INNOVO GROUP INC
Form 10-K/A
March 27, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 0-18926

For the fiscal year ended November 30, 2002

INNOVO GROUP INC.
(Exact name of registrant as specified in its charter)

Delaware	11-2928178
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

5900 S. Eastern Ave., Suite 104, Commerce, California	90040
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (323) 725-5516

Securities registered pursuant to Section 12 (b) of the Act: NONE

Securities registered pursuant to Section 12 (g) of the Act:
Common Stock, $.10 par value per share

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Act.) Yes [ ] No [X]

The aggregate value of voting and non-voting common equity held by non-affiliates of the registrant as of March 14, 2003 was $16,234,000.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based on the closing price of the registrant's common stock on the NASDAQ Stock Market, Inc. as of May 31, 2002, the last business day of the registrant's most recently completed second quarter, was $11,596,000 million.

As of March 14, 2003 14,901,264 shares of common stock were outstanding.

Documents incorporated by reference: The information required by Part III (Items 10, 11, 12 and 13) is incorporated by reference to the Registrant's definitive proxy statement to be filed pursuant to Regulation 14A relating to the Registrant's 2003 annual meeting of stockholders.

INNOVO GROUP INC.
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FORWARD-LOOKING STATEMENTS. Statements contained in this Annual Report on Form 10-K and in future filings with the Securities and Exchange Commission (the "SEC"), in our press releases or in our other public or shareholder communications that are not purely historical facts are forward-looking statements. Statements looking forward in time are included in this Annual

Report on Form 10-K pursuant to the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the words, "believe", "anticipate", "expect", "estimate", "intend", "plan", "project", "will be", "will continue", "will likely result", and any variations of such words with similar meanings. These statements are not guarantees of future performance and are subject to certain risks and uncertainties that are difficult to predict, therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements.

Factors that would cause or contribute o such differences include, but are not limited to, the risk factors contained or referenced under the headings "Business," "Risk Factors" and "Managements Discussion and Analysis of Financial Condition and Results of Operations" set forth below. Innovo Group Inc. ("IGI") and its subsidiaries (collectively, the "Company")operate in a very competitive and rapidly changing environment. New risk factors can arise and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, readers are cautioned not to place undue reliance on forward-looking statements that only speak as of the date of this filing.

The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

IGI's Internet address is www.innovogroup.com, and the Company maintains a website at that address. The Company makes available on or through its Internet website, without charge, its annual report on From 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, and since December 18, 2001 those reports have been made available on our website on the day such material was electronically filed with the Securities and Exchange Commission or if not reasonably practical on that day, on the first business day following electronic filing with the SEC. In addition, any materials filed with the SEC may be read and copied at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 or viewed on line at www.sec.gov. Information regarding the operation of the Public Reference Room can be obtained by calling the SEC at 1-800-SEC-0330.

PART I

ITEM 1. BUSINESS

Narrative Description of Business

The Company's principle business activity involves the design, development and worldwide marketing of high quality consumer products for the apparel and accessory markets. We sell our products to over 1,000 different retail and private label customers and to distributors around the world. Retail customers purchase finish goods directly from the Company and then sell the product through their retail stores to the consumer marketplace. Private label customers outsource the production and sourcing of their private label products to the Company and then sell through their own distribution channels. Distributors purchase finished goods directly from the Company and then distribute to retailers in the international marketplace.

Additionally, the Company owns, operates and invests in real estate ventures throughout the United States.

The Company operates its consumer products business through three wholly-owned, operating subsidiaries, Innovo, Inc. ("Innovo"), Joe's Jeans, Inc. ("Joe's), and Innovo Azteca Apparel, Inc. ("IAA") with Innovo and Joe's having two wholly-owned operating subsidiaries, Innovo Hong Kong Limited ("IHK") and Joe's Jeans Japan, Inc. ("JJJ"), respectively. All of the Company's products are manufactured by independent contractors located in Los Angeles, Mexico and the Far East, including, Hong Kong, China, Korea, Vietnam and India. The products are then distributed out of Los Angeles or directly from the factory to the customer.

In April 2002, the Company entered into the real estate investment business by purchasing limited partnership interests in 22 limited partnerships that subsequently acquired limited partnerships in 28 apartment buildings consisting of approximately 4,000 apartment units. The Company also owns its former headquarters located in Springfield, TN, which it currently leases to third parties. The Company operates its real estate business through two wholly-owned operating subsidiaries: Leasall Management, Inc. ("LMI") and Innovo Realty Inc. ("IRI").

The Company's headquarters and principal executive offices are located at 5900 S. Eastern Ave., Suite 104, Commerce, CA 90040 and its telephone number at this location is (323) 725-5516. The Company also has operational offices and/or showrooms in Los Angeles, New York, Knoxville, Mexico, Tokyo and Hong Kong and third party showrooms in New York, Los Angeles and Paris.

Operating Segments

The Company's operations are comprised of two reportable segments: apparel and accessory, with the operations of the Company's Joe's and IAA subsidiaries representing the apparel segment and Innovo conducting business in the accessory segment. Segment revenues are generated from the sale of consumer products by Joe's, IAA and Innovo. The Company's corporate activities are represented by the operations of IGI, the parent company, and its real estate operations are conducted through the Company's LMI and IRI subsidiaries. The Company's real estate operations do not currently require a substantial allocation of the Company's resources and is not a significant part of management's daily operational functions, and thus, the Company's real estate operations are not currently defined as a distinct operating segment but are classified as "other" along with the Company's other corporate activities.

General Development of Business

Innovo, a Texas corporation, was formed in April 1987 to manufacture and domestically distribute cut and sewn canvas and nylon consumer products for the utility, craft, sports licensed and advertising specialty markets. In 1990, Innovo merged into Elorac Corporation, a "blank check" company, which was renamed Innovo Group, Inc., a Delaware corporation. As used in this Annual Report on Form 10-K, the terms "we", "us", "IGI", "our", and the "Company" refer to Innovo Group Inc. and its subsidiaries and affiliates, unless the context indicates otherwise.

In 1991, the Company acquired the business of NASCO, Inc. ("NASCO"), a Tennessee corporation, a manufacturer, importer and distributor of sports-licensed sports bags, backpacks, and other sporting goods, located in Springfield, Tennessee. NASCO, subsequently renamed Spirco, Inc. ("Spirco"), was also engaged in the marketing of fundraising programs to school and youth organizations. The fundraising programs involved the sale of magazines, gift wraps, food items and seasonal gift items.

In 1992, the Company formed NASCO Products International, Inc. ("NPII"), Tennessee corporation. NPII was formed to focus on the distribution of the Company's accessory products in the international marketplace. NPII currently does not currently have any business activities. See "Management Discussion and Analysis of Financial Condition and Results of Operations-Other Income."

In 1993, the Company sold the youth and school fundraising business of Spirco to QSP, Inc. ("QSP"). Spirco had incurred significant trade debt from the fiscal 1992 losses it incurred in marketing fundraising programs and from liabilities incurred by NASCO prior to its acquisition by the Company that were not disclosed at that time. On August 27, 1993, Spirco filed for reorganization under Chapter 11 of the U.S. Bankruptcy Code. IGI, Innovo and NPII were not parties to the filing.

In 1994, the Company formed Leasall Management, Inc. ("LMI"), a Tennessee corporation. Leasall acquired Spirco's equipment and plant and assumed the related equipment and mortgage debt. Leasall still owns and leases to third parties the plant purchased from Sprico, which served as the Company's former headquarters in Springfield, TN. Subsequently, Spirco was merged into IGI, resulting in IGI acquiring direct ownership in the remaining assets Leasall did not purchase. Spirco claims, which had been guaranteed by IGI, received full payment through the issuance of shares of IGI common stock.

In the latter part of 1998, the Company closed its domestic manufacturing and distribution facilities in Springfield, TN and relocated its corporate headquarters, manufacturing and distribution facilities to Knoxville, TN. The Company's closed the Springfield facility based on the Company's need for a more suitable facility for its manufacturing needs and the Company's need at the time for a more skilled labor force to meet the Company's production requirements. Additionally, in 1998 the Company had brought in additional investors and new management, and these individuals resided in Knoxville, TN.

During fiscal 2000, the Company restructured its operations by closing its domestic manufacturing and distribution facilities in Knoxville and realigning the Company's operational structure to focus on sales and marketing. The Company also raised additional working capital and converted certain indebtedness to equity. The restructuring was undertaken as a condition to the equity investment by Commerce Investment Group, LLC ("Commerce"), a strategic investment partner. In an effort to reduce product costs and increase gross profit, the Company shifted manufacturing to third-party foreign manufacturers, including Commerce's affiliates, and outsourced distribution to Commerce's affiliates in an effort to increase the effectiveness and capacity of the Company's distribution network. See Note 1 "Business Description, Restructuring of Operations" to the Notes to the Consolidated Financial Statements.

In March of 2001, the Company formed Joe's Jeans, Inc. ("Joe's"), a Delaware corporation, to focus on the design, production and worldwide marketing of high fashion apparel products bearing the "Joe's Jeans" brand. See Note 3 "Acquisitions" to the Notes to the Consolidated Financial Statements.

In August of 2001, the Company acquired Azteca Production International, Inc.'s ("Azteca"), a Commerce affiliate, knit apparel division and formed Innovo-Azteca Apparel, Inc. ("IAA"), a California corporation. IAA designs, sources and markets a wide array of apparel products to the private label and retail market. See Note 3 "Acquisitions" to the Notes to the Consolidated Financial Statements.

In May 2002, the Company's Joe's subsidiary created Joe's Jeans Japan, Inc. ("JJJ"), a Japanese corporation to facilitate the distribution of the Joe's Jeans brand in the Japanese marketplace.

Furthermore, in May 2002, the Company's Innovo subsidiary created Innovo Hong Kong Limited ("IHK"), a Hong Kong corporation. IHK was created to assist the Company's accessory division with the design, development and sourcing of accessory products out of the Far East.

In April 2002, the Company formed Innovo Realty, Inc. ("IRI"), a California corporation, to facilitate an investment in real estate apartment complexes located throughout the United States. See "Business-Investments."

Summary of Significant 2002 Developments

General Overview

The Company, in fiscal 2002, experienced a 219% increase in revenues as a result of the Company's consumer products division's developing, sourcing and distributing its product lines to its existing customer base as well as to a growing new customer base. This combined with the Company's efforts to manage its operating expenses has resulted in the Company showing a net profit of $572,000 for fiscal 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of the Company's financial performance for fiscal 2002.

