UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended February 28, 2014

OR

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

For the transition period from to

Commission File Number: 0-18926

JOE S JEANS INC.

(Exact name of registrant as specified in its charter)

Delaware	**11-2928178**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2340 South Eastern Avenue, Commerce, California	**90040**
(Address of principal executive offices)	(Zip Code)

(323) 837-3700

(Registrant s telephone number, including area code)

NO CHANGE

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

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

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

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

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

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

The number of shares of the registrant s common stock outstanding as of April 9, 2014 was 68,935,458.

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JOE S JEANS INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

JOE S JEANS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	February 28, 2014 (unaudited)	November 30, 2013
ASSETS		
Current assets		
Cash and cash equivalents	$ 349	$ 785
Accounts receivable, net	4,104	4,621
Due from factor	27,500	31,434
Inventories, net	54,060	52,670
Deferred income taxes, net	3,114	3,114
Prepaid expenses and other current assets	4,889	2,178
Total current assets	94,016	94,802
Property and equipment, net	6,884	7,393
Goodwill	33,812	33,812
Intangible assets	82,527	83,110
Deferred financing costs	1,926	2,031
Other assets	1,850	1,875
Total assets	$ 221,015	$ 223,023
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 26,510	$ 26,436
Line of credit	15,406	17,673
Contingent consideration buy-out payable-short term	3,099	3,072
Promissory tax note issued	1,235	1,235
Total current liabilities	46,250	48,416
Long term debt	58,884	58,840
Convertible notes	31,085	27,912
Deferred income taxes, net	16,202	16,202
Contingent consideration buy-out payable-long term	2,433	3,230
Deferred rent	2,513	2,404
Other liabilities	250	250
Total liabilities	157,617	157,254
Commitments and contingencies		
Stockholders equity		

Common stock, $0.10 par value: 100,000 shares authorized, 69,460 shares issued and 68,936 outstanding (2014) and 68,878 shares issued and 68,549 outstanding (2013)		6,948		6,890
Additional paid-in capital		107,909		107,933
Accumulated deficit		(48,141)		(45,963)
Treasury stock, 524 shares (2014), 329 shares (2013)		(3,318)		(3,091)
Total stockholders equity		63,398		65,769
Total liabilities and stockholders equity	$	221,015	$	223,023

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

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JOE S JEANS INC. AND SUBSIDIARIES

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

(in thousands, except per share data)

	Three months ended February 28, 2014	Three months ended February 28, 2013
	(unaudited)	
Net sales	$ 47,344	$ 29,430
Cost of goods sold	25,859	15,115
Gross profit	21,485	14,315
Operating expenses		
Selling, general and administrative	18,952	11,487
Depreciation and amortization	1,227	492
Contingent consideration buy-out expense		8,732
	20,179	20,711
Operating income (loss)	1,306	(6,396)
Interest expense	3,321	70
Other expense	2,550	
Loss before provision for taxes	(4,565)	(6,466)
Income tax benefit	(2,387)	(78)
Net loss and comprehensive loss	$ (2,178)	$ (6,388)
Loss per common share - basic	$ (0.03)	$ (0.10)
Loss per common share - diluted	$ (0.03)	$ (0.10)
Weighted average shares outstanding		
Basic	67,938	66,646
Diluted	67,938	66,646

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

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JOE S JEANS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three months ended February 28, 2014 (unaudited)	Three months ended February 28, 2013 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash provided by operating activities	$ 2,409	$ 802
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(135)	(436)
Net cash used in investing activities	(135)	(436)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of line of credit	(2,267)	
Repayment of term loan	(15)	
Advances from factor, net		506
Purchase of treasury stock	(227)	
Payment of taxes on restricted stock units	(201)	(241)
Net cash (used in) provided by financing activities	(2,710)	265
NET CHANGE IN CASH AND CASH EQUIVALENTS	(436)	631
CASH AND CASH EQUIVALENTS, at beginning of period	785	13,426
CASH AND CASH EQUIVALENTS, at end of period	$ 349	$ 14,057

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

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JOE S JEANS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(in thousands)

