INNOVO GROUP INC
Form PRER14A
August 13, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No. 1)

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

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

INNOVO GROUP INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

o	No fee required.	
o	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.	
	(1)	Title of each class of securities to which transaction applies: Common Stock
	(2)	Aggregate number of securities to which transaction applies: 14,000,000
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): $1.63 (based upon the average of the high and low stock prices on July 3, 2007 as reported on Nasdaq Capital Market)
	(4)	Proposed maximum aggregate value of transaction: $22,820,000
	(5)	Total fee paid: $700.58
x	Fee paid previously with preliminary materials.	
o	Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.	
	(1)	Amount Previously Paid:
	(2)	Form, Schedule or Registration Statement No.:
	(3)	Filing Party:
	(4)	Date Filed:

INNOVO GROUP INC.

5901 South Eastern Avenue

Commerce, California 90040

(323) 837-3700

August [ ], 2007

Dear Stockholder:

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

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

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

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

Our board of directors unanimously recommends that you vote FOR:

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

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

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

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

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

Sincerely,

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

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

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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON [ ], [ ]

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

The Board of Directors unanimously recommends that you vote to:

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

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

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

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

By Order of the Board of Directors,

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

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EXHIBITS

SUMMARY

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

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

The Proposed Merger (see page 15)

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

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

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

Our stockholders are being asked to approve the Merger pursuant to the Merger Agreement. The Merger Agreement is attached as *Exhibit A* to this proxy statement. We encourage all of our stockholders to read the Merger Agreement carefully and fully, as it is the legal document that governs the Merger. In addition, in order to close the Merger, our stockholders are being asked to approve the issuance of the 14 million shares of common stock to JD Holdings sole stockholder, Mr. Dahan as a separate proposal. In the event that both the Merger and share issuance are approved by our stockholders, Mr. Dahan will beneficially own approximately 24% of our total shares outstanding on a pro forma basis and will be our largest stockholder. In addition, Mr. Dahan will be entitled to become a member of our Board of Directors and as a result, he will be in a position to exert significant influence and control over us as a result of his voting power and membership on our Board of Directors.

Recommendation of the Board of Directors (see page 20)

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

Votes Required (see page 14)

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

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

Our Reasons for the Merger (see page 19)

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

Opinion of The Mentor Group Inc. (see page 20)

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

Conditions to the Completion of the Merger (see page 29)

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

Termination of the Merger Agreement (see page 30)

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

Risk Factors (see page 42)

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

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

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

- In the event that we consummate the Merger with JD Holdings and issue the 14 million shares, our existing stockholders may be diluted. In addition, Mr. Dahan may be able to exert significant influence and control over us as a result of his percentage of stock ownership and membership on our Board of Directors.

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

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

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

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

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

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

You should read and consider carefully the information about these and other risks set forth under the caption Risk Factors beginning on page 42.

Accounting Treatment of the Merger (see page 24)

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

STATEMENTS REGARDING FORWARD-LOOKING INFORMATION

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

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

These forward-looking statements, including statements relating to future business prospects, revenues, working capital, liquidity, capital needs and income, wherever they occur in this proxy statement, are estimates reflecting our best judgment. These forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by the forward-looking statements. Forward-looking statements should, therefore, be considered in light of various important factors, including those set forth in this proxy statement and those discussed from time to time in our Securities and Exchange Commission, or SEC, reports, including our annual report on Form 10-K, Amendment No. 1 and Amendment No. 2 on Form 10-K/A for the year ended November 25, 2006 filed with the SEC on February 8, 2007, February 9, 2007 and March 23, 2007, respectively and our Quarterly Reports on Form 10-Q for the period ended February 24, 2007 and May 26, 2007 filed with the SEC on April 10, 2007 and July 10, 2007, respectively. Important factors that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include, without limitation:

- If conditions to close are not met, we will not complete the Merger.
- Substantial expenses will be incurred and payments made even if the Merger is not consummated.
- In the event that we consummate the Merger with JD Holdings and issue the 14 million shares, our existing stockholders may be diluted. In addition, Mr. Dahan may be able to exert significant influence and control over us as a result of his percentage of stock ownership and membership on our Board of Directors.
- The pro forma financial statements are presented for illustrative purposes only and may not be an indication of our financial condition or results of operations following the Merger.
- Our stockholders do not have any appraisal rights under Delaware law.
- If our stockholders do not approve the Merger, we will have to continue to operate our Joe s Brand under the terms and conditions of the existing license agreement, which contains certain restrictions and pre-approval rights.
- We may not be successful in implementing our strategic plan to focus our resources on our best performing asset, our Joe s Brand.
- Failure to complete the Merger could cause our stock price to decline.
- The Joe s Brand and related intellectual property rights may not be adequately protected.

