INNOVO GROUP INC
Form 10-Q
April 15, 2003

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

Form 10-Q

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

For the quarterly period ended March 1, 2003
Commission file number: 0-18926

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

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

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

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

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

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

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

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

As of April 14, 2003, there were 15,129,764 shares of the issuer's only class of common stock outstanding.

INNOVO GROUP INC.
QUARTERLY REPORT ON FORM 10-Q

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PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

INNOVO GROUP INC AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(000's except for share data)

	03/01/03 (unaudited)	11/30/02 (unaudited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 137	$ 222
Accounts receivable, and due from factor net of allowance for uncollectible accounts of $428(2003) and $383(2002)	3,948	2,737
Inventories	5,139	5,710
Prepaid expenses & other current assets	610	279
TOTAL CURRENT ASSETS	9,834	8,948
PROPERTY, PLANT and EQUIPMENT, net	1,421	1,419
GOODWILL	4,271	4,271
INTANGIBLE ASSETS, net	445	487
OTHER ASSETS	19	18
TOTAL ASSETS	$ 15,990	$ 15,143

LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 2,888	$ 2,438
Due to related parties	4,522	4,250
Current maturities of long-term debt	788	756
TOTAL CURRENT LIABILITIES	8,188	7,444
LONG-TERM DEBT, less current maturities	2,427	2,631
8% Redeemable preferred stock, $0.10 par value: Authorized shares-5,000 194 shares(2003) and 194(2002)	--	--
STOCKHOLDERS EQUITY		
Common stock, $0.10 par value - shares Authorized 40,000,000 Issued and outstanding 14,901(2003) and 14,901(2002)	1,491	1,491
Additional paid-in capital	40,362	40,343
Accumulated deficit	(33,227)	(33,507)
Promissory note-officer	(703)	(703)
Treasury stock	(2,547)	(2,537)
Accumulated other comprehensive loss	--	(19)
TOTAL STOCKHOLDERS' EQUITY	5,376	5,068
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 15,990	$ 15,143

See accompanying notes which are an integral part of these unaudited consolidated condensed financial statements

INNOVO GROUP INC. AND SUBUSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(000's except per share data)
(unaudited)

	Three Months Ended	
	03/01/03	03/02/02
NET SALES	$ 11,915	$ 3,201
COST OF GOODS SOLD	8,605	2,289
Gross Profit	3,310	912
OPERATING EXPENSES		
Selling, general and administrative	2,838	1,250
Depreciation and amortization	79	46
	2,917	1,296
INCOME (LOSS) FROM OPERATIONS	393	(384)
INTEREST EXPENSE	(150)	(97)
OTHER INCOME (EXPENSE), net	102	6

INCOME (LOSS) BEFORE INCOME TAXES	345	(475)
INCOME TAXES	63	21
NET INCOME (LOSS)	$ 282	$ (496)
NET INCOME (LOSS) PER SHARE:		
Basic	0.02	(0.03)
Diluted	0.02	(0.03)
WEIGHTED AVERAGE SHARES OUTSTANDING		
Basic	14,841	14,921
Diluted	17,241	14,921

See accompanying notes which are an integral part of these unaudited consolidated condensed financial statements

INNOVO GROUP INC. AND SUBUSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(000's except per share data)
(unaudited)

	Three Months Ended	
	03/01/03	03/02/02
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	$ (777)	$ (32)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures	(39)	(221)
Proceeds from Real Estate Investment	773	--
Redemption of Preferred Shares	(368)	--
Cash Used in Investing Activites	366	(221)
CASH FLOWS FROM FINANCING ACTIVITIES		
Treasury Stock Acquistions	(10)	(21)
Related Party Borrowings	500	--
Repayments of Long-Term Debt	(183)	(18)
Cash Used in Financing Activities	(307)	(39)
Effect of Exchange Rate on Cash	19	--
NET CHANGE IN CASH AND CASH EQUIVALENTS	(85)	(292)
CASH AND CASH EQUIVALENTS, at beginning of period	222	292
CASH AND CASH EQUIVALENTS, at end of period	137	--

See accompanying notes which are an integral part of these unaudited consolidated condensed financial statements

INNOVO GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1-BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal recurring and consolidating adjustments) considered necessary to present fairly the balance sheets, the results of operations and cash flows for the period reported. The accompanying unaudited condensed consolidated financial statements include the financial results of the Innovo Group Inc. ("Innovo Group") and all its wholly-owned subsidiaries (collectively the "Company"). All intercompany balances have been eliminated.

These accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The balance sheet at November 30, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

While management believes that the disclosures presented are adequate to make the information not misleading, it is recommended that the consolidated financial statements and footnotes be read in conjunction with the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended November 30, 2002. Operating results the three-month period ended March 1, 2003 are not necessarily indicative of the results that may be expected for the year ended November 29, 2003.

NOTE 2 - INVENTORY

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

	3/01/03	11/30/02

Finished goods	$ 5,273	$ 5,741
Raw materials	9	74
	5,282	5,815
Less allowance for obsolescence and slow moving items	(143)	(105)
	$ 5,139	$ 5,710

NOTE 3 - LONG-TERM DEBT

A summary of our long-term debt follows.

	3/01/03	11/30/02
First mortgage loan on Springfield property	$ 538	$ 558
Promissory note to Azteca	741	786
Promissory note to Azteca	1,926	2,043
Total long-term debt	3,204	3,387
Less current maturities	778	756
	$ 2,427	$ 2,631

NOTE 4 - DUE TO RELATED PARTY

On February 7, 2003 the Company entered into a loan agreement with Marc Crossman, the Company's Chief Financial Officer and a member of the Company's Board of Directors. The loan was funded in two phases of $250,000 each on February 7, 2003 and February 13, 2003 for an aggregate loan value of $500,000. In the event of default, each phase is collateralized by 125,000 shares of the Company's common stock as well as a general claim on the assets of the Company, subordinate to existing lenders. Each phase matures six months and one day from the date of its respective funding, at which point the principal amount and any accrued interest is due in full. The loan carries an 8% annualized interest rate with interest due on a monthly basis. The loan may be repaid by the Company at any time during the term of the loan without penalty. Further, the Company has the option to extend the term of the loan for an additional period of six months and one day at anytime before maturity. The disinterested directors of the Company approved the loan from Mr. Crossman.

NOTE 5 --EARNINGS PER SHARE

A reconciliation of the numerator and denominator of basic earnings per share and diluted earnings per share is as follows:

	THREE MONTHS ENDED 3/01/03	3/02/02
Basic EPS Computation:		
Numerator	282,000	(496,000)
Denominator:		
Weighted Average Common Shares Outstanding	14,841,000	14,921,000
Total Shares	14,841,000	14,921,000
Basic EPS	$ 0.02	$ (0.03)
Diluted EPS Calculation:		
Numerator	288,000	(496,000)
Denominator:		
Weighted Average Common Shares Outstanding	14,841,000	14,921,000
Incremental Shares Outstanding from Assumed Exercise of Options and Warrants	2,400,000	--
Total Shares	17,241,000	14,921,000
Diluted EPS	$ 0.02	$ (0.03)

1,435,417 options and warrants were excluded from calculation of diluted EPS at March 1, 2003 as they had an exercise price in excess of the average market price of the Company's common stock during the quarter.

8,382,521 options and warrants at March 2, 2002 were excluded from the calculation of diluted EPS as their effect would have been anti-dilutive

NOTE 6-EQUITY ISSUANCE

Subsequent to the end of the first quarter of fiscal 2003, the Company completed two prive placements of equity totaling net proceeds of $571,000. The first placement, executed on March 19, 2003 raised gross proceeds of $437,000 at $2.65 per share and the second placement executed on March 26, 2003 raised gross proceeds of $168,000 also at $2.65 per share. In aggregate the Company issued 228,500 shares as a result of the two private placements.

NOTE 7-INCOME TAXES

The Company's income tax expense for the quarter ended March 2, 2002 represents estimated state and foreign income and franchise tax expense.