In the third quarter of 2002, IGI, the parent company, relocated its corporate offices from Knoxville, TN to the Company's existing facilities in Commerce, CA, just outside of Los Angeles. Commerce is an important center of business in the apparel and accessory industries. The Company believes the relocation was necessary to support the Company's future development in the apparel and accessory business.

Accessory

Innovo. In fiscal 2002, the Company's Innovo subsidiary, which is focused on the distribution of accessory products, grew its business significantly compared to fiscal 2001. The growth is a result of Innovo's entry into the private label marketplace and as a result of continued success with its Bongo accessory product line and its craft business. Prior to fiscal 2002, Innovo did not produce fashion accessory products for the private label market. Consequently, Innovo experienced a growth of 114% in fiscal 2002 compared to fiscal 2001. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

In May of 2002, Innovo established IHK to serve as a sourcing office in Hong Kong. IHK is focused on the design, development and sourcing accessory products for its parent company, Innovo.

Apparel

Joe's. In fiscal 2002, Joe's continued to establish domestic and international brand recognition in the high-end fashion apparel industry. As a result of increased brand recognition and heightened visibility, sales of Joe's products increased by 504% from fiscal 2001. Joe's was formed in February of 2001, thus fiscal 2002 results reflect Joe's first full twelve-month cycle of business.

In May of 2002, Joe's created JJJ to market and distribute Joe's products in the Japanese marketplace.

IAA. IAA, which was formed in August of 2001, grew its revenues by 292% in fiscal 2002 compared to fiscal 2001. Fiscal 2002 results reflect IAA's first full twelve-month cycle of business. The growth is primarily as a result of an increase in revenues from IAA's private label division. In fiscal 2002, IAA created a separate division to focus on the development of branded product lines. IAA's branded products division has since entered into licensing agreements with Mattel, Inc. for the licensing rights to the Hot Wheels trademark for apparel and accessory products and with platinum recording artist Lil Bow Wow for the right to produce apparel and accessory products. Pursuant to both agreements, IAA has the right to sublicense the accessory category to its affiliated subsidiary Innovo. See "Business - Licensing Agreements."

Real Estate

IRI. On April 5, 2002, the Company through IRI, closed on a transaction pursuant to which IRI purchased limited partner interests in 22 limited partnerships. Subsequently, the limited partnerships purchased 28 apartment buildings consisting of approximately 4,000 apartment units located in various states throughout the United States. See "Business - Investments."

Principal Products and Revenue Sources

The Company's products are created and its revenues are derived through its Innovo, IAA, and Joe's subsidiaries. Revenues generated by Innovo represent sales in the accessory segment. The Company's Joe's and IAA subsidiaries account for the Company's apparel segment revenues

The Company's net revenues by segment for the last three years are shown in the table below:

	2002	2001	2000
Accessories	41%	61%	100%
Apparel	59%	39%	0%
	100%	100%	100%

Accessory

Innovo, headquartered in Knoxville, TN, designs, develops and markets accessory consumer products such as fashion handbags, purses, wallets, backpacks, duffle bags, sports bags, belts, hats and scarves for department stores, mass merchandisers, specialty chain stores and private label customers. Additionally, Innovo markets craft products including tote bags and aprons to mass merchandisers and craft specialty stores. Innovo's products generally are accompanied by one of Innovo's own logos such as Daily Denim, Tote Works and Test Tube, the brand of a private label customer or the brand of a third party licensor such as Bongo. Innovo's revenues in the accessory segment increased by 114% in fiscal 2002 compared to fiscal 2001. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

In fiscal 2002, Innovo entered the private label accessory business. As of November 30, 2002, Innovo produced private label products primarily for American Eagle Outfitters, Inc. and Limited Brands, Inc.'s Express division. Private label business accounted for approximately 26% of Innovo's gross revenues in fiscal 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Innovo anticipates continued growth in the private label market as a result of Innovo's ability to provide quality accessory products that are fashionably desirable at competitive prices, however, there can be no assurances that Innovo will be able to increase its market share in the private label business.

In fiscal 2002, Innovo's Bongo accessory product line experienced growing demand in the retail marketplace. Gross revenues associated with the Bongo Product line grew significantly in fiscal 2002 and represented approximately 28% of Innovo's total gross revenues in fiscal 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." In November 2002, Innovo solidified and extended its relationship with the owner of the Bongo brand, by signing a four-year licensing agreement. The agreement gives Innovo multi-year extension options based on certain performance criteria for the bag and small PVC/leather goods categories. See "Business - Licensing Agreements and Intellectual Property."

Innovo initially obtained the licensing rights to the Bongo trademark in the second quarter of 2001. Innovo has since launched the Bongo line to department stores and specialty stores across the United States, including Sears, Roebuck & Co., Beall's, Inc., Hecht's, Foley's, Robinsons-May, J. C. Penney Company, Inc., and Claire's Stores, Inc.

Innovo's IHK subsidiary is headquartered in Hong Kong and assists Innovo with the development, design and sourcing of the products sold by Innovo to its customers. IHK allows Innovo to minimize the amount of time required to design, develop and source its products, thus allowing Innovo to react quickly to changing markets conditions and to deliver its products in a timely manner.

In fiscal 2002, Innovo experienced increased demand for its craft product lines due to Innovo's ability to increase its business with its existing customers such as Wal-Mart and Michaels Stores, Inc. and add additional customers such as A.C. Moore Arts & Crafts. The Company's craft business increased by approximately 62% in fiscal 2002, compared to fiscal 2001. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The following are the principal products that Innovo distributes in the United States to the accessory and craft market:

FASHION ACCESSORY	GENERAL ACCESSORIES	CRAFT
Purses	Travel and Tote bags	Tote Bags
Hand Bags	Waist Packs	Adult and Children's Aprons
Duffle Bags	Duffle Bags	Christmas Stockings
Wallets	Stadium Totes/Cushions	Gourmet/BBQ Aprons
Beach Bags	Insulated Lunch Bags	
Tote Bags	Soft Coolers	
	Pencil Cases	
	Backpacks	
	Waist Packs	
	Hats	
	Scarves	

Apparel

Joe's. Joe's, headquartered in Commerce, CA, designs, develops, and markets high-fashion apparel products under the "Joe's Jeans" brand. Joe's products are typically part of a collection that includes pants, denim jeans, shirts, sweaters, jackets and other apparel products. In fiscal 2002, Joe's focused its efforts on establishing the Joes brand in both the domestic and international marketplace by continuing to offer its customers and consumers a fashion forward, quality product. In fiscal 2002, Joe's created JJJ in an effort to establish the Joe's brand in the Japanese marketplace. Additionally, in fiscal 2002, Joe's successfully entered the Canadian and European markets through the use of international distributors.

Joe's believes that it has developed a strong customer base upon which Joe's can grow its business going forward. Joe's products are sold in the United States and abroad to upscale retailers and boutiques such as Barney's New York, Inc., Bloomingdale's, Inc., Loehmann's, Inc., Nordstrom, Inc., Sak's Fifth Avenue, Inc., Intermix and Fred Segal in the United States and other complimentary retailers in the international market.

Joe's products are marketed to retailers through third party showrooms located in New York, Los Angeles, and Paris and through its own showroom in Tokyo. Joe's revenues increased by 504% in fiscal 2002, compared to fiscal 2001. Joe's did not have revenues in the international marketplace in fiscal 2001. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Joe's product lines include, but are not limited to, the following:

WOMEN	MEN
Denim Jeans	Denim Jeans
Denim Skirts	Knit Shirts
Denim Jackets	
Knit Shirts	
Sweaters	
Hand Bags	

IAA. IAA, which was formed in August 2001, focuses on marketing products to the private label apparel market. IAA has since diversified and now consists of two divisions, one focusing on the development of private label business and the other on the development of branded apparel products.

Since establishing IAA's branded division, IAA has entered into licensing agreements with Mattel, Inc. for the licensing rights to the Hot Wheels trademark for apparel and accessory products and with platinum recording artist Lil Bow Wow for the right to produce apparel and accessory products. IAA entered into the agreement with Mattel in August of 2002 and IAA entered into the agreement for the Lil Bow Wow license in October of 2002. Pursuant to both agreements, IAA has the right to sublicense the accessory category to its affiliated subsidiary Innovo. See "Business - Licensing Agreements and Intellectual Property."

As of November 30, 2002, IAA's private label division primarily designed, sourced and marketed denim jeans for J. Crew, Inc. and Target Corporation's Mossimo division. IAA's revenues increased by 292% in fiscal 2002 compared to fiscal 2001. IAA's branded division did not have any revenues in fiscal 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

IAA's private label product lines primarily consist of knit tops and denim bottoms for both the men's and women's market. The branded sportswear product lines are focused around fashion oriented tops and bottoms. The product lines include, but are not limited to the following:

Tops	Bottoms
Knit Fashion Shirts	Fleece Sweatpants
Fashion T-Shirts	Knit Pants
Basic T-Shirts	Denim Jeans
Fleece Sweatshirts	Velour Pants
Thermal Pullovers	Sweat Suits
Velour Shirts	
Sports Jersey's	

Product Development and Sourcing

Accessory

Innovo. Innovo develops the designs and artwork for all products through its in-house design staff. Innovo's fashion and licensed accessory products are produced with the logos or other designs licensed from licensors or produced bearing the Innovo's own private brands such as Test Tube and Tote Works. See "Business-Licensing Agreements and Intellectual Property." Innovo markets its craft products, without artwork, to be sold for finishing by retail craft customers.

Innovo's craft products are purchased from Commerce, which manufactures the Company's craft products in Mexico. Innovo is obligated, as defined in the supply agreement with Commerce, to purchase all of its craft products from Commerce through August 2004. In fiscal 2002, Innovo purchased approximately $3.4 million of craft products from Commerce Investment Group. See "Business Description-Restructuring of Operations" in the Notes to the Consolidated Financials.

Innovo's sourcing office in Hong Kong, IHK, manages much of the design and development of its products that are sourced out of the Far East. Innovo's products are distributed out of Los Angeles through an agreement with an affiliate of Commerce or the products may be shipped directly to Innovo's customers located in the country of origin of the manufactured products. See "Business Description-Restructuring of Operations" in the Notes to the Consolidated Financials.

Innovo obtains its fashion accessory products from overseas suppliers located mainly in China through short term manufacturing agreements. The independent contractors that manufacture Innovo's products are responsible for obtaining the necessary supply of raw materials and for manufacturing the products to Innovo's specifications. See "Business-Import and Import Restrictions."