You should read and consider carefully the information about these and other risks set forth under the caption Risk Factors beginning on page 42.

QUESTIONS AND ANSWERS
ABOUT THE PROXY MATERIALS
AND THE ANNUAL MEETING

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

Q: Why am I receiving these materials?

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

Q: What information is contained in this proxy statement?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q: **What shares can I vote?**

A: Each share of our common stock issued and outstanding as of the close of business on [ ], or the Record Date, is entitled to vote for all proposals being voted upon at the annual meeting. You may cast one vote per share of common stock held by you as of the Record Date. These shares include shares that are (1) held directly in your name as the common stockholder of record, and (2) shares held for you as the beneficial owner through a broker, bank or other nominee. As of August 13, 2007, we had approximately 45,119,355 shares of common stock issued and outstanding and 903 common stockholders of record.

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

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

Common Stockholder of Record

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

Beneficial Owner

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

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

Q: How can I attend the annual meeting?

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

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

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

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

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

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

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

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

Q: May I change my vote?

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

Q: Is my vote confidential?

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

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

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

Q: How are votes counted?

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

Q: Who will count the vote?

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

Q: Who will serve as inspector of election?

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

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

A: For the approval of the Merger and approval of the amendments to our Certificate of Incorporation, the proposals require the affirmative **FOR** vote of a majority of our issued and outstanding common stock entitled to vote on the proposal. For the election of directors, the six persons receiving a plurality of **FOR** votes at the annual meeting will be elected. All other proposals require the affirmative **FOR** vote of a majority of those shares present in person or represented by proxy and entitled to vote on those proposals at the annual meeting. If you hold shares beneficially in street name and do not provide your broker with voting instructions, your shares may constitute broker

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

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

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

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

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

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

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

To further assist in the solicitation process, we hired The Altman Group, Inc. to solicit proxies by personal interviews, telephone, telegram or otherwise. We paid The Altman Group, Inc. an initial fee of $7,500, and expect to pay on an as-needed basis additional compensation for telephone solicitation and solicitations made by other means.

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

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

Q: Where can I obtain a copy of Innovo Group s Amendment No. 1 and Amendment No. 2 to its Annual Report on Form 10-K for the year ended November 25, 2006 and our Quarterly Reports on Form 10-Q for the period ended February 24, 2007 and May 26, 2007?

A: A copy of our Amendment No. 1 and Amendment No. 2 to our Annual Report on Form 10-K for the year ended November 25, 2006 and our Quarterly Reports on Form 10-Q for the period ended February 24, 2007 and May 26, 2007 are enclosed with this proxy statement.

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

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

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

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

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

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

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

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

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

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

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON
[ ], [ ], 2007

PROPOSAL 1

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

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

Q: What is the Board of Directors recommending?

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

Q: Why should the company merge with JD Holdings?

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

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

A: Our Board of Directors believes that the consideration to be paid to JD Holdings for the Merger and its assets is fair to us and our stockholders based on a variety of factors, including, but not limited to, our current financial condition and future net sales and prospects for the Joe s Brand and a fairness opinion delivered to our Board of Directors by The Mentor Group Inc., or The Mentor Group. In particular, our Board of Directors evaluated the growth of the Joe s Brand in the marketplace since the original license agreement was entered into in 2001. From 2001 until 2006, the Joe s Brand reported net sales of $1,520,000, $9,179,000, $11,476,000, $18,296,000, $33,304,000, and $45,275,000, respectively. Based upon these results, our Board of Directors expected continued increases in net sales from the primary apparel products (denim pants for men and women) as well as an opportunity

