INNOVO GROUP INC
Form PREM14A
July 05, 2007
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

x	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

INNOVO GROUP INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

x Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)	Title of each class of securities to which transaction applies: Common Stock
(2)	Aggregate number of securities to which transaction applies: 14,000,000
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): $1.63 (based upon the average of the high and low stock prices on July 3, 2007 as reported on Nasdaq Capital Market)
(4)	Proposed maximum aggregate value of transaction: $22,820,000
(5)	Total fee paid: $700.58

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)	Amount Previously Paid:
(2)	Form, Schedule or Registration Statement No.:
(3)	Filing Party:
(4)	Date Filed:

INNOVO GROUP INC.

5901 South Eastern Avenue

Commerce, California 90040

(323) 837-3700

July [ ], 2007

Dear Stockholder:

You are cordially invited to attend the 2007 annual meeting of stockholders of Innovo Group Inc., or Innovo Group, which will be held at [ ], [ ], (near Los Angeles, California), on Tuesday, August 14, 2007. The 2007 annual meeting of stockholders will begin promptly at 9:00 a.m. local time.

In addition to the routine matters for our annual meeting, such as the election of directors and appointment of our independent registered public accounting firm, we intend to seek stockholder approval for our proposals to (i) merge with JD Holdings Inc., (ii) issue common stock as part of the merger consideration, (iii) amend our certificate of incorporation to increase the number of shares of common stock authorized for issuance by 20 million, (iv) change our corporate name from Innovo Group Inc. to Joe s Jeans Inc., and (v) increase the number of shares authorized for issuance pursuant to our 2004 Stock Incentive Plan by 4 million.

On February 6, 2007, we entered into an agreement and plan of merger, or Merger Agreement, to merge with JD Holdings, Inc., or JD Holdings and on June 25, 2007, we entered into a First Amendment to the Merger Agreement (collectively, in this proxy, we will refer to agreement, as amended, as the Merger Agreement). Under the Merger Agreement, we, through our wholly owned subsidiary, Joe s Jeans Inc., or Joe s Jeans, plan to merge with and into JD Holdings. In the event that the merger is approved, Joe s Jeans will be the surviving corporation and all of the shares of JD Holdings will be exchanged for 14 million shares of our common stock, $300,000 in cash and for 120 months following the closing date, the right to receive certain percentages of gross profit earned by us. This transaction is collectively referred to in this proxy statement as the Merger. The assets of JD Holdings include all rights, title to and interest in the Joe s®, Joe s Jeans and related JD logos and marks.

We are asking you to approve the merger with JD Holdings pursuant to the Merger Agreement and the issuance of shares of common stock as part of the merger consideration. We cannot complete the Merger unless you approve it. Your vote is very important. Whether or not you plan to attend the annual meeting, please take the time to vote by completing and mailing the enclosed proxy card to us. The accompanying proxy statement provides you with detailed information concerning us and the proposed Merger. We encourage you to read carefully the proxy statement, including the section on Risks Related to the Merger beginning on page 41 before voting your shares.

Our board of directors unanimously recommends that you vote FOR:

- **the approval of the Merger with JD Holdings;**
- **the approval of the issuance of common stock as part of the merger consideration;**
- **the election of each of the director nominees;**
- **the approval of the amendment to our certificate of incorporation to increase the number of common stock authorized for issuance by 20 million;**
- **the approval of the amendment to our certificate of incorporation to change our corporate name to Joe s Jeans Inc.;**

- **the approval of the amendment to our stock incentive plan to increase the number of shares authorized for issuance by 4 million shares;**

- **the approval of any proposal to adjourn the meeting to a later date, if necessary, to solicit additional proxies if there are not sufficient votes in favor of approval of the Merger or the stock issuance; and**

- **the ratification of the appointment of our independent registered public accounting firm.**

On behalf of the Board of Directors, I thank you for your support and continued interest in our company.

Sincerely,

Samuel J. Furrow
CHAIRMAN OF THE BOARD OF DIRECTORS
INNOVO GROUP INC.

This notice of annual meeting and proxy statement and proxy are first being mailed on or about [ ], 2007 to our common stockholders.

INNOVO GROUP INC.
5901 South Eastern Avenue
Commerce, California 90040
(323) 837-3700

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON TUESDAY, AUGUST 14, 2007

Time and Date	9:00 a.m., local time on Tuesday, August 14, 2007
Place	TBD
Items of Business	(1) To consider and approve the merger with JD Holdings, Inc. pursuant to an agreement and plan of merger by and among Innovo Group Inc., Joe s Jeans, Inc., JD Holdings, Inc. and Joseph M. Dahan dated as of February 6, 2007 and June 25, 2007. A copy of the agreement and plan of merger, and its amendment, is included as *Exhibit A* to the accompanying proxy statement; (2) To consider and approve the issuance of 14 million shares of common stock of Innovo Group Inc. to Joseph M. Dahan, as sole stockholder of JD Holdings, Inc., as consideration for the merger; (3) To elect seven directors to serve on the Board of Directors until the 2008 annual meeting of stockholders or until their respective successors are elected and qualified; (4) To consider and approve an amendment to the Sixth Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock available for issuance by 20 million shares from 80 million to 100 million; (5) To consider and approve an amendment to the Sixth Amended and Restated Certificate of Incorporation to change the corporate name from Innovo Group Inc. to Joe s Jeans Inc.; (6) To consider and approve an amendment to the 2004 Stock Incentive Plan to increase the number of authorized shares available for issuance under the 2004 Stock Incentive Plan by 4 million shares from 4,265,172 shares to 8,265,172 shares; (7) To consider and approve any proposal to adjourn the meeting to a later date, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the merger and issuance of shares under Proposals 1 and 2; (8) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending November 24, 2007; and (9) To transact such other business as may properly come before the annual meeting or any adjournments thereof.

The Board of Directors unanimously recommends that you vote to:

- **approve the merger with JD Holdings;**
- **approve the issuance of the shares as merger consideration;**
- **elect all director nominees;**
- **approve the amendment to our certificate of incorporation to increase the number of shares of common stock authorized for issuance by 20 million;**
- **approve the amendment to our certificate of incorporation to change our corporate name to Joe s Jeans Inc.**

- **approve the amendment to our stock incentive plan to increase the number of shares authorized for issuance by 4 million shares;**

- **approve any proposal to adjourn the meeting to a later date, if necessary, to solicit additional proxies if there are not sufficient votes in favor of approval of the merger and the stock issuance; and**

- **ratify the appointment of auditors as described in detail in the accompanying proxy statement.**

By Order of the Board of Directors,

Samuel J. Furrow
Chairman of the Board of Directors
Commerce, California
[ ], 2007

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EXHIBITS

SUMMARY

This summary highlights information contained elsewhere in this proxy statement. This summary may not contain all of the information you should consider before voting on the proposal presented in this proxy statement. You should read the entire proxy statement carefully, including the exhibits attached hereto. For your convenience, cross references are included to direct you to a more complete description of the topics described in this summary.

As used in this proxy statement, the terms we, us, and our refer to Innovo Group Inc. and our subsidiary, Joe s Jeans, Inc., or Joe s Jeans, unless the context indicates otherwise.

The Proposed Merger (see page 14)

On February 6, 2007, we and our Joe s Jeans subsidiary entered into an agreement and plan of merger, or the Merger Agreement, with JD Holdings, Inc., or JD Holdings, and its sole stockholder, Joseph M. Dahan. On June 25, 2007, we entered into a First Amendment to the Merger Agreement and when we refer to the Merger Agreement, we refer to it collectively to include the First Amendment. Under the Merger Agreement, we agreed to merge Joe s Jeans with JD Holdings. Joe s Jeans will remain as the surviving corporation and continue as our wholly owned subsidiary. In this proxy statement, we will refer to this transaction as the Merger. In exchange for all of the outstanding shares of JD Holdings as Merger consideration, we will issue to JD Holdings sole stockholder, Joseph M. Dahan:

- 14 million shares of our common stock;
- $300,000 in cash; and
- as additional purchase price, for 120 months following the closing date, the right to receive certain percentages of our gross profit above $11,250,000.

The shares of common stock to be issued as part of the Merger will not initially be registered securities and will be subject to certain restrictions on resale. The primary assets of JD Holdings include all rights, title to and interest in the Joe s®, Joe s Jeans and related JD logos and marks. Collectively, we will refer to these logos and trademark assets of JD Holdings as the Joe s Brand. JD Holdings business has historically been limited to the ownership of the assets that represent the Joe s Brand and activity associated with its rights and obligations under the license agreement that allows us to make, use, sell and distribute apparel products that bear the Joe s Brand.

Our stockholders are being asked to approve the Merger pursuant to the Merger Agreement. The Merger Agreement is attached as *Exhibit A* to this proxy statement. We encourage all of our stockholders to read the Merger Agreement carefully and fully, as it is the legal document that governs the Merger. In addition, in order to close the Merger, our stockholders are being asked to approve the issuance of the 14 million shares of common stock to JD Holdings sole stockholder, Mr. Dahan as a separate proposal.

Recommendation of the Board of Directors (see page 19)

Our Board of Directors unanimously recommends a vote **FOR** the approval of the Merger of JD Holdings pursuant to the Merger Agreement by and among Innovo Group, Joe s Jeans, JD Holdings and Joseph M. Dahan dated as of February 6, 2007, and as amended as of June 25, 2007, and **FOR** the approval the issuance of 14 million shares of common stock of Innovo Group to Mr. Dahan as consideration for the merger.

Votes Required (see page 13)

The approval of the Merger requires the affirmative vote of the holders of a majority of our outstanding shares of common stock entitled to vote on the proposal. The approval of the issuance of our

common stock as Merger consideration requires the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the annual meeting and entitled to vote.

This proxy statement and notice of proxy are being mailed to all stockholders entitled to vote at our annual meeting on or about [ ], 2007.

Our Reasons for the Merger (see page 18)

We decided to merge JD Holdings with and into our Joe s Jeans subsidiary so that we may acquire all rights, title to and interest in the Joe s Brand, which consists of the Joe s®, Joe s Jeans and related JD logos and marks. Over the course of the past fiscal year or more, we have sold the assets of, ceased operations or terminated other operating divisions and branded apparel lines so that we can focus our resources on our best performing asset, our Joe s® branded apparel line. We currently license the Joe s Brand from JD Holdings. JD Holdings is the successor to the original licensor JD Design. Under the terms of the license agreement, in exchange for the worldwide, exclusive and non-assignable right to use the Joe s Brand, we manufacture, import and sell certain licensed products. The licensed products are specifically listed as a schedule to the license agreement and are broad in nature; however, we do not currently have a right to all products in all categories without obtaining the prior approval of JD Holdings. Additionally, we do not have the right to sublicense the Joe s Brand in other product categories without prior approval. Because of these and other pre-approval and termination rights held by JD Holdings under the license agreement, we decided it was in our best interest to acquire all rights associated with the Joe s Brand so that we can control the Joe s Brand, including pursuing licensing opportunities.

Opinion of The Mentor Group Inc. (see page 19)

In making our determination with respect to the Merger, our Board of Directors relied upon, among other things, the opinion of our financial advisor, The Mentor Group, Inc., or The Mentor Group. Our Board of Directors received a written opinion dated as of February 4, 2007 from The Mentor Group to the effect that, as of that date and based on and subject to the assumptions and qualifications described in its opinion, the transaction was fair to our stockholders from a financial point of view. A copy of the opinion, which is attached as *Exhibit B-1* to this proxy statement, sets forth the procedures followed, assumptions made, matters considered and the review undertaken with respect to the opinion. In connection with the amendment to the Merger Agreement, the Mentor Group updated its previous opinion and provided our Board of Directors with a revised opinion dated as of June 25, 2007, a copy of this opinion is attached as *Exhibit B-2* to this proxy statement.

Conditions to the Completion of the Merger (see page 28)

Completion of the Merger requires, among other things, the approval by our stockholders holding a majority of our outstanding shares of common stock entitled to vote on the proposal. Additional conditions to the closing of the Merger include the satisfaction or waiver by the parties of customary conditions set forth in the Merger Agreement.

Termination of the Merger Agreement (see page 29)

The Merger Agreement may be terminated by us or JD Holdings in certain circumstances, in which case the Merger will not be completed.

Risk Factors (see page 41)

The Merger and our ongoing operations involve a number of risks, including:

- If conditions to close are not met, we will not complete the Merger.

- Substantial expenses will be incurred and payments made even if the Merger is not consummated.

- The pro forma financial statements are presented for illustrative purposes only and may not be an indication of our financial condition or results of operations following the Merger.

- Our stockholders do not have any appraisal rights under Delaware law.

- If our stockholders do not approve the Merger, we will have to continue to operate our Joe s Brand under the terms and conditions of the existing license agreement, which contains certain restrictions and pre-approval rights.

- We may not be successful in implementing our strategic plan to focus our resources on our best performing asset, our Joe s Brand.

- Failure to complete the Merger could cause our stock price to decline.

- The Joe s Brand and related intellectual property rights may not be adequately protected.

You should read and consider carefully the information about these and other risks set forth under the caption Risk Factors beginning on page .

Accounting Treatment of the Merger (see page 23)

The Merger will be accounted for as a purchase by us under U.S. generally accepted accounting principles. Under the purchase method of accounting, the assets and liabilities of JD Holdings will be recorded in our financial statements as of the completion of the Merger at their respective fair values. We are not aware of any liabilities of JD Holdings that we will need to record as of the completion of the Merger other than deferred income taxes. The assets to be acquired in this Merger consist of intangible assets that we refer to as the Joe s Brand in this proxy statement. JD Holdings had an immaterial amount of other assets, including incidental office equipment, that were distributed to Mr. Dahan as the sole stockholder immediately prior to the date that the Merger Agreement was entered into with us or will be distributed prior to the closing of the transaction.

STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

This proxy statement contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to the financial condition, results of operations, cash flows, financing plans, business strategies, capital and other expenditures, competitive positions, growth opportunities for existing products, plans and objectives of management and other matters. Statements in this document that are not historical facts are identified as forward-looking statements for the purpose of the safe harbor provided by Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933.

When we use the words anticipate, estimate, project, intend, expect, plan, believe, should, likely and similar expressions, we are forward-looking statements. These forward-looking statements are found at various places throughout this proxy statement and the other documents we incorporate by reference in this proxy statement. We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date they were made. We do not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this proxy statement or to reflect the occurrence of unanticipated events.

These forward-looking statements, including statements relating to future business prospects, revenues, working capital, liquidity, capital needs and income, wherever they occur in this proxy statement, are estimates reflecting our best judgment. These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in this proxy statement and those discussed from time to time in our Securities and Exchange Commission, or SEC, reports, including our annual report on Form 10-K, Amendment No. 1 and Amendment No. 2 on Form 10-K/A for the year ended November 25, 2006 filed with the SEC on February 8, 2007, February 9, 2007 and March 23, 2007, respectively and our Quarterly Report on Form 10-Q for the period ended February 24, 2007 filed with the SEC on April 10, 2007. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include, without limitation:

- If conditions to close are not met, we will not complete the Merger.
- Substantial expenses will be incurred and payments made even if the Merger is not consummated.
- The pro forma financial statements are presented for illustrative purposes only and may not be an indication of our financial condition or results of operations following the Merger.
- Our stockholders do not have any appraisal rights under Delaware law.
- If our stockholders do not approve the Merger, we will have to continue to operate our Joe s Brand under the terms and conditions of the existing license agreement, which contains certain restrictions and pre-approval rights.
- We may not be successful in implementing our strategic plan to focus our resources on our best performing asset, our Joe s Brand.
- Failure to complete the Merger could cause our stock price to decline.
- The Joe s Brand and related intellectual property rights may not be adequately protected.

You should read and consider carefully the information about these and other risks set forth under the caption Risk Factors beginning on page 41.

QUESTIONS AND ANSWERS
ABOUT THE PROXY MATERIALS
AND THE ANNUAL MEETING

Although we encourage you to read the proxy statement in its entirety, we include these Questions and Answers to provide background information and brief answers to several questions that you may have about the proxy materials in general.

Q: Why am I receiving these materials?

A: The Board of Directors of Innovo Group, or our Board of Directors, is providing these proxy materials to you in connection with our annual meeting of stockholders, which will take place on Tuesday, August 14, 2007. Our common stockholders are invited to attend the annual meeting and are entitled to and requested to vote on the proposals described in this proxy statement.

Q: What information is contained in this proxy statement?

A: The information included in this proxy statement relates to the proposals to be voted on at the annual meeting, the voting process, information including compensation concerning directors and our most highly paid executive officers, and certain other required information.

Q: What proposals will be voted on at the annual meeting?

A: The proposals scheduled to be voted on at the annual meeting are:

(1) To consider and approve the merger with JD Holdings, Inc. pursuant to an agreement and plan of merger by and among Innovo Group Inc., Joe s Jeans, Inc., JD Holdings, Inc. and Joseph M. Dahan dated as of February 6, 2007 and June 25, 2007 (a copy of the agreement and plan of merger, and its amendment, is included as *Exhibit A* to the accompanying proxy statement);

(2) To consider and approve the issuance of 14 million shares of common stock of Innovo Group Inc. to Joseph M. Dahan as consideration for the Merger;

(3) To elect seven directors to serve on the Board of Directors until the 2008 annual meeting of stockholders or until their respective successors are elected and qualified;

(4) To consider and approve an amendment to the Sixth Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock available for issuance by 20 million shares from 80 million to 100 million;

(5) To consider and approve an amendment to the Sixth Amended and Restated Certificate of Incorporation to change the corporate name from Innovo Group Inc. to Joe s Jeans Inc.;

(6) To consider and approve an amendment to the 2004 Stock Incentive Plan to increase the number of authorized shares available for issuance under the 2004 Stock Incentive Plan by 4 million shares from 4,265,172 shares to 8,265,172 shares;

(7) To consider and approve any proposal to adjourn the meeting to a later date, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the merger and issuance of shares under Proposals 1 and 2; and

(8) To ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending November 24, 2007.

We will also consider any other business that properly comes before the annual meeting.

Q: How does the Board of Directors recommend that I vote?

A: Our Board of Directors unanimously recommends that you vote your shares:

- **FOR** the approval of the merger with JD Holdings;
- **FOR** the approval of the issuance of the 14 million shares of our common stock as merger consideration;
- **FOR** each of the nominees to the Board of Directors;
- **FOR** the approval of the amendment to our Certificate of Incorporation to increase the number of shares of common stock authorized for issuance by 20 million;
- **FOR** the approval of the amendment to our Certificate of Incorporation to change our corporate name to Joe s Jeans Inc.;
- **FOR** the approval of the amendment to our Stock Incentive Plan to increase the number of shares authorized for issuance by 4 million shares;
- **FOR** any proposal to adjourn the meeting to a later date, if necessary, to solicit additional proxies if there are not sufficient votes in favor of the merger and the issuance of the shares under Proposals 1 and 2; and
- **FOR** the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending November 24, 2007.

Q: What shares can I vote?

A: Each share of our common stock issued and outstanding as of the close of business on June 18, 2007, or the Record Date, is entitled to vote for all proposals being voted upon at the annual meeting. You may cast one vote per share of common stock held by you as of the Record Date. These shares include shares that are (1) held directly in your name as the common stockholder of record, and (2) shares held for you as the beneficial owner through a broker, bank or other nominee. As of June 18, 2007, we had approximately 41,277,801 shares of common stock issued and outstanding and 905 common stockholders of record.

Q: What is the difference between holding shares as a common stockholder of record and as a beneficial owner?

A: Most of our common stockholders hold their shares through a broker, bank or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Common Stockholder of Record

If your shares are registered directly in your name with our transfer agent, Continental Stock Transfer and Trust Company, you are considered with respect to those shares the common stockholder of record and these proxy materials are being sent directly to you by us. As the common stockholder of record, you have the right to grant your voting proxy directly to us or to vote in person at the annual meeting. We have enclosed a proxy card for you to use.

Beneficial Owner

If your shares are held in a brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares of our common stock held in street name, and these proxy materials are being forwarded to you by your broker, bank or nominee who is considered with respect to those shares the

common stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote and are also invited to attend the annual meeting. However, since you are not the common stockholder of record, you may not vote these shares in person at the annual meeting unless you obtain a legal proxy from the broker, bank, or nominee that holds your shares giving you the right to vote the shares at the annual meeting. Your broker, bank or nominee has enclosed a voting instruction card for you to use in directing the broker or nominee regarding how to vote your shares. You may also be able to vote your shares by Internet or telephone as described below under How can I vote my shares without attending the annual meeting?

Q: How can I attend the annual meeting?

A: You are entitled to attend the annual meeting only if you are an Innovo Group common stockholder of record as of the close of business on Record Date or you hold a valid proxy for the annual meeting. You should be prepared to present photo identification for admittance. If you are not a common stockholder of record, but hold the shares through a broker, bank or nominee (i.e., in street name), you should provide proof of beneficial ownership on the Record Date, such as your most recent account statement prior to June 18, 2007, a copy of the voting instruction card provided by your broker, bank or nominee, or other similar evidence of ownership. If you do not provide photo identification or comply with the other procedures outlined above upon request, you will not be admitted to the annual meeting.

Q: How can I vote my shares in person at the annual meeting?

A: Shares held in your name as the common stockholder of record may be voted in person at the annual meeting. Shares held beneficially in street name may be voted in person only if you obtain a legal proxy from your broker, bank or other nominee that holds your shares giving you the right to vote the shares. ***Even if you plan to attend the annual meeting, we recommend that you also submit your proxy or voting instructions as described below so that your vote will be counted if you later decide not to attend the meeting.***

Q: How can I vote my shares without attending the annual meeting?