With Innovo primarily utilizing overseas contractors that employ production facilities located in China the products manufactured for Innovo are subject to export quotas and other restrictions imposed by the Chinese government. To date the Company has not been adversely affected by such restrictions; however, there can be no assurance that future changes in such restrictions by the Chinese government would not adversely affect Innovo, even if only temporarily, while Innovo shifted production to other countries or regions such as Mexico, Korea, Taiwan or Latin America. It is anticipated that in fiscal 2003 that most if not all of Innovo's sales will be imported products that are subject to United States import quotas, inspection or duties. See "Business--Import and Import Restrictions."

Apparel

Joe's. Joe's product development is managed internally by a team of designers led by Joe Dahan, which are responsible for the creation, development and coordination of the product group offerings within each collection. Joe's typically develops four collections per year for spring, summer, fall and holiday, with certain basic styles being offered throughout the year. Joe Dahan is an instrumental part of Joe's design process. A loss of Joe Dahan could potentially have a material adverse impact on Joe's. In the event of the loss of Joe Dahan, Joe's believes it could find alternative sources for the development and design of Joe's products, although there can be no assurances. See "Risk Factors-- The loss of the services of Mr. Joe Dahan could have a material adverse effect on Joe's business."

Joe's products are sourced through Commerce, or from domestic contractors generally located in the Los Angeles area. Joe's is not contractually obligated to purchase its products from Commerce. Joe's staff, however, controls the production schedules in order to ensure quality and timely deliveries. Commerce is responsible for the acquisition of the raw materials necessary for the production of Joe's goods. In the event that Commerce is unable to acquire the necessary raw materials, Joe's believes that there are alternative sources from which the raw materials could be acquired. The Company is currently reviewing the option of sourcing products from international sources and/or directly sourcing the products from domestic suppliers. During fiscal 2002, Joe's purchased approximately $6.1 million of goods from Commerce. See "Certain Relationships and Related Transactions-Commerce Investment Group."

While Joe's believes that there are currently alternative sources from which to outsource the production of Joe's products, in the event the economic climate or other factors resulted in significant reduction in the number of local contractors in the Los Angeles area, Joe's business could be negatively impacted. At this time, Joe's believes that it would be able to find alternative sources for the production of its products if this was to occur, however, no assurances can be given that a transition could be completed without a disruption to Joe's business.

IAA. IAA's private label product development is managed by IAA's internal design and merchandising staff or in conjunction with the design teams of the customer. IAA's products are sourced from Mexico through independent contractors, through Commerce or through independent overseas contractors. During fiscal 2002, IAA purchased approximately $6.1 million of goods from Commerce. See "Certain Relationships and Related Transactions-Commerce Investment Group."

IAA's branded division's products are developed by its in-house design team or through the use of outside freelance designers. IAA's branded division will be sourcing a majority of its products out of Mexico and the Far East, including countries such as China, South Korea, Vietnam and India. IAA's purchases in the international markets will be subject to the risks associated with the importation of these type products. See "Business-Import and Import Restrictions."

The Company relies on Commerce and its affiliates' ability to source and supply the Company's products. The Company expects its reliance on Commerce to decrease in the future as the Company begins to purchase more of its products from third party suppliers. During 2002, the Company purchased approximately $15.6 million or 63% of its products from Commerce.

The Company generally purchases its products in U.S. dollars. However, as a result of using overseas suppliers, the cost of these products may be affected by changes in the value of the relevant currencies. See "Risk Factors -- Our business is exposed to domestic and foreign currency fluctuations."

Notwithstanding the supply agreement for craft products with Commerce, the Company does not have any long-term supply agreements with independent overseas contractors, but believes that there are a number of overseas and domestic contractors that could fulfill the Company's requirements. See "Business Description-Restructured Operations" in Notes to the Consolidated Financials.

While the Company attempts to mitigate its exposure to manufacturing, the use of independent contractors does reduce the Company's control over production and delivery and exposes the Company to the other usual risks of sourcing products from independent suppliers. The Company's transactions with its foreign manufacturers and suppliers are subject to the risks of doing business abroad. Imports into the United States are affected by, among other things, the cost of transportation and the imposition of import duties and restrictions. The United States and the countries in which our products are manufactured may, from time to time, impose new quotas, duties, tariffs or other restrictions, or adjust presently prevailing quotas, duty or tariff levels, which could affect our operations and our ability to import products at current or increased levels. We cannot predict the likelihood or frequency of any such events occurring. See "Business-Import and Import Restrictions."

Licensing Agreements and Intellectual Property

Accessory

Innovo. On March 26, 2001, Innovo entered into a two-year exclusive licensing agreement with Candies, Inc. ("Candies") pursuant to which Innovo obtained the right to design, manufacture and distribute bags and small leather/PVC goods bearing the Bongo trademark. According to the original terms of the licensing agreement, the license was to expire on March 31, 2003. However, in November 2002, Innovo signed a four-year agreement effective April 1, 2003 with Candies to extend the term of the licensing agreement. The extended agreement offers Innovo the potential for multi-year extensions tied to certain performance criteria.

Innovo pays Candies a five percent royalty and a two percent advertising fee on the net sales of Innovo's goods bearing the Bongo trademark. In accordance with the terms of the agreement, Innovo has the exclusive right to sell, market, distribute, advertise and promote the Bongo products in the United States, including its territories and possessions, Mexico, Central and South America and Canada. Candies has the right to terminate the agreement in the event Innovo breaches any material terms of the agreement.

Innovo's collegiate sports-licensed accessory products display logos insignias, names, or slogans licensed from the various collegiate licensors. Innovo holds licenses for the use of the logos and names of over 130 colleges for various products. Each of the collegiate licensing agreements grants Innovo either an exclusive or non-exclusive license for use in connection with specific products and/or specific territories. The agreements are generally for a twelve to twenty-four month period and generally call for Innovo to pay an eight percent royalty on goods sold bearing the marks.

Innovo had entered into a licensing agreement with Major League Baseball, which expired on December 31, 2002. Subsequently, Innovo has reached a verbal agreement with Major League Baseball for an additional twelve-month extension period for bag related products. While Innovo is in the process of formally memorializing the agreement, there are no guarantees that Innovo will be able to enter into a written agreement with Major League Baseball. According to the terms of the understanding between Innovo and Major League Baseball, Innovo is to pay an eleven percent royalty on products sold bearing Major League Baseball logos with Innovo having the right to sell the products to concession, club retail outlets and premium customers in the United States.

While Innovo is continuing to develop products bearing the sport licenses, Innovo is placing more time and resources towards developing more fashion oriented product lines that the Company believes will have greater potential in the marketplace.

Innovo's craft line includes tote bags imprinted with the E.A.R.T.H. ("EVERY AMERICAN'S RESPONSIBILITY TO HELP") BAG trademark. E.A.R.T.H. Bags are marketed as a reusable bag that represents an environmentally conscious alternative to paper or plastic bags. Sales of E.A.R.T.H. Bags, while significant in Innovo's early years, have not been significant in the last five years. The Company still considers the trademark to be a valuable asset, and has registered it with the United States Patent and Trademark Office.

The Company has also applied for a trademark for its product lines known as "Friendship" and "Toteworks."

Apparel

Joe's. In February 2001, the Company's Joe's subsidiary acquired the licensing rights to the JD logo and the Joe's Jeans trademark for all apparel and accessory products. The license agreement with JD Design, LLC, has a ten-year term with two ten-year renewal periods upon there being no material default at the end of each period. Additionally, pursuant to the terms of the agreements, Joe Dahan is to receive a three percent royalty on the net revenues of Joe's. See "Employees-Executive Officers."

IAA. IAA has entered into a five-year licensing agreement with Mattel, Inc. to produce Hot Wheels branded adult apparel and accessories in the United States, Canada and Puerto Rico. Under the terms of the license agreement, IAA will produce apparel and accessory products targeted to men and women in the junior and contemporary markets. The products lines will include active wear, sweatshirts and pants, outerwear, t-shirts, "baby tee's" for women, headwear, bags, backpacks and totes, which will be emblazoned with the familiar Hot Wheelsflame logo.

The product line, to be released in 2003, will also include items sporting the Hot Wheels 35th Anniversary logo, as a part of the brand's celebratory campaign for the year. IAA may terminate the agreement in any year by paying the remaining balance of that year's minimum royalty guarantees plus the subsequent years minimum royalty guarantees. Royalties paid by IAA earned in excess of the minimum royalty requirements for any one given year, may be credited towards the shortfall amount of the minimum required royalties in any subsequent period during the term of the licensing agreement.

According to the terms of the agreement, IAA has the right to sublicense the accessory product's category to Innovo. The agreement calls for a royalty rate of seven percent royalty and a two percent advertising fee on the net sales of goods bearing the Hot Wheels trademark. In the event IAA defaults upon any material terms of the agreement, the Licensor shall have the right to terminate the agreement.

On August 1, 2002, IAA entered into an exclusive 42-month worldwide agreement for the Lil Bow Wow license, granting IAA the right to produce and market products bearing the mark and likeness of the popular stage and screen performer. The IAA division plans to create and market a wide range of apparel and coordinating accessories for boys and girls. The license agreement between IAA, Bravado International Group, the agency with the master licensing rights to Lil Bow Wow, and LBW Entertainment, Inc. calls for the performer to make at least one public appearance every six months during the term of the agreement to promote the Lil Bow Wow products, as well as use his best efforts to promote and market these products on a daily basis.

Additional terms of the license agreement allows IAA to market boys and girls products bearing the Lil Bow Wow brand to all distribution channels, the right of first refusal on all other Lil Bow Wow related product categories during the term of the license agreement, and the right of first of refusal on proposed transactions by the licensor with third parties upon the expiration of the agreement. The agreement calls for IAA to pay an eight percent royalty on the nets sales of goods bearing Lil Bow Wow related marks. In the event IAA defaults upon any material terms of the agreement, the Licensor shall have the right to terminate the agreement. Furthermore, IAA has the right to sublicense the accessory product's category to Innovo.