The Company's income tax expense for the quarter ended March 1, 2003 represents estimated state and foreign income and franchise tax expense, as well as estimated Federal tax expense in excess of net operating loss carry-forwards available for the period, using the effective rate method.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

When used in this Quarterly Report on Form 10-Q, the words "may," "will," "except," "anticipate," "intend," "estimate," "continue," "believe" and similar expressions are intended to identify forward-looking statements. Similarly, statements that describe our future expectations, objectives and goals or contain projections of our future results of operations or financial condition are also forward-looking statements. Statements looking forward in time are included in this Quarterly Report on Form 10-Q pursuant to the "safe harbor" provision of the Private Securities Litigation Reform Act of 1995. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially, including, without limitation, continued acceptance of the Company's product, product demand, competition, capital adequacy and the potential inability to raise additional capital if required, and the risk factors contained in the Company's reports filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended, including its Annual Report on Form 10-K for the year ended November 30, 2002. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Our future results, performance or achievements could differ materially from those expressed or implied in these forward-looking statements. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events.

Results of Operations

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

	Three Months Ended (in thousands)			
	3/01/03	3/02/02	$ Change	% Change
Net Sales	$ 11,915	$ 3,201	$ 8,714	272
Costs of Goods Sold	8,605	2,289	6,316	276
Gross Profit	3,310	912	2,398	263

Selling, General & Administrative	2,838	1,250	1,588	127
Depreciation & Amortization	79	46	33	72
Income (Loss) from Operations	393	(384)	777	(A)
Interest Expense	(150)	(97)	(53)	55
Other Income (expense)	102	6	96	(A)
Income (Loss)Before Income Taxes	345	(475)	820	(A)
Income Taxes	63	21	42	200
Net Income (Loss)	$ 282	$ (496)	$ 778	(A)

(A) Not Meaningful

Comparison of Three Months Ended March 1, 2003, to Three Months Ended March 2, 2002

Overview

During the first quarter 2003, compared to the first quarter of 2002, the Company significantly increased its revenues and generated a net profit of $282,000 compared to a net loss of $496,000 in the prior period as a result of improved operating performance from all three of its main consumer products operating subsidiaries.

Reportable Segments

During the three months ended March 1, 2003 and March 2, 2002, the Company operated in two segments, accessories and apparel. The accessories segment represents the Company's historical line of business as conducted by Innovo, Inc. ("Innovo"). The apparel segment is comprised of the operations of Joe's Jeans, Inc. ("Joe's") and Innovo Azteca Apparel, Inc. ("IAA"). The Company's real estate operations and corporate activities are categorized under "other." The operating segments have been classified based upon the nature of their respective operations, customer base and the nature of the products sold.

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

Three Months Ended March 1, 2003	Accessories	Apparel	Other(A)	Total
	(in thousands)			
Revenues, net	$ 2,743	$ 9,172	$ --	$ 11,915
Gross profit	793	2,517	--	3,310

Depreciation and amortization	7	52	21	79
Interest expense	38	103	9	150

Three Months Ended March 2, 2002	Accessories	Apparel	Other(A)	Total
	(in thousands)			
Revenues, net	$ 1,476	$ 1,725	$ --	$ 3,201
Gross profit	370	542	--	912
Depreciation and amortization	6	30	10	46
Interest expense	9	76	12	97

Three Months Ended 3/01/03 TO 3/02/02	Accessories		Apparel		Other(A)	
	$ Change	% Change	$ Change	% Change	$ Change	% Change
Revenues, net	$ 1,267	86%	$ 7,447	432%	$ --	--
Gross profit	423	114	1,975	364	--	--
Depreciation and amortization	1	17	22	73	11	110
Interest expense	29	322	27	36	(3)	(25)

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

Operating Revenues

Net revenues for the three months ended March 1, 2003 increased to $11,915,000 or 272% from $3,201,000 for the three months ended March 2, 2002. During the period, the Company experienced a significant increase in sales from its three main operating subsidiaries, with Innovo operating in the accessory segment and Joe's and IAA operating in the apparel segment.

Accessory

Innovo. The Company's accessory business, conducted by Innovo, increased its net revenues to $2,743,000 in the first quarter of fiscal 2003 compared to $1,476,000 in the first quarter of fiscal 2002, representing an 86% increase. The increase is primarily a result of increased sales to private label customers, which increased from gross revenues of $95,000 in the first quarter of fiscal 2002 to gross revenues of $838,000 in the first quarter of fiscal 2003. Innovo also experienced an increase in revenues from its craft business and Bongo product line.