A: Whether you hold your shares directly as the common stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the meeting. If you are a common stockholder of record, you may vote by submitting a proxy. If you hold shares beneficially in street name, you may vote by submitting voting instructions to your broker, bank or nominee. For directions on how to vote, please refer to the instructions below and those included on your proxy card, or for shares held beneficially in street name, you may vote by submitting voting instructions to your broker, bank or nominee.

By Mail Our common stockholders of record may submit proxies by completing, signing and dating their proxy cards and mailing them in the accompanying pre-paid, pre-addressed envelope. Our common stockholders who hold shares beneficially in street name may vote by mail by completing, signing and dating the voting instruction card provided by their broker, bank or nominee and mailing them in the accompanying pre-addressed envelope.

By Internet Most of our common stockholders who hold shares beneficially in street name may vote by accessing the website specified on the voting instruction cards provided by their brokers, banks or nominees. Please check the voting instruction card for Internet voting availability.

By Telephone Most of our common stockholders who hold shares beneficially in street name may vote by phone by calling the number specified on the voting instruction cards provided by their brokers, banks or nominees. Please check the voting instruction card for telephone voting availability.

Q: May I change my vote?

A: You may change your vote at any time prior to the vote at the annual meeting. If you are a common stockholder of record, you may change your vote by granting a new proxy card bearing a later date (which automatically revokes the earlier proxy), by providing written notice of revocation to our Corporate Secretary prior to your shares being voted, or by attending the annual meeting and voting in person. Attendance at the annual meeting will not cause your previously granted proxy to be revoked unless you specifically so request. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, bank or nominee, or, if you have obtained a legal proxy from your broker, bank or nominee giving you the right to vote your shares, by attending the meeting and voting in person.

Q: Is my vote confidential?

A: Proxy instructions, ballots and voting tabulations that identify individual common stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within our company or to third parties, except: (1) as necessary to meet applicable legal requirements, (2) to allow for the tabulation of votes and certification of the vote, and (3) to facilitate a successful proxy solicitation. If a common stockholder submits a proxy card with a written comment, then that proxy card will be forwarded to our management.

Q: How many shares must be present or represented to conduct business at the annual meeting?

A: The quorum requirement for holding the annual meeting and for transacting business is that the holders of a majority of shares of our common stock entitled to vote must be present in person or represented by proxy. Both abstentions and broker non-votes are counted for the purposes of determining the presence of a quorum.

Q: How are votes counted?

A: For the election of directors, you may vote **FOR** all of the nominees or your vote may be **WITHHELD** for one or more of the nominees. For the other items of business, you may vote **FOR, AGAINST** or **ABSTAIN.** If you **ABSTAIN,** the abstention has the same effect as a vote **AGAINST** the proposal. If you provide specific instructions with regard to certain items, your shares will be voted as you instruct on such items. If you sign your proxy card or voting instruction card without giving specific instructions, your shares will be voted in accordance with the recommendations of the Board of Directors.

Q: Who will count the vote?

A: A representative of Continental Stock Transfer and Trust Company will tabulate the votes up until the morning of the meeting. At the meeting, our inspector of election will tabulate the votes.

Q: Who will serve as inspector of election?

A: Mr. Dustin Huffine, our Corporate Secretary, will serve as our inspector of election.

Q: What is the voting requirement to approve each of the proposals?

A: For the approval of the Merger and approval of the amendments to our Certificate of Incorporation, the proposals require the affirmative **FOR** vote of a majority of our issued and outstanding common stock entitled to vote on the proposal. For the election of directors, the seven persons receiving a plurality of **FOR** votes at the annual meeting will be elected. All other proposals require the affirmative **FOR** vote of a majority of those shares present in

person or represented by proxy and entitled to vote on those proposals at the annual meeting. If you hold shares beneficially in street name and do not provide your broker with voting instructions, your shares may constitute broker

non-votes. Generally, broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions are not given. Brokers may not vote shares on Proposals 1, 2, 4, 5, 6, and 7 without instructions from the beneficial owner of such shares. If the broker is not instructed with respect to Proposals 1, 2, 4, 5, 6, and 7, the shares will constitute broker non-votes. In tabulating the voting results for any particular proposal, shares that constitute broker non-votes are not considered entitled to vote on that proposal. Thus, broker non-votes will not be counted in the vote total. Abstentions have the same effect as votes against the matter. Brokers may vote your shares with respect to Proposal 3 and Proposal 8, since each is a routine matter.

Q: What happens if additional proposals are presented at the annual meeting?

A: Other than the eight proposals described in this proxy statement, we are not aware of any other business to be acted upon at the annual meeting. If you grant a proxy, the person named as proxyholder, Marc Crossman, will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If for any unforeseen reason any of our nominees for our Board of Directors is not available as a candidate, the persons named as proxyholders will vote your proxy for such other candidate or candidates as may be nominated by the Board of Directors.

Q: What should I do if I receive more than one set of voting materials?

A: You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a common stockholder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive.

Q: Who will bear the costs of soliciting votes for the annual meeting?

A: We are making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communication by our directors, officers and employees, who will not receive any additional compensation for such solicitation activities.

To further assist in the solicitation process, we expect to hire The Altman Group, Inc. to solicit proxies by personal interviews, telephone, telegram or otherwise. In the event we hire The Altman Group, Inc. to assist with the solicitation of proxies, we anticipate that we will pay The Altman Group, Inc. an initial fee of approximately $7,500, plus additional compensation for telephone solicitation and solicitations made by other means.

Q: Where can I find the results of the annual meeting?

A: We will announce preliminary voting results at the annual meeting and publish final results in a Current Report on Form 8-K to be filed with the Securities and Exchange Commission, or SEC, within four days after the annual meeting.

Q: Where can I obtain a copy of Innovo Group s Amendment No. 1 and Amendment No. 2 to its Annual Report on Form 10-K for the year ended November 25, 2006 and our Quarterly Report on Form 10-Q for the period ended February 24, 2007?

A: A copy of each of our Amendment No. 1 and Amendment No. 2 to our Annual Report on Form 10-K for the year ended November 25, 2006 and our Quarterly Report on Form 10-Q for the period ended February 24, 2007 is enclosed with this proxy statement.

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Q: What if I share an address with another common stockholder?

A: In some instances, we may deliver to multiple common stockholders sharing a common address only one copy of this proxy statement and its attachments. If requested by phone or in writing, we will promptly provide a separate copy of the proxy statement and its attachments to a common stockholder sharing an address with another common stockholder. Requests by phone should be directed to our Corporate Secretary at (323) 837-3700 and requests in writing should be sent to Innovo Group Inc., Attention: Corporate Secretary, 5901 South Eastern Avenue, Commerce, California 90040. Our common stockholders sharing an address who currently receive multiple copies and wish to receive only a single copy should contact their broker or send a signed, written request to us at the address above.

Q: What is the deadline to propose actions for consideration at next year s annual meeting of stockholders or to nominate individuals to serve as directors?

A: You may submit proposals, including director nominations, for consideration at future common stockholder meetings. We expect to hold our 2008 annual meeting of stockholders in or around July of 2008. Our common stockholders may submit proposals that they believe should be voted upon at the 2008 annual meeting consistent with regulations of the SEC and our bylaws.

Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, some stockholder proposals may be eligible for inclusion in our 2008 proxy statement. Any such stockholder proposals must be submitted in writing to and received by the Corporate Secretary of Innovo Group at 5901 South Eastern Avenue, Commerce, California 90040 no later than [ ], 2007. The submission of a stockholder proposal does not guarantee that it will be included in our proxy statement.

A stockholder may also submit a proposal for consideration outside of Rule 14a-8. Pursuant to Rule 14a-4(c)(1), a stockholder may submit a proposal for consideration at the annual meeting. Any such stockholder proposals to be considered at the annual meeting must be submitted in writing to and received by our Corporate Secretary no later than [ ], 2007 to be considered timely. The submission of a stockholder proposal does not guarantee that it will be presented at the annual meeting.

Our common stockholders interested in submitting a proposal are advised to contact knowledgeable legal counsel with regard to the detailed requirements of applicable federal securities laws and the our bylaws, as applicable.

Q: Do I have any appraisal rights under the General Corporation Law of the State of Delaware?

A: Under the General Corporation Law of the State of Delaware, you do not have any appraisal rights in connection with any of proposals upon which a vote is scheduled to be taken at this annual meeting of stockholders.

INNOVO GROUP INC.
5901 SOUTH EASTERN AVENUE
COMMERCE, CALIFORNIA 90040

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON
TUESDAY, AUGUST 14, 2007

PROPOSAL 1

APPROVAL OF THE MERGER WITH JD HOLDINGS, INC.
PURSUANT TO AN AGREEMENT AND PLAN OF MERGER

Our Board of Directors has approved and recommended the merger with JD Holdings, Inc. pursuant to a Merger Agreement by and among Innovo Group Inc., Joe s Jeans, Inc., JD Holdings, Inc. and Joseph M. Dahan dated as of February 6, 2007 and amended as of June 25, 2007.

Q: What is the Board of Directors recommending?

A: The Board of Directors is asking the stockholders to authorize the merger with JD Holdings pursuant to a Merger Agreement executed on the terms described elsewhere in this proxy statement. **The Board of Directors unanimously recommends that you vote in favor of the proposal.** Mr. Dahan, the sole stockholder of JD Holdings and one of our current employees, will be a party to certain ancillary agreements and he is an interested party in the transaction. More specifically, in the event that the Merger is approved and completed, an employment agreement with Mr. Dahan will become automatically effective and we will execute an investor rights agreement related to the issuance of the shares and Mr. Dahan s right to appoint himself to our Board of Directors. We recommend that you read carefully the complete Merger Agreement for the terms and conditions of the Merger and other information that may be important to you included in this proxy statement as *Exhibit A*.

Q: Why should the company merge with JD Holdings?

A: As described in greater detail in this proxy statement, our Board of Directors believes that it is in the best interest of the company and its stockholders to acquire, through merger, JD Holdings. The assets of JD Holdings are all rights, title to and interest in the Joe s®, Joe s Jeans and related JD logos and marks, or the Joe s Brand. JD Holdings business has historically been limited to the ownership of the assets that represent the Joe s Brand and activity associated with its rights and obligations under the license agreement that allows us to make, use, sell and distribute apparel products that bear the Joe s Brand. JD Holdings had an immaterial amount of other assets, including incidental office equipment, that were distributed to Mr. Dahan as the sole stockholder immediately prior to the date that the Merger Agreement was entered into with us or will be distributed prior to the closing of the transaction.

Q: How do I know if the company is receiving fair value for the assets?

A: Our Board of Directors believes that the consideration to be paid to JD Holdings for the Merger and its assets is fair to us and our stockholders based on a variety of factors, including, but not limited to, the current financial condition and future net sales and prospects for the Joe s Brand and a fairness opinion delivered to our Board of Directors by The Mentor Group Inc., or The Mentor Group.

Q: Will I, as a stockholder, have appraisal rights under Proposal 1?

A: No. Under Delaware law, appraisal rights are not available to our stockholders in connection with the Merger and the issuance of the shares of common stock in the Merger.

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Q: What is the background for this transaction?

A: We originally entered into a license agreement with JD Design LLC, or JD Design, in February 2001 to license on a worldwide, exclusive and non-assignable basis the right to use the Joe s Brand in connection with the manufacture, importation and sale of certain licensed products. Through a merger with JD Design, JD Holdings became the owner of the Joe s Brand. For purposes of this proxy statement, we will refer to our previous transactions with JD Design as JD Holdings. The scope of the licensed products is specifically listed as a schedule to the license agreement and is broad in nature; however, we do not currently have a right to all products in all categories without obtaining the prior approval of JD Holdings. Additionally, we do not have the right to sublicense the Joe s Brand in other product categories without prior approval. Because of these and other pre-approval and termination rights held by JD Holdings under the license agreement, we decided it was in our best interest to acquire all rights associated with the Joe s Brand so that we can control it and pursue licensing opportunities.

Q: Where can I find a summary of the transaction?

A: Beginning on page 1, you can find a brief summary of the material terms of the transaction with JD Holdings. This summary highlights selected information contained elsewhere in this proxy statement and may not contain all information that may be important to you. You should carefully read this entire proxy statement and the other documents referenced herein for a more complete understanding of the matters being considered at the annual meeting.

Q: Who are the parties to the transaction?

A: The parties to the Merger Agreement are the company, Joe s Jeans, JD Holdings and Joseph Dahan. Joe s Jeans is our wholly owned subsidiary and was originally formed to carry out the intent of the license agreement entered into in February 2001 with JD Holdings and Joseph Dahan.

JD Holdings is a California corporation based in Los Angeles, California. Its sole stockholder is Joseph M. Dahan, who is currently employed by us as president of our Joe s Jeans subsidiary. JD Holdings business has historically been limited to the ownership of the assets that represent the Joe s Brand and activity associated with its rights and obligations under the license agreement pursuant to which we make, use, sell and distribute apparel products that bear the Joe s Brand. In the event that the Merger is approved, we have agreed to enter into an employment contract with Mr. Dahan to be effective upon closing. Under the terms of the employment contract, Mr. Dahan will receive an annual base salary of $300,000 and serve as Creative Director of the Joe s Brand. In addition, we have agreed to enter into an investor rights agreement with Mr. Dahan pursuant to which he will have certain rights to register for resale the shares received as Merger consideration and the right to nominate himself to be a member of our Board of Directors. See The Employment Agreement and Investor Rights Agreement beginning on page .

Q: What will we acquire pursuant to the transaction and what is the consideration to be paid in exchange for the transaction?

A: Under the terms of the Merger Agreement, we agreed to merge Joe s Jeans with JD Holdings with Joe s Jeans as the surviving corporation. In exchange for all of the outstanding shares of JD Holdings, we will issue to Mr. Dahan, as the sole stockholder of JD Holdings, 14 million shares of our common stock and $300,000 in cash. In addition, Mr. Dahan will be entitled to, for a period of 120 months following the effective date, a certain percentage of the gross profit earned by us in any applicable fiscal year. Mr. Dahan will be entitled to the following percentages of the gross profit earned by us in the applicable fiscal year: (i) 11.33% of the gross profit from $11,251,000 to $22,500,000; plus (ii) 3% of the gross profit from $22,501,000 to $31,500,000; plus (iii) 2% of the gross profit from $31,501,000

to $40,500,000; plus (iv) 1% of the gross profit above $40,501,000. The payments will be made in advance and then be compared against amounts actually earned after the applicable quarter or fiscal year with shortfalls paid immediately and overpayments offset against future earnings. No payment will be made if the gross profit is less than $11,250,000. Gross Profit is defined as net sales of the Joe s Brand less cost of goods sold as reported in our periodic filings with the SEC.

The shares issued will not initially be registered and will be subject to certain restrictions on resale. After consummation of the Merger, we will own all rights, title to and interest in the Joe s Brand, and the license agreement will automatically terminate. By owning all rights to the Joe s Brand, we will be able to control the direction of the Joe s Brand without regard to license-related issues. The consideration for the transaction has been supported by fairness opinions issued by The Mentor Group.

We cannot issue the shares and complete the Merger unless you vote in favor of Proposal 2. Therefore, our Board of Directors unanimously recommends that you vote in favor of this proposal and Proposal 2.

Q: What are the material terms of the Merger Agreement?

A: The Merger Agreement is attached to this proxy statement as *Exhibit A*. We encourage you to read the Merger Agreement in its entirety, as it is the legal document that governs the Merger. We refer you to page 1 of this proxy statement for a summary of the material terms of the Merger Agreement. However, this summary should not replace a reading of the actual Merger Agreement and we recommend that you read carefully the Merger Agreement for the terms of the transaction and other information that may be important to you.

Q: What are the tax consequences of Proposal 1 to stockholders?

A: The transaction will not be taxable to our stockholders. See The Proposed Merger Material U.S. Federal Income Tax Consequences beginning on page 23.

Q: When is the closing expected to occur?

A: If Proposal 1 is approved and all conditions to completing the Merger are satisfied or waived, the closing is expected to occur shortly after the annual meeting. **In order to complete the Merger, our stockholders must also approve Proposal 2, permitting the issuance of the shares as consideration for the Merger. Our Board of Directors encourages you to consider Proposal 2 along with the other information contained in this proxy statement.**

Q: What is the vote required to approve Proposal 1?

A: The affirmative **FOR** vote of a majority of our shares of common stock issued and outstanding and entitled to vote on the proposal is required to approve the merger with JD Holdings pursuant to the Merger Agreement.

Q: How does the Board of Directors recommend I vote?

A: Our Board of Directors unanimously recommends a vote **FOR** the approval of the Merger pursuant to the Merger Agreement.

THE PROPOSED MERGER

General

Under the Merger Agreement, we agreed to merge Joe s Jeans with JD Holdings with Joe s Jeans as the surviving corporation. In exchange for all of the outstanding shares of JD Holdings, we will issue to Mr. Dahan, as the sole stockholder of JD Holdings, 14 million shares of our common stock and $300,000 in cash. The shares issued as part of the Merger will not initially be registered and will be subject to certain restrictions on resale. Mr. Dahan will also be entitled to, for a period of 120 months following the effective date, a certain percentage of the gross profit above $11,250,000 earned by us in any applicable fiscal year. After consummation of the Merger, we will own all rights, title to and interest in the Joe s®, Joe s Jeans and related JD logos and marks, or the Joe s Brand, and the license agreement will automatically terminate. The consideration to be paid and the other terms and conditions of the Merger Agreement are discussed below.

Background of the Merger

Our principal business activity has evolved into the design, development and worldwide marketing of apparel products focusing on denim and casualwear. Our primary apparel products bear the brand name Joe s® operated under our Joe s Jeans subsidiary. Since Joe s Jeans was established in 2001, the Joe s Brand is recognized in the premium denim industry for its quality, fit and fashion-forward designs. Historically, we also sold other branded apparel products, such as indie , Betsey Johnson®, Fetish and Shago®, private label denim and denim related products and craft and accessory products.

On February 7, 2001, we entered into a license agreement with JD Design LLC, a single member California limited liability company, for the worldwide, exclusive, non-assignable right to use the Joe s Brand on certain licensed product categories. In December 2006, the license was transferred by JD Design through merger to JD Holdings. The original license term was for ten years with a right to renew for two additional ten year periods provided that we were not in default. In exchange for the license rights, we issued to JD Design 500,000 shares of our common stock, agreed to pay a 3% royalty on net sales of Joe s Brand products and agreed to issue additional royalty payments and warrants in the event certain net sales and gross profit targets were met for the year ending on December 31 from 2001 until 2004. The net sales and gross profit targets were not met and therefore the additional royalty payments and warrants were not issued. The 3% royalty payments are paid to JD Holdings under the license agreement. From the initial grant of the license through the end of fiscal 2006, we have paid approximately $3,655,000 in royalty payments.

Simultaneous with entering into the license agreement, we entered into an employment agreement with Joseph M. Dahan, the sole member of JD Design, to employ him as president of our newly created Joe s Jeans subsidiary. Our Joe s Jeans subsidiary was formed to carry out the terms of and operations under the license agreement. Under the terms of his employment agreement, Mr. Dahan receives an annual salary of $85,000 as an employee of Joe s Jeans.

In October 2005, we entered into an amendment to the license agreement to release back the rights to the Joe s Brand for use on children s products. We agreed to release these rights to JD Holdings in exchange for receiving a commission of 5% on net sales from the children s products bearing the Joe s Brand. We entered into this amendment, in part, due to our lack of prior experience in producing children s products and our desire to focus on our men s and women s collections. In addition, under the license agreement, we needed to obtain the prior approval of JD Holdings if we wanted to enter into a sublicense with a third party to make, use and sell children s products bearing the Joe s Brand. Because of these restrictions, we believed it was in our best interest to enter into the amendment to release back these rights rather than seek consent to use a third party sublicensee at our cost and expense.

When we originally licensed the rights to the Joe s Brand in February 2001, our primary operations were in the craft and accessories business and we were headquartered in Knoxville, Tennessee. In addition, JD Design had just begun operating its Joe s Jeans denim line and had limited orders for its denim products. Since 2001, we have evolved from producing craft and accessory products, such as craft aprons, tote bags and branded label handbags, wallets and belts into the design, development and worldwide marketing of apparel products primarily for denim jeans and related casual wear. During this time, we also moved our headquarters from Tennessee to Los Angeles, California, developed, through acquisition, other areas of operations and entered into license agreements for other branded apparel products. However, beginning in fiscal 2004, we began divesting ourselves of these other licenses and business operations so that we could focus our resources on our best performing asset, our Joe s Brand. In July 2005, Mr. Crossman, as Chief Financial Officer, began collecting data and information regarding the performance of the Joe s Brand and preparing internal data regarding a range of valuations and cost of a possible acquisition from Mr. Dahan. At that time, Mr. Crossman approached Mr. Dahan to discuss the possibility of acquiring the Joe s Brand and the cost of such acquisition. After that initial approach, Mr. Crossman and Mr. Dahan continued to have informal conversations regarding the future and direction of the Joe s Brand.