The following sets forth certain information concerning the license agreements currently held by the Company:

Licensor	Types of Products	Geographical Areas	Minimum Royalties	Expi
Colleges/logos of approximately 130 colleges	Tote, lunch, shoe and laundry bags, stadium seat cushions, sports bags and backpacks	United States	$8,000	Vary expi over mont
Major League Baseball	Tote, lunch, shoe and laundry bags, stadium seat cushions, sports bags	United States	N/A	12/3 mont exte
Candies, Inc. (Bongo)	Bags, belts, small leather/pvc goods	North & South America and U.S. Territories	$312,500 prior to expiration	3/31
Bravado International Group, Inc. (Lil Bow Wow)	Apparel and accessories	United States	$75,000 prior to 01/31/05	02/0

Mattel, Inc. (Hot Wheels)	Apparel and accessories	United States, Canada, Puerto Rico	$1,050,000	12/3
JD Design	Apparel and accessories	Worldwide	N/A	02/1

The Company believes that it will continue to be able to obtain the renewal of all material licenses; however, there can be no assurance that competition for an expiring license from another entity, or other factors will not result in the non-renewal of a license. As we continue to expand our business in the international marketplace, our trademarks or the trademarks we license may not be able to be adequately protected. See "Risk Factors -- Our trademark and other intellectual property rights may not be adequately protected outside the United States."

The Company believes that it is in substantial compliance with the terms of all material licenses, excluding the sports licenses previously held by the Company's Nasco Products International, Inc.'s ("NPII") for international markets. Historically, the Company has accrued for what it deems to be the reasonable expense or obligation associated with these licensing agreements in the event the Company could not successfully negotiate a reasonable settlement with certain international licensors. During 2002, the Company determined that it was no longer necessary to accrue for the potential liability associated with its NPII subsidiary's prior licensing agreements in the international marketplace because of the lack of any material discussions or contact with the licensors over the last three fiscal years. Consequently, Innovo reversed the accrual which the Company had previously reserved for the potential liability associated with Nasco Products International, Inc.'s licenses in the international licenses. See "Managements Discussion and Analysis of Financial Condition and Results of Operations."

Customers

Accessory

Innovo. During fiscal 2002, Innovo sold products to a mix of mass merchandisers, department stores, craft chain stores and other retail accounts. Innovo estimates that its products are carried by over 500 customers in over 4,000 retail outlets in the United States. Additionally, in fiscal 2002, Innovo began to sell its products to private label customers.

In marketing Innovo's products, Innovo attempts to emphasize the competitive pricing and quality of its products, its ability to assist customers in designing marketing programs, its short lead times and the high success rate our customers have had with our products. Generally, Innovo's accounts are serviced by Innovo's sales personnel working with marketing organizations that have sales representatives that are compensated on a commission basis. Innovo's New York City showroom is used to showcase all product lines developed by Innovo and to help facilitate sales for all accounts.

In fiscal 2002, Innovo sold its products to private label customers such as American Eagle Outfitters and Limited Brands, Inc.'s Express division. Innovo currently sells it products to retailers such as Wal-Mart, Inc., A.C. Moore Arts & Crafts, Joannes, Inc., Michaels Stores, Inc., Sears, Roebuck & Co., 579, Stores, Beall's, Inc., Hecht's, Foley's, Robinson-May, J. C. Penney Company, Inc., Claire's Stores, Inc. and The Wet Seal, Inc.

For fiscal 2002, Innovo's three largest customers accounted for approximately 54% of its total gross revenues. The loss of any of these three customers would have a material adverse effect on Innovo.

Joe's. Joe's products are sold to consumers through high-end department stores and boutiques located throughout the world. For Joe's domestic sales, Joe's has entered into sales agreements with third party showrooms where retailers review the latest collections offered by Joe's and place orders. Subsequently, the showrooms provide Joe's with purchase orders from the retailers. Joe's then distributes the products from its Los Angeles distribution facility. Joe's currently has domestic agreements with showrooms in Los Angeles and New York and these showrooms have representatives throughout the United States.

Joe's products are sold in Japan through its subsidiary Joe's Jeans Japan. Joe's Jeans Japan operates a company-operated showroom in Tokyo through which Joe's products are sold to retailers. Additionally, Joe's is currently selling its products in Europe and Canada through distributors who purchase the product directly from Joe's and then distribute the product in to the local markets. Revenues generated by Joes Jeans Japan represented approximately 21% of Joe's total net revenue in fiscal 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company currently sells to domestic retailers such as Barney's New York, Saks Fifth Ave, Inc., Bloomingdale's, Inc., Macy's, Inc., Intermix, Fred Segal and Loehmann's and in Japan to retailers such as Sanei International, Interplanet, Free's Shops, Isetan, Mitsukoshi New York Runway and Barney's New York.

The Joe's Jeans website (www.joesjeans.com) has been built to advance the brand's image and to allow consumers to review the latest collection of products. Joe's currently uses both online and print advertising to create brand awareness with customers as well as consumers.

For fiscal 2002, Joe's five largest customers accounted for approximately 18% of its total gross revenues.

IAA. IAA develops apparel products for the private label and branded product markets. IAA currently distributes its private label products primarily to Target Corporation's Mossimo division and J. Crew, Inc. IAA is currently relying on these customers for a majority of its business.

During fiscal 2002, sales to J. Crew, Inc. and Target Corporation represented approximately 34% and 21%, respectively, of the total gross revenues of IAA. The Company is focused on broadening IAA's customer base within the private label markets.

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

The Company's business has historically been seasonal by nature. While the Company believes that as a result of its growing product lines and expanding business model its business should be less seasonal in future periods, a majority of the Company's revenues are generated during the Company's third and fourth quarters. See "Business-Seasonality of Business and Working Capital."

Seasonality of Business and Working Capital

The Company has historically experienced and expects to continue to experience seasonal fluctuations in sales and net earnings. Historically, a significant amount of the Company's net sales and a majority of its net earnings have been realized during the third and fourth quarter. In the second quarter in order to prepare for peak sales that occur during the third quarter, the Company builds inventory levels, which results in higher liquidity needs as compared to the other quarters in the fiscal year. If sales were materially different from seasonal norms during the third quarter, the Company's annual operating results could be materially affected. Accordingly, results for the individual quarters are not necessarily indicative of the results to be expected for the entire year.

The Company is anticipating a significant increase in organic growth during 2003. The Company believes that it could be necessary to obtain additional working capital in order to meet the operational needs associated with such growth. The Company believes that it will address these needs by increasing the availability of funds offered to the Company under its financing agreements with CIT Group, Inc. ("CIT") or other financial institutions. Nonetheless, the Company may be required to obtain additional capital through debt or equity financing. See "Managements Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources."

The Company believes that any additional capital, to the extent needed, may be obtained from the sale of equity securities or through short-term working capital loans. However, there can be no assurance that this or other financing will be available if needed. The inability of the Company to be able to fulfill any interim working capital requirements would force the Company to constrict its operations.

Backlog

Although the Company may at any given time have significant business booked in advance of ship dates, customers' purchase orders are typically filled and shipped within two to six weeks. As of November 30, 2002, there were no significant backlogs.

Competition

The industries in which the Company operates are fragmented and highly competitive in the United States and on a worldwide basis. We compete against a large number of marketing products similar to ours. The Company does not hold a dominant competitive position, and its ability to sell its products is dependent upon the anticipated popularity of its designs, the brands its products bear, the price and quality of its products and its ability to meet its customers' delivery schedules.

The Company believes that it is competitive in each of the abovedescribed segments with companies producing goods of like quality and pricing, and that new product development, product identity through marketing, promotions and low price points will allow it to maintain its competitive position. However, many of the Company's competitors possess substantially greater financial, technical and other resources than the Company, including the ability to implement more extensive marketing campaigns. Furthermore, the intense competition and the rapid changes in consumer preferences constitute significant risk factors in our operations. As the Company expands globally, it continues to encounter additional sources of competition. See "Risk Factors--We face intense competition in the worldwide apparel and accessory industry."

Imports and Import Restrictions

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

The Company's import operations are subject to constraints imposed by bilateral textile agreements between the United States and a number of foreign countries, including Hong Kong, China, Taiwan and Korea. These agreements impose quotas on the amount and type of goods that can be imported into the United States from these countries. Such agreements also allow the United States to impose, at any time, restraints on the importation of categories of merchandise that, under the terms of the agreements, are not subject to specified limits. The Company's imported products are also subject to United States customs duties and, in the ordinary course of business, the Company is from time to time subject to claims by the United States Customs Service for duties and other charges.

The Company monitors duty, tariff and quota-related developments and continually seeks to minimize its potential exposure to quota-related risks through, among other measures, geographical diversification of its manufacturing sources, the maintenance of overseas offices, allocation of overseas production to merchandise categories where more quota is available and shifts of production among countries and manufacturers.

Because the Company's foreign manufacturers are located at greater geographic distances from the Company than its domestic manufacturers, the Company is generally required to allow greater lead time for foreign orders, which reduces the Company's manufacturing flexibility. Foreign imports are also affected by the high cost of transportation into the United States.

In addition to the factors outlined above, the Company's future import operations may be adversely affected by political instability resulting in the disruption of trade from exporting countries, any significant fluctuation in the value of the dollar against foreign currencies and restrictions on the transfer of funds.

Employees

As of March 13, 2003 the Company had 71 fulltime employees. IGI accounted for 3 of the employees, Innovo employed 19 individuals, including 5 individuals in Innovo's New York showroom, Joe's employed 30 individuals out of its Los Angeles office and 5 in Japan, and IAA employed 9 individuals.

Investments

Real Estate

IRI. IRI, the Company's real-estate investment subsidiary headquartered in Commerce, CA, has invested in 22 limited partnerships. On April 5, 2002, the Company issued 195,295 shares of its cumulative, non-convertible preferred stock with an 8% coupon ("Preferred Shares"), having a stated redemption value at $100 per share (approximately $19.5 million), to IRI in exchange for all 1,000 shares of IRI's capital stock. On that same day, IRI acquired a 30% limited partner interest in each of 22 separate limited partnerships (collectively, the "Limited Partnerships") in exchange for the Preferred Shares.

Simultaneous with the acquisition by IRI of its interests in the Limited Partnerships, the Limited Partnerships acquired 28 apartment complexes at various locations throughout the United States consisting of approximately 4,000 apartment units (the "Properties"). The aggregate purchase price of the Properties was $98,079,000. The Limited Partnerships were organized for the sole purpose of purchasing the Properties. The Preferred Shares were transferred by the IRI to the sellers of the Properties in partial payment of the purchase price of the Properties. The allocation of the Preferred Shares among the Limited Partnership was based on the number of Preferred Shares applied to the purchase price of the Property acquired by such Limited Partnership. The allocation of Preferred Shares was based on the contract price of the Property plus costs associated with the transaction (e.g. attorney's fees, real estate tax prorations, etc.), less the loan amount, less the cash from the limited partner, less the buyer's deposit. The partners in each of the partnerships are: (i) IRI with a 30% limited partnership interest, (ii) Metra Capital, LLC with a 69% limited partnership interest and (iii) a 1% general partner which is unique to each partnership.