	Common Stock Shares	Common Stock Par Value	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total Stockholders Equity
Balance, November 30, 2012	67,294	$ 6,732	$ 106,747	$ (38,649)	$ (3,091)	$ 71,739
Net loss and comprehensive loss (unaudited)				(6,388)		(6,388)
Stock-based compensation, net of withholding taxes (unaudited)			208			208
Issuance of restricted stock (unaudited)	1,001	100	(100)			
Balance, February 28, 2013 (unaudited)	68,295	$ 6,832	$ 106,855	$ (45,037)	$ (3,091)	$ 65,559
Balance, November 30, 2013	68,878	$ 6,890	$ 107,933	$ (45,963)	$ (3,091)	$ 65,769
Net loss and comprehensive loss (unaudited)				(2,178)		(2,178)
Stock repurchase (unaudited)					(227)	(227)
Stock-based compensation, net of withholding taxes (unaudited)			34			34
Issuance of restricted stock (unaudited)	582	58	(58)			
Balance, February 28, 2014 (unaudited)	69,460	$ 6,948	$ 107,909	$ (48,141)	$ (3,318)	$ 63,398

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

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JOE S JEANS INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Joe s Jeans Inc., or Joe s, we or us, which include the accounts of our wholly-owned subsidiaries, for the three months ended February 28, 2014 and 2013 and the related footnote information have been prepared on a basis consistent with our audited consolidated financial statements as of November 30, 2013 contained in our Annual Report on Form 10-K, or the Annual Report. Our fiscal year end is November 30.

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

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

These unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto contained in our Annual Report. In the opinion of management, the accompanying unaudited financial statements contain all adjustments (consisting of normal recurring adjustments), which management considers necessary to present fairly our financial position, results of operations and cash flows for the interim periods presented. The results for the three months ended February 28, 2014 are not necessarily indicative of the results anticipated for the entire year ending November 30, 2014. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

NOTE 2 ADOPTION OF ACCOUNTING PRINCIPLES

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

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

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

In July 2013, the FASB issued a standard permitting the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to the United States Treasury rate and London Interbank Offered Rate, or LIBOR. In addition, the restriction on using different benchmark rates for similar hedges is removed. We are required to adopt these provisions prospectively for qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. The adoption of this amendment will not have a material effect on our financial statements.

NOTE 3 ACCOUNTS RECEIVABLE, INVENTORY ADVANCES AND DUE FROM (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 Commercial Services, a unit of CIT Group Inc., or CIT.

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

	February 28, 2014	November 30, 2013
Non-recourse receivables assigned to factor	$ 25,280	$ 32,194
Client recourse receivables	6,289	3,220
Total receivables assigned to factor	31,569	35,414
Allowance for customer credits	(4,069)	(3,980)
Due to factor	$ 27,500	$ 31,434
Non-factored accounts receivable	$ 5,068	$ 5,396
Allowance for customer credits	(677)	(478)
Allowance for doubtful accounts	(287)	(297)
Accounts receivable, net of allowance	$ 4,104	$ 4,621

Of the total amount of receivables sold by us as of February 28, 2014 and November 30, 2013, we hold the risk of payment of $6,289,000 and $3,220,000, respectively, in the event of non-payment by the customers.

CIT Commercial Services

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

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

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

Amended and Restated Factoring Agreement

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

As of February 28, 2014, our cash balance was $349,000 and our cash availability with CIT was approximately $26,000,000. This amount with CIT fluctuates on a daily basis based upon invoicing and collection related activity by CIT for the receivables sold. See also Note 12 Debt for a further discussion of our debt arrangements with CIT and other lenders.

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NOTE 4 INVENTORIES, NET

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

	February 28, 2014	November 30, 2013
Finished goods	$ 30,645	$ 30,129
Finished goods consigned to others	1,132	1,066
Work in progress	4,609	5,057
Raw materials	19,708	18,406
	56,094	54,658
Less allowance for obsolescence and slow moving items	(2,034)	(1,988)
	$ 54,060	$ 52,670

We did not record any charges to our inventory reserve allowance for the three months ended February 28, 2014 or year ended November 30, 2013.