In November 2005, we began to discuss internally issues related to the license agreement. We sought the advice of internal and external counsel about the application of certain provisions of the license agreement on our business going forward. In particular, we looked at the list of licensed products and noted that some significant omissions had been made when we initially entered into the license. Without amending the existing license agreement, we did not have the right to produce the following products that we believed could be important to the future of the Joe s Brand: perfume, sunglasses, eyeglasses, socks, shoes, women s sleepwear and lingerie, cosmetics, home furnishings and bedding. While there were no issues that caused concern related to our licensor/licensee relationship, we could not be certain that in the future, the relationship would continue to be as strong, friendly and full of mutual respect for each other. We also noted that under the license agreement, there was a restriction on our ability to conduct our Joe s Jeans subsidiary s operations i.e., we could not (i) dissolve, liquidate or wind-up our business, (ii) merge or consolidate with or into any other corporation, or (iii) directly or indirectly sell or otherwise dispose of all or a substantial portion of our business or assets without prior written notice to JD Holdings. Upon receipt of this notice, JD Holdings would have the option to terminate the license agreement if it desired. We believe that the ability for JD Holdings to immediately terminate the license upon receipt of notice of our intentions described above could potentially effect on our ability to enter entertain and explore future business opportunities related to our Joe s Brand. Furthermore, we do not have the right to sublicense any of the licensed product categories without the consent of JD Holdings. Thus, JD Holdings has the ability, if exercised, to dictate how and with whom we did business in the future.

On February 24, 2006, we engaged Piper Jaffray & Co. to assist us and our Board of Directors with the exploration and review of strategic alternatives for our company following continued losses from operations. As part of this review, informal discussions regarding the possible acquisition of the Joe s Brand continued by and among Mr. Crossman and Mr. Dahan, as well as between Mr. Crossman and various members of the Board of Directors. Mr. Crossman continued to internally analyze the transaction and different methods of consideration. Between mid-April and mid- May 2006, legal counsel also prepared internal memorandum outlining and identifying possible issues related to an acquisition of the Joe s Brand through merger or asset purchase. We also consulted with outside counsel about the proposed structure for the transaction and began to focus on the valuation of the Joe s Brand by Mr. Dahan and how to pay the consideration through the issuance of one or more forms of stock, whether common, preferred or an instrument convertible into common stock. During this time, our common stock also fell from $1.25 on April 19, 2006 to the mid-$0.70 range by late May 2006.

On June 27, 2006, at a regularly scheduled meeting of our Board of Directors, we presented the Board of Directors with an overview of recent discussions with Mr. Dahan regarding the potential acquisition of the Joe s Brand, including a presentation outlining the above issues with the existing license agreement. The Board of Directors encouraged Mr. Crossman and management to move forward with discussions about a possible transaction to acquire the Joe s Brand.

Between July and August 2006, the parties continued to hold informal discussions in person and by telephone on the feasibility, possible terms and timing of a possible business combination transaction. On August 16, 2006, the legal department, after consultation with Mr. Crossman, drafted an initial term sheet for internal discussion purposes outlining terms of a proposed transaction with Mr. Dahan for the Joe s Brand. Because the stock price during this time was near its lowest point due to continued losses after disposing of other operations, Mr. Dahan agreed in principle to valuing the transaction by setting an exact number of shares to be issued at closing coupled with a modest cash payment and an employment agreement with a guaranteed minimum annual salary. The shares to be issued as part of the Merger would not initially be registered and would be subject to contractual restrictions on resale. Over the course of negotiations over the next few months, the threshold numbers continued to be negotiated by Mr. Crossman and Mr. Dahan along with other deal points, but the parties remained committed to structuring the primary consideration for the deal as a fixed number of shares.

On September 27, 2006, at the next regularly scheduled meeting of the Board of Directors, Mr. Crossman presented an outline of certain key terms to discuss with the Board of Directors. After discussion, Mr. Crossman informed the Board of Directors that he would have a more definitive term sheet to present for review and further discussion. On that same day, we sent a draft of the proposed terms of the possible transaction to Mr. Dahan s attorney for review and discussion along with other items for discussion.

In the interim, after discussions regarding the potential acquisition of the Joe s Brand began in September 2006, on October 13, 2006, we entered into a collateral protection agreement with JD Holdings in exchange for JD Holdings granting a security interest in the Joe s® trademarks and executing a non-recourse guaranty in favor of our primary lender, CIT Commercial Services, Inc., a unit of CIT Group, or CIT, to allow us to obtain additional advances under our inventory security agreement. In connection with the security interest and guaranty, we entered into an agreement with JD Holdings to provide protection to JD Holdings through the potential issuance of up to 3,846,154 shares of our common stock as collateral for the non-recourse guaranty and security interest granted to CIT. The exact amount of shares to be issued depends on the amount of the default and the lowest price the shares can be issued at is $0.52. In the event that the merger transaction is approved, all agreements related to this security interest, guaranty and collateral protection will be terminated.

During September and October, the parties and legal advisors continued to correspond and discuss the possible transaction, terms and structure. On October 18, 2006, management provided the Board of Directors with a proposed term sheet that contained the terms and conditions, to date, regarding a potential transaction with JD Holdings in advance of the October 23, 2006 regularly scheduled meeting of the Board of Directors. At that meeting, the Board of Directors discussed the proposed term sheet and the potential transaction. Mr. Crossman updated the members regarding informal communications and discussions conducted by and amongst them prior to the meeting regarding concerns, opinions and recommendations regarding the transaction for further discussion. The Board of Directors then began a discussion among themselves and with management in substantive detail about several key terms and conditions set forth in the proposed term sheet. After due consideration and discussion of the potential transaction by the Board of Directors, the Board of Directors determined and agreed that it was in the best interest of the company to pursue the transaction, with certain modifications to be made to the proposed term sheet and passed a resolution authorizing management to proceed with the discussions related to a proposed transaction with JD Holdings.

Shortly thereafter, management with the assistance of outside counsel drafted the Merger Agreement, the employment agreement and the investor rights agreement to reflect the terms of the proposed term sheet. On October 30, 2006, management circulated a due diligence request list to Mr. Dahan s legal advisor for review and response. On November 3, 2006, management circulated the initial draft of the Merger Agreement to Mr. Dahan and his legal advisor. On November 10, 2006, management circulated the initial draft of the employment agreement and investor rights agreement to Mr. Dahan and his legal advisor. On November 28, 2006, management circulated an initial draft of a license agreement for JD Holdings to continue to use the Joe s Brand for children s products. This deal point was subsequently eliminated in the final stages of the negotiations of the transaction.

Management kept the Board of Directors apprised through informal communications of all discussions and developments related to a possible transaction with JD Holdings. On November 20, 2006 at a special meeting of the Board of Directors to discuss a possible financing transaction for proceeds for working capital purposes, management updated the Board of Directors on the progress of the possible transaction, noting that draft documents had been delivered to counsel for JD Holdings and that we were awaiting comments and feedback on the documentation.

Discussions continued among management and Mr. Dahan about the possible transaction. On December 21, 2006, management, Mr. Dahan and his legal advisor met at our offices in Commerce, California to discuss timing and issues related to the possible transaction, including the finalization of the merger transaction between JD Design and JD Holdings whereby the successor to the Joe s Brand was now JD Holdings. On December 22, 2006, Mr. Dahan s legal advisor sent proposed changes to the draft agreements.

Between January 8 and January 26, 2007, Mr. Crossman, management, Mr. Dahan and his legal advisors continued to engage in negotiations regarding the final terms of the Merger Agreement, employment agreement, investor rights agreement and potential license for children s products. More specifically, on January 10, 2007, management, Mr. Dahan, and his counsel conducted further discussions and negotiations regarding the documentation via conference call and on January 11, 2007 additional comments and proposed changes were circulated. Revised drafts of the agreements were exchanged by the parties for subsequent review.

On January 29, 2007, penultimate drafts of the agreements were delivered via email to our Board of Directors for review in advance of a meeting on February 6, 2007. On February 4, 2007, a final version of the fairness opinion was delivered via email to the members of the Board of Directors. On February 6, 2007, the Board of Directors met to discuss the terms of Merger Agreement and ancillary documents. After due consideration and careful discussion and a review of the fairness opinion, our Board of Directors voted to approve the Merger Agreement and to authorize management to execute the Merger Agreement and all ancillary documents necessary to carry out the intent of the resolutions under the terms and conditions discussed and presented to the Board of Directors by management.

On February 6, 2007 after the close of business, we executed the definitive Merger Agreement with JD Holdings and Mr. Dahan. On February 7, 2007, we issued a press release announcing the execution of the Merger Agreement.

During the course of the preparation of this proxy statement after the definitive Merger Agreement was executed, Mr. Dahan and Mr. Crossman met informally to discuss the financial considerations included in the Merger Agreement and employment agreement. After numerous discussions regarding the fact that the definitive Merger Agreement was already executed, the parties decided to entertain a discussion of certain proposed modifications. As a result of those discussions, the parties realized that the proposal to add an earn-out to the merger consideration and delete a provision in the employment agreement that provided for a minimum annual salary of $950,000 (which acted as an advance against earnings based upon a percentage of gross profits) more fairly reflected the value of the Joe s Brand and

the expectations of Mr. Dahan while providing us with downside protection from a decrease in gross profits. The new earn out provision would be dependent upon gross profit hurdles that we would need to achieve before Mr. Dahan received the payments.

As a result, Mr. Dahan and Mr. Crossman met informally and periodically to discuss the proposed modifications. After further discussions, the parties agreed on the structure of the earn-out and modifications that would be made to the employment agreement. In-house legal counsel then discussed the proposed modifications with outside advisors and drafted the modifications to reflect the agreement between Mr. Crossman and Mr. Dahan. On June 13, 2007, drafts of the agreements were internally circulated for review and comment and Mr. Dahan reviewed the terms and drafts with his advisors. Over the course of the few days prior to that, Mr. Crossman spoke informally to all the members of the Board of Directors to discuss and review the proposed modifications. After further discussion between Mr. Dahan and Mr. Crossman, a special meeting of the Board of Directors was called for June 20, 2007. Prior to the meeting, on June 19, 2007, an internally prepared memo discussing the proposal and the proposed drafts of the First Amendment to the Merger Agreement and Amended and Restated Employment Agreement were sent via email to all members of the Board of Directors for review. On June 20, 2007, the Board of Directors met telephonically to discuss the proposal and revisions. After due deliberation and discussion, the Board of Directors voted to approve the First Amendment to the Merger Agreement, the Amended and Restated Employment Agreement and to authorize management to execute the same documents and any additional documents to carry out the intent of the resolutions under the terms and conditions discussed and presented to the Board of Directors by management.

On June 25, 2007, the First Amendment to the Merger Agreement, the Amended and Restated Employment Agreement and the Amended and Restated Plan of Merger were executed and after the close of business, we issued a press release announcing the revised terms of the agreements.

Our Reasons for the Merger

We entered into the Merger Agreement after evaluating the future of our business opportunities operating under a license agreement rather than owning all rights, title to and interest in the Joe s Brand outright. Based upon these and other considerations, we believed that acquiring all rights, title to and interest in the Joe s Brand was in our best interest and the best interest of our stockholders for the future our business.

In reaching this determination, our Board of Directors and management considered a number of factors:

- Significant future and historical revenues generated by the Joe s Brand which could potentially be disrupted in the event of a dispute under the existing license agreement;

- Restrictions on our ability to conduct our operations, including the inability to sell a substantial portion of our assets related to the Joe s Brand without providing JD Holdings with advanced notice and ability to terminate the license;

- Ability to control the Joe s Brand and direction and the ability to choose new product extensions of the Joe s Brand without licensor approval rights;

- The belief of our Board of Directors and management that the terms and conditions of the Merger Agreement are reasonable; and

- A fairness opinion by The Mentor Group and its update for the amendment to the Merger Agreement.

Our Board of Directors and management also identified and considered the following potentially negative factors concerning the Merger:

- The impact of the dilution to existing stockholders in the event that the Merger is completed;

- The risks associated with uncertain demands and growth opportunities for our Joe s Brand products and the uncertainty regarding acceptance in the marketplace of new products bearing the Joe s Brand name;

- The risk that our stockholders may not approve the Merger transaction and we would have to continue to operate under the existing license agreement; and

- The other risks described in the Risk Factors section beginning on page 41.

After deliberations, our Board of Directors concluded that, on balance, the potential benefits of acquiring the Joe s Brand outweighed these risks and potential disadvantages.

The foregoing discussion of the information and factors considered by our Board of Directors is not intended to be exhaustive, but includes the relevant factors considered. In reaching its decision to approve the Merger and to recommend it to our stockholders, our Board of Directors did not view any single factor as determinative and did not find it necessary or relevant to assign any weight to each of the various factors considered. Individual directors may have given different weights to different factors.

Recommendation of our Board of Directors

Our Board of Directors believes that the terms of the Merger transaction are in the best interest of our stockholders and has approved the Merger and the transaction documents. Accordingly, our Board of Directors unanimously recommends that our stockholders vote **FOR** the approval of the Merger pursuant to the Merger Agreement.

Fairness Opinion of our Financial Advisor

We retained The Mentor Group to render an opinion with respect to the fairness, from a financial point of view, to us and our stockholders of the financial consideration to be paid by us for the Merger. The Mentor Group is a full service, national investment banking, financial advisory, valuation and appraisal firm. For its services, we paid The Mentor Group its customary fee of $30,000 for its original opinion and $8,000 for its June 2007 follow up opinion. We choose The Mentor Group because we had utilized their services in the past and they were familiar with us and our business.

On February 4, 2007, The Mentor Group delivered its final written opinion to the effect that, based upon and in reliance on the matters described in its opinion, the financial consideration was fair to us and our stockholders from a financial point of view as of the date of such opinion. The Mentor Group delivered a revised written opinion dated June 25, 2007 to the effect that, based upon and in reliance on the matters described in its opinion, the financial consideration was fair to us and our stockholders from a financial point of view as of the date of such opinion.

The full text of The Mentor Group s opinions to our Board of Directors, which sets forth the assumptions made, matters considered, qualifications and extent of review by The Mentor Group are attached as *Exhibit B-1* and *Exhibit B-2* and are incorporated herein by reference. Such opinions should be read carefully and in their entirety in conjunction with this proxy statement. The following summary of The Mentor Group s opinions is qualified in its entirety by reference to the full text of the opinion.

The Mentor Group consented to the inclusion of its opinions and this summary in this proxy statement.

The Mentor Group s opinions are addressed to our Board of Directors and do not constitute a recommendation to any of our stockholders as to how such stockholder should vote at the annual meeting described in this proxy statement.

The terms associated with the merger transaction were determined based on negotiations between us and JD Holdings and were not based on any recommendations by The Mentor Group. No limitations or instructions were imposed on The Mentor Group with respect to the investigations made or the procedures to follow in rendering its opinion.

In connection with rendering its opinion, The Mentor Group reviewed and analyzed, among other things, the following:

- the terms of the merger transaction, including the Merger Agreement, the employment agreement and the investor rights agreement;
- certain of our historical financial statements and other financial information;
- certain other information, primarily financial in nature, concerning our business and operations that we furnished to The Mentor Group;
- certain historical financial information related to JD Holdings provided by JD Holding s advisors;
- the historical trading price and volume of our common stock;
- discussions with certain members of management regarding, among other things, the business, operations, financial conditions, future prospects and projected operations and performance of the Joe s Brand, certain forecasts and projections related to the business provided to them by us and pro forma financial information;
- discussions related to existence of contingent liabilities in connection with the transaction;
- performance of variance analysis on the underlying assumptions of growth and expenses;
- certain other publicly available financial data for certain companies that The Mentor Group deemed comparable to our Joe s Jeans business, and publicly available prices paid in other transactions considered similar to this transaction; and
- such other matters as were deemed relevant.

The final written opinion was based upon certain business, economic, market, and other conditions that existed as of the date of such opinion. Based upon these considerations, The Mentor Group concluded that, in its opinion, the transaction was fair, from a financial point of view, to us and our current stockholders.

For the June 2007 fairness opinion, The Mentor Group had additional data to rely upon, including audited fiscal year 2006 and unaudited first quarter 2007 sales information. In both cases, net sales and gross margins had improved significantly over the prior year comparative period. As a result, the information utilized for the June 2007 fairness opinion included operating results that reflected the potential and growth of the Joe s Brand.

The methodologies used or considered by The Mentor Group in arriving at its opinion were:

- the net book value;
- the adjusted book value;
- the public company multiples method;

- merger/acquisitions multiples method;

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- capitalization of historical income method; and
- discounted cash flow method.

Under the net book value method, The Mentor Group considered this methodology, but did not utilize it due to lack of significant tangible assets and financial information about JD Holdings.

Under the adjusted book value method, market values are assigned to a company s tangible and intangible assets and stockholder s equity is restated to account for the adjustments. However, The Mentor Group noted that this method is most relevant when a significant portion of the assets are liquid or when most of the value resides in property. In our case, most of the value was in intangible assets (trademarks and tradenames). Therefore, The Mentor Group felt that it would be better in utilizing market and income approaches in determining the value of the intangible assets.

Under the public companies multiples methods, stock sales related to guideline industry publicly traded companies are analyzed. From this analysis, multiples of income statements and/or balance sheet statistics reflecting current public market multiples for similar investments are developed. These multiples are then considered in light of how the financial condition and operating performance of the company to be acquired compares to the guideline companies. Given the facts and circumstances of the transaction and the existing relationship between the companies, The Mentor Group was not able to find guideline companies with similar economic conditions to utilize the approach.

Under the merger/acquisition multiples method, transactional sales greater than 50% of the ownership related to similar industry represented public companies were analyzed to develop multiples of income statement and/or balance sheet statistics reflecting historical sales of going concerns. These multiples are then considered in light of how the financial condition and operating performance of the company to be acquired compares to the guideline companies. Under the merger/acquisition multiples method, thirty-one transactions in companies were selected. Enterprise values of the companies, when disclosed, were utilized to determine multiples of revenue and earnings before taxes, interest, deprecation and amortization, or EBITDA. The multiples were not adjusted relative to the size of the company to be acquired. The selected multiples indicated a range of values from approximately $3,023,000 to $26,581,000. The median indicated values under the merger/acquisitions multiples method were $11,400,000 to $16,200,000. The revenues utilized for the multiples method were based on certain pro forma assumptions presented by management to The Mentor Group for two years and the indicated values were adjusted to a present value to account for the two year period. The EBITDA utilized for the multiples method was based on incremental earnings projected in the second year rather than the projected earnings without the merger. The incremental earnings were then discounted to a present value for the two year period.

For the June 2007 fairness opinion, The Mentor Group utilized a similar analysis for its merger/acquisition multiples method. However, thirty-three transaction in companies were selected and the selected multiples indicated a range of indicated values from approximately $3,053,000 to $77,287,000. The mean indicated values were $17,479,000 to $63,396,000. The Mentor Group utilized similar pro forma assumptions presented by management and the 2008 revenue based was selected as the most relevant and the indicated value of the multiples was adjusted to a present value for that period. The multiples were then applied to the incremental earnings and discounted to a present value for that period.

Under the capitalization of historical income method, the underlying concept is that the purchase of JD Holdings is analogous to the making of an investment in an earnings generating asset. Accordingly, the value of such an investment is directly related to the amount of the earnings that can be generated by such property. First, the historical royalty payments made to JD Holdings under the license agreement were analyzed and compared to the projected operating expenses and earnings. Operating pre-tax income was selected as best representative of industry standard for multiples and the earnings base least effected by the transaction. A rate of return was determined based on the capital asset pricing model, or CAPM, and

the weighted average cost of capital, or WACC. The selected multiples indicated a range of values under the capitalization of historical income method of approximately $2,827,000 to $3,464,000. For the June 2007 fairness opinion, The Mentor Group utilized a similar analysis for its capitalization of historical income method. The selected multiples indicated a value range of $17,789,000 to $29,494,000 with changes in the CAPM and WACC estimates. However, because significant future growth is projected, The Mentor Group believes that the discounted cash flow method would capture the potential value created by the transaction under both opinions.

Under the discounted cash flow method, the current condition of our Joe s Jeans business and a projection of the future operations were analyzed and tested against the projections and assumptions presented. The present value of five years of cash flows were discounted to a present value and the present value for equity of 19.4% and residual years after five years were added to derive an indicated value of the enterprise. Variance analysis was applied to the mix of product sales and projected royalty rates. Based on key assumptions and other assumptions under the discounted cash flow method, a range of indicated values of $9,319,000 to $21,746,000 was presented.

For the June 2007 fairness opinion, The Mentor Group discounted the five years of cash flow to a present value and the present value factor for the WACC was 18.6%. Residual values were again added to derive and indicated value of the enterprise and variance analysis was applied. The resulting range of indicated values presented was $31,705,000 to $44,435,000.

In rendering its opinion, The Mentor Group also considered other financial considerations, including, but not limited to:

- Significant historical and projected revenue base that may be subject to disruption without clear ownership;
- Control gained over use of the brand name which provides unfettered use in new markets;
- Significant protection against third party acquisition of the brandname;
- Significant economic incentive for Mr. Dahan to increase revenues and productivity, while limiting exposure to delays in approvals, sourcing and other similar factors;
- Projected growth in revenues and dependency upon third party sales of new product lines such as shoes, wallets, and other products;
- One year non-compete period after termination of service;
- Uncertain projected demands for denim products and increased competition in current marketplace for designer products;
- Limited cash to be paid in the transaction ($300,000);
- The impact of a guaranteed minimum salary on overhead expenses without protection from a decline in sales;
- Limited market potential for new capital;
- Dilution of shareholders and possibility of failure to comply with continuing NASDAQ listing requirements;
- Unknown assumption of liabilities as a result of acquiring a corporation;
- The short term projected incremental cash flow not covering transaction pricing; and
- Savings in legal fees to protect intellectual property rights.

Our Business Following the Merger

Following the transaction, assuming approval of the Merger by our stockholders, we will own all rights, title to and interest in the Joe s Brand. Our business will operate in substantially similar fashion, except that we will no longer owe royalty payments to JD Holdings. By owning the Joe s Brand outright, we intend to grow it and solidify its position in the consumer marketplace.