Each Limited Partnership owns different Properties. Approximately 20% of the $98,079,000 aggregate sellers in partial payment of the purchase price. The balance of the purchase price was funded by Metra Capital, LLC and by financing provided by Bank of America. The Bank of America Financing is in the approximate amount of $81,000,000 and is secured by the Properties, but neither the Company nor IRI have any obligations under that financing. None of the Company's Board Members or executive officers participated in the transaction. However, Mr.

Hubert Guez and Mr. Joseph Mizachi, both of whom are affiliates of the Company due to their 10% ownership or more of Company common stock, were investors in the partnerships.

The Preferred Shares 8% coupon is funded entirely and solely through partnership distributions received by the Company from cash flows generated by the operation and sale of the Properties. If sufficient funds are not available for the payment of a full quarterly 8% coupon, then partial payments shall be made to the extent funds are available. Unpaid dividends accrue. Partnership distribution amounts remaining after the payment of all accrued dividends must be used by the Company to redeem outstanding Preferred Shares. The Preferred Shares have a redemption price of $100 per share. In the event that the partnership distributions received by the Company are insufficient to cover the 8% coupon or the redeem Preferred Shares, the Company will have no obligation to cover any shortcomings so long as all distributions from the partnership are properly applied to the payment of dividends and the redemption of Preferred Shares. If, after all of the Properties are sold and the proceeds of the sale of the Properties and cash flow derived from such Properties have either been applied to the payment of the 8% coupon and the redemption of Preferred Shares or deposited into the sinking fund for that purpose, and the total amount of funds remaining in the Sinking Fund is insufficient to pay the full 8% coupon and the full Redemption Price for all then outstanding Preferred Shares, then the Company (or IRI) shall pay $1.00 in total into the Sinking Fund and the Redemption Price shall be adjusted so that it equals (x) the total amount in the sinking fund available for distribution, minus (y) all direct costs of maintaining the Sinking Fund and making distributions therefrom, divided by (z) the number of then outstanding Preferred Shares. The adjusted Redemption Price shall be and shall represent full and final payment for the redemption of all Preferred Shares.

IRI receives partnership distributions on the occurrence of Capital Events (property sales) and, quarterly "cash flow" distributions. Partnership distributions are made in descending priority with first priority going to the Metra Partners, then to Third Millennium Partners, LLC, an entity controlled by Mr. Joseph Mizrachi, then to IRI until all capital has been returned and certain specified returns are achieved. Thereafter distributions are divided 70% to the Metra partners and 30% to IRI. According to the original terms of the transaction, IRI is entitled to receive a sub-managemen fees equal to 1% of the gross annual revenues from the Properties, plus an additional incentive management fee equal to 1% of the gross annual revenue less administrative costs, entity maintenance costs, third party professional fees, travel costs, costs of property studies, etc. to the extent that there is excess cash flow (i.e., cash remaining after payment of debt service, all other amounts due in connection with the mortgage and all property expenses then due and payable, including, the 1% of gross annual revenues the IRI is to receive. In an effort to simplify the amounts owed under the Sub Asset Management Fee agreement, the parties to the sub-asset management fee agreement have agreed to a quarterly payment of $85,000 as satisfaction of amounts owed to IRI under the sub-asset management fee agreement. Neither IRI nor the Company have any obligation to apply any fees paid to IRI or the Company under the sub-asset management fee agreement to the payment of the 8% coupon or the redemption of Preferred Shares.

The Company has not given accounting recognition to the value of its investment in the Limited Partnerships, because the Company has determined that the asset is contingent and will only have value to the extent that cash flow from the operations of the properties or from the sale of underlying assets is in excess of the 8% coupon and redemption of the Preferred Shares. The Company is obligated to pay the 8% coupon and redeem the Preferred Shares from its partnership distributions, prior to the Company being able to recover the underlying value of its investment. Additionally, the Company has determined that the Preferred Shares will not be accounted for as a component of equity as the shares are redeemable outside of the Company's control. No value has been ascribed to the Preferred Shares for financial reporting purposes as the Company is obligated to pay the 8% coupon or redeem the shares only if the Company receives cash flow from the Limited Partnerships adequate to make the payments. The Company has included the quarterly management fee paid to IRI in other income using the accrual basis of accounting.

Executive Officers

Samuel J. (Jay) Furrow, Jr., who is 29 years of age, is currently the Chief Executive Officer, Chief Operating Officer and acting Chief Financial Officer of the Company. Mr. Furrow became the Company's Vice-President for Corporate Development and In-House Counsel in August 1998 and a Director in January 1999. Mr. Furrow served as President from December 2000 until July 2002, when he became Chief Executive Officer. He has also served as the Company's Chief Operating Officer since April 1999 and its Acting Chief Financial Officer since August 2000. Mr. Furrow is an attorney. Mr. Furrow has a J.D degree from Southern Methodist University School of Law and has a B.S. degree from Vanderbilt University. See "Risk Factors-- The loss of the services of key personnel could have a material adverse effect on our business."

Patricia Anderson, who is 43 years of age, is currently the President of the Company. Ms. Anderson has been a Director of the Company since August 1990, President of the Company from August 1990 through December 2000 and since July 2002, and President of the Company's Innovo, Inc. subsidiary since she founded that company in 1987. From August 1990 until August 1997, Ms. Anderson was also the Chairman and Chief Executive Officer of the Company, and she once again served as Chief Executive Officer from December 2000 through July 2002. See "Risk Factors-- The loss of the services of key personnel could have a material adverse effect on our business."

The Company does not currently have an employment agreement with Mr. Furrow or Ms. Anderson. The Company, upon the creation of Joe's in March of 2001, entered into an employment agreement with Joe Dahan. According to the terms of the agreement Mr. Dahan shall serve as President of the Joe's division and be paid an annual salary of $100,000. The agreement renews annually unless either party gives 60 days written notice prior to the annual renewal date of its intention to terminate the employment agreement. The agreement also provides for a grant of qualified stock option under the Company's stock option plan for the purchase of an aggregate of two hundred and fifty thousand shares of common stock of the Company at an exercise price of one dollar per share. The option grant has a term of 4 years and vests in equal percentages monthly over a 24-month period.

Financial Information about Geographical Areas

See Note 15 "Segment Disclosures -Operations by Geographic Area" in the Notes to Consolidated Financial Statements.

Risk Factors

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

The loss of the services of key personnel could have a material adverse effect on our business.

Our executive officers have substantial experience and expertise in our business and have made significant contributions to our growth and success. The unexpected loss of services of one or more of these individuals could also adversely affect us. We are currently not protected by a material amount of key-man or similar life insurance covering any of our executive officers.

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

Our ten largest customers accounted for approximately 52% of our gross sales during fiscal 2002. We do not enter into long-term agreements with any of our customers. Instead, we enter into a number of individual purchase order commitments with our customers. A decision by the controlling owner of a group of stores or any other significant customer, whether motivated by competitive conditions, financial difficulties or otherwise, to decrease the amount of merchandise purchased from us, or to change their manner of doing business with us, could have a material adverse effect on our financial condition and results of operations.

The Company's business could be negatively impacted by the financial instability of our customers.

We sell our product primarily to retail, private label and distribution companies around the world based on pre-qualified payment terms. Financial difficulties of a customer could cause us to curtail business with that customer. We may also assume more credit risk relating to that customer's receivables. Our inability to collect on our trade accounts receivable from any one of these customers could have a material adverse effect on our business or financial condition.

Our business could suffer as a result of manufacturer's inability to produce our goods on time and to our specifications.

We do not own or operate any manufacturing facilities and therefore depend upon independent third parties for the manufacture of all of our products. Our products are manufactured to our specifications by both domestic and international manufacturers. During fiscal 2002, approximately 24%, of our products were manufactured in the United States and approximately 76% of our products were manufactured in foreign countries. The inability of a manufacturer to ship orders of our products in a timely manner or to meet our quality standards could cause us to miss the delivery date requirements of our customers for those items, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could have a material adverse effect on our financial condition and results of operations.

The loss of the services of Mr. Joe Dahan could have a material adverse effect on Joe's business.

Mr. Joe Dahan's leadership in the design, marketing and operational areas of Joe's has been a critical element of Joe's success. The loss of his services, or any negative market or industry perception arising from his loss, could have a material adverse effect on our business. We are currently not protected by a material amount of key-man or similar life insurance covering Mr. Dahan or any of our other executive officers. We have entered into employment agreements with Mr. Dahan. See "Business-Executive Officers."

Our business could suffer if we need to replace manufacturers.

We compete with other companies for the production capacity of our manufacturers and import quota capacity. Some of these competitors have greater financia and other resources than we have, and thus may have an advantage in the competition for production and import quota capacity. If we experience a significant increase in demand, or if an existing manufacturer of ours must be replaced, we may have to expand our third-party manufacturing capacity. We cannot assure you that this additional capacity will be available when required on terms that are acceptable to us. We enter into a number of purchase order commitments each season specifying a time for delivery, method of payment, design and quality specifications and other standard industry provisions, but do not have long-term contracts with any manufacturer. None of the manufacturers we use produces our products exclusively.

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

We require our independent manufacturers to operate in compliance with applicable laws and regulations. While our internal and vendor operating guidelines promote ethical business practices and our staff periodically visits and monitors the operations of our independent manufacturers, we do not control these manufacturers or their labor practices. The violation of labo r or other laws by an independent manufacturer of ours, or by one of our licensing partners, or the divergence of an independent manufacturer's or licensing partner's labor practices from those generally accepted as ethical in the United States, could interrupt, or otherwise disrupt the shipment of finished products to us or damage our reputation. Any of these, in turn, could have a material adverse effect on our financial condition and results of operations.

Our trademark and other intellectual property rights may not be adequately protected outside the United States.

We believe that our trademarks, whether licensed or owned by us, and other proprietary rights are important to our success and our competitive position. In the course of our international expansion, we may, however, experience conflict with various third parties who acquire or claim ownership rights in certain trademarks. We cannot assure that the actions we have taken to establish and protect these trademarks and other proprietary rights will be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as a violation of the trademarks and proprietary rights of others. 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. See "Business - Licensing Agreement and Intellectual Property."

We cannot assure the successful implementation of our growth strategy.

As part of our growth strategy, we seek to expand our geographic coverage, strategically acquiring select licensees and enhancing our operations. We may have difficulty hiring and retaining qualified key employees or otherwise successfully managing the required expansion of our infrastructure in Japan and other international markets the Company may enter into. Furthermore, we cannot assure you that we will be able to successfully integrate the business of any licensee that we acquire into our own business or achieve any expected cost savings or synergies from such integration.