Innovo's craft business increased from gross revenues of $979,000 in the first quarter of 2002 to $1,340,000 in the first quarter of fiscal 2003. Additionally, Innovo's Bongo gross revenues increased to $415,000 for the first quarter of fiscal 2002, representing a $112,000 increase.

Apparel

Joe's. During the first quarter of fiscal 2003, Joe's net revenues increased to $2,128,000 compared to $923,000 in the first quarter of fiscal 2002, resulting in an increase of 131%.

During the first quarter of fiscal 2003, Joe's experienced increase demand in both the domestic and international marketplaces. Joe's domestic sales for the current period were $1,494,000 with the remaining $634,000 of sales representing international sales from Joe's Japanese subsidiary Joe's Jeans Japan, Inc. and sales to international distributors. The increase is attributable to growing brand awareness and Joe's continued marketing efforts in the overseas markets.

IAA. IAA, increased its net revenues to $7,044,000 for first quarter of fiscal 2003 compared to $802,000 the same quarter a year ago, representing an increase of approximately 778%. IAA's significant increase in revenues is largely attributable to an increase in sales to Target Corporation's Mossimo division. IAA's products during the first quarter of fiscal 2003 primarily consisted of denim jeans. IAA is currently working towards expanding its private label customer base in an attempt to reduce its reliance on a limited number of customers.

Gross Margin

The Company's gross margin decreased from 29% in the first fiscal quarter of 2002 to 28% in the first fiscal quarter of 2003. The slight decline was attributable to a higher percentage of sales coming from the private label apparel segment which typically carries lower margins that the Company's other products.

Accessory

Innovo. The Company's accessory segment's gross margin increased from approximately 25% in the first quarter of fiscal 2002 to 29% in the first quarter of fiscal 2003. Innovo's gross margin is largely a function of Innovo's product mix for the given period. Innovo's branded products have traditionally experienced higher gross margins than its craft and private label businesses, with Innovo's private label business usually having slightly higher gross margins than Innovo's craft business. Innovo's gross margin in the first quarter of fiscal 2002 was lower than its historical gross margin average as a result of Innovo's craft business representing a greater percentage of Innovo's total revenues. In the first quarter of fiscal 2003, Innovo's branded and private label businesses represented a greater percentage of sales and thus slightly increased Innovo's gross margins in the first quarter of fiscal 2003 compared to the first quarter of fiscal 2002.

Apparel

Joe's. Joe's gross margins increased from 43% in first quarter of fiscal 2002 to 61% in first quarter of fiscal 2003. During the first quarter of fiscal 2003, Joe's cost of goods sold for its products decreased. Consequently, Joe's gross margins in first quarter of fiscal 2003 reflect the impact of this decrease in price.

IAA. IAA's gross margins decreased in the first quarter of fiscal 2003 to 17% from 19% in the same quarter a year ago. The majority of the decrease is attributable to an increase in returns and higher costs for certain goods sold during the period.

Selling, General and Administrative Expense

The Company's selling, general and administrative ("SG&A") expenses increased in the quarter by approximately 127% from $1,250,000 in the first quarter of fiscal 2002 to $2,838,000 in the first quarter of fiscal 2003. The increase in SG&A expenses is largely a result of an increase in expenses to support the Company's 272% revenue growth during the period. During the period the Company incurred a notable increase in wages, advertising, travel, professional fees, sales shows and other expenses related to the Company's revenue growth.

Accessory

Innovo. Innovo's SG&A expenses increased by approximately 67% to $730,000 for the three months ended March 1, 2003 compared to $440,000 for the three months ended March 2, 2002. Innovo's increase in SG&A expenses is largely attributable to expenses which were necessary to support or associated with Innovo's 86% increase in revenues. During the quarter, Innovo's wages increased by approximately 87% to $290,000 as a result of staff members the Company added at its headquarters in Knoxville and to its showroom in New York City during the second half of fiscal 2002. Additionally, Innovo's wages increased from the addition of employees at Innovo's sourcing office Innovo Hong Kong, Inc. in Hong Kong.

Royalties expense for the quarter increased by 350% to $27,000 mainly in response to the increase in the sales of Bongo related products and the royalty expense associated therewith. Innovo's distribution costs also increased by approximately 30% during the period as a result of the expense associated with distributing a greater amount of product.

