,226,046 | 3,022,500 | 203,546 |

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JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Stockholders' Equity (Continued)

A summary of the status of restricted common stock and RSUs as of November 30, 2010, and changes during the year ended November 30, 2011, are presented below:

| | Restricted Shares | Restricted Stock Units | Total | Weighted-Average Grant-Date Fair Value | |
|----------------------------------|----------------------|---------------------------|-------------|--|---------------------------|
| | | | | Restricted Shares | Restricted Stock Units |
| Outstanding at November 30, 2010 | 408,857 | 3,126,967 | 3,535,824 | \$ 0.86 | \$ 0.90 |
| Granted | 260,182 | 959,331 | 1,219,513 | 1.65 | 1.15 |
| Issued | (204,429) | (1,085,780) | (1,290,209) | 0.86 | 0.93 |
| Cancelled | | (457,790) | (457,790) | | 0.91 |
| Forfeited | | | | | |
| Outstanding at November 30, 2011 | 464,610 | 2,542,728 | 3,007,338 | \$ 1.30 | \$ 0.98 |
| Outstanding at November 30, 2009 | 691,903 | 4,773,979 | 5,465,882 | \$ 0.94 | \$ 0.84 |
| Granted | | 131,828 | 131,828 | | 1.77 |
| Vested | | | | | |
| Issued | (283,046) | (1,128,318) | (1,411,364) | 1.06 | 0.77 |
| Cancelled | | (478,517) | (478,517) | | 0.78 |
| Forfeited | | (172,005) | (172,005) | | 1.01 |
| Outstanding at November 30, 2010 | 408,857 | 3,126,967 | 3,535,824 | \$ 0.86 | \$ 0.90 |
| Outstanding at November 30, 2008 | 157,233 | 2,503,526 | 2,660,759 | \$ 1.59 | \$ 0.75 |
| Granted | 613,286 | 3,461,547 | 4,074,833 | 0.86 | 0.84 |
| Vested | (78,616) | | (78,616) | 1.59 | |
| Issued | | (934,887) | (934,887) | | 0.66 |
| Cancelled | | (236,999) | (236,999) | | 0.68 |
| Forfeited | | (19,208) | (19,208) | | 0.70 |
| Outstanding at November 30, 2009 | 691,903 | 4,773,979 | 5,465,882 | \$ 0.94 | \$ 0.84 |

As of November 30, 2011, there was \$2,456,000 of total unrecognized compensation cost related to unvested share-based compensation arrangements granted under the 2004 Incentive Plan. In fiscal 2011, there were no options granted, 959,331 RSUs and 260,182 shares of restricted stock granted. In fiscal 2011, we issued 1,085,780 shares of our common stock to holders of RSUs, 204,429 shares of restricted stock and withheld or cancelled 457,790 RSUs.

Earnings Per Share

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

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

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

| | Year Ended | | |
|--|---------------------------------------|-------------------|-------------------|
| | (in thousands, except per share data) | | |
| | November 30, 2011 | November 30, 2010 | November 30, 2009 |
| Basic earnings per share computation: | | | |
| Numerator: | | | |
| Net (loss) income | \$ (1,365) | \$ 2,601 | \$ 24,520 |
| Denominator: | | | |
| Weighted average common shares outstanding | 64,001 | 62,362 | 60,053 |
| (Loss) income per common share basic | \$ (0.02) | \$ 0.04 | \$ 0.41 |
| Diluted earnings per share computation: | | | |
| Numerator: | | | |
| Net (loss) income | \$ (1,365) | \$ 2,601 | \$ 24,520 |
| Denominator: | | | |
| Weighted average common shares outstanding | 64,001 | 62,362 | 60,053 |
| Effect of dilutive securities: | | | |
| Restricted shares, RSU's, options and warrants | | 2,143 | 1,068 |
| Dilutive potential common shares | 64,001 | 64,505 | 61,121 |
| (Loss) income per common share dilutive | \$ (0.02) | \$ 0.04 | \$ 0.40 |

For fiscal 2011, currently exercisable options, unvested restricted shares and unvested RSUs in the aggregate of 3,875,628 have been excluded from the calculation of the diluted loss per share as their effect would have been anti-dilutive. For fiscal 2010 and 2009, currently exercisable options and warrants in the aggregate of 450,000, and 3,640,982, respectively, have been excluded from the calculation of diluted income per share because the exercise prices of such options and warrants were out-of-the-money.