Our business is exposed to domestic and foreign currency fluctuations.

We generally purchase our products in U.S. dollars. However, we source most of our products overseas and, as such, the cost of these products may be affected by changes in the value of the relevant currencies. Changes in currency exchange rates may also affect the relative prices at which we and our foreign competitors sell products in the same market. We currently do not hedge our exposure to changes in foreign currency exchange rates. We cannot assure you that foreign currency fluctuations will not have a material adverse impact on our financial condition and results of operations.

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

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

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

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

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

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

We face intense competition in the worldwide apparel and accessory industry.

We face a variety of competitive challenges from other domestic and foreign fashion-oriented apparel and accessory producers, some of which may be significantly larger and more diversified and have greater financial and marketing resources than we have. We compete with these companies primarily on the basis of:

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

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

The success of our business depends on our ability to respond o constantly changing fashion trends and consumer demands.

Our success depends in large part on our ability to originate and define fashion product trends, as well as to anticipate, gauge and react to changing consumer demands in a timely manner. Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to rapid change. We cannot assure that we will be able to continue to develop appealing styles or successfully meet constantly changing consumer demands in the future. In addition, we cannot assure you that any new products or brands that we introduce will be successfully received by consumers. Any failure on our part to anticipate, identify and respond effectively to changing consumer demands and fashion trends could adversely the acceptance of our products and leave us with a substantial amount of unsold inventory or missed opportunities. If that occurs, we may be forced to rely on markdowns or promotional sales to dispose of excess, slow-moving inventory, which may harm our business. At the same time, our focus on tight management of inventory may result, from time to time, in our not having an adequate supply of products to meet consumer demand and cause us to lose sales.

A downturn in the economy may affect consumer purchases of discretionary items, which could adversely affect our sales.

The industries in which we operate are cyclical. Many factors affect the level of consumer spending in the apparel, accessories and craft industries, including, among others:

- general business conditions,
- interest rates,
- the availability of consumer credit,
- taxation, and
- consumer confidence in future economic conditions.

Consumer purchases of discretionary items, including accessory and apparel products, including our products, may decline during recessionary periods and also may decline at other times when disposable income is lower. A downturn in the economies in which we sell our products, whether in the United States or abroad, may adversely affect our sales.

Our business could suffer as a result of consolidation, restructurings and other ownership changes in the retail industry.

In recent years, the retail industry has experienced consolidation and other ownership changes. Some of our customers have operated under the protection of the federal bankruptcy laws. While to date these changes in the retail industry have not had a material adverse effect on our business or financial condition, our business could be materially affected by these changes in the future.

Terrorist attacks and the possibility of wider armed conflict may have an adverse effect on our business and operating results.

Terrorist attacks and other acts of violence or war, such as those that took place on September 11, 2001, could have a material adverse effect on our business and operating results. There can be no assurance that there will not be further terrorist attacks against the United States or its businesses or interests. The adverse effects that such violent acts and threats of future attacks could have on the U.S. economy could similarly have a material adverse effect on our business and results of operations. Finally, further terrorist acts could cause the United States to enter into a wider armed conflict which could further impact our business and operating results.

Impact of potential future acquisitions

From time to time, the Company has pursued, and may continue to pursue, acquisitions. If one or more acquisitions results in the Company becoming substantially more leveraged on a consolidated basis, the Company's flexibility in responding to adverse changes in economic, business or market conditions may be adversely affected.

We are subject to risks inherent in ownership of real estate.

Real estate cash flows and values are affected by a number of factors, including changes in the general economic climate, local, regional or national conditions (such as an oversupply of communities or a reduction in rental demand in a specific area), the quality and philosophy of management, competition from \other available properties and the ability to provide adequate property maintenance and insurance and to control operating costs. Real estate cash flows and values are also affected by such factors as government regulations, including zoning, usage and tax laws, interest rate levels, the availability of financing, property tax rates, utility expenses, potential liability under environmental and other laws and changes in environmental and other laws. Although we seek to minimize these risks through our market research and property management capabilities, they cannot be totally eliminated.

Real estate investments are relatively illiquid and we may not be able to sell properties when appropriate.

Equity real estate investments are relatively illiquid, which may tend to limit our ability to react promptly to changes in economic or other market conditions. Our ability to dispose of assets in the future will depend on prevailing economic and market conditions.

Changes in laws may result in increased cost.

We may not be able to pass on increased costs resulting from increases in real estate taxes, income taxes or other governmental requirements directly to our residents. Substantial increases in rents, as a result of those increased costs, may affect the ability of a resident to pay rent, causing increased vacancy. Changes in laws increasing potential liability for environmental conditions or increasing the restrictions on discharges or other environmental conditions may result in significant unanticipated expenditures.

Compliance with environmental regulations may be costly.

We must comply with certain environmental and health and safety laws and regulations related to the ownership, operation, development and acquisition of apartments. Under those laws and regulations, we may be liable for, among other things, the costs of removal or remediation of certain hazardous substances, including asbestos-related liability. Those laws and regulations often impose liability without regard to fault.

Compliance or failure to comply with laws requiring access to the Company's properties or investments by disabled persons could result in substantial cost.

The Americans with Disabilities Act, the Fair Housing Act of 1988 and other federal, state and local laws generally require that public accommodations be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the government or the award of damages to private litigants. These laws may require the Company to modify its existing properties. These laws may also restrict renovations by requiring improved access to such buildings by disabled persons or may require the Company to add other structural features that increase construction costs. Legislation or regulations adopted in the future may impose further burdens or restrictions on the Company with respect ascertain the costs of compliance with these laws, which may be substantial.

Unfavorable changes in apartment markets and economic conditions could adversely affect occupancy levels and rental rates.

Market and economic conditions in the various metropolitan areas of the United States where the Company's has made real estate investments or has real estate operations may significantly affect occupancy levels and rental rates and therefore profitability. Factors that may adversely affect these conditions include the following:

- the economic climate, which may be adversely impacted by a reduction in jobs, industry slowdowns and other factors;
- local conditions, such as oversupply of, or reduced demand for, apartment homes;
- a future economic downturn that simultaneously affects one or more of the Company's geographic markets or declines in household formation;
- rent control or stabilization laws, or other laws regulating rental housing, which could prevent the Company from raising rents to offset increases in operating costs; and
- competition from other available apartments and other housing alternatives and changes in market rental rates.

Any of these factors could adversely affect the Company's ability to achieve desired operating results from its communities.

Possible difficulty of selling apartment communities could limit the company's operational and financial results.

Market conditions could change and purchasers may not be willing to pay acceptable prices for the apartment complexes the Company has invested in if the properties were to be put up for sale. This could negatively effect the Company's anticipated results from its real estate investment and operations.

ITEM 2. PROPERTIES

The Company's Tennessee sales and marketing headquarters is located in approximately 5,000 square feet of office space located near downtown Knoxville, TN. The Company pays $3,500 per month, triple net for the office space. The space being leased in Knoxville is owned by an entity that is controlled by the Company's Chairman. See "Certain relationships and related transactions-New Facility Lease Arrangements."

The Company's Los Angeles offices are located in an office complex located in Commerce, CA. The Company occupies the space under an agreement with Azteca Productions International, Inc., an affiliate of Commerce with a reasonable allocation being allotted to the Company depending upon the amount of space used by the Company. See "Certain relationships and related transactions-Commerce Investment Group."

The Company currently leases office space for its

Innovo accessory showroom in New York City on an annual basis. The Company pays $5,504 a month for the property.

Joe's products are displayed in showrooms in New York City and Los Angeles through a sales representation arrangement, thus the Company does not lease or own the space in which Joe's products are sold in the United States.

The Company's Joe's Jeans Japan subsidiary currently rents two offices spaces located in Tokyo, Japan. One of the spaces serves as JJJ's operational office and the other is used as a showroom to market Joe's products. JJJ currently pays approximately $6,000 per month with 90-day termination provisions.

The Company's previous headquarters and manufacturing facilities were located in Springfield, TN. The Springfield facilities are currently owned by LMI. The main Springfield complex is situated on seven acres of land with approximately 220,000 square feet of usable space, including 30,000 square feet of office space and 35,000 square feet of cooled manufacturing area.

The Springfield facilities are currently being leased to third party tenants with approximately 17% of the facilities being leased as of November 30, 2002, totaling $2,646 on a monthly basis. During 2002, the Company made several capital improvements to the Springfield facility, including but not limited to, putting a new roof on the facility. While the rental income during the year decreased as a result of the renovations, the Company is anticipating an increase in demand for rental space within the facility.

In fiscal 2002, the Company broadened its real estate operations. On April 5, 2002, the Company through IRI, closed on a transaction pursuant to which IRI purchased limited partner interests in 22 limited partnerships. Subsequently, the limited partnerships purchased 28 apartment buildings consisting of approximately 4,000 apartment units located in various states throughout the United States. See "Business - Investments."

ITEM 3. LEGAL PROCEEDINGS

The Company is a party to lawsuits and other contingencies in the ordinary course of its business. The Company does not believe that it is probable that the outcome of any individual action will have a material adverse effect, or that it is likely that adverse outcomes of individually insignificant actions will be sufficient enough, in number or magnitude, to have a material adverse effect in the aggregate on the Company's financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) The Company held its annual shareholder meeting on November 12, 2002.