to add additional revenue from the sale of other products bearing the Joe s Brand. However, because we did not have a right to produce all products bearing the Joe s Brand in all categories under the license agreement with JD Holdings, as further described in The Proposed Merger Background of the Merger beginning on page 15, our Board believed that the acquisition of the asset primarily through the issuance of common stock would be the most efficient and cost effective way to secure those rights. Prior to the second quarter of fiscal 2007, we had significant net losses and thus, not enough cash to purchase the Joe s Brand without issuing shares of our common stock. As additional purchase price, the right to receive payments based upon certain percentages of gross profit above $11,250,000 for a period of 120 months following the closing date permitted us to defer the cash portion of the consideration, as well as ensure that the Joe s Brand was earning a gross profit before additional cash would be paid to JD Holdings. The preliminary consideration to be paid to JD Holdings of approximately $18,050,000 (which was estimated solely for purposes of the preparation of the unaudited pro forma condensed combined financial statements beginning on page 34) is less than the estimated fair value of the assets.

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

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

Q: What is the background for this transaction?

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

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

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

Q: Who are the parties to the transaction?

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

JD Holdings is a California corporation based in Los Angeles, California. Its sole stockholder is Joseph M. Dahan, who is currently employed by us as president of our Joe s Jeans subsidiary. JD Holdings business has historically been limited to the ownership of the assets that represent the Joe s Brand and activity associated with its rights and obligations under the license agreement pursuant to which we make, use, sell and distribute apparel products that bear the Joe s Brand. In the event that

the Merger is approved, we have agreed to enter into an employment contract with Mr. Dahan to be effective upon closing. Under the terms of the employment contract, Mr. Dahan will receive an annual base salary of $300,000 and serve as Creative Director of the Joe s Brand. In addition, we have agreed to enter into an investor rights agreement with Mr. Dahan pursuant to which he will have certain rights to register for resale the shares received as Merger consideration and the right to nominate himself to be a member of our Board of Directors. See The Employment Agreement and Investor Rights Agreement beginning on page 31.

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

A: Under the terms of the Merger Agreement, we agreed to merge Joe s Jeans with JD Holdings with Joe s Jeans as the surviving corporation. In exchange for all of the outstanding shares of JD Holdings, we will issue to Mr. Dahan, as the sole stockholder of JD Holdings, 14 million shares of our common stock and $300,000 in cash. As a result of the issuance, Mr. Dahan will beneficially own approximately 24% of our total shares outstanding on a pro forma basis and will be our largest stockholder. In addition, Mr. Dahan will be entitled to become a member of our Board of Directors and as a result, he will be in a position to exert significant influence and control over us as a result of his voting power and membership on our Board of Directors. Mr. Dahan will also be entitled to, for a period of 120 months following the effective date, a certain percentage of the gross profit earned by us in any applicable fiscal year. Mr. Dahan will be entitled to the following percentages of the gross profit earned by us in the applicable fiscal year: (i) 11.33% of the gross profit from $11,251,000 to $22,500,000; plus (ii) 3% of the gross profit from $22,501,000 to $31,500,000; plus (iii) 2% of the gross profit from $31,501,000 to $40,500,000; plus (iv) 1% of the gross profit above $40,501,000. The payments will be made in advance and then be compared against amounts actually earned after the applicable quarter or fiscal year with shortfalls paid immediately and overpayments offset against future earnings. No payment will be made if the gross profit is less than $11,250,000. Gross Profit is defined as net sales of the Joe s Brand less cost of goods sold as reported in our periodic filings with the SEC.

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

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

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

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

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

A: The transaction will not be taxable to our stockholders. See The Proposed Merger Material U.S. Federal Income Tax Consequences beginning on page 24.

Q: **When is the closing expected to occur?**

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

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

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

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

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

THE PROPOSED MERGER

General

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

Background of the Merger

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

During the course of the preparation of this proxy statement after the definitive Merger Agreement was executed, Mr. Dahan and Mr. Crossman met informally to discuss the financial considerations included in the Merger Agreement and employment agreement. After numerous discussions regarding the fact that the definitive Merger Agreement was already executed, the parties decided to entertain a discussion of certain proposed modifications. As a result of those discussions, the parties realized that the proposal to add an earn-out to the merger consideration and delete a provision in the employment agreement that provided for a minimum annual salary of $950,000 (which acted as an advance against earnings based upon a percentage of gross profits) more fairly reflected the value of the Joe s Brand and the expectations of Mr. Dahan while providing us with downside protection from a decrease in gross profits. The new earn out provision would be dependent upon gross profit hurdles that we would need to achieve before Mr. Dahan received the payments.