Shares Reserved for Future Issuance

As of November 30, 2011, shares reserved for future issuance include (i) 868,290 shares of common stock issuable upon the exercise of stock options granted under the incentive plans; (ii) 2,542,728 shares of common stock issuable upon the vesting of RSUs; and (iii) an aggregate of 6,825,000 shares of common stock available for future issuance under the Restated Plan as of November 30, 2011.

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JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Commitments and Contingencies

Operating Lease Obligations and Other Obligations Related to Operations

We lease certain equipment and office and retail space under separate lease arrangements. The leases generally contain renewal provisions. Equipment and office rental expenses under such leases for the years ended November 30, 2011, November 30, 2010 and November 30, 2009, were approximately \$4,217,000, \$2,755,000, and \$1,408,000, respectively.

In January 2010, we moved our headquarters and principal executive offices to a facility under a month-to-month arrangement with a third party who provides its product fulfillment, warehousing and distribution services. Under this arrangement commencing in January 2010, we paid a monthly fee of approximately \$189,000 for allocated expenses associated with its use of office and warehouse space including its product fulfillment, warehousing and distribution services. Expenses under this arrangement and previous arrangements similar to this one were \$2,748,000 and \$2,668,000 for fiscal 2010 and 2009, respectively.

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

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

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

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

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Commitments and Contingencies (Continued)**

As of November 30, 2011, the future minimum rental payments under non-cancelable retail operating leases with lease terms in excess of one year were as follows (in thousands):

| | | |
|------------|----|--------|
| 2012 | \$ | 4,200 |
| 2013 | | 4,502 |
| 2014 | | 4,783 |
| 2015 | | 4,936 |
| 2016 | | 4,939 |
| Thereafter | | 19,079 |
| | \$ | 42,439 |

Advertising Commitments

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

Letters of Credit

We had a contingent liability in the aggregate amount of \$650,000 for four open letters of credit as of November 30, 2011.

Employment Agreement

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

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

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

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JOE'S JEANS INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Commitments and Contingencies (Continued)

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

Investor Rights Agreement

Upon the closing of the merger, we also entered into an investor rights agreement. Pursuant to the investor rights agreement, we agreed to register for resale, on a periodic basis at the request of Mr. Dahan, the shares of common stock eligible for resale issued in connection with the merger. The shares of common stock issued as merger consideration become eligible for resale beginning on the six month anniversary of the closing date of the merger at an initial rate of $\frac{1}{6}$ of the shares issued and every six months thereafter at the same rate until all the shares are fully released on the third anniversary of the closing date. We agreed to bear all expenses associated with registering these shares for resale and granted to Mr. Dahan certain piggyback rights with respect to future registration statements filed by us. The investor rights agreement contains customary terms and conditions related to registration procedures, trading suspensions and indemnification of the parties. On March 24, 2008, a registration statement on Form S-3 was declared effective for the resale of up to 2,333,333 shares where the contractual restrictions on resale lapsed on April 25, 2008. Mr. Dahan has not requested the filing of any additional registration statements.