Appraisal Rights

Under Delaware law, appraisal and dissenters rights are not provided to stockholders in connection with the Merger.

Material U.S. Federal Income Tax Considerations

The proposed Merger is intended to be treated as a tax free merger of JD Holdings with us pursuant to Internal Revenue Code Section 368(a)(2)(D).

The proposed Merger will not have any taxable effect to our stockholders.

Regulatory Approvals

Except for compliance with applicable Delaware law and United States securities laws, no regulatory requirements must be complied with and no governmental approvals must be obtained in connection with the Merger.

Accounting Treatment of the Merger

The Merger will be accounted for as a purchase by us under U.S. generally accepted accounting principles. Under the purchase method of accounting, the assets and liabilities of JD Holdings will be recorded in our financial statements as of the completion of the Merger at their respective fair values. We are not aware of any liabilities of JD Holdings that we will need to record as of the completion of the Merger other than deferred income taxes. Reported financial condition and results of our operations issued after completion of the Merger will reflect JD Holdings balances and results subsequent to the completion of the Merger, but will not be retroactively revised to reflect the historical financial position or results of operations of JD Holdings prior to the Merger.

The assets to be acquired in this Merger consist of intangible assets that we refer to as the Joe s Brand in this proxy statement. JD Holdings had an immaterial amount of other assets, including incidental office equipment, that were distributed to Mr. Dahan as the sole stockholder immediately prior to the date that the Merger Agreement was entered into with us or will be distributed prior to the closing of the transaction. Pursuant to the Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, we have determined that the useful life of the acquired Joe s Brand assets is indefinite and therefore no amortization expense will initially need to be recognized on our financial statements. However, we will have to test the Joe s Brand assets for impairment if events or changes in circumstances indicate that the assets might be impaired. Additionally, there will be a deferred tax liability established in the allocation of the purchase price with respect to the identified indefinite long lived intangible assets acquired. See Unaudited Pro Forma Consolidated Balance Sheet and Unaudited Pro Forma Consolidated Statements of Operations on page 33.

Common Stock to be Issued as Consideration for the Merger

In the event that the Merger Agreement and the issuance of shares of our common stock are approved by our stockholders, we will issue to Mr. Dahan, as sole stockholder of JD Holdings, 14 million shares of our common stock pursuant to an exemption from registration pursuant to Section 4(2) of the

Securities Act of 1933, as amended. We also intend to enter into an investor rights agreement with Mr. Dahan at the closing of the Merger. Pursuant to the investor rights agreement, if executed, we have agreed to register for resale, on a periodic basis at the request of Mr. Dahan, the common stock issued in connection with the Merger. The common stock issued as Merger consideration will become eligible for resale beginning on the six month anniversary of the closing date of the Merger at an initial rate of 1/6 of the shares issued and every six months thereafter at the same rate until all the shares are fully released on the third anniversary of the closing date. See Investor Rights Agreement on page 31 for additional description of our rights and obligations under this agreement.

Our common stock is currently traded under the symbol INNO on The Nasdaq Capital Market maintained by The Nasdaq Stock Market, Inc., or Nasdaq. In the event that the amendment to our certificate of incorporation is approved to change our corporate name from Innovo Group Inc. to Joe s Jeans Inc., we also expect to change our trading symbol to JOEZ and change the name of our existing Joe s Jeans subsidiary to Joe s Jeans Subsidiary, Inc.

The par value for our common stock is $0.10. We have never declared or paid a cash dividend and do not anticipate paying cash dividends on our common stock in the foreseeable future. In deciding whether to pay dividends on our common stock in the future, our Board of Directors will consider such factors they may deem relevant, including our earnings and financial condition and our capital expenditure requirements.

THE AGREEMENT AND PLAN OF MERGER

The following discussion is a summary of the material provisions of the Merger Agreement. This summary and all other discussions of the terms and conditions of the Merger Agreement included elsewhere in this proxy statement are qualified in their entirety by reference to the Merger Agreement, a copy of which is attached as *Exhibit A* to this proxy statement and incorporated herein by reference. All stockholders are urged to read the Merger Agreement carefully and in its entirety. Capitalized terms used but not defined in this proxy statement have the meaning set forth in the Merger Agreement.

Parties to the Merger Agreement

Acquiror. Innovo Group Inc. is a Delaware corporation. We design, develop and market denim and related casual wear apparel products bearing the Joe s Brand. Our principal office is located at 5901 South Eastern Avenue, Commerce, California 90040. Our main telephone number is (323) 837-3700.

Merger Sub. Joe s Jeans Inc. is a Delaware corporation and a wholly owned subsidiary of Innovo Group. Joe s Jeans was formed in 2001 for the purpose of carrying out the terms of and operations under the license agreement with JD Holdings through which we license the Joe s Brand. The principal office and main telephone number of Joe s Jeans is the same as Innovo Group.

Seller. JD Holdings Inc. is a California corporation and is the successor, through merger, of JD Design LLC. JD Holdings business has historically been limited to the ownership of the assets that represent the Joe s Brand and activity associated with its rights and obligations under the license agreement pursuant to which we make, use, sell and distribute apparel products that bear the Joe s Brand. JD Holdings does not lease separate principal office space, but can be reached by contacting Mr. Dahan, its sole stockholder, at the same address and main telephone number as Innovo Group.

Stockholder. Joseph M. Dahan is the sole stockholder of JD Holdings and is currently employed by us as president of our Joe s Jeans subsidiary. In the event that the Merger is approved, a new employment agreement will automatically become effective at closing. Pursuant to the employment agreement, Mr. Dahan will be employed as Creative Director of the Joe s Brand.

Assets to be Acquired Pursuant to Merger Agreement

In connection with the Merger Agreement, we agreed to merge Joe s Jeans with JD Holdings with Joe s Jeans as the surviving corporation. The assets of JD Holdings are all rights, title to and interest in the Joe s Brand. JD Holdings had an immaterial amount of other assets, including incidental office equipment, that were distributed to Mr. Dahan as the sole stockholder immediately prior to the date that the Merger Agreement was entered into with us or will be distributed prior to the closing of the transaction. JD Holdings business has historically been limited to ownership of assets that represent the Joe s Brand and activity associated with the licensor obligations under the license agreement that allows us to make, use, sell and distribute apparel products that bear the Joe s Brand. We are not aware of any liabilities of JD Holdings that we will be assuming at the completion of the Merger.

Consideration to be Paid

In exchange for all of the outstanding shares of JD Holdings, we will issue to Mr. Dahan, as the sole stockholder of JD Holdings:

- 14 million shares of our common stock;
- $300,000 in cash; and
- as additional purchase price, for 120 months following the closing date, the right to receive certain percentages of our gross profit above $11,250,000.

The shares to be issued as part of the Merger will not initially be registered securities and will not be able to be resold for the first six months following the closing date. Thereafter, the shares will be eligible for resale every six months at the rate of 1/6 of the amount of shares issued until all the shares are fully released on the third anniversary of the closing date. The percentage of gross profits will be dependent upon gross profit hurdles we must achieve before Mr. Dahan receives the earn-out payments.

Mr. Dahan will be entitled to, for a period of 120 months following the effective date, a certain percentage of the gross profit earned by us in any applicable fiscal year. Mr. Dahan will be entitled to the following percentages of the gross profit earned by us in the applicable fiscal year: (i) 11.33% of the gross profit from $11,251,000 to $22,500,000; plus (ii) 3% of the gross profit from $22,501,000 to $31,500,000; plus (iii) 2% of the gross profit from $31,501,000 to $40,500,000; plus (iv) 1% of the gross profit above $40,501,000. The payments will be made in advance and then be compared against amounts actually earned after the applicable quarter or fiscal year with shortfalls paid immediately and overpayments offset against future earnings. No payment will be made if the gross profit is less than $11,250,000. Gross Profit is defined as net sales of the Joe s Brand less cost of goods sold as reported in our periodic filings with the SEC.

Representations and Warranties

The Merger Agreement contains representations and warranties made by each of us, including our Joe s subsidiary, and JD Holdings and Mr. Dahan to the other, certain of which are qualified in nature.

JD Holdings and Mr. Dahan s representations and warranties relate to the following matters:

- corporate organization, existence, good standing, power and authority to conduct JD Holdings business;
- capitalization of JD Holdings;
- corporate authority to enter into and carry out the obligations under the Merger Agreement and enforceability of the Merger Agreement against JD Holdings;

- absence of any breach or violation of any of provision of JD Holdings charter or bylaws;
- absence of any breach of any contract, order or permit to which JD Holdings is a party or that no additional consents by any party are required to consummate the Merger;
- accuracy of financial statements delivered in connection with agreement and plan of merger;
- absence of any material legal proceedings against JD Holdings;
- accuracy of tax related matters and representations and timeliness of all filings related to tax matters;
- absence of employee benefit plans;
- compliance with all applicable laws;
- absence of any contractual obligations;
- ownership of good and marketable title to all real and personal property, tangible or intangible, by JD Holdings;
- completeness and accuracy of minute books;
- no payment of any finder s fee in connection with the execution of the agreement and plan of merger;
- disclosure of no employees or continuing compensation related matters for JD Holdings;
- completeness and accuracy of intellectual property matters;
- completeness of the representations;
- representations about investment intent of Mr. Dahan; and
- absence of any breach or violation of any contract, order or permit to which Mr. Dahan is a party or requires consent by any party.

Our representation and warranties relate to the following matters, concerning ourselves and our Joe s subsidiary:

- corporate organization, existence, good standing, power and authority to conduct our business;
- capitalization;
- corporate authority to enter into and carry out the obligations under the Merger Agreement and enforceability of the Merger Agreement against us;
- absence of any breach or violation of any provision of our charter or bylaws;
- absence of any breach of any contract, order or permit to which we are a party or that no additional consents by any party are required to consummate the Merger;
- accuracy of financial statements delivered in connection with the Merger Agreement;

- absence of any material legal proceedings against us or Joe s Jeans;
- due authorization of shares to be issued as merger consideration;
- no payment of any finder s fee in connection with the execution of the agreement and plan of merger;
- compliance with all applicable laws;

- compliance with all required filings with the Securities and Exchange Commission; and

- completeness of the representations.

Covenants of the Parties

Between February 6, 2007 and the closing date, JD Holdings has agreed that it will:

- conduct its business in the ordinary course of business and consistent with past practices;

- use its best efforts to keep intact the business, its present services and preserve its goodwill and business relationships.

Further, JD Holdings has agreed that it will not, except with our prior consent:

- change any provision of its certificate or bylaws;

- change the number of authorized shares or issue any additional shares, options, warrants, calls, commitments, subscriptions, awards, rights to purchase or other similar agreements, securities convertible into its common stock or declare a stock split, combination, reclassify or redeem any shares of its common stock;

- declare, pay or set aside any dividend or other distribution related to its stock;

- grant any termination or severance pay or enter into or amend any employment, consulting or compensation arrangement with any of its directors, officers, employees or consultants;

- enter into or modify any employee benefit plan;

- sell or dispose of assets or incur any liabilities other than in the ordinary course of business;

- make any capital expenditure in excess of $25,000 other than as may be necessary to maintain its assets;

- make any material change to its accounting practices or change its method of reporting its income, except as may be required by laws, regulations or GAAP;

- make, change or revoke any tax election or tax return;

- engage in any transactions with affiliates;

- knowingly take any action or fail to take any action that would have a material adverse effect or delay the ability of either party to perform its covenants in a timely manner, consummate the transaction or obtain any approvals or consents necessary under the Merger Agreement;

- merge with any other corporation;

- knowingly fail to comply with any applicable laws or regulations; or

- agree to any of the foregoing.

JD Holdings has further agreed that it will not directly or indirectly solicit or hold discussions or negotiations with, or provide information to, any person, entity or group, other than us, concerning a possible acquisition transaction.

Conversely, we have agreed that we will not:

- conduct or fail to conduct our business in manner that would have a material adverse effect on our ability to perform our obligations under the agreement and plan of merger;

- knowingly take any action or fail to take any action that would have a material adverse affect or delay our ability to perform our covenants in a timely manner, consummate the transaction or obtain any approvals or consents necessary under the agreement and plan of merger; or

- agree to do any of the foregoing.

JD Holdings has agreed to make available certain information and records related to it to us and both parties have agreed to keep certain information confidential related to the information furnished or received as a under the Merger Agreement. The parties also agree to cooperate with each other and to use its best efforts to consummate and make the Merger Agreement effective.

In addition, Mr. Dahan has agreed to a non-competion and non-solicitation covenant as part of the Merger. The covenant provides that for one year following termination of Mr. Dahan s services, he will not, directly or indirectly, engage in or become directly interested in any entity that competes with us in the sales and marketing of premium denim apparel in the Restricted Territory. The Restricted Territory is defined as the United States and any country that we are doing business with as of the closing date. Further, Mr. Dahan has agreed that, for the same period, he will not directly or indirectly contact, solicit, interfere with or entice away any person or entity that is one of our customers or prospective customers, or any employees or former employees terminated within the year.

Closing Date

If the Merger Agreement is approved by our stockholders and the foregoing conditions set forth below are satisfied or waived, the closing will take place at 10:00 am on the fifth business day following receipt of all necessary approvals and consents, including approval by our stockholders, or an earlier date agreed to by the parties. We expect the closing to take place as soon as possible after our annual meeting, assuming the Merger transaction and the issuance of shares of common stock to Mr. Dahan are approved.

Closing Conditions

Each party s obligation to consummate the transaction is subject to the following:

- receipt of all necessary approvals and consents necessary to consummate the transaction required by us and JD Holdings;

- adoption and approval of the Merger Agreement by our stockholders and the sole stockholder of JD Holdings;

- compliance with all obligations and covenants to be performed prior to the closing date; and

- approval of the issuance of the shares as required by Nasdaq on or before the closing date.

Our obligations under the Merger Agreement are also subject to the satisfaction of the following conditions prior to closing, any of which may be waived by us to the extent permitted by law:

- compliance with and performance of all obligations and covenants required to be performed by JD Holdings prior to the closing date;

- the accuracy and completeness in all material respects of each representation and warranty made by JD Holdings as of the closing date and delivery of a certificate certifying the same;

- receipt of all necessary approvals required to consummate the transaction and if such condition is waived, no material impairment to the value of the transaction to JD Holdings; and

- execution and delivery of the employment agreement between us and Mr. Dahan.

The obligations of JD Holdings under the Merger Agreement are also subject to the satisfaction of the following conditions prior to closing:

- compliance with and performance of all obligations and covenants required to be performed by us prior to the closing date;

- the accuracy and completeness in all material respects of each representation and warranty made by us as of the closing date and delivery of a certificate certifying the same;

- receipt of all necessary approvals required to consummate the transaction and if such condition is waived, no material impairment to the value of the transaction to ; and

- execution and delivery of the investor rights agreement between us and Mr. Dahan.

Termination of the Merger Agreement

The Merger Agreement may be terminated at any time prior to closing, even after approval by our stockholders, in any of the following ways:

- by mutual written consent of us and JD Holdings; or

- by either us or JD Holdings if:

- the transaction is not closed by December 31, 2007,

- our stockholders fail to approve the transaction, or

- the other party has breached any covenant or undertaking contained in the Merger Agreement or breached any representation or warranty which could result in the failure to satisfy a closing condition and such breach cannot be cured has not been cured within 10 days notice from the non-breaching party.

We amended the Merger Agreement to change the date from June 30, 2007 to December 31, 2007 as a result of combining our annual meeting with the approval of the Merger and entering into the amendment to the Merger Agreement.

Effects of Termination

If the Merger Agreement is terminated, all obligations except for certain obligations related to confidentiality and other miscellaneous provisions will terminate and there will be no further liability to the other party, except for liability related to the obligations of confidentiality, the agreement to pay up to $35,000 for certain transaction related expenses of JD Holdings, and any willful breach of any covenant, undertaking, representation or warranty contained in the Merger Agreement.

Indemnification

We and JD Holdings have agreed to indemnify each other against certain liabilities under the Merger Agreement. Each party has agreed to indemnify and hold the other party harmless from damages resulting from any adverse consequences that the other party may suffer resulting from, arising out of, relating to, in the nature of, or caused by a breach of any representation or warranty contained in the applicable section of the Merger Agreement. However, each party does not have any claim for indemnification against the other party for the breach of any representation or warranty in the applicable section unless and until the adverse consequences suffered as a result of the breach are in excess of $50,000. The indemnification provisions further provide that indemnification sought by a party cannot exceed the fair market value of the merger consideration as of the closing date, except that if the breach is related to one of the covenants of the parties, then the indemnification sought will be for the entire adverse consequence suffered by the non-breaching party. These indemnification provisions will survive closing and will continue in full force and effect until the applicable statute of limitations expires.

THE EMPLOYMENT AGREEMENT
AND
INVESTOR RIGHTS AGREEMENT

The following discussion is a summary of the material provisions of the employment agreement and investor rights agreement, both of which are deliverables at the closing of the Merger. This summary and all other discussions of the terms and conditions of the agreements included elsewhere in this proxy statement are qualified in their entirety by reference to each of the agreements, copies of which are attached as *Exhibit C* and *Exhibit D* to this proxy statement and incorporated herein by reference. All stockholders are urged to read the agreements carefully and in their entirety. Capitalized terms used but not defined in this proxy statement have the meaning set forth in the agreements.

Employment Agreement

In connection with the Merger Agreement, we have agreed to enter into an employment agreement with Mr. Dahan to serve as Creative Director for the Joe s Brand. Mr. Dahan s employment agreement will automatically become effective upon the closing of the Merger. An amended and restated employment agreement supersedes, in its entirety, the employment agreement entered into on February 6, 2007. For purposes of this proxy statement, the relevant discussion will include the provisions of the amended and restated employment agreement entered into on June 25, 2007 to be effective upon closing of the Merger.

The initial term of employment is 5 years with automatic renewals for successive 1 year periods thereafter, unless terminated earlier in accordance with the agreement. Under the employment agreement, Mr. Dahan will be entitled to an annual salary of $300,000 and other discretionary benefits that the Compensation Committee of the Board of Directors may deem appropriate in its sole and absolute discretion.

Under the terms of the employment agreement, we may terminate Mr. Dahan for Cause or if he becomes Disabled. Cause is defined as (i) a conviction, plea of guilty or nolo contendere to a felony or a crime of moral turpitude; (ii) a material breach of any provision of the employment agreement that is not cured within 45 days of receipt of written notice of such breach; (iii) the solicitation, persuasion or attempt at persuasion for any employee, consultant, contractor, customer or potential customer to engage in an act prohibited by the employment agreement; or (iv) a violation of any of our policies in our handbook or code of ethics and such violation constitutes a breach of the Code of Ethics or warrants termination. Disability is defined as inability to perform duties for 180 consecutive days or shorter periods aggregating 270 days during any 12 month period. Should we terminate Mr. Dahan s employment for Cause or Disability, we will only be required to pay him through the date of termination. We may terminate Mr. Dahan s employment without Cause at any time upon two weeks notice, provided that we pay to him the present value of the annual salary amounts otherwise due to him for the remainder of the initial term of employment or any renewal term. Mr. Dahan may terminate his employment for Good Reason at any time within 30 days written notice. Good Reason is defined as (i) a material breach of the employment agreement by us that is not cured within 30 days of written notice; or (ii) Mr. Dahan s decision to terminate employment at any time after 18 months following a Change in Control. A Change in Control is defined as (i) the sale or disposal of all or substantially all of our assets; (ii) the merger or consolidation with another company provided that our stockholders as a group no longer own at least 50% of the voting power of the surviving corporation; (iii) any person or entity becoming the beneficial owner of 50% or more of our combined voting power; or (iv) the approval by our stockholders to liquidate or dissolve. In the event that Mr. Dahan terminates his employment for Good Reason, then he will be entitled to the present value of the annual salary amounts otherwise due to him for the remainder of the initial term of employment or any renewal term. Further, Mr. Dahan may terminate his employment for

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

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

Investor Rights Agreement

In connection with the Merger Agreement, we also agreed to enter into an investor rights agreement upon the closing of the Merger. Pursuant to the investor rights agreement, we agreed to register for resale, on a periodic basis at the request of Mr. Dahan, the shares of common stock eligible for resale issued in connection with the Merger. The shares of common stock issued as Merger consideration become eligible for resale beginning on the six month anniversary of the closing date of the Merger at an initial rate of 1/6 of the shares issued and every six months thereafter at the same rate until all the shares are fully released on the third anniversary of the closing date. We have agreed to bear all expenses associated with registering these shares for resale and have granted to Mr. Dahan certain piggyback rights with respect to future registration statements filed by us.

In addition, under the investor rights agreement, we have agreed to support the nomination and election of Mr. Dahan as a nominee to be a member of our Board of Directors in the event that the Merger is approved by our stockholders.

The investor rights agreement contains customary terms and conditions related to registration procedures, trading suspensions, and indemnification of the parties.

SELECTED HISTORICAL FINANCIAL DATA

The table below sets forth a summary of selected historical consolidated financial data and is being presented to aid you in your analysis of the financial aspects of the Merger. The selected consolidated financial data has been derived from previously issued consolidated financial statements and should be read in conjunction with the related consolidated financial statements and notes thereto included in our Amendment No. 1 and Amendment No. 2 to our Annual Report on Form 10-K for the year ended November 25, 2006 filed with the SEC on February 9, 2007, and March 23, 2007, respectively and our Quarterly Report on Form 10-Q for the period ended February 24, 2007 filed with the SEC on April 10, 2007, which are incorporated by reference, and the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statements of operations included herein. The historical results included below are not indicative of our future performance or the combined company.