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

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

Our Reasons for the Merger

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

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

- Significant future and historical revenues generated by the Joe s Brand which could potentially be disrupted in the event of a dispute under the existing license agreement;
- Restrictions on our ability to conduct our operations, including the inability to sell a substantial portion of our assets related to the Joe s Brand without providing JD Holdings with advanced notice and ability to terminate the license;
- Ability to control the Joe s Brand and direction and the ability to choose new product extensions of the Joe s Brand without licensor approval rights;
- The belief of our Board of Directors and management that the terms and conditions of the Merger Agreement are reasonable; and
- A fairness opinion by The Mentor Group and its update for the amendment to the Merger Agreement.

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

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

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

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

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

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

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

Recommendation of our Board of Directors

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

Fairness Opinion of our Financial Advisor

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

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

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

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

The Mentor Group s opinions are addressed to our Board of Directors and do not constitute a recommendation to any of our stockholders as to how such stockholder should vote at the annual meeting related to Proposals 1 and 2 described in this proxy statement. The Mentor Group specifically stated its opinion is limited to the fairness, from a financial point of view, of the Merger Transaction and The Mentor Group did not expresses an opinion as to the merits of the underlying decision by us to engage in the Merger.

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

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

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

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

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

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

- the net book value;
- the adjusted book value;

- the public company multiples method;

- merger/acquisitions multiples method;
- capitalization of historical income method; and
- discounted cash flow method.

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

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

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

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

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

Under the capitalization of historical income method, the underlying concept is that the purchase of JD Holdings is analogous to the making of an investment in an earnings generating asset. Accordingly, the value of such an investment is directly related to the amount of the earnings that can be generated by such property. First, the historical royalty payments made to JD Holdings under the license agreement were analyzed and compared to the projected operating expenses and earnings. Operating pre-tax income was selected as best representative of industry standard for multiples and the earnings base least effected by the transaction. A rate of return was determined based on the capital asset pricing model, or CAPM, and the weighted average cost of capital, or WACC. The selected multiples indicated a range of values under the capitalization of historical income method of approximately $2,827,000 to $3,464,000. For the June 2007 fairness opinion, The Mentor Group utilized a similar analysis for its capitalization of historical income method. The selected multiples indicated a value range of $17,789,000 to $29,494,000 with changes in the CAPM and WACC estimates. However, because significant future growth is projected, The Mentor Group believes that the discounted cash flow method would capture the potential value created by the transaction under both opinions.

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

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

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

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

Our Business Following the Merger

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

Appraisal Rights

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

Material U.S. Federal Income Tax Considerations

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

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

Regulatory Approvals

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

Accounting Treatment of the Merger

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

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

Common Stock to be Issued as Consideration for the Merger

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

Securities Act of 1933, as amended. As a result of the issuance, Mr. Dahan will beneficially own approximately 24% of our total shares outstanding on a pro forma basis and will be our largest stockholder. In addition, Mr. Dahan will be entitled to become a member of our Board of Directors and as a result, he will be in a position to exert significant influence and control over us as a result of his voting power and membership on our Board of Directors.

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

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

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

THE AGREEMENT AND PLAN OF MERGER

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

Parties to the Merger Agreement

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

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

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

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

Assets to be Acquired Pursuant to Merger Agreement

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

Consideration to be Paid

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

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

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

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

Representations and Warranties

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

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

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

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

- corporate organization, existence, good standing, power and authority to conduct our business;
- capitalization;

- corporate authority to enter into and carry out the obligations under the Merger Agreement and enforceability of the Merger Agreement against us;

- absence of any breach or violation of any provision of our charter or bylaws;

- absence of any breach of any contract, order or permit to which we are a party or that no additional consents by any party are required to consummate the Merger;

- accuracy of financial statements delivered in connection with the Merger Agreement;
- absence of any material legal proceedings against us or Joe s Jeans;
- due authorization of shares to be issued as merger consideration;
- no payment of any finder s fee in connection with the execution of the agreement and plan of merger;
- compliance with all applicable laws;
- compliance with all required filings with the Securities and Exchange Commission; and
- completeness of the representations.

Covenants of the Parties

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

- conduct its business in the ordinary course of business and consistent with past practices;
- use its best efforts to keep intact the business, its present services and preserve its goodwill and business relationships.