Contingent Consideration Payments

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

Litigation

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

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

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

| | Year ended | | |
|---------------------------------|------------|-----------|-----------|
| | 2011 | 2010 | 2009 |
| Net sales: | | | |
| Wholesale | \$ 76,901 | \$ 85,141 | \$ 75,238 |
| Retail | 18,519 | 13,035 | 4,878 |
| | \$ 95,420 | \$ 98,176 | \$ 80,116 |
| Gross Profit: | | | |
| Wholesale | \$ 31,097 | \$ 38,324 | \$ 36,605 |
| Retail | 12,267 | 7,889 | 3,180 |
| | \$ 43,364 | \$ 46,213 | \$ 39,785 |
| Operating (loss) income: | | | |
| Wholesale | \$ 18,000 | \$ 23,887 | \$ 24,748 |
| Retail | (728) | (42) | (668) |
| Corporate and other | (17,837) | (17,824) | (15,557) |
| | \$ (565) | \$ 6,021 | \$ 8,523 |
| Capital expenditures: | | | |
| Wholesale | \$ 302 | \$ 17 | \$ 17 |
| Retail | 1,656 | 3,275 | 844 |
| Corporate and other | 97 | 110 | 12 |
| | \$ 2,055 | \$ 3,402 | \$ 873 |
| Total assets: | | | |
| Wholesale | \$ 44,399 | \$ 45,594 | \$ 47,607 |
| Retail | 7,594 | 7,980 | 3,732 |
| Corporate and other | 28,169 | 27,895 | 28,285 |
| | \$ 80,162 | \$ 81,469 | \$ 79,624 |

Operations by Geographic Areas

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

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

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

| | November 30, 2011 | November 30, 2010 |
|---------------------------------------|-------------------|-------------------|
| Due from related parties | | |
| Everblue LLC | \$ 529 | \$ |
| Kids Jeans LLC | | 13 |
| Albert Dahan | 83 | 25 |
| Total due from related parties | \$ 612 | \$ 38 |
| Due to related parties | | |
| Joe Dahan | \$ 343 | \$ 333 |
| Kids Jeans LLC | 14 | |
| Total due to related parties | \$ 357 | \$ 333 |

Joe Dahan

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

For fiscal 2011, 2010 and 2009, payments of \$1,757,000, \$1,785,000, and \$1,672,000, respectively, were made to Mr. Dahan.

Albert Dahan

In April 2009, we entered into a commission-based sales agreement with Albert Dahan, brother of Joe Dahan, for the sale of our products into the off-price channels of distribution. Under the agreement, Mr. Albert Dahan is entitled to a commission for purchase orders entered into by us where he acts as a sales person. The agreement may be terminated at any time for any reason or no reason with or without notice. For fiscal 2011, 2010 and 2009, payments of \$580,000, \$719,000 and \$413,000, respectively, were made to Mr. Albert Dahan under this arrangement.

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

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

similar to the previous one, with Ever Blue LLC, or Ever Blue, an entity which Albert Dahan is the sole member, for the continued sale of children's products. In exchange for the license, Ever Blue pays to us a royalty on net sales with certain guaranteed minimum sales for each term. In connection with the New Agreement, we provided initial funding to Ever Blue for inventory purchases. The amount outstanding at November 30, 2011 was \$529,000 and is due on demand.

11. Supplemental Cash Flow Information

| | Year ended | | |
|---|----------------|----------|----------|
| | (in thousands) | | |
| | 2011 | 2010 | 2009 |
| Significant Non-cash transactions | | | |
| Write off of fully depreciated fixed assets | \$ 671 | \$ 189 | \$ |
| Additional cash flow information | | | |
| Cash paid during the year for interest | \$ 506 | \$ 513 | \$ 430 |
| Cash paid during the year for income taxes | \$ 218 | \$ 2,716 | \$ 1,138 |

12. Employee Benefit Plans

On December 1, 2002, we established a tax qualified defined contribution 401(k) Profit Sharing Plan, or the Plan. All employees who have worked for us for 30 consecutive days may participate in the Plan and may contribute up to 100 percent, subject to certain limitations, of their salary to the plan. We may make company matched contributions on a discretionary basis. All employees who have worked 500 hours qualify for profit sharing in the event at the end of each year we decide to do so. Costs of the Plan charged to operations were \$16,000, \$6,000, and \$6,000 for fiscal 2011, 2010 and 2009, respectively. In addition, we match our employees' contributions under the Plan in the lesser of the following amounts: (i) up to 2 percent of the employee's compensation, or (ii) $\frac{1}{3}$ of the employee's contribution up to 6 percent of the employee's salary. For fiscal 2011, 2010 and 2009, we contributed \$117,000, \$107,000, and \$59,000, respectively, to employees under the match portion of the Plan.