	Quarter Ended		**Year ended**				
	(in thousands, except per share data)						
	24-Feb-07	**25-Feb-06**	**25-Nov-06**	**26-Nov-05**	**27-Nov-04**	**29-Nov-03**	**30-Nov-02**
Net sales	$ 13,814	$ 10,427	$ 46,633	$ 35,920	$ 26,716	$ 37,468	$ 17,537
Cost of goods sold	8,719	8,607	31,224	25,203	19,883	32,466	11,393
Gross profit	5,095	1,820	15,409	10,717	6,833	5,002	6,144
Operating expenses							
Selling, general and administrative	4,982	5,733	21,587	18,245	18,670	13,906	5,216
Depreciation and amortization	88	60	290	182	202	390	195
	5,070	5,793	21,877	18,427	18,872	14,296	5,411
Operating (loss) income	25	(3,973)	(6,468)	(7,710)	(12,039)	(9,294)	733
Interest expense	(193)	(129)	(573)	(781)	(353)	(495)	(340)
Other (expense) income	3		(67)	16	(19)	482	138
(Loss) income from operations, before taxes	(165)	(4,102)	(7,108)	(8,475)	(12,411)	(9,307)	531
Income taxes	8	8	36	13	15	52	119
(Loss) income from continuing operations	$ (173)	$ (4,110)	$ (7,144)	$ (8,488)	$ (12,426)	$ (9,359)	$ 412
Discontinued operations, net of tax		418	(2,149)	(7,945)	2,850	1,042	160
Net (loss) income	$ (173)	$ (3,692)	$ (9,293)	$ (16,433)	$ (9,576)	$ (8,317)	$ 572
(Loss) earnings per common share Basic							
(Loss) earnings from continuing operations	(0.00)	(0.12)	(0.21)	(0.26)	(0.44)	(0.55)	0.03
(Loss) earnings from discontinued operations	0.00	0.01	(0.06)	(0.25)	0.10	0.06	0.01
(Loss) earnings per common share Basic	$ (0.00)	$ (0.11)	$ (0.27)	$ (0.51)	$ (0.34)	$ (0.49)	$ 0.04
(Loss) earnings per common share Diluted							
(Loss) earnings from continuing operations	(0.00)	(0.12)	(0.21)	(0.26)	(0.44)	(0.55)	0.03
(Loss) earnings from discontinued operations	0.00	0.01	(0.06)	(0.25)	0.10	0.06	0.01
(Loss) earnings per common share Diluted	$ (0.00)	$ (0.11)	$ (0.27)	$ (0.51)	$ (0.34)	$ (0.49)	$ 0.04
Weighted average shares outstanding							
Basic	39,450	33,302	33,853	31,942	28,195	17,009	14,856
Diluted	39,450	33,302	33,853	31,942	28,195	17,009	16,109
Balance sheet data:							
Total assets	$ 14,548	$ 21,954	$ 11,794	$ 27,596	$ 38,143	$ 46,365	$ 15,143
Stockholders equity	6,734	8,156	3,308	11,557	20,279	16,482	5,068
Long-term debt Discontinued operations		8,353		7,085	8,627	21,800	3,387

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial statements are presented to illustrate the effects of the merger on the historical financial position and operating results of us and JD Holdings as of February 24, 2007 and for the year ended November 25, 2006 and the three months ended February 24, 2007. The pro forma statements are based on the historical financial statements of us and JD Holdings after giving effect to the merger as a purchase of JD Holdings by us using the purchase method of accounting and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements. The pro forma statements have been derived from, and should be read in conjunction with, the historical financial statements, including the notes thereto, of each of us and JD Holdings incorporated by reference or included in this proxy statement.

The pro forma information is based on preliminary estimates and assumptions set forth in the notes to such information. The pro forma information is preliminary and is being furnished solely for informational purposes and is not necessarily indicative of the combined results of operations or financial position that might have been achieved for the period or date indicated, nor is it necessarily indicative of results that may occur. It does not reflect cost savings expected to be realized from the elimination of certain expenses and from the synergies to be created or the costs to implement such cost savings or synergies. No assurance can be given that operating cost savings and synergies will be realized.

Pro forma adjustments are necessary to reflect the estimated purchase price, the issuance of the shares of common stock and the cash payment, and to adjust amounts related to JD Holdings net intangible assets to a preliminary estimate of their fair values and elimination of the tangible assets that we will not be acquiring as a result of the Merger transaction. Pro forma adjustments are also necessary to reflect the elimination of certain intangibles previously recorded by us, certain transaction costs, and the income tax effect related to the pro forma adjustments.

The pro forma adjustments and allocation of purchase price are preliminary and are based in part on estimates of the fair value of the assets acquired and liabilities assumed. In determining purchase price allocations, management has considered a number of factors, including preliminary valuations of the assets acquired.

The final purchase price allocation will be completed after asset and liability valuations are finalized by management. A final determination of these fair values, which cannot be made prior to the completion of the merger, will include management s consideration of all pertinent factors. This final valuation will be based on the actual net tangible and intangible assets of JD Holdings that exist as of the date of the completion of the merger. Any final adjustments may change the allocations of purchase price which could affect the fair value assigned to the assets and liabilities and could result in a change to the unaudited pro forma condensed combined financial statements. Amounts preliminarily allocated to intangible assets may change significantly. In addition, the timing of the completion of the merger and other changes in JD Holdings net intangible assets prior to completion of the merger could cause material differences in the information presented.

The unaudited pro forma condensed combined balance sheet is presented as if the merger had been completed on February 24, 2007 and, due to different fiscal period ends, combines the historical balance sheet of us at February 24, 2007 and the historical balance sheet of JD Holdings at March 31, 2007. The unaudited pro forma condensed combined statement of operations of us and JD Holdings for the year ended November 25, 2006 is presented as if the merger had been completed on November 27, 2005 and, due to different fiscal period ends, combines the historical results of us for the year ended November 25, 2006 and the historical results of JD Holdings for the twelve months ended December 31, 2006. The unaudited pro forma condensed combined statement of operations of us and JD Holdings for the three months ended February 24, 2007 is presented as if the merger had been completed on November 27, 2005

and, due to different fiscal period ends, combines the historical results of us for the three months ended February 24, 2007 and the historical results of JD Holdings for the three months ended March 31, 2007.

The unaudited pro forma condensed combined financial statements should be read in conjunction with our historical financial statements and accompanying notes for our fiscal year ended November 25, 2006 and the three month period ended February 24, 2007 incorporated by reference in this proxy statement, and JD Holdings historical financial statements included elsewhere herein for its fiscal year ended December 31, 2006 and fiscal quarter ended March 31, 2007. The unaudited pro forma condensed combined financial statements are not intended to represent or be indicative of the consolidated results of operations or financial condition of the combined company that would have been reported had the merger been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial position of the combined company.

The intercompany balances and transactions between us and JD Holdings have been eliminated. No material pro forma adjustments were required to conform JD Holdings accounting policies to our accounting policies. Certain reclassifications have been made to conform JD Holdings historical amounts to our presentation.

We have not yet identified any pre-merger contingencies where the related asset, liability or impairment is probable and the amount of the asset, liability, or impairment can be reasonably estimated. Upon completion of the Merger and prior to the end of the purchase price allocation period, if information becomes available which would indicate it is probable that such events have occurred and the amounts can be reasonably estimated, such items will be included in the final purchase price allocation.

In connection with certain accounting matters related to the Merger transaction, we have determined to apply an indefinite life to the Joe s Brand since an analysis of product life cycle studies, market, competitive, and environmental trends, and brand extension opportunities provides evidence that the Joe s Brand will generate cash flows for us for an indefinite period of time. Therefore, the acquired asset, the Joe s Brand, would be deemed to have an indefinite useful life because it is expected to contribute to cash flows indefinitely and would not be amortized until its useful life is no longer indefinite. However, we will have to test the Joe s Brand asset for impairment if events or changes in circumstances indicate that the asset might be impaired.

UNAUDITED PRO FORMA CONDENSED COMBINED BALANCE SHEET OF INNOVO GROUP INC. AND JD HOLDINGS INC.

AS OF FEBRUARY 24, 2007
(in thousands)

	Innovo February 24, 2007	JD Holdings March 31, 2007	Pro Forma Adjustments	Ref	Pro Forma
ASSETS					
Current assets					
Cash and cash equivalents	$ 1,328	$ 71	$ (300)	(a)	$ 1,028
			(71)	(f)	
Accounts receivable, net	2,447	589	(589)	(g)	2,447
Inventories, net	7,545				7,545
Due from related parties	1,061				1,061
Prepaid expenses and other current assets	1,141		(134)	(g)	1,007
Total current assets	13,522	660	(1,094)		13,088
Property and equipment, net	762				762
Intangible assets	188		(188)	(e)	
			28,845	(a) (b)	28,845
Other long term assets	76				76
Total assets	$ 14,548	$ 660	$ 27,563		$ 42,771
LIABILITIES AND STOCKHOLDERS EQUITY					
Current liabilities					
Accounts payable and accrued expenses	$ 6,013	$	$ (506)	(a) (g)	$ 5,507
Due to factor	1,652				1,652
Income tax payable		158	(158)	(f)	
Due to related parties	149	134	(134)	(g)	149
Total current liabilities	7,814	292	(798)		7,308
Deferred revenues		184	(184)	(f)	
Deferred tax liability			11,250	(c)	11,250
Stockholders equity					
Common stock	4,131		1,400	(d) (h)	5,531
Additional paid-in capital	82,678		16,267	(d) (h)	98,945
Accumulated deficit/retained earnings	(77,299)	184	40	(d) (e)	(77,487)
			(412)	(f)	
Treasury stock	(2,776)				(2,776)
Total stockholders equity	6,734	184	17,295		24,214
Total liabilities and stockholders equity	$ 14,548	$ 660	$ 27,563		$ 42,771

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

Notes to Unaudited Pro Forma Condensed Combined Balance Sheet

(a) Under the purchase method of accounting, the total estimated consideration as shown in the table below is allocated to JD Holdings intangible assets based on their preliminary estimated fair values as of the date of the completion of the merger. The preliminary estimated consideration, based upon preliminary valuation, is allocated as follows:

Allocation of Purchase Price	
Calculation of Consideration:	
Purchase of JD Holdings common shares (1)	$ 17,667,295
Cash payments for JD Holdings shares (2)	300,000
Direct transaction fees and expenses (3)	82,500
Total consideration (4)	18,049,795
Consideration Allocated to Acquired Net Assets Based on Fair Value: JD Holdings historical book value of net assets acquired	454,272
Adjustments to bring acquired assets and liabilities to fair value:	
Intangible assets	28,845,120
Less deferred tax liability	(11,249,597)
Fair value of net assets acquired	$ 18,049,795

(1) Represents the value of 14,000,000 shares of our common stock to be issued in exchange for the outstanding shares of JD Holdings common stock in the merger, based on 1,000 shares of JD Holdings common stock outstanding as of March 31, 2007 and based on the average price of $1.3975 of our common stock as reported on NASDAQ for the two day period before and after the date the Merger, as amended, was announced (June 25, 2007) less a 9.7% discount for the restrictions on resale as a result that the shares will not initially be registered for resale and will be contractually restricted for certain periods under the Merger Agreement.

(2) Represents the cash consideration to be paid under the Merger Agreement.

(3) Represents our estimated direct merger costs, including financial advisory, legal, accounting and other costs.

(4) The indicated value of the contingent consideration, which is not contingent upon Mr. Dahan s continued employment, is not included in the fair value of the net assets acquired at the acquisition date. This contingent consideration will be accounted for in the future as additional purchase price under the terms of the Merger Agreement.

(b) Of the total estimated purchase price, a preliminary estimate of $28,845,120 has been allocated to identified intangible assets which consist of the rights, title to and interest in the Joe s ®, Joe s Jeans and related JD logos and marks, supported by a preliminary valuation, including a deferred tax liability of $11,249,597. In the future, any additional consideration paid will be allocated to trademarks, other identified intangible assets, along with related deferred taxes, or goodwill.

(c) The value of the trademarks acquired are not deductible for tax purposes. However, a deferred tax liability is established at the estimated tax rates at the time of the Merger.

(d) Represents adjustments to reflect the elimination of the components of the historical equity of JD Holdings totaling $184,000 and the issuance of $17,667,295 of our common stock accounted for as follows:

Common Stock:	$1,400,000
Additional Paid-In Capital:	$16,267,295

(e) Represents adjustments to reflect the elimination of our existing license rights under the license agreement with JD Holdings.

(f) Net tangible assets of JD Holdings, except intercompany amounts with us, will be distributed to its sole shareholder upon the closing of the merger transaction. Certain fixed assets were distributed as of the date the Merger Agreement was originally entered into on February 6, 2007.

(g) Intercompany amounts between us and JD Holdings are eliminated upon consolidation.

(h) Represents the 14,000,000 shares of our common stock to be issued in exchange for the outstanding shares of JD Holdings common stock in the merger, based on 1,000 shares of JD Holdings common stock outstanding as of March 31, 2007.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
OF
INNOVO GROUP INC. AND JD HOLDINGS, INC.

THREE MONTHS ENDED FEBRUARY 24, 2007
(in thousands, except per share data)

	Innovo Quarter Ended 24-Feb-07	JD Holdings Quarter Ended 31-Mar-07	Pro Forma Adjustments	Ref	Pro Forma
Net sales	$ 13,814	$ 499	$ (499)	(a)	$ 13,814
Cost of goods sold	8,719				8,719
Gross profit	5,095	499	(499)		5,095
Operating expenses					
Selling, general and administrative	4,982	104	(520)	(b) (c)	4,641
			75	(d)	
Depreciation and amortization	88	3	(12)	(e)	79
	5,070	107	(457)		4,720
Income from continuing operations	25	392	(42)		375
Other Income (expense) net	(190)				(190)
Income (loss) before taxes	(165)	392	(42)		185
Income taxes	8	158	(94)	(e)	72
Net Income (loss)	$ (173)	$ 234	$ 52		$ 113
Earnings (loss) per common share - Basic and Diluted	$ (0.00)	$			$ 0.00
Weighted average shares outstanding					
Basic	39,450		14,000	(f)	53,450
Diluted	39,450		20,646	(f)	60,096

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS OF INNOVO GROUP INC. AND JD HOLDINGS, INC.

YEAR ENDED NOVEMBER 25, 2006

(in thousands, except per share amounts)

	Innovo Twelve month period ending 25-Nov-06	JD Holdings Twelve month period ending 31-Dec-06	Pro Forma Adjustments	Ref	Pro Forma
Net sales	$ 46,633	$ 1,322	$ (1,322)	(a)	$ 46,633
Cost of goods sold	31,224				31,224
Gross profit	15,409	1,322	(1,322)		15,409
Operating expenses					
Selling, general and administrative	21,587	366	(1,407)	(a) (b)	20,846
			300	(c)	
Depreciation and amortization	290	11	(48)	(d)	253
	21,877	377	(1,155)		21,099
Operating income (loss)	(6,468)	945	(167)		(5,690)
Other Income (expense) net	(640)	(1)			(641)
Income (loss) from continuing operations, before taxes	(7,108)	944	(167)		(6,331)
Income taxes	36	3		(e)	39
Income (loss) from continuing operations	(7,144)	941	(167)		(6,370)
Discontinued operations, net of tax	2,149				2,149
Income (loss)	$ (9,293)	$ 941	$ (167)		$ (8,519)
Earnings (loss) per common share Basic and Diluted	$ (0.27)				$ (0.18)
Weighted average shares outstanding					
Basic	33,853		14,000	(f)	47,853
Diluted	33,853		14,000	(f)	47,853

The accompanying notes are an integral part of these unaudited pro forma condensed combined financial statements.

NOTES TO UNAUDITED PRO FORMA
CONDENSED COMBINED STATEMENT OF OPERATIONS

(a) Represents the elimination of operating revenues associated with JD Holdings receipt of royalty payments under the license agreement paid by us to JD Holdings.

(b) Represents the elimination of $85,000 per year of salary expense incurred by us in connection with Mr. Dahan s employment by us. Also, represents the elimination of the royalty expense incurred by us under the existing license agreement at a rate of 3% of net sales and paid to JD Holdings.

(c) Represents the calculation of pro forma salary expense that would have been incurred by us for Mr. Dahan under the new employment agreement at an annual salary of $300,000.

(d) Represents the pro forma adjustment to amortization resulting elimination of the intangible asset (license costs) previously recorded by us.

(e) In consolidation, the income tax provision of JD Holdings would be reduced by losses from us. For the year ended November 25, 2006, tax expense represented state franchise fees.

(f) Represents the 14,000,000 shares of our common stock to be issued in exchange for the outstanding shares of JD Holdings common stock in the merger, based on 1,000 shares of JD Holdings common stock outstanding as of the periods presented. The pro forma basic weighted average number of shares are calculated by adding our weighted average basic shares outstanding after giving effect to the number of shares of JD Holdings common shares outstanding as of the date the merger was announced.

COMPARATIVE PER SHARE INFORMATION

The following table sets for the selected historical share, net income and book value per share information of us and JD Holdings and unaudited pro forma combined consolidated share, net income per share and book value per share information after giving effect to the merger between us and JD Holdings, assuming that 14,000,000 shares of our common stock had been issued in exchange for the 1,000 outstanding shares of JD Holdings common stock. The pro forma equivalent information of JD Holdings was derived using the historical share, net income per share and book value per share information assuming that 14,000,000 shares of our common stock had been issued in exchange for all of the shares of JD Holdings common stock. You should read this information in conjunction with the selected historical financial information included elsewhere in this proxy statement, and the historical financial statements of us and JD Holdings and related notes that are incorporated in the proxy statement by reference.

The unaudited pro forma combined consolidated share, net income per share and book value per share information is derived from, and should be read in conjunction with the Unaudited Pro Forma Combined Condensed Consolidated Financial Information and related notes included in this proxy statement. The historical share, net income per share and book value per share information for the three months ended February 24, 2007 is derived from the unaudited combined condensed financial statements of us and JD Holdings as of and for the three months ended February 24, 2007. The historical share, net income per share and book value per share information for the year ended November 25, 2006 is derived from the audited consolidated financial statements of us as of November 25, 2006 and of JD Holdings as of December 31, 2006. The amounts set forth below are in thousands, except per share amounts.

	Year Ended November 25, 2006			
	Innovo Group		**JD Holdings**	
	Historical	**Pro Forma Combined**	**Historical**	**Pro Forma Equivalent**
Basic Earnings	$ (0.27)	$ (0.18)	$ 941.37	$ 0.07
Diluted Earnings	$ (0.27)	$ (0.18)	$ 941.37	$ 0.07
Book Value	$ 0.10	$ 0.43	$ 157.84	$ 0.01
Dividends				
Shares used in calculating earnings per share:				
Basic	33,853	47,853	1	14,000
Diluted	33,853	47,853	1	14,000
Book Value	33,853	47,853	1	14,000

	Quarter Ended February 24, 2007			
	Innovo Group		**JD Holdings**	
	Historical	**Pro Forma Combined**	**Historical**	**Pro Forma Equivalent**
Basic Earnings	$ (0.00)	$ 0.00	$ 234.48	$ 0.02
Diluted Earnings	$ (0.00)	$ 0.00	$ 234.48	$ 0.02
Book Value	$ 0.17	$ 0.45	$ 183.73	$ 0.01
Dividends				
Shares used in calculating earnings per share:				
Basic	39,450	53,450	1	14,000
Diluted	39,450	53,450	1	14,000
Book Value	39,450	53,450	1	14,000

RISK FACTORS

There are many factors that stockholders should consider when deciding whether to vote to approve Proposal 1 contained in this proxy statement. Such factors include the risk factors related to the proposed transaction and our business prospects, as well as additional information set forth in our Amendment No. 1 and Amendment No. 2 to our Annual Report on Form 10-K for the fiscal year ended November 25, 2006, our Quarterly Report on Form 10-Q for the period ended February 24, 2007 and other factors set forth in this proxy statement.

Risks Related to the Merger and our Operations

If conditions to closing are not met, we will not complete the merger.

The consummation of the merger transaction is subject to the satisfaction of various conditions. We cannot guarantee that we have satisfied or will be able to satisfy the closing conditions set forth in the Merger Agreement. If we are unable to satisfy the closing conditions, JD Holdings will not be obligated to complete the merger. Additionally, JD Holdings may terminate the Merger Agreement in certain circumstances.

If we do not receive the required number of votes to approve the Merger Agreement or to issue the shares as Merger consideration, the Merger will not close. Our Board of Directors, in discharging its fiduciary obligations to our stockholders, will be compelled to evaluate other alternatives, which may be less favorable to our stockholders than the current Proposals 1 and 2. If the merger is not consummated, there can be no assurance that we can obtain an alternative solution to certain issues related to our existing license agreement. While our license agreement will continue in the event that Proposals 1 and 2 are not approved, there can be no assurance that there may be changes to the working relationship or the agreement, or that we would not be able to carry out certain strategic plans, including exploring licensing opportunities and extensions of the brand.

Substantial expenses will be incurred and payments made even if the merger is not consummated.

The Merger Agreement may not be consummated. Whether or not the merger is consummated, we will incur substantial expenses, such as legal, accounting and financial advisory fees, in pursuing the transaction. We will also be required to pay up to $35,000 of JD Holdings transaction expenses if the Merger is not completed.

The pro forma financial statements are presented for illustrative purposes only and may not be an indication of our financial condition or results of operations following the merger.

The pro forma financial statements contained in this proxy statement are for illustrative purposes only and may not be an indication of our financial condition or results of operations following the merger. The pro forma financial statements have been derived from our historical financial statements and certain adjustments and assumptions have been made regarding our company after giving effect to the merger. The information upon which these adjustments and assumptions have been made is preliminary, and these kinds of adjustments and assumptions are subject to final balances on the actual closing date. Therefore, the financial condition and results of operations following the merger may differ from these pro forma financial statements.