At the annual shareholders meeting, all nominated directors were re-elected for one (1) yea r terms with the following totals:

	In Favor	Opposed	Withheld
Sam Furrow	11,083,657	0	6,839
Pat Anderson	11,085,467	0	5,029
Jay Furrow	11,085,457	0	5,039
Daniel Page	11,084,151	0	6,345
Marc Crossman	11,084,332	0	6,164
Dr. John Looney	11,085,482	0	5,014

The second and final item of business brought forth for shareholder approval was the ratification of the appointment of Ernst & Young, LLP as the independent auditors for the fiscal year ending November 30, 2002. The tallied votes for the proposal were:

In Favor	Opposed	Withheld
11,083,944	4,252	2,300

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Common Stock is currently traded under the symbol "INNO" on the Nasdaq SmallCap Market maintained by The Nasdaq Stock Market, Inc ("Nasdaq"). The following sets forth the high and low bid quotations for the common stock in such market for the periods indicated. This information reflects inter-dealer prices, without retail mark-up, mark-down or commissions, and may not necessarily represent actual transactions. No representation is made by the Company that the following quotations necessarily reflect an established public trading market in the Common Stock:

Fiscal 2002	High	Low
First Quarter	$2.67	$1.63
Second Quarter	2.25	1.43
Third Quarter	3.09	1.85
Fourth Quarter	4.00	2.40

Fiscal 2001	High	Low
First Quarter	$1.16	$0.81
Second Quarter	1.12	1.03
Third Quarter	2.06	1.23
Fourth Quarter	2.67	2.25

Fiscal 2000	High	Low
First Quarter	$1.59	$1.03
Second Quarter	2.12	0.87

Third Quarter	1.43	0.81
Fourth Quarter	1.18	0.78

As of February 27, 2003, there were approximately 3,000 record holders of the Common Stock. Although the Company will continually use its best efforts to maintain its Nasdaq SmallCap listing, there can be no assurance that it will be able to do so. If in the future, the Company is unable to satisfy the Nasdaq criteria for maintaining listing, its securities would be subject to delisting, and trading, if any, of the Company's securities would thereafter be conducted in the over-the-counter market, in the so-called "pink sheets" or on the National Association of Securities Dealers, Inc. ("NASD") "Electronic Bulletin Board." As a consequence of any such delisting, a stockholder would likely find it more difficult to dispose of, or to obtain accurate quotations as to the prices, of the Common Stock.

The Company has never declared or paid a cash dividend and does not anticipate paying cash dividends on its Common Stock in the foreseeable future. In deciding whether to pay dividends on the Common Stock in the future, the Company's Board of Directors will consider factors it deems relevant, including the Company's earnings and financial condition and its capital expenditure requirements.

IRI, the Company's real-estate investment subsidiary headquartered in Commerce, CA, has invested in 22 limited partnerships. On April 5, 2002, the Company issued 195,295 shares of its cumulative, non-convertible preferred stock with an 8% coupon ("Preferred Shares"), having a stated redemption value at $100 per share (approximately $19.5 million), to IRI in exchange for all 1,000 shares of IRI's capital stock. On that same day, IRI acquired a 30% limited partner interest in each of 22 separate limited partnerships (collectively, the "Limited Partnerships") from the sellers (the "Sellers") in exchange for the Preferred Shares. Simultaneous with the acquisition by IRI of its interests in the Limited Partnerships, the Limited Partnerships acquired 28 apartment complexes at various locations throughout the United States consisting of approximately 4,000 apartment units. See "Business-Investments."

The Company has not registered the Preferred Shares and the Preferred Shares will not be registered under the Federal Securities Act of 1933, as amended (the "1933 Act"), on the ground that this transaction is exempt from such registration under Section 4(2) thereof as part of an issue not involving a public offering and applicable state securities laws.

The Sellers have represented to the Company that it purchased the Preferred Shares for the Sellers' own account, with the intention of holding the Preferred Shares for investment and not with the intention of participating, directly or indirectly, in any resale or distribution of the Preferred Shares. The Preferred Shares were offered and sold to the Sellers in reliance upon exemptions from registration under the 1933 Act. The Sellers have represented to the Company that they are an "Accredited Investor," as that term is defined in Rule 501(a) of Regulation D under said Act.

The information required by Part II, Item 5 relating to Equity Compensation Plans is incorporated herein by reference to our definitive proxy statements to be filed pursuant to Regulation 14A relating to our 2003 annual meeting of stockholders.

ITEM 6. SELECTED FINANCIAL DATA

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

			Years Ended		
	11/30/02	12/01/01	11/30/00	11/30/99	11
		(in thousands, except per share amounts)			
Net Sales	$ 29,609	$ 9,292	$ 5,767	$ 10,837	$
Costs of Goods Sold	19,839	6,333	5,195	6,252	
Gross Profit	9,770	2,959	572	4,585	
Operating Expenses (3)	8,581	3,358	5,113	5,688	
Income (Loss) from Operations	1,189	(399)	(4,541)	(1,103)	
Interest Expense	(538)	(211)	(446)	(517)	
Other Income (Expense)	61	81	(69)	280	
Income (Loss) Before Income Taxes	712	(529)	(5,056)	(1,340)	
Income Taxes	140	89	--	--	
Income (Loss) from Continuing Operations	572	(618)	(5,056)	(1,340)	
Discontinued Operations(1)	--	--	--	(1)	
Extraordinary Item (2)	--	--	(1,095)	0	
Net Income (Loss)	572	(618)	$(6,151)	$(1,341)	$
Income (Loss) per share from Continuing Operations					
Basic	$0.04	$(0.04)	$(0.62)	$(0.22)	
Diluted	$0.04	$(0.04)	$(0.62)	$(0.22)	
Weighted Average Shares Outstanding					
Basic	14,856	14,315	8,163	5,984	
Diluted	16,109	14,315	8,163	5,984	
Balance Sheet Data:					
Total Assets	$15,143	$10,247	$7,416	$6,222	
Long-Term Debt	3,387	4,225	1,340	2,054	

Stockholders' Equity	5,068	4,519	3,758	1,730

(1) The amount for 1998 represents the operations of Thimble Square. Thimble Square's operations were discontinued during the fourth fiscal quarter of 1998.
(2) Represents the loss from the early extinguishments of debt in 2000.
(3) Amount includes a $300,000 impairment write down of long-term assets in 1998 and a $145,000 impairment write down of long-term assets in 1999 as well as $293,000 related to the termination of a capital lease and $100,000 for the settlement of a lawsuit in 1999, and a $600,000 impairment write down of long-term assets in 2000.

ITEM 7. MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The following discussion and analysis contains statements that maybe considered forward-looking. These statements contain a number of risks and uncertainties as discussed here, under the heading "Forward-Looking Statements" and in Item I of this Form 10-K that could cause actual results to differ materially. Additionally, this discussion and analysis should be read in conjunction with the financial statements and related notes and the other financial information included elsewhere in this Form 10-K.

Results of Operations
The following table sets forth certain statement of operations data for the years indicated (in thousands):

	Years Ended (in thousands)			
	11/30/02	12/01/01	$ Change	% Change
Net Sales	$ 29,609	$ 9,292	$ 20,317	219
Costs of Goods Sold	19,839	6,333	13,506	213
Gross Profit	9,770	2,959	6,811	230
Selling, General & Administrative	8,325	3,191	5,136	161
Depreciation & Amortization	256	167	87	52
Income (Loss) from Operations	1,189	(399)	1,588	(A)
Interest Expense	(538)	(211)	(327)	155
Other Income (expense)	61	81	(20)	(25)
Income (Loss) Before Income Taxes	712	(529)	1,241	(A)

Income Taxes	140	89	51	57
Net Income (Loss)	$ 572	$ (618)	$ 1,190	(A)

(A) Not Meaningful

Comparison of Fiscal Year Ended November 30, 2002, to Fiscal Year Ended December 1, 2001 Overview

In 2002, the Company significantly increased its revenues and returned to profitability. The Company experienced strong growth in all three of its main consumer products operating subsidiaries and moved forward in its efforts to strengthen its presence in the apparel market.

The Company's accessory division, Innovo, Inc., experienced an increase in sales largely as a result of its efforts to enter into the private label business, continued growth from the Bongo product line and an increase from Innovo's legacy craft division. In 2002, Innovo focused on strengthening its sourcing capabilities through the establishment of Innovo Hong Kong Li ited ("IHK"). IHK should assist Innovo in continuing to be able to offer its customers quality products at a competitive price.

During 2002, the Company's Joe's subsidiary continued to experience strong demand for its product lines on a world-wide basis. In May of 2002, Joe's established JJJ to distribute its products in the Japanese market. Additionally, the Company began to distribute its products in Europe and Canada.

The Company's IAA subsidiary increased its revenues in fiscal 2002 mainly as a result of its ability to grow its business with its private label customers such as Target Corporation and J. Crew, Inc. During the period, the IAA subsidiary formed a second division to focus on the creation and building of branded product lines. In furtherance of this objective, the IAA branded division obtained the licensing rights to the Hot Wheel brand from Mattel, Inc. and to Lil Bow Wow from Bravado International Group, the agency with the master licensing rights to Lil Bow Wow, and LBW Entertainment, Inc.

The Company's net income for fiscal 2002 was $572,000, or $0.04 per share compared to a loss of $618,000 or $0.04 per share for fiscal 2001. The Company generated a net income in fiscal 2002 as compared to a net loss in fiscal 2001 as a result of the Company's ability to significantly increase its revenues, maintain its gross margins and to reasonably control its increase in expenses.

Reportable Segments

During fiscal 2002 and fiscal 2001, the Company operated in two segments, accessories and apparel. The accessories segment represents the Company's historical line of business as conducted by Innovo. The apparel segment is comprised of the operations of Joe's and IAA, both of which began in 2001, as a result of acquisitions. The Company's real estate operations and corporate activities are categorized under "other." The operating segments have been classified based upon the nature of their respective operations, customer base and the nature of the products sold.

The following table sets forth certain statement of operations data by segment for the years indicated (in thousands):

November 30, 2002	Accessories	Apparel	Other (A)	Total
		(in thousands)		
Revenues, net	$ 12,072	$ 17,537	$ -	$ 29,609
Gross profit	3,502	6,268	-	9,770
Depreciation and amortization	21	183	52	256
Interest expense	140	339	59	538

December 1, 2001	Accessories	Apparel	Other (A)	Total
		(in thousands)		
Revenues, net	$ 5,642	$ 3,650	$ -	$ 9,292
Gross profit	1,751	1,208	-	2,959
Depreciation and amortization	45	35	87	167
Interest expense	32	79	100	211

2002 to 2001	Accessories		Apparel		Other (A)	
	$ Change	% Change	$ Change	% Change	$ Change	% Chan
Revenues, net	$ 6,430	114	$ 13,887	380	$ -	
Gross profit	1,751	100	5,060	419	-	
Depreciation and amortization	(24)	(53)	148	423	(35)	(
Interest expense	108	338	260	329	(41)	(

(A) Other includes corporate expenses and assets and expenses related to real estate operations.

Operating Revenues

Net revenues for the year ended November 30, 2002 increased to $29,609,000 or 219% from $9,292,000 in fiscal 2001. During the period, the Company experienced a significant increase in sales from its three main operating subsidiaries, Innovo operating in the accessory segment and Joe's and IAA operating in the apparel segment.

Accessory

Innovo. The Company's accessory business, conducted by Innovo, increased its net revenues to $12,072,000 in fiscal 2002 compared to $5,642,000 in fiscal 2001, a 114% increase. Innovo's gross sales for fiscal 2002 were $12,216,000. The increase is a result of the Company's entry into the private label accessory business, increased demand for Innovo's craft products and higher sales from Innovo's Bongo accessory product line.