NOTE 5 RELATED PARTY TRANSACTIONS

Joe Dahan

Since the acquisition of the Joe s® brand as a result of a merger in October 2007 through February 18, 2013, Mr. Dahan was entitled to a certain percentage of our gross profit in any applicable fiscal year until October 2017. At the time of the acquisition, pursuant to ASC 805 *Business Combinations,* we assessed this original contingent consideration arrangement as compensatory and expensed such amounts over the term of the earn out period at the defined percentage amounts. For the three months ended February 28, 2013, expense of $311,000 was recorded in the statement of net (loss) income and comprehensive (loss) income related to the contingent consideration expense made to Mr. Dahan under the original agreement. For the three months ended February 28, 2014, we did not have any expense related to the contingent consideration expense made to Mr. Dahan under the original agreement since we entered into the new agreement with him as described below.

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

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

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Ambre Dahan

In January 2013, we entered in to a consulting arrangement with Ambre Dahan, the spouse of Mr. Joe Dahan, for design director services that pays her $175,000 per annum on a bi-weekly basis. For the three months ended February 28, 2014 and 2013, we paid Ms. Dahan $47,000 and $27,000, respectively, under this arrangement. This arrangement may be terminated at any time by the parties. Mr. Dahan is not a party to this arrangement, and we do not consider this arrangement material to us.

Albert Dahan

In April 2009, we entered into a commission-based sales agreement with Albert Dahan, brother of Joe Dahan, for the sale of our products into the off-price channels of distribution. Under the agreement, Mr. Albert Dahan is entitled to a commission for purchase orders entered into by us where he acts as a sales person. The agreement may be terminated at any time for any reason or no reason with or without notice. For the three months ended February 28, 2013, payments of $120,000 were made to Mr. Albert Dahan under this arrangement. For the three months ended February 28, 2014, there were no payments made to Mr. Albert Dahan under this arrangement.

In October 2011, we entered into an agreement with Ever Blue LLC, or Ever Blue, an entity for which Albert Dahan is the sole member, for the sale of children s products. Ever Blue has an exclusive right to produce, distribute and sell children s products bearing the Joe s® brand on a worldwide basis, subject to certain limitations on the channels of distribution. In exchange for the license, Ever Blue pays to us a royalty on net sales with certain guaranteed minimum sales for each term. In connection with this agreement, we provided initial funding to Ever Blue for inventory purchases, which such amount has been repaid in full. For the three months ended February 28, 2014 and 2013, we recognized $248,000 and $180,000, respectively, in royalty income under the license agreement.

Peter Kim

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

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NOTE 6 EARNINGS PER SHARE

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

	Three months ended (in thousands, except per share data) February 28, 2014	February 28, 2013
Basic (loss) earnings per share computation:		
Numerator:		
Net loss and comprehensive loss	$ (2,178)	$ (6,388)
Denominator:		
Weighted average common shares outstanding	67,938	66,646
Loss per common share - basic		
Net loss and comprehensive loss	$ (0.03)	$ (0.10)
Diluted loss per share computation:		
Numerator:		
Net loss and comprehensive loss	$ (2,178)	$ (6,388)
Denominator:		
Weighted average common shares outstanding	67,938	66,646
Effect of dilutive securities:		
Restricted shares, RSU s, convertible securities and options		
Dilutive potential common shares	67,938	66,646
Loss per common share - dilutive		
Net loss and comprehensive loss	$ (0.03)	$ (0.10)

For the three months ended February 28, 2014, and 2013, currently exercisable options, convertible notes, unvested restricted shares and unvested RSUs in the aggregate of 21,340,377 and 4,283,975, respectively, have been excluded from the calculation of the diluted loss per share as their effect would have been anti-dilutive.

Shares Reserved for Future Issuance

As of February 28, 2014, shares reserved for future issuance include (i) 775,000 shares of common stock issuable upon the exercise of stock options granted under the incentive plans; (ii) 1,545,326 shares of common stock issuable upon the vesting of RSUs; and (iii) an aggregate of 2,975,434 shares of common stock available for future issuance under the Amended and Restated 2004 Stock Incentive Plan; and (iv) 13,600,000 shares of common stock issuable pursuant to the convertible notes (until stockholder approval is obtained to issue additional shares).

