

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

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended November 30, 2013

Commission file number: 0-18926

JOE'S JEANS INC.

(Exact name of registrant as specified in its charter)

Delaware

(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

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the 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, LLC as of May 31, 2013, was approximately \$89,492,000.00.

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

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

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JOE'S JEANS INC.
FORM 10-K ANNUAL REPORT
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2013

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PART I

Forward-Looking Statements

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

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

the risk that we incurred substantial indebtedness to finance the acquisition of Hudson Clothing Holdings, Inc. and its subsidiaries, or collectively, Hudson which may decrease our business flexibility and adversely affect our financial results;

the risk that we may not be able to remain in compliance with the financial covenants under our financing agreements and that we pledged all our tangible and intangible assets as collateral under these agreements;

the risk that we incurred and will continue to incur significant transaction and acquisition related costs in connection with the acquisition and integration of Hudson into our business plan;

the risk that our existing stockholders may be diluted if we choose to settle the convertible notes by issuing shares of our common stock;

the risk that we will be unsuccessful in integrating Hudson and achieving our intended results as a result of the acquisition of Hudson;

the risk that we will be unsuccessful in gauging fashion trends and changing customer preferences;

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

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

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

our ability to respond to the business environment and fashion trends; continued acceptance of our brands in the marketplace;

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

successful implementation of any growth or strategic plans;

effective inventory management;

the risk of cyber attacks and other system risks;

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our ability to continue to have access on favorable terms to sufficient sources of liquidity necessary to fund ongoing cash requirements of our operations, which access may be adversely impacted by a number of factors, including the reduced availability of credit, generally, and the substantial tightening of the credit markets, including lending by financial institutions, who are sources of credit for us, the recent increase in the cost of capital, the level of our cash flows, which will be impacted by the level of consumer spending and retailer and consumer acceptance of its products;

our ability to generate positive cash flow from operations;

competitive factors, including the possibility of major customers sourcing product overseas in competition with our products;

the risk that acts or omissions by our third party vendors could have a negative impact on our reputation;

a possible oversupply of denim in the marketplace; and

other risks.

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

We undertake no obligation to publicly revise these forward-looking statements to reflect events, circumstances or the occurrence of unanticipated events that occur subsequent to the date of this Annual Report, except as may be required by law. As used in this Annual Report, the terms "we," "us," "our," "Joe's@," "Hudson@," "Hudson" and "Joe's Jeans" refer to Joe's Jeans Inc. and our subsidiaries and affiliates, which includes our wholly owned subsidiary, Hudson and its subsidiaries, unless the context indicates otherwise. We completed the acquisition of Hudson on September 30, 2013 and the information presented includes the results of operations of Hudson from the date of acquisition.

ITEM 1. BUSINESS

Overview

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

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

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

Our principal business activity is the design, development and worldwide marketing of apparel products, which include denim jeans, related casual wear and accessories that bear the brand Joe's® and Hudson®. Joe's® was established in 2001 and the brand is recognized in the premium denim industry, an industry term for denim jeans with price points generally of \$120 or more, for its quality, fit and fashion-forward designs. Hudson® was established in 2002 and is similarly recognized as a premier designer and marketer of women's and men's premium branded denim apparel. We sell our products through our own retail stores and to numerous retailers, which include major department stores, specialty stores and distributors around the world.

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

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

In the first quarter of fiscal 2012, we launched a new brand, else , sold primarily at Macy's. The brand has price points starting at \$68 and was created to reach young women who are looking for a premium denim-like product at a more affordable price. We have created a unique product that incorporates staple denim fits such as skinny, boot cut, cropped, and boyfriend, in a variety of styles, as well as shorts and denim jackets.

During fiscal 2013, we recognized growth through increases in our retail sales, our Joe's® wholesale sales and the addition of sales from our acquisition of Hudson. We acquired Hudson on September 30, 2013 and our results of operations reflect the consolidation of Hudson as one of our wholly owned subsidiaries from that date. Therefore, our results of operations for the fiscal year 2013 are not necessarily indicative of future results. However, we expect the acquisition to enhance our sales and operating income as we integrate their operations into ours to realize cost savings and other operational benefits or synergies.

Principal Products and Revenue Sources

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

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

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

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

Our reportable business segments are Wholesale and Retail. We manage, evaluate and aggregate our operating segments for segment reporting purposes primarily on the basis of business activity and operation. Our Wholesale segment is comprised of sales of our Joe's® and Hudson® products to retailers, specialty stores and international distributors, revenue from licensing agreements and includes expenses from sales, trade shows, distribution, product samples and customer service departments. Our products are marketed to U.S. retailers through third party and company owned showrooms located in New York, Los Angeles and other major cities in the U.S. and to international retailers through international distributors, agents or licensed stores in the various countries. Our Retail segment is comprised of sales of our products to consumers through Joe's® full-price retail stores and outlet stores and through our retail internet sites for both our Joe's® and Hudson® products. Our Corporate and other is comprised of expenses from corporate operations, which include the executive, finance, legal, human resources, design and production departments and general advertising expenses associated with our brands.

Product Design, Development and Sourcing

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

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

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timely deliveries and conduct all aspects of inventory, warehousing, picking and packing services internally.

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

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

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

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

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

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Trademarks and License Agreements

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

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

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

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

Sales, Distribution and Outsourcing Agreements

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

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

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Advertising, Marketing and Promotion

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

Customers

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

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

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

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

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

Seasonality of Business and Working Capital

Products are designed and marketed primarily for four principal selling seasons: spring, summer, fall/back-to-school and winter/holiday. Typically, we have approximately a 12 to 14 week turnaround

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

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

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

Credit and Collection

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

Backlog

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

Competition

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

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

Import and Export Restrictions and Other Governmental Regulations

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

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

Employees

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

Financial Information about Geographic Areas

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

Manufacturing and Distribution Relationships

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

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

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

Available Information

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

Executive Officers and Directors

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

Executive Officers

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

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

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

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

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

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

Board of Directors

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

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ITEM 1A. RISK FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We enter into leases in connection with our retail stores. Accordin