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

- change any provision of its certificate or bylaws;
- change the number of authorized shares or issue any additional shares, options, warrants, calls, commitments, subscriptions, awards, rights to purchase or other similar agreements, securities convertible into its common stock or declare a stock split, combination, reclassify or redeem any shares of its common stock;
- declare, pay or set aside any dividend or other distribution related to its stock;
- grant any termination or severance pay or enter into or amend any employment, consulting or compensation arrangement with any of its directors, officers, employees or consultants;
- enter into or modify any employee benefit plan;
- sell or dispose of assets or incur any liabilities other than in the ordinary course of business;
- make any capital expenditure in excess of $25,000 other than as may be necessary to maintain its assets;
- make any material change to its accounting practices or change its method of reporting its income, except as may be required by laws, regulations or GAAP;
- make, change or revoke any tax election or tax return;
- engage in any transactions with affiliates;

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

- merge with any other corporation;

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

- agree to any of the foregoing.

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

Conversely, we have agreed that we will not:

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

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

- agree to do any of the foregoing.

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

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

Closing Date

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

Closing Conditions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Termination of the Merger Agreement

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

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

- by either us or JD Holdings if:

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

- our stockholders fail to approve the transaction, or

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

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

Effects of Termination

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

Indemnification

We and JD Holdings have agreed to indemnify each other against certain liabilities under the Merger Agreement. Each party has agreed to indemnify and hold the other party harmless from damages resulting from any adverse consequences that the other party may

suffer resulting from, arising out of, relating to, in the nature of, or caused by a breach of any representation or warranty contained in the applicable section of the Merger Agreement. However, each party does not have any claim for indemnification against the

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other party for the breach of any representation or warranty in the applicable section unless and until the adverse consequences suffered as a result of the breach are in excess of $50,000. The indemnification provisions further provide that indemnification sought by a party cannot exceed the fair market value of the merger consideration as of the closing date, except that if the breach is related to one of the covenants of the parties, then the indemnification sought will be for the entire adverse consequence suffered by the non-breaching party. These indemnification provisions will survive closing and will continue in full force and effect until the applicable statute of limitations expires.

THE EMPLOYMENT AGREEMENT
AND
INVESTOR RIGHTS AGREEMENT

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

Employment Agreement

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

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

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

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

Investor Rights Agreement

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

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

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

SELECTED HISTORICAL FINANCIAL DATA

The table below sets forth a summary of selected historical consolidated financial data and is being presented to aid you in your analysis of the financial aspects of the Merger. The selected consolidated financial data has been derived from previously issued consolidated financial statements and should be read in conjunction with the related consolidated financial statements and notes thereto included in our Amendment No. 1 and Amendment No. 2 to our Annual Report on Form 10-K for the year ended November 25, 2006 filed with the SEC on February 9, 2007, and March 23, 2007, respectively and our Quarterly Reports on Form 10-Q for the period ended February 24, 2007 and May 26, 2007 filed with the SEC on April 10, 2007 and July 10, 2007, respectively, which are incorporated by reference, and the unaudited pro forma consolidated balance sheet and the unaudited pro forma consolidated statements of operations included herein. The historical results included below are not indicative of our future performance or the combined company.