Innovo's accessory craft business increased as a result of Innovo's ability to sell a greater amount of its existing products as well as new products to its existing customers and to new craft customers. In fiscal 2002, Innovo focused upon increasing the quality of its craft products and improving the marketing strategy associated with the Innovo's craft products. Innovo's craft business gross revenues increased to $4,577,449 in fiscal 2002 compared to $2,830,949 in fiscal 2001 representing a 62% increase in gross revenues. Innovo's craft business represented approximately 37% of Innovo's total gross revenues for fiscal 2002.

Innovo's Bongo product line experienced an increase in sales partly as a result of fiscal 2002 being Innovo's first full twelve month cycle of business with the Bongo product line. Additionally, Innovo's customers have generally been successful in selling the Bongo product line at the retail level to consumers as a result of Innovo's ability to develop fashionably desirable products at competitive prices. This trend has allowed Innovo to establish the Bongo product line as a stable and desirable product line for its customers thus giving Innovo the opportunity to market the Bongo line to new customers. Gross sales generated by the Bongo product line of $3,101,000 epresented approximately 25% of Innovo's total gross revenues for fiscal 2002.

Innovo began selling its products to private label customers in fiscal 2002. Innovo's two main private label customers as of November 30, 2002 were American Eagle Outfitters, Inc. and Limited Brands, Inc.'s Express division. Innovo is currently working on products for additional private label customers and believes that its private label business will play an important role in Innovo's growth strategy going forward. Innovo's private label business gross revenues of $3,218,000 represented approximately 26% of Innovo's gross revenues for fiscal 2002.

Apparel

Joe's. Joe's operates under the Company's apparel segment. During fiscal 2002, Joe's net revenues increased to $9,179,000 compared to $1,519,000 in fiscal 2001, an increase of 504%. Joe's was formed in February 2001, thus making fiscal 2002 Joe's first full twelve-month business cycle. Joe's 2002 product mix consisted primarily of women's denim based jeans, skirts and jackets and men's denim jeans. During 2002, denim products, in general, sold well at the retail level and Joe's was able to capitalize on this demand. Joe's is continuing to diversify its product offerings to meet the changing trends in the high fashion apparel markets and believes, although there can be no assurances, that its 2003 product line is designed to meet the current fashion trends and the expectations of its customers and the consumer.

During fiscal 2002, Joe's experienced increase demand in both the domestic and international marketplaces. In regards to domestic sales, Joe's net revenues increased by approximately 319% to approximately $6,371,000 in fiscal 2002 compared to fiscal 2001. This increase is primarily a result of the maturity and development of the Joe's brands in the marketplace. Joe's continues to attract customer and consumer awareness as a result of its design and quality characteristics. The ability of Joe's customers to successfully sell Joe's products to its customers (the consumer) eventually determines the ability of Joe's to market its products to its customer base management believes. Management believes the desirability of products bearing the Joe's brand and the characteristics associated therewith are resulting in increased demand from Joe's customers.

In fiscal 2002, Joe's expanded into the international marketplace through the formation of Joe's Jeans Japan, Inc. ("JJJ") and through the use of international distributors. JJJ is headquartered in Tokyo, Japan where the Company operates a showroom and operational offices. During fiscal 2002, net sales by JJJ of $1,902,000 represented approximately 21% of Joe's total net revenues. Additionally, Joe's marketed its products in Europe and Canada through the use of international distributors who purchase Joe's products and then distributed the product to retailers in the distributor's local markets. Sales in the international market, excluding sales by JJJ, represented approximately 10% of Joe's total revenues for fiscal 2002.

IAA. IAA, which operates under the Company's apparel segment, increased its net revenues to $8,358,000 in fiscal 2002 compared to fiscal 2001, representing an increase of approximately 292%. IAA was formed in August 2002 pursuant to the acquisition of a division of Azteca, thus fiscal 2002 represents IAA's first full twelve-month business cycle. See Note 1 "Acquisitions" in the Notes to the Consolidated Financials. The increase in revenues is largely a result of an increase in sales of IAA's private label apparel products its two main customers, J. Crew, Inc. and Target Corporations Mossimo division. IAA's products in fiscal 2002 primarily consisted of denim jeans and knit shirts. IAA is currently working towards expanding its private label customer base in an attempt to reduce its reliance on a limited number of customers.

In fiscal 2002, with IAA's private label business representing one division, IAA created a second division to focus on the development of branded products. To further its branded division's business, IAA has entered into licensing agreements with Mattel, Inc. for the licensing rights to develop, market and distribute apparel and accessory products bearing the Hot Wheels trademark. Additionally, IAA has entered into a licensing agreement for the creation of apparel and accessory products bearing the likeness of Lil Bow Wow the multi platinum recording artist. See "Business-Licensing Agreements and Intellectual Property." During fiscal 2002, IAA's branded division did not have any revenues.

Gross Margin

The Company's gross margin increased from 32% in fiscal 2001 to 33% in fiscal 2002.

Accessory

Innovo. The Company's accessory segment's gross margin decreased from approximately 31% in fiscal 2001 to 29% in fiscal 2002. Innovo's gross margin is largely a function of Innovo's product mix for the given period, however, during the period Innovo's gross margin was negatively impacted from the west coast dock strike. As a result of the west coast dock strike, Innovo was obligated to incur increased airfreight and was required to give customer discounts as a result of the late shipment of products. Innovo's product categories have historically had a gross margin in the thirty percent range, with some product categories being higher and some lower. Innovo's branded product have traditionally experienced higher margin than its craft and private label business, which usually have similar gross margins.

Apparel

Joe's. Joe's gross margins decreased from 57% in fiscal 2001 to 50% in fiscal 2002. The decrease reflects an increase in sales in the international marketplace, which are often sold at a discount. Additionally, Joe's gross margin was negatively impacted as a result of an increase in cost for some of the more fashion oriented products in Joe's product line. In an effort to maintain high margins, Joe's usually attempts to pass the higher cost of certain goods to its customer by charging a higher sales price for such products.

IAA. IAA's gross margins increased in fiscal 2002 to 20% from 16% in fiscal 2001. IAA's sales in fiscal 2002 primarily consisted of denim jeans and knit shirts to private label customers. The increase in gross margins is a result of IAA being able to purchase its products at a lower cost and/or sell the products at a higher price. IAA's sales to its private label customers usually have lower margins than the sales of the Company's other divisions. It is anticipated that IAA's branded division will experience higher gross margins than its private label business as a result of IAA's ability to obtain higher prices for its branded apparel products.

The increase in IAA margins offset decreases in other subsidiaries resulting in an overall increase in the collective margin. The Company's collective gross margin may fluctuate in future periods based upon which segments operating subsidiary and operating division accounts for a larger percentage of sales.

Selling, General and Administrative Expense

The Company's selling, general and administrative ("SG&A") expenses increased in 2002 by approximately 161% from $3,191,000 in 2001 to $8,325,000 in 2002. The increase in SG&A expenses is largely a result of an increase in expenses to support the Company's revenues growth during the period. During the period the Company incurred a notable increase in wages, advertising, travel, professional fees, sales shows and other expenses related to the Company's revenue growth.

Accessory

Innovo. Innovo's SG&A expenses increased by approximately 111% to $2,963,000 in fiscal 2002 compared to fiscal 2001. Innovo's increase in SG&A expenses is largely attributable to expenses which were necessary to support or associated with Innovo's increase in revenues. During fiscal 2002, Innovo's wages increased by approximately 103% to $842,000 as Innovo added staff members at its headquarters in Knoxville and to its showroom in New York City. Additionally, Innovo's wages increased from the addition of employees at Innovo's sourcing office IHK in Hong Kong. Innovo's commission expense increased by 132% to $292,000 during the period due to the increase in commission based revenues.

Royalties expense for fiscal 2002 increased by 215% to $270,000 mainly in response to the increase in the sales of Bongo related products and the royalty expense associated therewith. Innovo's distribution costs also increased by approximately 50% during the period as a result of the expense associated with distributing a greater amount of product.

Nasco Products International, Inc.

The Company's accessory business in the international marketplace had previously been conducted through the ompany's Nasco Products International, Inc. ("NPII"). NPII had international licensing rights for certain sports and character related trademarks. NPII sold accessory products primarily in Europe bearing the trademarks. In 1999, NPII ceased operations in the international accessory market. At such time, NPII was in disagreement with certain licensors in regards to the terms and royalty commitments under the licensing agreements. In 1999, NPII accrued $104,000 against the potential liability associated with the agreements. In fiscal 2002, NPII reversed into SG&A expense the accrual due to the fact there has not been material activity in regards to the agreements over the last three fiscal years. See "Business--Licensing Agreement and Intellectual Properties."

Apparel

Joe's. With fiscal 2002 being Joe's irst twelve-month cycle of business, its SG&A expenses increased significantly during the period compared to the prior year. Joe's results for fiscal 2002 also include the additional expenses associated with the operation of JJJ. Joe's SG&A expenses increased by approximately 425% to $3,245,000 in fiscal 2002 compared to $618,000 in fiscal 2001. Joe's wage expense increased significantly during fiscal 2002 as a result of the increase in staff to support Joe's growth. With Joe's royalty and commission expense being a function of Joe's revenues, these expenses increased substantially in fiscal 2002 as a result of Joe's increasing revenues. During fiscal 2002 as part of Joe's marketing campaign, Joe's participated in numerous sales shows and advertised the Joe's brand in national print publications. As a result in fiscal 2002 Joe's sales show expense increased by 232% to $166,000 and its advertising expenses increased by 294% to $264,000 compared to fiscal 2001. Joe's factoring expense increased to $41,000 in fiscal 2002 in response to the increase in the number of receivables Joe's factored.

IAA. IAA's SG&A expenses in fiscal 2002 increased to $761,000 from $83,000 in fiscal 2001 a 817% increase. As noted previously, fiscal 2002 was IAA's first full twelve-month business cycle. IAA's wages increased in fiscal 2002 to $492,000 from $77,000 in fiscal 2001. During the period, IAA had $46,000 of sales samples with no sales sample expense in fiscal 2001. IAA's factor expense increased to $130,000 in fiscal 2002 as a result of an increase in the amount of receivables IAA factored and an extra factor fee charged to IAA for the factoring of one of IAA's significant customers. See "Liquidity and Capital Resources" in Managements Discussion and Analysis of Financial Condition and Results of Operations.

Other

IGI. IGI, which reflects the corporate expenses of the Company and operates under the "other" segment d