NOTE 7 INCOME TAXES

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

A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. 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 2013, 2012 and 2011, we determined that the deferred tax assets were more likely than not to be realized with the exception of a valuation allowance of $342,000 that was recorded against a state net operating loss deferred tax asset during fiscal 2013.

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We are subject to U.S. federal income tax as well as income tax in multiple state jurisdictions. To the extent allowed by law, the tax authorities may have the right to examine prior periods where net operating losses were generated and carried forward, and make adjustments up to the amount of the net operating loss carryforward amount. We are no longer subject to U.S. federal and California income tax examinations by tax authorities for years prior to 2009. We are currently not subject to any examinations.

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

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

NOTE 8 STOCKHOLDERS EQUITY

Stock Incentive Plans

On June 3, 2004, we adopted the 2004 Stock Incentive Plan, or the 2004 Incentive Plan, and in October 2011, we adopted an Amended and Restated 2004 Stock Incentive Plan, or the Restated Plan, to update it with respect to certain provisions and changes in the tax code since its original adoption. Under the Restated Plan, the number of shares authorized for issuance is 6,825,000 shares of common stock. We have filed a Definitive Proxy Statement on Schedule 14A asking our stockholders to approve an amendment to our Restated Plan to increase the number of shares authorized for issuance to 11,825,000 at our Annual Meeting of Stockholders on May 8, 2014. After the adoption of the Restated Plan in October 2011, we no longer grant awards pursuant to the 2004 Incentive Plan; however, it remains in effect for awards outstanding as of the adoption of the Restated Plan. Under the Restated Plan, grants may be made to employees, officers, directors and consultants under a variety of awards based upon underlying equity, including, but not limited to, stock options, restricted common stock, restricted stock units or performance shares. The Restated Plan limits the number of shares that can be awarded to any employee in one year to 1,250,000. The exercise price for incentive options may not be less than the fair market value of our common stock on the date of grant and the exercise period may not exceed ten years. Vesting periods, terms and types of awards are determined by the Board of Directors and/or our Compensation and Stock Option Committee, or Compensation Committee. The Restated Plan includes a provision for the acceleration of vesting of all awards upon a change of control as well as a provision that allows forfeited or unexercised awards that have expired to be available again for future issuance. Since fiscal 2008, we have issued both restricted common stock and restricted common stock units, or RSUs, to our officers, directors and employees pursuant to our various plans. The RSUs represent the right to receive one share of common stock for each unit on the vesting date provided that the employee continues to be employed by us. On the vesting date of the RSUs, we expect to issue the shares of common stock to each participant upon vesting and expect to withhold an equivalent number of shares at fair market value on the vesting date to fulfill tax withholding obligations. Any RSUs withheld or forfeited will be shares available for issuance in accordance with the terms of the Restated Plan.

The shares of common stock issued upon exercise of a previously granted stock option or a grant of restricted common stock or RSUs are considered new issuances from shares reserved for issuance in connection with the adoption of the various plans. We require that the option holder provide a written notice of exercise in accordance with the option agreement and plan to the stock plan administrator and full payment for the shares be made prior to issuance. All issuances are made under the terms and conditions set forth in the applicable plan. As of February 28, 2014, 2,975,434 shares remained available for issuance under the Restated Plan.

For all stock compensation awards that contain graded vesting with time-based service conditions, we have elected to apply a straight-line recognition method to account for all of these awards. For existing grants that were not fully vested at November 30, 2013, there was a total of $235,000 and $449,000 of stock based compensation expense recognized during the three months ended February 28, 2014 and 2013, respectively.

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

Granted as of:	February 28, 2014 Number of options		Exercise price
2002	40,000	$	1.00
2002	31,496	$	1.27
2003	30,768	$	1.30
2004	320,000	$	1.58
2005	300,000	$	5.91
2006	450,000	$	1.02

	Number of restricted shares isssued
2007	320,000
2008	473,455
2009	371,436
2010	131,828
2011	
2012	617,449
2013	
2014	219,678

Exercise prices for all options outstanding as of February 28, 2014 were as follows:

	Options Outstanding and Exercisable	
Exercise Price	Number of shares	Weighted-Average Remaining Contractual Life
$1.00 - $1.02	100,000	2.0
$1.58 - $1.63	225,000	0.5
$5.91	450,000	1.3
	775,000	1.1

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The following table summarizes stock option activity by plan for the three months ended February 28, 2014 and 2013, (in actual amounts). There are no stock options outstanding under our Restated Plan.