Our stockholders do not have any appraisal rights under Delaware law.

Under Delaware law, appraisal and dissenters rights are not provided to stockholders in connection with the merger.

If our stockholders do not approve the Merger, we will have to continue to operate our Joe s Brand under the terms and conditions of the existing license agreement which contains certain restrictions and pre-approval rights.

If our stockholders do not approve the Merger, or the Merger is not completed, our existing license agreement will remain in full force and effect and will govern our rights and obligations with respect to the Joe s Brand. As a result, we will be initially limited to exploring any proposed expansions to the product line to the products specifically listed as part of the license agreement. For example, we would need to obtain the consent of JD Holdings and Mr. Dahan if we wanted to add sunglasses or eyeglasses to our product offerings. We will also have to obtain the consent of JD Holdings and Mr. Dahan to pursue licensing opportunities associated with these or any product line expansions. Under the existing license agreement, there is also a restriction on our ability to conduct our Joe s Jeans subsidiary s operations i.e., we are not able to (i) dissolve, liquidate or wind-up our business, (ii) merge or consolidate with or into any other corporation, or (iii) directly or indirectly sell or otherwise dispose of all or a substantial portion of our business or assets without prior written notice to JD Holdings. Upon receipt of this notice, JD Holdings has the option to terminate the license agreement if it desired. We believe that the ability for JD Holdings to immediately terminate the license upon receipt of notice of our intentions described above would have a chilling effect on our ability to enter entertain and explore future business opportunities related to our Joe s Brand.

While our existing licensor/licensee relationship is strong and cooperative, there can be no assurance that if the Merger is not approved or completed that this failure could have a negative impact on our licensor/licensee relationship or our financial condition and results of operations.

We may not be successful in implementing our strategic plan to focus our resources on our best performing asset, our Joe s Brand.

Our ongoing business operation focuses our resources on the Joe Brand. While to date, this has been our best performing asset, we cannot assure you that a reliance on sales from only one brand in the marketplace will result in profitability for us. We cannot assure you that the Joe s Brand will continue to meet expectations in terms of sales, profits and acceptance in the marketplace by consumers and retailers. Therefore, our business operations could be negatively impacted by a change in any one or all of these expectations and may have a material adverse impact on our financial condition and results of operations.

Failure to complete the merger could cause our stock price to decline.

If the merger is not completed for any reason, our stock price may decline because costs related to the merger, such as legal, accounting and financial advisory fees, must be paid even if the merger is not completed. In addition, if the merger is not completed, our stock price may decline to the extent that the current market price reflects a market assumption that the merger will be completed.

The Joe s Brand trademark and other intellectual property rights may not be adequately protected outside the United States and some of our products are targets of counterfeiting.

The trademark rights associated with our Joe s Brand and other proprietary rights are important to our success and our competitive position. Under the license agreement, we filed and prosecuted the trademark applications associated with the Joe s Brand on behalf of JD Holdings, however, there can be no assurance that we have taken the appropriate actions to establish and protect these trademarks and other proprietary rights to prevent imitation of our products by others or to prevent others from seeking to block sales of such products as a violation of their trademarks and proprietary rights. As a result of owning the Joe s Brand, we may, however, experience conflict with various third parties who acquire or claim ownership rights in certain trademarks as we expand our product offerings and expand the number of countries where we sell our products. Also, we cannot assure you that others will not assert rights in, or

ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States.

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

In the event that we consummate the Merger with JD Holdings, our existing stockholders may be diluted.

If we receive approval by our stockholders for the Merger and the issuance of the 14 million shares of our common stock, this issuance would dilute the equity interests of our existing stockholders. The perceived risk of dilution may cause our existing stockholders to sell their shares which could contribute to a decline in the price of our common stock.

INFORMATION ABOUT JD HOLDINGS

About JD Holdings

JD Holdings is a California corporation and is the successor, through merger, of JD Design LLC. JD Holdings business has historically been limited to the ownership of the assets that represent the Joe s Brand and activity associated with its rights and obligations under the license agreement that allows Innovo Group to make, use, sell and distribute apparel products that bear the Joe s Brand. JD Holdings does not have any leased office facilities, additional employees other than Mr. Dahan, and its processes are limited to activities associated with the licensing relationship. Its primary assets are the rights to the Joe s Brand which will be transferred upon closing to Innovo Group.

Joseph M. Dahan is the sole stockholder of JD Holdings and is currently employed by Innovo Group as president of its Joe s Jeans subsidiary. In the event that the Merger is approved, an employment agreement will automatically become effective at closing. Pursuant to the employment agreement, Mr. Dahan will be employed as Creative Director of the Joe s Brand for an initial term of five years with automatic renewals for successive one year periods and will be entitled to an annual salary of $300,000. Further, if the Merger is approved, Mr. Dahan will be entitled to nominate himself as a member of Innovo Group s Board of Directors under the investor rights agreement.

Property

JD Holdings does not lease any real or personal property. However, Mr. Dahan personally leases approximately 900 square feet of creative space that he charges to JD Holdings. In connection with the Merger transaction, Innovo Group will not be acquiring any rights to this creative space nor will Innovo Group be obligated to reimburse Mr. Dahan for his continued use of this space.

Legal Proceedings

JD Holdings is not a party to any pending or threatened legal proceedings.

Common Stock Matters

JD Holdings has authorized 100,000 shares of its common stock for issuance, no par value per share. Currently, 1,000 shares have been issued to Mr. Dahan and he is the sole stockholder of JD Holdings. There is no market price for the common stock of JD Holdings, nor has it ever paid any dividends.

Quantitative and Qualitative Disclosure About Market Risk

Due to operating activity limited to ownership and licensing of the Joe s Brand, there is no quantitative or qualitative disclosure about market risk for JD Holdings.

Selected and Supplemental Financial Data

The table below sets forth a summary of selected historical consolidated financial data and is being presented to aid you in your analysis of the financial aspects of the Merger and JD Holdings. The selected consolidated financial data has been derived from JD Holdings financial statements and should be read in conjunction with the related financial statements and notes thereto and the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statements of operations included herein. The historical results included below are not indicative of future performance or the combined company.

	Quarter Ended		**Year Ended**				
	31-Mar-07	**31-Mar-06**	**31-Dec-06**	**31-Dec-05**	**31-Dec-04**	**31-Dec-03**	**31-Dec-02**
Revenues from related party:							
Royalties	$ 486,574	$ 241,214	$ 1,274,411	$ 1,128,061	$ 570,430	$ 333,657	$ 288,613
Other	12,000	12,000	48,000	48,000	48,000	48,000	48,000
Total revenues from related party	498,574	253,214	1,322,411	1,176,061	618,430	381,657	336,613
Operating expenses:							
General and administrative	80,040	42,405	249,928	147,453	72,538	44,838	20,407
Marketing	23,541	24,692	115,745	31,808	38,030	8,134	6,896
Depreciation and amortization	2,860	2,460	10,774	3,663	634		
Total operating expenses	106,441	69,557	376,447	182,924	111,202	52,972	27,303
Operating income	392,133	183,657	945,964	993,137	507,228	328,685	309,310
Interest expense	156	717	1,430	859		35	262
Income before taxes	391,977	182,940	944,534	992,278	507,228	328,650	309,048
Provision for income taxes	157,500	109	2,609	800	1,580	1,600	800
Net Income	$ 234,477	$ 182,831	$ 941,925	$ 991,478	$ 505,648	$ 327,050	$ 308,248
Balance sheet data:							
Total assets	$ 659,526	$ 420,884	$ 468,243	$ 413,495	$ 196,511	$ 136,018	$ 108,759
Stockholder's/member's equity	183,727	136,417	157,838	121,580	(114,067)	(254,312)	(327,241)

JD Holdings, Inc.
Statements of Operations
(unaudited)

	3 months Ended 31-Mar-07	31-Dec-06	30-Sep-06	30-Jun-06	31-Mar-06	31-Dec-05	30-Sep-05	30-Jun-05	31-Mar-05
Revenues from related party:									
Gross royalties	$ 486,574	$ 392,319	$ 389,530	$ 251,348	$ 241,214	$ 301,251	$ 330,749	$ 298,681	$
Other income	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000	12,000
Total revenues from related party	498,574	404,319	401,530	263,348	253,214	313,251	342,749	310,681	12,000
Operating expenses:									
General and administrative	80,040	82,992	65,582	58,949	42,405	47,793	37,409	35,176	27,076
Marketing	23,541	28,325	31,783	30,945	24,692	9,618	18,339	2,051	1,800
Depreciation and amortization	2,860	2,772	2,771	2,771	2,460	916	916	916	916
Total operating expenses	106,441	114,089	100,136	92,665	69,557	58,327	56,664	38,142	29,791
Operating income	392,133	290,230	301,394	170,683	183,657	254,924	286,085	272,539	(17,791)
Interest expense	156	0	324	389	717	262			
Income before taxes	391,977	290,230	301,070	170,294	182,940	254,662	286,085	272,539	(17,791)
Provision for income taxes	157,500	2,500			109	800			
Net Income	$ 234,477	$ 287,730	$ 301,070	$ 170,294	$ 182,831	$ 253,862	$ 286,085	$ 272,539	$ (17,791)

Management s Discussion and Analysis of Financial Condition and Results of Operation

This discussion and analysis summarizes the significant factors affecting the results of operations and financial conditions of JD Holdings during the fiscal years ended December 31, 2006, December 31, 2005 and December 31, 2004 and the three months ended March 31, 2007 and March 31, 2006. This discussion should be read in conjunction with the Financial Statements and Notes to Financial Statements contained in this proxy statement.

Overview

JD Holdings began its operations in 2001 as JD Design LLC. In December 2006, JD Design merged with and into JD Holdings with JD Holdings as the surviving corporation. The primary assets of JD Holdings are all rights, title to and interest in the Joe s Brand. See About JD Holdings on page of this proxy statement for a further discussion about JD Holdings.

Comparison of Year Ended December 31, 2006 to December 31, 2005

For the year ended December 31, 2006 and 2005, JD Holdings reported gross royalties of approximately $1,274,411 and $1,128,061, respectively. JD Holdings source of income was from the royalty payments paid by Innovo Group in connection with the license agreement pursuant to which Innovo Group licenses the Joe s Brand. Other than receiving the royalty payments, JD Holdings was operating his business as a licensor that comprised the following activities: ownership of all intangible assets that comprise the Joe s Brand and payments to Mr. Dahan as the only employee and expenses associated with his activities as the licensor of the Joe s Brand.

In connection with the creative aspects of the design and licensing business that were not reimbursable expenses by the licensee, JD Holdings had certain general and administrative expenses during those periods. For the year ended December 31, 2006 and 2005, JD Holdings had general and administrative and marketing expenses of $365,673 and $179,260, respectively. Expenses generally consisted of licensor related expenses, such as legal and accounting fees, expenses for the purchase of samples for creative inspiration, expenses for reimbursement of a creative space and other miscellaneous expenses.

JD Holdings had an immaterial amount of other assets, including incidental office equipment, that were distributed to Mr. Dahan as the sole stockholder immediately prior to the date that the Merger Agreement was entered into with Innovo Group or will be distributed prior to the closing of the transaction. As a result of these other assets, JD Holdings had depreciation and amortization expenses of $10,774 and $3,663 for the year ended December 31, 2006 and 2005, respectively.

Comparison of Year Ended December 31, 2005 to December 31, 2004

For the year ended December 31, 2005 and 2004, JD Holdings reported gross royalties of approximately $1,128,061 and $570,430, respectively. For the year ended December 31, 2005 and 2004, JD Holdings had general and administrative and marketing expenses of $179,261 and $110,568, respectively. For the year ended December 31, 2005 and 2004, JD Holdings had depreciation and amortization expenses of $3,663 and $634, respectively. In connection with these royalties and expenses, the discussion is the same as the discussion for the comparison of the year ended December 31, 2006 to December 31, 2005 described above.

Comparison of Three Months Ended March 31, 2007 to March 31, 2006

For the three months ended March 31, 2007 and 2006, JD Holdings reported gross royalties of approximately $486,574 and $241,214, respectively. For the three months ended March 31, 2007 and 2006, JD Holdings had general and administrative expenses of $103,581 and $67,097, respectively. For the three

months ended March 31, 2007 and 2006, JD Holdings had depreciation and amortization expenses of $2,860 and $2,460, respectively. In connection with these royalties and expenses, the discussion is the same as the discussion for the comparison of the year ended December 31, 2006 to December 31, 2005 described above.

Liquidity and Capital Resources

JD Holdings only source of liquidity is from the royalty payments paid by Innovo Group in connection with the license agreement. JD Holdings has provided for its cash requirements to date through this licensing revenue. In the event that the licensing revenue were to materially decrease, JD Holdings would need to reduce its expenses and capital distributions to its sole stockholder and would probably dissolve, wind up its business or sell or seek another licensing partner in the event that it could regain the rights to the Joe s Brand from Innovo Group.

Off-Balance Sheet Arrangements

JD Holdings does not have any off balance sheet arrangements.

Contractual Obligations

JD Holdings is not a party to any presently owing contractual commitments or obligations. Mr. Dahan, its sole stockholder, is a party to certain lease obligations that he charges to JD Holdings and will continue to be personally obligated to those lease obligations without reimbursement from Innovo Group upon completion of the Merger. As further described in Note 9 Commitments and Contingencies, JD Holdings has a contingent liability to CIT Commercial Services, a unit of the CIT Group Inc. (CIT) that is secured by the collateral protection agreement with Innovo Group. However, such agreements are contingent upon the occurrence of future events and the likelihood of such contingencies occurring are remote at this time.

Accounting Matters

JD Holdings has not had disagreements with its accountant. Prior to entering into the Merger transaction, JD Holdings engaged an accountant to file the income tax returns required by its sole stockholder, Mr. Dahan. Upon entering into the Merger Agreement, JD Holdings engaged KMJ Corbin & Company LLP in June 2007 to audit its financial statements for the years ended December 31, 2006 and December 31, 2005. A representative of KMJ Corbin & Company LLP will be available at the annual meeting to answer questions related to JD Holdings and the information contained in this proxy statement.

Financial Statements

INDEPENDENT AUDITORS REPORT

To the Board of Directors and Stockholder
JD Holdings, Inc.

We have audited the accompanying balance sheets of JD Holdings, Inc. as of December 31, 2006 and 2005 and the related statements of income, stockholder s equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of JD Holdings, Inc. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KMJ | Corbin & Company LLP

Irvine, California
June 28, 2007

JD Holdings, Inc.
Balance Sheets

	31-Mar-07 (unaudited)	31-Mar-06	31-Dec-06	31-Dec-05
ASSETS				
Current assets:				
Cash and cash equivalents	$ 70,955	$ 16,635	$ 39,111	$
Account receivable from related party	588,571	361,800	386,997	368,586
Total current assets	659,526	378,435	426,108	368,586
Property and equipment, net		42,449	42,135	44,909
Total assets	$ 659,526	$ 420,884	$ 468,243	$ 413,495
LIABILITIES AND STOCKHOLDER S EQUITY				
Current Liabilities:				
Due to related party	$ 134,299	$ 52,467	$ 114,405	$ 35,037
Cash overdraft				12,878
Income taxes payable	157,500			
Total current liabilities	291,799	52,467	114,405	47,915
Deferred revenue from related party	184,000	232,000	196,000	244,000
Total liabilities	475,799	284,467	310,405	291,915
Stockholder s equity:				
Common Stock, no par value: 100,000 shares authorized, 1,000 shares issued and outstanding as of March 31, 2007 (unaudited) and December 31, 2006				
Retained earnings	183,727	136,417	157,838	121,580
Total stockholder s equity	183,727	136,417	157,838	121,580
Total liabilities and stockholder s equity	$ 659,526	$ 420,884	$ 468,243	$ 413,495

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

JD Holdings, Inc.
Statements of Operations

	3 Months Ended 31-Mar-07 (unaudited)	31-Mar-06	12 Months Ended 31-Dec-06	31-Dec-05	31-Dec-04 (unaudited)
Revenues from related party:					
Royalties	$ 486,574	$ 241,214	$ 1,274,411	$ 1,128,061	$ 570,430
Other	12,000	12,000	48,000	48,000	48,000
Total revenues from related party	498,574	253,214	1,322,411	1,176,061	618,430
Operating expenses:					
General and administrative	80,040	42,405	249,928	147,453	72,538
Marketing	23,541	24,692	115,745	31,808	38,030
Depreciation and amortization	2,860	2,460	10,774	3,663	634
Total operating expenses	106,441	69,557	376,447	182,924	111,202
Operating income	392,133	183,657	945,964	993,137	507,228
Interest expense	156	717	1,430	859	
Income before taxes	391,977	182,940	944,534	992,278	507,228
Provision for income taxes	157,500	109	2,609	800	1,580
Net income	$ 234,477	$ 182,831	$ 941,925	$ 991,478	$ 505,648

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

JD Holdings, Inc.

Statements of Stockholder s Equity

	Common Stock			
	# of Shares	Amount	Retained Earnings/ Member s Equity	Total Stockholder s Equity
Member s equity January 1, 2004 (unaudited)		$	$ (206,311)	$ (206,311)
Net income year ended December 31, 2004 (unaudited)			505,648	505,648
Distributions year ended December 31, 2004 (unaudited)			(413,404)	(413,404)
Member s equity December 31, 2004 (unaudited)			(114,067)	(114,067)
Net income year ended December 31, 2005			991,478	991,478
Distributions year ended December 31, 2005			(755,831)	(755,831)
Member s equity December 31, 2005			121,580	121,580
Common stock issued upon reincorporation	1,000			
Net income year ended December 31, 2006			941,925	941,925
Distributions year ended December 31, 2006			(905,667)	(905,667)
Stockholder s equity December 31, 2006	1,000		157,838	157,838
Net income three months ended March 31, 2007 (unaudited)			234,477	234,477
Distributions three months ended March 31, 2007 (unaudited)			(39,275)	(39,275)
Dividends three months ended March 31, 2007 (unaudited)			(169,313)	(169,313)
Stockholder s equity	1,000	$	$ 183,727	$ 183,727

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

JD Holdings, Inc.

Statements of Cash Flows

	3 Months Ended 31-Mar-07 (unaudited)	31-Mar-06	12 Months Ended 31-Dec-06	31-Dec-05	31-Dec-04 (unaudited)
Net income	$ 234,477	$ 182,831	$ 941,925	$ 991,478	$ 505,648
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	2,860	2,460	10,774	3,663	634
Amortization of deferred revenues	(12,000)	(12,000)	(48,000)	(48,000)	(48,000)
Changes in operating assets and liabilities:					
Account receivable from related party	(201,574)	6,786	(18,411)	(193,560)	(50,429)
Due to related party	19,894	17,430	79,368	16,459	16,248
Income taxes payable	157,500				
Bank overdraft		(12,878)	(12,878)	12,878	
Net cash provided by operating activities	201,157	184,629	952,778	782,918	424,101
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchases of property and equipment			(8,000)	(43,235)	(5,971)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Dividends to stockholder	(169,313)				
Distributions to member		(167,994)	(905,667)	(755,831)	(413,404)
Net cash used in financing activities	(169,313)	(167,994)	(905,667)	(755,831)	(413,404)
NET CHANGE IN CASH AND CASH EQUIVALENTS	31,844	16,635	39,111	(16,148)	4,726
CASH AND CASH EQUIVALENTS, at beginning of period	39,111			16,148	11,422
CASH AND CASH EQUIVALENTS, at end of period	$ 70,955	$ 16,635	$ 39,111	$	$ 16,148
Supplemental disclosure of cash flow information:					
Cash paid during period for interest	$ 156	$ 717	$ 1,430	$ 859	$
Cash paid during period for taxes	$	$ 109	$ 2,609	$ 800	$ 800
Supplemental disclosure of noncash investing activity:					
Property and equipment distributed to stockholder	$ 39,275	$	$	$	$

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

JD HOLDINGS, INC.
Notes to Financial Statements
For The Years Ended December 31, 2006 and December 31, 2005 (audited)
and
For The Three Months Ended March 31, 2007 and March 31, 2005 (unaudited)

NOTE 1 DESCRIPTION OF BUSINESSS

JD Design, LLC was organized on October 12, 2000 as The 315 LLC, a real estate holding limited liability company. In January 16, 2001, The 315 LLC filed a certificate of amendment changing its company name to JD Design, LLC (JD Design). On April 28, 2005, JD Design filed a statement of information to amend the type of business to fashion and apparel design.

On December 18, 2006, JD Design was reorganized to JD Holdings, Inc. through the issuance of 1,000 shares of common stock at no par value to the sole member of JD Design (JD Design and JD Holdings, Inc. are referred to hereafter as the Company). As the reorganization did not result in any ownership changes, the accompanying financial statements do not reflect any adjustment as a result of the reorganization.

The Company has limited operating activity and is the owner of all rights, title to and interest in the Joe s®, Joe s Jeans and related JD logos and marks (collectively referred to as the Joe s Brand). The Company receives royalty fees from Innovo Group Inc. (Innovo), its only customer, in connection with its license agreement pursuant to which Innovo makes, uses, sells and distributes apparel products that bear the Joe s Brand. The sole stockholder is an employee and officer of one of Innovo s subsidiaries.

The Company does not have any other employees, market distribution system or sales force.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements as of and for the three months ended March 31, 2007 and 2006, and for the year ended Decemebr 31, 2004, included herein are unaudited; however, they contain all normal recurring accruals and adjustments that, in the opinion of the Company s management, are necessary to present fairly the financial position of the Company as of the periods presented, and the results of its operations and cash flows for the periods. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the full year or any future interim periods.