	Six Months Ended (in thousands)		**Year ended**				
	26-May-07	**27-May-06**	**25-Nov-06**	**26-Nov-05**	**27-Nov-04**	**29-Nov-03**	**30-Nov-02**
Net sales	$ 28,985	$ 20,214	$ 46,633	$ 35,920	$ 26,716	$ 37,468	$ 17,537
Cost of goods sold	16,541	15,163	31,224	25,203	19,883	32,466	11,393
Gross profit	12,444	5,051	15,409	10,717	6,833	5,002	6,144
Operating expenses							
Selling, general and administrative	11,587	11,228	21,587	18,245	18,670	13,906	5,216
Depreciation and amortization	175	122	290	182	202	390	195
	11,762	11,350	21,877	18,427	18,872	14,296	5,411
Operating (loss) income	682	(6,299)	(6,468)	(7,710)	(12,039)	(9,294)	733
Interest expense	(395)	(245)	(573)	(781)	(353)	(495)	(340)
Other (expense) income	(25)	(68)	(67)	16	(19)	482	138
(Loss) income from operations, before taxes	262	(6,612)	(7,108)	(8,475)	(12,411)	(9,307)	531
Income taxes	13	15	36	13	15	52	119
(Loss) income from continuing operations	249	(6,627)	(7,144)	(8,488)	(12,426)	(9,359)	412
Discontinued operations, net of tax		(2,043)	(2,149)	(7,945)	2,850	1,042	160
Net (loss) income	$ 249	$ (8,670)	$ (9,293)	$ (16,433)	$ (9,576)	$ (8,317)	$ 572
(Loss) earnings per common share Basic							
(Loss) earnings from continuing operations	$ 0.01	$ (0.20)	(0.21)	(0.26)	(0.44)	(0.55)	0.03
(Loss) earnings from discontinued operations		(0.06)	(0.06)	(0.25)	0.10	0.06	0.01
(Loss) earnings per common share Basic	$ 0.01	$ (0.26)	$ (0.27)	$ (0.51)	$ (0.34)	$ (0.49)	$ 0.04
(Loss) earnings per common share Diluted							
(Loss) earnings from continuing operations	$ 0.01	$ (0.20)	(0.21)	(0.26)	(0.44)	(0.55)	0.03
(Loss) earnings from discontinued operations		(0.06)	(0.06)	(0.25)	0.10	0.06	0.01
(Loss) earnings per common share Diluted	$ 0.01	$ (0.26)	$ (0.27)	$ (0.51)	$ (0.34)	$ (0.49)	$ 0.04
Weighted average shares outstanding							
Basic	40,334	33,365	33,853	31,942	28,195	17,009	14,856
Diluted	41,976	33,365	33,853	31,942	28,195	17,009	16,109
Balance sheet data:							
Total assets	$ 16,257	$ 8,227	$ 11,794	$ 27,596	$ 38,143	$ 46,365	$ 15,143
Stockholders equity	7,263	3,909	3,308	11,557	20,279	16,482	5,068
Long-term debt Discontinued operations				7,085	8,627	21,800	3,387

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UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial statements are presented to illustrate the effects of the merger on the historical financial position and operating results of us and JD Holdings as of May 26, 2007 and for the year ended November 25, 2006 and the six months ended May 26, 2007. The pro forma statements are based on the historical financial statements of us and JD Holdings after giving effect to the merger as a purchase of JD Holdings by us using the purchase method of accounting and the assumptions and adjustments described in the accompanying notes to the unaudited pro forma condensed combined financial statements. The pro forma statements have been derived from, and should be read in conjunction with, the historical financial statements, including the notes thereto, of each of us and JD Holdings incorporated by reference or included in this proxy statement.

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

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

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

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

The unaudited pro forma condensed combined balance sheet is presented as if the merger had been completed on May 26, 2007 and, due to different fiscal period ends, combines the historical balance sheet of us at May 26, 2007 and the historical balance sheet of JD Holdings at June 30, 2007. The unaudited pro forma condensed combined statement of operations of us and JD Holdings for the year ended November 25, 2006 is presented as if the merger had been completed on November 27, 2005 and, due to different fiscal period ends, combines the historical results of us for the year ended November 25, 2006 and the historical results of JD Holdings for the twelve months ended December 31, 2006. The unaudited pro forma condensed combined statement of operations of us and JD Holdings for the six months ended May 26, 2007 is presented as if the merger had been completed on November 27, 2005 and, due to different fiscal period ends, combines the historical results of us for the six months ended May 26, 2007 and the historical results of JD Holdings for the six months ended June 30, 2007.

The unaudited pro forma condensed combined financial statements should be read in conjunction with our historical financial statements and accompanying notes for our fiscal year ended November 25, 2006 and the six month period ended May 26, 2007 incorporated by reference in this proxy statement, and JD Holdings historical financial statements included elsewhere herein for its fiscal year ended December 31, 2006 and fiscal quarter ended June 30, 2007. The unaudited pro forma condensed combined financial statements are not intended to represent or be indicative of the consolidated results of operations or financial condition of the combined company that would have been reported had the merger been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations or financial position of the combined company.

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

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

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

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

AS OF MAY 26, 2007
(in thousands)

	Innovo May 26, 2007	JD Holdings June 30, 2007	Pro Forma Adjustments