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

The following is a summary of the quarterly results of operations for the years ended November 30, 2011 and November 30, 2010:

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

| 2010 | Quarter ended | | | |
|--|---------------------------------------|-----------|-----------|-------------|
| | (in thousands, except per share data) | | | |
| | February 28 | May 31 | August 31 | November 30 |
| Net sales | \$ 23,184 | \$ 25,893 | \$ 25,534 | \$ 23,565 |
| Gross profit | 11,366 | 11,501 | 11,802 | 11,544 |
| Income before taxes | 1,328 | 1,026 | 1,396 | 1,807 |
| Income tax expense | 634 | 494 | 838 | 990 |
| Net income | \$ 694 | \$ 532 | \$ 558 | \$ 817 |
| Net income per share: | | | | |
| Earnings per common share basic | \$ 0.01 | \$ 0.01 | \$ 0.01 | \$ 0.01 |
| Earnings per common share diluted | \$ 0.01 | \$ 0.01 | \$ 0.01 | \$ 0.01 |

Table of Contents**JOE'S JEANS INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. Quarterly Results of Operations (Unaudited) (Continued)****ITEM 16.2****Joe's Jeans Inc. and Subsidiaries****Schedule II****Valuation of Qualifying Accounts**

| Description | (in thousands) | | | | Balance at End of Period |
|----------------------------------|--------------------------------------|--|---------------------------------|---------------|--------------------------------|
| | Balance at Beginning of Period | Additions Charged to Costs & Expenses | Charged to Other Accounts | Deductions(1) | |
| Allowance for doubtful accounts: | | | | | |
| Year ended November 30, 2011 | \$ 449 | 37 | | (166) | \$ 320 |
| Year ended November 30, 2010 | \$ 501 | 28 | | (80) | \$ 449 |
| Year ended November 30, 2009 | \$ 540 | 277 | | (316) | \$ 501 |
| Allowance for customer credits: | | | | | |
| Year ended November 30, 2011 | \$ 3,407 | 12,156 | | (12,707) | \$ 2,856 |
| Year ended November 30, 2010 | \$ 2,936 | 12,838 | | (12,367) | \$ 3,407 |
| Year ended November 30, 2009 | \$ 2,207 | 10,142 | | (9,413) | \$ 2,936 |
| Allowances for inventories: | | | | | |
| Year ended November 30, 2011 | \$ 1,067 | 175 | | (128) | \$ 1,114 |
| Year ended November 30, 2010 | \$ 1,183 | (116) | | 0 | \$ 1,067 |
| Year ended November 30, 2009 | \$ 1,044 | 167 | | (28) | \$ 1,183 |
| Allowance for deferred taxes: | | | | | |
| Year ended November 30, 2011 | \$ | | | | \$ |
| Year ended November 30, 2010 | \$ | | | | \$ |
| Year ended November 30, 2009 | \$ 20,291 | | | (20,291) | \$ |

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

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| Signature | Capacity | Date |
|---|-----------------|-------------------|
| <u>/s/ SUHAIL R. RIZVI</u> Suhail R. Rizvi | Director | February 28, 2012 |
| <u>/s/ THOMAS O'RIORDAN</u> Thomas O'Riordan | Director | February 28, 2012 |
| <u>/s/ KENT SAVAGE</u> Kent Savage | Director | February 28, 2012 |