Basis of Accounting

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates made by management include, among others, collectibility of accounts receivable and the recoverability of long-lived assets. Actual results may differ from these estimates under different assumptions or conditions.

Concentration of Credit Risk

Cash

The Company maintains its cash accounts in a financial institution. The total cash balances are insured by the Federal Deposit Insurance Corporation up to $100,000. As of December 31, 2006 and 2005, the Company had no cash balances which exceeded the insured limit.

Account Receivable and Sales

The Company has entered into an exclusive license agreement with Innovo for the use, market and distribution of Joe s Brand. The Company regularly monitors its customer collections and payments and maintains a provision for estimated losses based upon historical experience and any specific customer collection issues that have been identified. Although the Company expects to collect amounts due, actual collections may differ from the estimated amounts. All sales and account receivable for the periods presented are from Innovo.

Property and Equipment

Property and equipment are stated at cost and are being depreciated using the straight-line method over five years.

Additions and improvements are capitalized while expenditures for maintenance and repairs are expensed as incurred. The cost and accumulated depreciation of property sold or otherwise retired during the period are removed and gains or losses, if any, are reflected in the results of operations for the period.

Impairment of Long-Lived Assets

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company s management assesses the recoverability of long-lived assets by determining whether the depreciation and amortization of long-lived assets over their remaining lives can be recovered through projected undiscounted future cash flows. The amount of long-lived asset impairment, if any, is measured based on fair value and is charged to operations in the period in which long-lived asset impairment is determined by management. At December 31, 2006, the Company believes there is no impairment of its long-lived assets. There can be no assurance, however, that market conditions will not change or demand for the Company s products and services will continue, which could result in impairment of long-lived assets in the future. During the three months ended March 31, 2007, the Company distributed all of its assets to its sole stockholder. As such, there is no impairment of long-lived assets as of March 31, 2007.

Revenue Recognition

Royalty revenue is recognized upon shipment of Joe s Brand products by Innovo as set forth under the terms and conditions of the related licensing agreement (see Note 8).

Income Taxes

The Company determines its income taxes under the asset and liability method in accordance with the SFAS No. 109, *Accounting for Income Taxes*. Under the asset and liability approach, deferred income tax assets and liabilities are calculated based upon the future tax consequences of temporary differences by applying enacted statutory tax rates applicable to future periods for differences between the financial statements carrying amounts and the tax basis of existing assets and liabilities. Generally, deferred income taxes are classified as current or non-current in accordance with the classification of the related asset or

liability. Those not related to an asset or liability, are classified as current or non-current depending on the periods in which the temporary differences are expected to reverse. Valuation allowances are provided for significant deferred income tax assets when it is more likely than not that some or all of the deferred tax assets will not be realized.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2006 and 2005:

	2006	2005
Office equipment and computers	$ 57,206	$ 49,206
Less accumulated depreciation	(15,071)	(4,297)
	$ 42,135	$ 44,909

NOTE 4 DEFERRED REVENUE

On February 7, 2001, the Company granted the licensing rights to Joe s Brand to Innovo, along with the right to market the previously designed product line and existing sales orders, in exchange for 500,000 shares of Innovo s common stock and, if certain sales objectives are reached, a warrant with a four-year term granting the Company the right to purchase 250,000 shares of Innovo s common stock at a price of $1.00 per share. The sales objectives were not subsequently met and therefore, the warrants were not eligible for exercise.

The Innovo shares were subsequently distributed to the member. The value of the shares was $480,000 based on the fair value of the shares on February 7, 2001. This value was recorded as deferred revenue which is being amortized over the 10 year term of the license (see Note 8). For each of the years from 2004 through 2006, the Company amortized $48,000 annually of deferred revenue to income, and for the three months ended March 31, 2006 and 2007, the Company amortized $12,000 quarterly of deferred revenue to income.

NOTE 5 INCOME TAXES

Through December 17, 2006, the Company was taxed as a limited liability company. All income and losses were passed through to its members and the members reported these amounts on their individual income tax returns. There was no significant entity level income tax for the Company for Federal and State purposes through such date.

Effective December 18, 2006, the Company reorganized from a limited liability company to a C-corporation under the laws of California. There were no significant deferred taxes or tax liability generated during the period from December 18, 2006 through December 31, 2006. The Company s effective income tax rate for the three months ended March 31, 2007 is higher than what would be expected if the federal statutory rate were applied to income from continuing operations primarily because of expenses deductible for financial reporting purposes that are not deductible for tax purposes and state income taxes.

NOTE 6 STOCKHOLDER S EQUITY

Member s Capital

Through December 17, 2006, the Company had one member who owned a 100% interest in the LLC.

Common Stock

In connection with the change in legal entity, on December 18, 2006, the Company issued the former member 1,000 shares of common stock.

NOTE 7 RELATED PARTY TRANSACTIONS

Due to Related Party

The Company receives advances from Innovo to be used for operating requirements. The advances are non-interest bearing and due upon demand.

Leases

For all periods presented, the Company leased space from the sole stockholder / member of the Company on a month-to-month basis at a fixed rate of $3,100 per month.

Revenues

The Company received royalty payments from Innovo in connection with the license agreement entered into on February 7, 2001 (see Note 8).

At the inception of the license agreement, the Company recorded deferred revenue of $480,000 which is being amortized over the 10 year term of the license (see Note 4).

NOTE 8 LICENSING AGREEMENT

The Company entered into an exclusive licensing agreement with Innovo on February 7, 2001 to make, use, sell and distribute apparel products that bear Joe s Brand label and the right to market previously designed product line and existing sales orders. Under the terms of the license agreement, Innovo is required to pay a royalty of 3% on net sales of the licensed products.

In October 2006, the Company and Innovo amended the licensing agreement for the reversion of the rights on certain kids products released back to the Company. Innovo receives 5% commission on subsequent net sales of the released products.

NOTE 9 COMMITMENTS AND CONTINGENCIES

Collateral Protection Agreement (CPA)

On October 13, 2006, the Company granted CIT Commercial Services, a unit of CIT Group, Inc. (CIT), a security interest in Joe s Brand and executed a non-recourse guaranty in favor of CIT to allow Innovo to obtain up to $2,000,000 of additional advances under its inventory security agreement with CIT. In connection with this security interest and guaranty, Innovo reserved a maximum of 6,834,347 shares (Default Reserve) of its common stock as collateral for the non-recourse guaranty and security interest, which represents 19.9% of Innovo s total shares outstanding on the date of execution of the CPA.

Under the terms of the CPA, if Innovo has not obtained the agreement of CIT, within six months from date of execution of the CPA, to terminate the CIT Collateral Documents, which are the security interest agreement and guaranty between the Company and CIT, and release the Company from its obligations including the intellectual property collateral, Innovo shall issue 200,000 shares of its common stock as additional consideration to the Company. In the event that the additional 200,000 shares of common stock are issued to the Company, the Company shall still be entitled to the default shares to the extent that there is a default and the CIT Collateral Documents remain effective. The Default Reserve shall then be reduced by 200,000 shares in the event of the issuance of such number of shares. On April 13,

2007, the CPA was amended to extend the six-month term to June 30, 2007 and on June 25, 2007, the CPA was amended to extend the term to December 31, 2007.

If after eighteen months from the date of the execution of the CIT Collateral Documents, Innovo still has not obtained the agreement of CIT to terminate the CIT Collateral Documents and release the Company from its obligations including the intellectual property collateral, Innovo will be required to pay the Company on that date and on the last day of each subsequent calendar quarter, a cash payment of $25,000 for each quarterly period that the CIT Collateral Documents remain in effect. In the event that this $25,000 payment is received by the Company, the Company is still entitled to the Default Reserve to the extent that there is default and the CIT Collateral Documents remain effective.

Indemnities and Guarantees

During the normal course of business, the Company has made certain indemnities and guarantees under which it may be required to make payments in relation to certain transactions. The Company indemnifies its directors, officers, employees and agents to the maximum extent permitted under the laws of the State of California. These indemnities include certain agreements with the Company s officer under which the Company may be required to indemnify such person for liabilities arising out of their employment relationship, and indemnities with Innovo against certain liabilities under the merger agreement (see Note 10). The majority of these indemnities and guarantees do not provide for any limitation of the maximum potential future payments the Company could be obligated to make. Historically, the Company has not been obligated to make significant payments for these obligations and no liabilities have been recorded for these indemnities and guarantees in the accompanying balance sheet.

NOTE 10 SUBSEQUENT EVENTS

Innovo Merger

On February 6, 2007, the Company entered into a merger agreement with Innovo. In exchange for the right to Joe s Brand and subject to approval by its stockholders, Innovo expects to issue to the Company 14,000,000 shares of its common stock, $300,000 in cash and enter into an employment agreement with the sole stockholder of the Company. In the event that the merger is approved, the license agreement including the Collateral Protection Agreement will terminate and Innovo will own all rights, title to and interest in Joe s Brand. On June 25, 2007, the Company amended its merger agreement with Innovo to provide for an earn-out as additional contingent consideration.

PROPOSAL 2

APPROVAL OF THE ISSUANCE OF 14 MILLION SHARES OF COMMON STOCK TO JOSEPH M. DAHAN, SOLE STOCKHOLDER OF JD HOLDINGS, AS MERGER CONSIDERATION

Our Board of Directors has approved and recommended the merger of JD Holdings pursuant to the Merger Agreement as further described in Proposal 1. As a Nasdaq-listed company, we are subject to the Nasdaq Marketplace Rules and therefore, we are required to obtain stockholders approval prior to some issuances of our common stock. In this case, we are required to obtain approval of our stockholders prior to the issuance of the shares as Merger consideration.

Q: What is the Board of Directors recommending?

A: The Board of Directors is asking our stockholders to authorize the issuance of 14 million shares of our common stock to Mr. Dahan, as the sole stockholder of JD Holdings pursuant to a Merger Agreement described elsewhere in this proxy statement. **The Board of Directors unanimously recommends that you vote in favor of the proposal.**

Q: What are the securities that I am being asked to approve for issuance?

A: You are being asked to approve the issuance of 14 million shares of our common stock, par value $0.10 per share. There are no preemptive rights associated with the issuance of these shares of our common stock.

Q: What is the transaction that requires these shares to be issued?

A: These shares are being issued as consideration for the Merger pursuant to the Merger Agreement. See Proposal 1 and the Merger Transaction beginning on page 11.

Q: What will be the consideration that will be received in exchange for the issuance of these shares?

A: In exchange for the issuance of these shares, we will receive all of the outstanding shares of JD Holdings. After consummation of the Merger, we will own all rights, title to and interest in the Joe s Brand, and the license agreement will automatically terminate. There will be no cash received by us in exchange for the issuance of these shares and therefore no use of proceeds. See Proposal 1 and the Merger Transaction beginning on page 11.

Q: Why am I being asked to approve the issuance of these shares?

A: As a Nasdaq-listed company, we are subject to the Nasdaq Marketplace Rules. Marketplace Rule 4350(i) requires stockholder approval prior to some issuances of our common stock. More specifically, Marketplace Rule 4350(i)(B) requires stockholder approval when the issuance or potential issuance of shares will result in a change of control, which includes the issuance of 20% or more of the common stock outstanding prior to issuance. Marketplace Rule 4350(i)(C) requires stockholder approval in connection with an merger of stock or assets of another company if the number of shares of common stock to be issued would represent at least 20% of our common stock outstanding before the issuance date. Rule 4350(i)(D) also requires stockholder approval in connection with any private transaction if the shares of common stock to be issued could potentially represent 20% or more of our common stock outstanding before the issuance date at a price that is less than the greater of the book or market value of our common stock. Furthermore, because Mr. Dahan is one of our current employees, under Marketplace Rule 4350(i)(A), we may be required to obtain stockholder approval for this issuance to an existing employee even though the transaction is not part of his compensation arrangement.

On February 6, 2007, we entered into the Merger Agreement pursuant to which we agreed to issue 14 million shares of our common stock to Mr. Dahan, the sole stockholder of JD Holdings, as consideration for the Merger pursuant to the Merger Agreement in the event it is approved by our

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stockholders. This amount remained unchanged under the First Amendment to the Merger Agreement. Therefore, because the proposed issuance would result in the issuance of more than 20% of our common stock outstanding and Mr. Dahan is an existing employee, under Marketplace Rule 4350(i), we are seeking stockholder approval for the issuance of these shares.

Q: What happens if the proposal is approved?

A: If the proposal is approved, we will issue to Mr. Dahan 14 million shares of our common stock and the holdings of our existing stockholders will be diluted by this issuance. However, we believe that the dilutive effect of this issuance is outweighed by the merger of all rights, title to and interest in the Joe s Brand.

Q: What happens if the proposal is not approved?

A: If the proposal is not approved, we will not be able to issue the shares as Merger consideration and the Merger will not be consummated.

Q: What is the vote required to approve Proposal 2?

A: The affirmative **FOR** vote of a majority of the shares present in person or represented by proxy at the annual meeting and entitled to vote is required to approve the issuance of 14 million shares of our common stock to JD Holdings as consideration for the Merger pursuant to the Merger Agreement. Unless otherwise instructed on the proxy, properly executed proxies will be voted in favor of this proposal.

Q: How does the Board of Directors recommend I vote?

A: Our Board of Directors unanimously recommends a vote **FOR** the approval of a proposal to approve the issuance of 14 million shares of our common stock to Mr. Dahan, the sole stockholder of JD Holdings, as consideration for the Merger pursuant to the Merger Agreement.

PROPOSAL 3

ELECTION OF DIRECTORS

Our bylaws provide that our Board of Directors will consist of not less than three directors, with the exact number of directors (subject to such minimum and any range of size established by our common stockholders) to be determined by resolution of our Board of Directors. Currently, the number of directors has been set at seven. At our annual meeting, seven directors will be elected to serve until the 2008 annual meeting of stockholders, which we expect to hold around July 2008. Our Board of Directors nominees for election are set forth below.

Q: What is the vote required to approve Proposal 3?

A: Our Board of Directors will be elected by a plurality vote. Unless otherwise instructed on the proxy, properly executed proxies will be voted for the election of all of the director nominees set forth below. Our Board of Directors believes that all such nominees will stand for election and will serve if elected. However, if any of the persons nominated by the Board of Directors fails to stand for election or is unable to accept election, proxies will be voted by the proxy holders for the election of such other person or persons as the Board of Directors may recommend.

Q: How does the Board of Directors recommend I vote?

A: Our Board of Directors unanimously recommends a vote **FOR** the director nominees listed below.

Q: What information is provided with respect to nominees to the Board of Directors?

A: The following table sets forth information regarding our nominees to our Board of Directors:

Name	Age	Position	Year First Elected Director
Samuel J. (Sam) Furrow	65	Chairman of the Board of Directors	1998
Marc B. Crossman	35	Chief Executive Officer, President, Chief Financial Officer and Director	1999
Samuel J. (Jay) Furrow, Jr.	34	Director	1999
Kelly Hoffman(1)(2)(3)	48	Director	2004
Thomas O Riordan (1)(2)(3)	50	Director	2006
Suhail R. Rizvi(1)(2)(3)	41	Director	2003
Kent Savage(1)(2)(3)	45	Director	2003

(1) Member of the Audit Committee

(2) Member of the Compensation and Stock Option Committee

(3) Member of the Nominating and Governance Committee

Q: What is the business experience of the nominees for election to our Board of Directors?

A: The business experience of our nominees for election to our Board of Directors is as follows:

Samuel J. (Sam) Furrow has served as Chairman of our Board of Directors since October 1998. Mr. Furrow became a member of our Board of Directors in April 1998 and served as our Chief Executive Officer from October 1998 until December 2000. Mr. Furrow also has been Chairman of the Board of Furrow Auction Company, a real estate and equipment sales company with its headquarters in Knoxville, Tennessee, since April 1968; Chairman of Furrow-Justice Machinery Corporation, a six-branch industrial and construction equipment dealer, since 1983; owner of Knoxville Motor Company-Mercedes Benz and Land Rover of Knoxville since December 1980 and July 1997, respectively. Mr. Furrow received his undergraduate and J.D. degree from the University of Tennessee. Sam Furrow is the father of our former Chief Executive Officer and Director, Samuel J. (Jay) Furrow, Jr.

Samuel J. (Jay) Furrow, Jr. has served as a member of our Board of Directors since January 1999. Since January 2006, Mr. Furrow has served as managing member and founder of JFJ Holdings LLC, a private equity company. From July 2002 until January 2006, Mr. Furrow served as our Chief Executive Officer, from December 2000 until July 2002 as our President, from April 1999 until March 2003 as our Chief Operating Officer, from August 2000 until March 2003 as our Acting Chief Financial Officer, and from August 1998 until April 1999 as our Vice-President for Corporate Development and In-House Counsel. Mr. Furrow currently serves on the Board of Directors of Digital Lifestyles Group, Inc. (DLFG.PK), a publicly traded manufacturer and distributor of consumer electronics and Varsity Media Group, Inc., a new media company dedicated to teenagers. Mr. Furrow received his J.D. degree from Southern Methodist University School of Law and his B.S. degree in Political Science from Vanderbilt University. Jay Furrow is the son of the Chairman of our Board of Directors, Samuel J. (Sam) Furrow.

Marc B. Crossman has served as our Chief Executive Officer since January 2006, our Chief Financial Officer since March 2003, our President since September 2004 and a member of our Board of Directors since January 1999. From January 1999 until March 2003, Mr. Crossman served as a Vice President and Equity Analyst with J.P. Morgan Securities Inc., New York City, New York. From September 1997 until January 1999, Mr. Crossman served as a Vice

President and Equity Analyst with CIBC Oppenheimer Corporation. Mr. Crossman received his B.S. degree in Mathematics from Vanderbilt University.

Kelly Hoffman has served as a member of our Board of Directors since June 2004. Mr. Hoffman has served as Chairman of the Board of Directors and Chief Executive Officer of Varsity Media Group Inc., a new media company dedicated to teenagers, since he founded the company in 1998. From 1991 until 1998, Mr. Hoffman owned AOCO Operating, a company that raised capital for the acquisition of property in Texas, Louisiana and New Mexico. From 1989 until 1991, Mr. Hoffman served in a similar position for Texakoma Financial, an oil and gas partnership that raised capital for acquisition of property in Texas, Louisiana and New Mexico. Prior to that, Mr. Hoffman served in various sales and marketing positions for PAZ Syndicate, a conglomerate based in Tel Aviv, Israel that owned diverse interests worldwide. Prior to that, Mr. Hoffman specialized in securing capital from investors for investment in various limited partnerships for the oil and gas industry for Paso Energy. Mr. Hoffman began his oil and gas career at Amoco Production Company in Texas in various positions. Mr. Hoffman attended Texas Tech University and majored in Business Administration.

Thomas O Riordan has served as a member of our Board of Directors since April 2006. Since March 2007, Mr. O Riordan has served as Chief Executive Officer of American Sporting Goods Corporation, a privately held manufacturer and retailer of athletic footwear with such brands as And1, Avia, Ryka, Yukon, Triple 5 Soul, NSS and Nevados. Since October 2006, Mr. O Riordan has served as a member of the Board of Directors of Cutter and Buck Inc., (CBUK), a publicly traded consumer apparel brand company. From 2004 to 2007, Mr. O Riordan acted in an executive consulting and advisory capacity to the senior management team of Fila Holding Company, a publicly traded manufacturer and retailer of branded footwear, apparel and accessories, and to other investment advisors and funds in the retail and consumer products sector. From 1999 to 2004, Mr. O Riordan served in various executive management capacities with Fila Holding Company, ultimately serving as Chief Executive Officer from 2003 to 2004. From 1995 until 1998, Mr. O Riordan served as Director of Operations of Adidas America, a publicly traded manufacturer and retailer of branded athletic footwear, apparel and accessories. From 1988 to 1995, Mr. O Riordan was President of Tom O Riordan & Associates, a sales and marketing company focused on the athletic footwear, apparel and sporting goods industries. Mr. O Riordan began his career in sales for Brooks Shoe Company. Mr. O Riordan received his B.S. degree in Marketing and Management from Rider University.

Suhail R. Rizvi has served as a member of our Board of Directors since April 2003. Since 2004, Mr. Rizvi has served as founder and Chief Investment Officer of RizvilTraverse Management LLC and other related funds. Mr. Rizvi has over twenty years of private equity investing experience for his own account and as a fiduciary for institutional investors through various entities or funds as founder, principal or manager. Mr. Rizvi also serves as Chairman of the Board of Directors of AG Holdings, a diversified investment company with interests in various manufacturing companies and as a member of the Board of Directors for International Creative Management, Inc. a global talent and literary agency. Mr. Rizvi received his B.S. degree in Economics from the Wharton School of the University of Pennsylvania and sits on the Wharton Undergraduate Executive Board.

Kent Savage has served as a member of our Board of Directors since July 2003. Since June 2006, Mr. Savage has served as Founder and CEO of Famecast, Inc., a privately held online entertainment property. From January 2004 until June 2005, Mr. Savage served as Chief Executive Officer for Digital Lifestyles Group, Inc. (DLFG.PK), a publicly traded manufacturer and distributor of personal computers. From September 2002 until February 2003, Mr. Savage served as co-founder, Chief Sales and Marketing Officer for TippingPoint Technologies (NASDAQ: TPTI). From February 1999 until August 2001, Mr. Savage served as co-founder, CEO and President for Netpliance, Inc. From April 1998 until February 1999, Mr. Savage served as General Manager, Broadband for Cisco Systems Inc. Service Provider Line of Business. From July 1996 until April 1998, Mr. Savage served as Vice President, Sales and Marketing for NetSpeed, Inc. Mr. Savage received his B.S. degree in Business from Oklahoma State

University, attended University of Virginia s Executive Leadership Program, and received his M.B.A. degree from Southern Methodist University.