	Total Number of Shares	2004 Incentive Plan	2000 Director Plan
Outstanding at November 30, 2013	775,000	775,000	
Granted			
Exercised			
Forfeited / Expired			
Outstanding and exercisable at February 28, 2014	775,000	775,000	
Outstanding at November 30, 2012	796,794	775,000	21,794
Granted			
Exercised			
Forfeited / Expired			
Outstanding and exercisable at February 28, 2013	796,794	775,000	21,794

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

	Options	Weighted average exercise price	Weighted average remaining contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at November 30, 2013	775,000	$ 4.03		
Granted				
Exercised				
Expired				
Forfeited				
Outstanding and exercisable at February 28, 2014	775,000	$ 4.03	1.1	$ 39,000
Weighted average per option fair value of options granted during the year		N/A		

	Options	Weighted average exercise price	Weighted average remaining contractual Life (Years)	Aggregate Intrinsic Value
Outstanding at November 30, 2012	796,794	$ 3.96		
Granted				
Exercised				
Expired				
Forfeited				
Outstanding and exercisable at February 28, 2013	796,794	$ 3.96	2.1	$ 38,961
Weighted average per option fair value of options granted during the year		N/A		

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As of February 28, 2014, there was $2,348,600 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the 2004 Incentive Plan and the Restated Plan. That unrecognized compensation cost is expected to be recognized over a weighted-average period of 2.3 years.

A summary of the status of restricted common stock and RSUs as of November 30, 2012 and November 30, 2013, and changes during the three months ended February 28, 2014 and 2013, are presented below (in actual amounts):

				Weighted-Average Grant-Date Fair Value	
	Restricted Shares	Restricted Stock Units	Total Shares	Restricted Shares	Restricted Stock Units
Outstanding at November 30, 2013	954,798	1,661,330	2,616,128	$ 0.90	$ 0.93
Granted	288,121	362,242	650,363	1.49	1.49
Issued	(450,616)	(293,480)	(744,096)	0.95	0.98
Cancelled		(184,766)	(184,766)		0.98
Forfeited					
Outstanding at February 28, 2014	792,303	1,545,326	2,337,629	$ 1.08	$ 1.04
Outstanding at November 30, 2012	844,236	2,713,605	3,557,841	$ 0.85	$ 0.87
Granted	420,882	631,059	1,051,941	1.02	1.02
Issued	(310,320)	(580,351)	(890,671)	0.92	0.82
Cancelled		(228,395)	(228,395)		0.82
Forfeited		(3,536)	(3,536)		0.70
Outstanding at February 28, 2013	954,798	2,532,382	3,487,180	$ 0.90	$ 0.94

In the three months ended February 28, 2014, we granted 362,242 RSUs and 288,121 shares of restricted stock. In the three months ended February 28, 2013, we granted 631,059 RSUs and 420,882 shares of restricted stock. In the three months ended February 28, 2014, we (i) issued 744,096 shares of restricted stock and common stock to holders of RSUs, respectively, in connection with the granting of restricted stock or vesting of RSUs, and (ii) withheld, canceled or forfeited 184,766 RSUs and retired into treasury 194,901 shares of restricted stock. In the three months ended February 28, 2013, we (i) issued 890,671 shares of restricted stock and common stock to holders of RSUs, respectively in connection with the granting of restricted stock or vesting of RSUs, and (ii) withheld, canceled or forfeited 231,931 RSUs.