Q: How are the Board of Directors elected and how many meetings were held in fiscal 2006?

A: Each member of our Board of Directors is elected at the annual meeting of stockholders and serves until the next annual meeting of stockholders and until a successor has been elected and qualified or his earlier death, resignation or removal. Vacancies on the Board of Directors are filled by a majority vote of the remaining Board of Directors. Our Board of Directors manages us through board meetings and through its committees. During fiscal 2006, our Board of Directors met or acted through written consent a total of sixteen times. No incumbent member of our Board of Directors who served as a director in fiscal 2006 attended in person or via teleconference less than 75% of all the meetings of our Board of Directors and the committees on which he served during fiscal 2006. Although we do not have a formal policy regarding attendance at our annual meeting of stockholders, we attempt to accommodate the schedules of each member of our Board of Directors in choosing a date for our annual meeting of stockholders and our annual meeting of our Board of Directors. In fiscal 2006, all of our members of our Board of Directors attended the annual meeting of our Board of Directors either in person or via teleconference.

Q: What committees does the Board of Directors have?

A: Our Board of Directors has an Audit Committee, Compensation and Stock Option Committee and Nominating and Governance Committee.

Audit Committee. The Audit Committee is currently comprised of Messrs. Rizvi, Hoffman, O Riordan and Savage. Mr. Rizvi serves as Chairman of the Audit Committee. The Audit Committee met or acted through written consent a total of six times in fiscal 2006.

The Audit Committee has been established to: (a) assist our Board of Directors in its oversight responsibilities regarding (1) the integrity of our financial statements, (2) our compliance with legal and regulatory requirements, (3) the independent accountant s qualifications and independence and (4) the performance of the our internal audit function; (b) prepare the report required by the SEC for inclusion in the our annual proxy statement; (c) retain and terminate our independent accountant; (d) approve audit and non-audit services to be performed by the independent accountant; and (e) perform such other functions as our Board of Directors may from time to time assign to the Audit Committee. The Audit Committee has a charter that details its duties and responsibilities, which was adopted by our Board of Directors on May 22, 2003 and filed with our revised proxy statement for our last annual meeting on April 29, 2004. Currently, all Audit Committee members are independent under NASDAQ listing standards and as such term is defined in the rules and regulations of the SEC, and Mr. Rizvi has also been designated to be an audit committee financial expert as such term is defined in the rules and regulations of the SEC. A copy of the Audit Committee charter can be found on our website at www.innovogroup.com under our Investor Relations heading.

Compensation and Stock Option Committee. Currently, the Compensation Committee is comprised of Messrs. Savage, Hoffman, O Riordan and Rizvi. Mr. Savage serves as Chairman of the Compensation Committee. The Compensation and Stock Option Committee met or acted through written consent a total of three times in fiscal 2006.

The principal responsibilities of the Compensation and Stock Option Committee are to (a) assist our Board of Directors in ensuring that a proper system of long-term and short-term compensation is in place to provide performance-oriented incentives to management, and that compensation plans are appropriate and competitive and properly reflect the objectives and performance of management and the company; (b) discharge our Board of Director s responsibilities relating to compensation of our executive officers; (c) evaluate our Chief Executive Officer and set his remuneration package; (d) prepare an annual report

on executive compensation for inclusion in our annual proxy statement; (e) make recommendations to our Board of Directors with respect to incentive-compensation plans and equity-based plans; and (f) perform such other functions as our Board of Directors may from time to time assign. The Compensation and Stock Option Committee has a charter that details its duties and responsibilities, which was adopted by our Board of Directors on May 22, 2003. Currently, all Compensation and Stock Option Committee members are independent under NASDAQ listing standards. A copy of the Compensation and Stock Option Committee charter can be found on our website at www.innovogroup.com under our Investor Relations heading.

Nominating and Governance Committee. The Nominating and Governance Committee is currently comprised of Messrs. Hoffman, O Riordan, Rizvi and Savage. Mr. Hoffman serves as Chairman of the Nominating and Governance Committee. The Nominating and Governance Committee met a total of two times in fiscal 2006 and met on prior to the filing of this proxy statement to propose the above slate of nominees for election to our Board of Directors by our common stockholders for this annual meeting.

The principal responsibilities of the Nominating and Governance Committee are to (a) assist our Board of Directors in determining the desired experience, mix of skills and other qualities to assure appropriate Board of Directors composition, taking into account the current members and the specific needs of the company and the Board of Directors; (b) identify highly qualified individuals meeting those criteria to serve on our Board of Directors; (c) propose to our Board of Directors a slate of nominees for election by our common stockholders at the annual meeting of stockholders and prospective director candidates in the event of the resignation, death, removal or retirement of directors or a change in our Board of Directors composition requirements; (d) develop plans regarding the size and composition of our Board of Directors and its committees; (e) review management succession plans; (f) review the Corporate Governance Guidelines of our Board of Directors at least annually and monitor and make recommendations with respect to the corporate governance principles applicable to the company; and (g) perform such other functions as the Board of Directors may from time to time assign to the Nominating and Governance Committee.

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

Q: How are members of the Board of Directors compensated for their service?

A: For fiscal 2006 and pursuant to our 2004 Stock Incentive Plan, each non-employee director received for his annual compensation a grant of options to purchase up to 75,000 shares of our common stock

at an exercise price of $1.02 per share. These options were vested in full on the date of grant and expire ten years from the date of grant. The exercise price was set at the fair market value of the common stock on the date of grant.

Members of our Board of Directors who are employees receive no additional compensation for service as members of our Board of Directors. Members of our Board of Directors who also serve on one or more committees of our Board of Directors do not receive any additional compensation for such service.

Q: Has our Board of Directors adopted a code of ethics?

A: Our Board of Directors adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees on May 22, 2003. Our Code of Business Conduct and Ethics is available on our website at www.innovogroup.com or you may request a free copy of our Code of Business Conduct and Ethics from our Chief Compliance Officer at our corporate headquarters at the following address: 5901 South Eastern Avenue, Commerce, California 90040 or by calling (323) 837-3700. You may also find a copy of our Code of Business Conduct and Ethics filed as Exhibit 14 to our Annual Report on Form 10-K for the fiscal year ended November 29, 2003 filed with the SEC on February 28, 2004.

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

Q: Does our Board of Directors have a process for our common stockholders to communicate with its members?

A: At the present time, our Board of Directors has not adopted a formal policy to set forth a process by which our common stockholders may communicate with the members of the Board of Directors. However, any communications directed to members of our Board of Directors will be given due consideration and will be handled in accordance with the principal responsibilities of various committees, the duties of the members of our Board of Directors, our bylaws and all applicable rules and regulations relating to communications by our common stockholders. The Board of Directors believes that not having a formal process to communicate with them does not make them less accessible to our common stockholders and any inquiries to date have been satisfactorily processed and communicated to the appropriate members.

PROPOSAL 4

APPROVAL OF AMENDMENT TO OUR SIXTH AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES BY 20 MILLION FROM 80 MILLION TO 100 MILLION

Our Board of Directors has approved and recommended the adoption of an amendment to our Sixth Amended and Restated Certificate of Incorporation, or Restated Certificate, to increase the number of authorized shares of common stock available for issuance by 20 million from 80 million to 100 million. We are asking our common stockholders to consider and approve the amendment to our Restated Certificate. Currently, we have 80 million shares of our common stock and 5 million shares of our preferred stock authorized for issuance. In the event of approval of this amendment, our authorized shares of common stock would be increased by 20 million shares to 100 million. Our authorized shares of preferred stock will remain the same. If this proposal is approved, the additional shares would be part of the existing class of common stock and if and when issued, would have the same rights and privileges as the shares of common stock presently issued and outstanding. As of July 3, 2007, we had 41,277,801 shares of common stock outstanding.

Q: Why is the Board recommending this Proposal?

A: Our Board believes that this amendment to our Restated Certificate is necessary to provide us with a sufficient reserve of shares of common stock to provide us with flexibility to issue more shares of common stock for corporate purposes that may be identified from time to time, such as financings, acquisitions, strategic business relationships, stock dividends, including stock splits in the form of stock dividends, or issuances under our benefit plans. Having additional authorized shares of common stock available for issuance in the future would give us greater flexibility and allow shares of common stock to be issued without the expense and delay of a stockholders meeting, except as may be required by applicable law or regulations. We have no present commitment, plan or intent to issue any of the additional shares of common stock provided for in this Proposal 4. The increase in authorized shares of our common stock also could be used to make a change in control of us more difficult. Though we have no current plan or intention to issue such shares as a takeover defense, the additional authorized shares of common stock could be used to discourage persons from attempting to gain control of us or make more difficult the removal of management. Management is not currently aware of any specific effort to obtain control of us by means of a merger, tender offer, solicitation in opposition of management, or otherwise. If this Proposal 5 is approved, the additional authorized shares of common stock, as well as the currently authorized but unissued shares of common stock (but for those shares which are reserved for issuance), would be immediately available in the future for such corporate purposes as the Board of Directors deems advisable from time to time without further action by our common stockholders, unless such action is required by applicable law or any stock exchange or securities market upon which our shares may be listed.

It should be noted that, subject to the limitations as discussed above, all of the types of Board of Directors action described in the preceding paragraph can currently be taken and the power of the Board of Directors to take such actions would not be enhanced by the passage of this Proposal 4, although this Proposal 4 would increase the number of shares that are subject to such action.

Q: How will the Restated Certificate be amended?

A: If this Proposal 4 is approved and the amendment to the Restated Certificate becomes effective, the first paragraph of Article Fourth of the Restated Certificate, which sets forth our presently authorized capital stock, will be amended to read as set forth below.

FOURTH. (a) The total number of shares of capital stock that the Corporation shall be authorized to issue is 105 million divided into two classes as follows: (i) 100 million (100,000,000) shares of

common stock having a par value of $0.10 per share (Common Stock), and (ii) five million (5,000,000) shares of serial preferred stock in series having a par value of $0.10 per share (Preferred Stock).

Q: What is the vote required to approve Proposal 4?

A: The affirmative **FOR** vote of a majority of our shares of common stock issued and outstanding is required to approve the amendment to the Restated Certificate.

Q: When would the amendment become effective?

A: If approved by our common stockholders, the proposed amendment to our Restated Certificate will become effective upon the filing of a Certificate of Amendment with the Secretary of State of the State of Delaware, which will occur as soon as reasonably practicable after approval.

Q: How does the Board of Directors recommend I vote?

A: Our Board of Directors unanimously recommends a vote **FOR** the approval of the amendment to our Restated Certificate.

PROPOSAL 5

APPROVAL OF AMENDMENT TO OUR SIXTH AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO CHANGE THE CORPORATE NAME FROM INNOVO GROUP INC. TO JOE S JEANS INC.

Our Board of Directors has approved and recommended the adoption of an amendment to our Restated Certificate to change our corporate name from Innovo Group Inc. to Joe s Jeans Inc. We are asking our common stockholders to consider and approve this amendment to our Restated Certificate to change our corporate name to better reflect our organization and operation of our primary apparel line, Joe s Jeans . In the event that this Proposal 5 is approved, we will change the name of our Joe s Jeans Inc. subsidiary to Joe s Jeans Subsidiary, Inc.

Q: Why is the Board of Directors recommending this Proposal?

A: Our Board of Directors believes that this amendment to our Restated Certificate is necessary to better reflect our direction and focus on the continued growth of our primary brand, Joe s® and coincides with our desire in Proposal 1 to acquire all rights, title to and interest in the Joe s Brand from JD Holdings.

Q: How will the Restated Certificate be amended?

A: If this Proposal 5 is approved and the amendment to the Restated Certificate becomes effective, the first paragraph of the First Article of the Restated Certificate, which sets forth our present corporate name will be amended to read as set forth below.

FIRST. The name of the corporation is Joe s Jeans Inc. (the Corporation).

Q: What happens if the proposal is approved?

A: If the proposal is approved, we will change our corporate name to Joe s Jeans Inc. and also change our ticker symbol to JOEZ on Nasdaq. We will also change the corporate name of our subsidiary, Joe s Jeans Inc., to Joe s Jeans Subsidiary Inc.

Q: What happens if the proposal is not approved?

A: If the proposal is not approved, we will keep the corporate name Innovo Group Inc. and maintain the same ticker symbol on Nasdaq.

Q: **What is the vote required to approve Proposal 5?**

A: The affirmative **FOR** vote of a majority of our shares of common stock issued and outstanding is required to approve this amendment to the Restated Certificate.

Q: When would the amendment become effective?

A: If approved by our common stockholders, this proposed amendment to our Restated Certificate will become effective upon the filing of a Certificate of Amendment with the Secretary of State of the State of Delaware, which will occur as soon as reasonably practicable after approval.

Q: How does the Board of Directors recommend I vote?

A: Our Board of Directors unanimously recommends a vote **FOR** the approval of this amendment to our Restated Certificate.

PROPOSAL 6

APPROVAL OF AMENDMENT TO 2004 STOCK INCENTIVE PLAN

On April 7, 2004, our Board of Directors adopted the 2004 Stock Incentive Plan, or the 2004 Stock Plan. Our common stockholders approved the 2004 Stock Plan at the annual meeting of stockholders on June 3, 2004 and approved an amendment to our 2004 Stock Plan on June 9, 2005 to increase in the reservation of the total shares available for issuance to 4,1265,172 shares of common stock.

Our 2004 Stock Plan provides for an award of options, whether nonqualified or incentive, restricted common stock, restricted common stock units, performance shares, performance share units, purchases, share awards, stock appreciation rights or other awards based on the value of our common stock. The 2004 Stock Plan also permits the Compensation and Stock Option Committee to grant certain awards, such as performance shares, contingent upon pre-established performance goals to our executives and our subsidiaries. In order to qualify for deductibility under Section 162(m) of the Internal Revenue Code, or the Code, the 2004 Stock Plan, including, without limitation, the performance goals for determining performance awards set forth in the 2004 Stock Plan must be approved by our common stockholders.

Q: What is the vote required to approve Proposal 6?

A: The affirmative **FOR** vote of a majority of the shares present in person or represented by proxy at the annual meeting is required to approve the amendment to the 2004 Stock Plan. Unless otherwise instructed on the proxy, properly executed proxies will be voted in favor of this proposal.

Q: How does the Board of Directors recommend I vote?

A: Our Board of Directors unanimously recommends a vote **FOR** the approval of the amendment to the 2004 Stock Plan.

Q: Why is the Board of Directors recommending this Proposal?

A: Our Board of Directors has concluded that the adoption of the amendment to the 2004 Stock Plan is in our best interest and the interest of our common stockholders. Our Board of Directors believes that this amendment is necessary to provide us with a sufficient reserve of common stock for future awards of various types needed to attract, employ and retain employees, directors and consultants of outstanding ability.

Q: How will the 2004 Stock Plan be amended?

A: If approved by our common stockholders, the 2004 Stock Plan would be amended and restated to increase the total shares available for issuance under the 2004 Stock Plan by 4 million shares from 4,265,172 shares of common

stock to 8,265,172 shares of common stock.

Q: When would the amendment become effective?

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A: If approved by our common stockholders, the proposed amendment to our 2004 Stock Plan will become effective upon approval. As soon as reasonably practicable thereafter, we intend to file a registration statement covering the offering of the additional shares under the 2004 Stock Plan with the SEC pursuant to the Securities Act of 1933, as amended.

Q: What is a general description of the principal terms of the 2004 Stock Plan?

A: A general description of the principal terms of the 2004 Stock Plan is set forth below. However, this summary does not purport to be a complete description of all of the provisions of the 2004 Stock Plan, a copy of which is attached to this proxy statement as *Exhibit E* and has been revised to reflect the proposed amendment to the total shares available for issuance under the 2004 Stock Plan.

General. The purpose of the 2004 Stock Plan is to enhance our ability to attract and retain officers, directors, employees and consultants of outstanding ability and to provide selected officers, employees, directors and consultants with an interest in us parallel to that of our common stockholders. The 2004 Stock Plan provides for the award of options, whether nonqualified or incentive, restricted common stock, restricted common stock units, performance shares, performance share units, purchases, share awards, stock appreciation rights and other awards based on the value of our common stock to our officers, employees, directors and consultants, as well as those officers, employees, directors and consultants of our subsidiaries, such as Joe s Jeans, Inc.

Effective Date. The 2004 Stock Plan became effective on June 3, 2004 and was amended on June 5, 2005 to increase the number of shares available for issuance.

Number of Shares. Subject to adjustment for certain corporate events, the total number of shares of common stock which are available for the grant of awards under the 2004 Stock Plan cannot exceed 1,265,172 shares of common stock. If this Proposal 7 is approved, the total number of shares of common stock which are available for the grant of awards under the 2004 Stock Plan will be increased from 4,265,172 shares of common stock to 8,265,172 shares of common stock; provided, that, for purposes of this limitation, any common stock subject to an option which is canceled or expires without exercise will again become available for award under the 2004 Stock Plan. Upon forfeiture of awards in accordance with the provisions of the 2004 Stock Plan and the terms and conditions of the award, such shares will again be available for subsequent awards under the 2004 Stock Plan. Subject to adjustment, no employee will be granted, during any one (1) year period, options to purchase more than 1,250,000 shares of common stock, and the number of shares of common stock subject to any awards other than options or stock appreciation rights will not exceed 1,250,000 shares of common stock. Common stock available for issue or distribution under the 2004 Stock Plan will be authorized and unissued shares or shares reacquired by us in any manner.

Administration. The Compensation and Stock Option Committee of our Board of Directors of Directors will administer the 2004 Stock Plan. The Compensation and Stock Option Committee is currently comprised of Messrs. Savage, Hoffman, Rizvi and O Riordan. All members of the Compensation and Stock Option Committee are non-employee directors within the meaning of Rule 16b-3 as promulgated under Section 16 of the Securities Exchange Act of 1934, as amended, and are also outside directors within the meaning of Section 162(m) of the Code. The Compensation and Stock Option Committee will (i) approve the selection of participants, (ii) determine the type of stock awards to be made to participants, (iii) determine the number of shares of common stock subject to awards, (iv) determine the terms and conditions of any awards granted there under (including, but not limited to, any restriction and forfeiture conditions on such awards) and (v) have the authority to interpret the 2004 Stock Plan, to establish, amend, and rescind any rules and regulations relating to the 2004 Stock Plan, to determine the terms and provisions of any agreements entered into thereunder, and to make all other determinations necessary or advisable for the administration of the 2004 Stock Plan.

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Eligibility. Employees, officers, directors and consultants of us and our subsidiaries selected by the Compensation and Stock Option Committee are eligible to receive grants of awards under the 2004 Stock Plan. As of July 3, 2007, there were approximately 79 employees, one executive officer and six directors eligible to participate in the 2004 Stock Plan.

Awards. Awards under the 2004 Stock Plan may consist of options, restricted common stock, restricted common stock units, performance shares, performance share units, stock purchases, share awards, stock appreciation rights or other awards based on the value of the common stock.

(1) *Options*. Both nonqualified stock options , or Nonqualified Stock Options, and incentive stock options , or ISOs, may be granted under the 2004 Stock Plan, which we will collectively refer to as Options. The terms of any such Option will be set forth in an option agreement and will be consistent with the following:

Exercise Price. The exercise price per share of the shares of our common stock to be purchased pursuant to any Option will be fixed by the Compensation and Stock Option Committee at the time such Option is granted. In general, in no event will the exercise price for ISOs be less than the fair market value of a share on the day on which the ISO is granted. The Compensation and Stock Option Committee may also reduce the Option price of any outstanding Option either through a direct amendment to such Option or through a cancellation of such Option and immediate grant of a new Option with a lower Option price or in any other manner it deems appropriate.

Option Term. Subject to termination, the duration of each Option will be determined by the Compensation and Stock Option Committee, but may not exceed 10 years from the date of grant; provided, however, that in the case of ISOs granted to 10% shareholders, the term of such Option will not exceed 5 years from the date of grant. In the event of a participant s death (other than ISOs) Options that would otherwise remain exercisable following such death, will remain exercisable for one year following such death irrespective of the terms of the Option.

Vesting. An Option will vest and become exercisable at a rate determined by the Compensation and Stock Option Committee on the date of grant.

(2) *Restricted Common Stock*. The 2004 Stock Plan permits the Compensation and Stock Option Committee to award restricted common stock under the 2004 Stock Plan to eligible participants. The Compensation and Stock Option Committee may also award restricted common stock in the form of restricted common stock units having a value equal to an identical number of shares of common stock. Payment of restricted common stock units will be made in common stock or in cash or in a combination thereof (based upon the Fair Market Value (as defined in the 2004 Stock Plan) of the common stock on the day the restricted period expires).

(3) *Performance Shares*. Performance shares may be granted in the form of actual shares of common stock or common stock units having a value equal to an identical number of shares of common stock. The performance conditions and the length of the performance period will be determined by the Compensation and Stock Option Committee, but in no event may a performance period be less than twelve (12) months. The Compensation and Stock Option Committee will determine in its sole discretion whether performance shares granted in the form of common stock units will be paid in cash, common stock, or a combination of cash and common stock. Awards of performance shares to Covered Employee (as defined in the 2004 Stock Plan) will be subject to performance goals. Performance goals may be expressed in terms of one or more of the following business criteria: revenue, earnings before interest, taxes, depreciation and amortization, or EBITDA, funds from operations, funds from operations per share, operating income, pre or after tax income, cash available f