NOTE 9 COMMITMENTS AND CONTINGENCIES

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

As part of the consideration paid in connection with the merger with JD Holdings in October of 2007 and without regard to continued employment, until February 12, 2013, Mr. Dahan was entitled to a certain percentage of the gross profit earned by us in any applicable fiscal year until October 2017. Mr. Dahan was entitled to the following: (i) 11.33 percent of the gross profit from $11,251,000 to $22,500,000; (ii) three percent of the gross profit from $22,501,000 to $31,500,000; (iii) two percent of the gross profit from $31,501,000 to $40,500,000; and (iv) one percent of the gross profit above $40,501,000. The payments were paid in advance on a monthly basis based upon estimates of gross profits after the assumption that the payments were likely to be paid. At the end of each quarter, any overpayments were offset against future payments and any significant underpayments were made. No payments were made if the gross profit was less than $11,250,000. Gross Profit was defined as net sales of the Joe s® brand less cost of goods sold. We accounted for such payments as compensation expense.

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

Retail Leases

We lease retail store locations under operating lease agreements expiring on various dates through 2023 or 3 to 10 years from the rent commencement date and have one temporary space for a term of nine months. Some of these leases require us to make periodic payments for property taxes, utilities and common area operating expenses. Certain retail store leases provide for rents based upon the minimum annual rental amount and a percentage of annual sales volume, generally ranging from 6 percent to 8 percent, when specific sales volumes are exceeded. Some leases include lease incentives, rent abatements and fixed rent escalations, which are amortized and recorded over the initial lease term on a straight-line basis.

As of February 28, 2014, the future minimum rental payments under non-cancelable retail operating leases with lease terms in excess of one year were as follows (in thousands):

2014	Remainder of the year	$	5,850
2015			7,770
2016			7,721
2017			7,712
2018			7,541
Thereafter			16,726
		$	53,320

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

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

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NOTE 10 SEGMENT INFORMATION

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

	Three months ended (dollar values in thousands) February 28, 2014	February 28, 2013
Net sales:		
Wholesale	$ 39,615	$ 23,087
Retail	7,729	6,343
	$ 47,344	$ 29,430
Gross profit:		
Wholesale	$ 16,760	$ 10,232
Retail	4,725	4,083
	$ 21,486	$ 14,315
Operating (loss) income:		
Wholesale	$ 10,371	$ 6,704
Retail	(988)	(326)
Corporate and other	(8,077)	(12,774)
	$ 1,306	$ (6,396)
Capital expenditures:		
Wholesale	$	$ 8
Retail	27	428
Corporate and other	108	
	$ 135	$ 436
Total assets:		
Wholesale	$ 91,218	$ 50,219
Retail	10,891	9,433
Corporate and other	118,906	28,030
	$ 221,015	$ 87,682

NOTE 11 - ACQUISITION OF HUDSON

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

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

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Management expects to complete the purchase price allocations during fiscal 2014. We are in the process of completing the amounts assigned to assets and liabilities, acquired intangible assets and the related impact on goodwill for the acquisition. More specifically, open items include finalizing the amounts associated with working capital and tax refunds due to the sellers.

The assets acquired in this acquisition consisted of tangible and intangible assets acquired and liabilities assumed. The differences between the fair value of the consideration paid and the estimated fair value of the assets and liabilities has been recorded as goodwill. We have determined that the useful life of the acquired trade name asset is indefinite, and therefore, no amortization expense will initially need to be recognized. The useful life of the acquired customer relationships and design assets are finite and will be amortized over their useful lives. However, we will test the assets for impairment annually and/or if events or changes in circumstances indicate that the assets might be impaired. Additionally, a deferred tax liability has been established in the allocation of the purchase price with respect to the identified indefinite long lived intangible assets acquired.

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

Assets and liabilities assumed:		
Cash and cash equivalents	$	198
Accounts receivable		1,263
Due from factor		13,806
Inventories		22,230
Prepaid expenses and other assets		2,526
Property and equipment		726
Other assets		239
Accounts payable and accrued expenses		(9,566)
Other current liabilities		(2,734)
Due to factor		(7,411)
Deferred income taxes, net		(16,651)
Intangible assets acquired:		
Trade names		44,400
Customer relationships		2,700
Design		12,400
Net assets acquired		64,126
Goodwill created by the acquisition		29,976
Total consideration transferred	$	94,102
Total Purchase Price		
Cash	$	65,416
Promissory notes		1,235
Convertible notes (Face value $32,445 less discount)		27,451
Total Purchase Price	$	