Apparel

Joe's. Joe's SG&A expenses increased by approximately 211% to $1,230,000 during the quarter compared to $396,000 in the quarter a year ago. Joe's wage expense increased significantly as a result of the increase in staff to support Joe's growth. With Joe's royalty and commission expense being a function of Joe's revenues, these expenses also increased substantially as a result of Joe's increasing revenues.

In aggregate, wages and commissions, which grew 143%, accounted for over 42% of Joe's SG&A

In order to continue to achieve rapid sales growth, the Company actively invests in marketing the Joe's brand through participation in sales shows and advertising the Joe's brand in national print publications. During the quarter, Joe's sales show and sales sample expense increased by 165% to $127,000 and its advertising expenses increased by 145% to $128,000 compared to the prior year's first quarter. In response to sales growth, Joe's factoring expense increased to $31,000 in the first quarter in response to the increase in the number of receivables Joe's factored. See "Management's Discussion and Analysis of Financial Condition and Results of Operation-Liquidity and Capital Resources" for a further discussion of the factoring agreement between Joe's and the CIT Group, Inc.

IAA. IAA's SG&A expenses in the first quarter of fiscal 2003 increased to $412,000 from $107,000 in the quarter a year ago, representing a 285% increase. As a result of a ten-fold increase in revenues, factoring expenses increased at a similar pace rising from $5,000 in the first fiscal quarter of 2002 to $67,000 in the first fiscal quarter of 2003. During the quarter, wages increased 26% to $120,000. During the quarter, the Company directed additional resources towards the development of three branded product lines, which are anticipated to begin generating revenues in the second half of fiscal 2003. For the period, IAA incurred expenses of $102,000, or 24% of IAA's SG&A, related to sales shows, samples, and advertising primarily for the branded product lines. Additionally, the company paid royalties of $32,000 as a part of its licensing agreements associated with the branded product lines.

Other

IGI. IGI, which reflects the corporate expenses of the Company and operates under the "other" segment does not have revenues. For the first quarter of fiscal 2003, IGI's expenses, excluding interest, depreciation and amortization, increased by approximately 49% to $456,000 compared to $307,000 in the quarter a year ago. The most notable increase in expense for IGI is the increase in its professional fees and management wages. During the quarter, IGI's professional fee's expense increased approximately 190% compared to the same quarter a year ago. The increase in professional fees is largely attributable to additional legal and accounting fees. IGI's management wages increased over 100% during the quarter to $110,000 as the Company continues to hire additional personnel to support the Company's growth and development. IGI's remaining expenses did not differ materially compared to the first quarter of fiscal 2002.

LMI. During the quarter, Leasall Management, Inc. ("LMI"), a wholly-owned subsidiary of the Company, incurred $10,000 of expense in order to maintain and operate the Company's former manufacturing facility and headquarters located in Springfield, TN, which is now

partially leased to third party tenants.

Depreciation and Amortization Expenses

Depreciation and Amortization expenses for the Company increased in the three-month period ended March 1, 2003 to $79,000 from $46,000 in the prior year period, representing an increase of 72%. The increase is primarily attributable to an increase in LMI's depreciation of the Springfield facility and the amortization of the licensing rights to the Joe's Jeans trademark acquired upon the creation of Joe's. During fiscal 2002, the Company made significant leasehold improvements to its Springfield, TN facility. As a result, depreciation of the facility increased 113% from $8,000 in the first quarter of fiscal 2002 to $17,000 in the first quarter of fiscal 2003. The remaining depreciation expense is associated with the depreciation of small operational assets such as furniture, fixtures, leasehold improvements, machinery and software.

Interest Expense

The Company's combined interest expense for the quarter ended March 1, 2003 increased by approximately 55% to $150,000 compared to $97,000 for the quarter ended March 2, 2002. The Company's interest expense is primarily associated with its factoring and inventory lines of credit, the knit acquisition purchase note, the loan to the Company by an officer of the Company, and the note associated with the Company's former manufacturing facility and headquarters in Springfield, TN. See "Managements Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" for a further discussion of these financing arrangements.

Accessory

Innovo. For the three months ended March 1, 2003, Innovo's interest expense was $38,000 compared to $9,000 for the three months ended March 2, 2002. This represents interest expense incurred from borrowings under Innovo's factoring facility and inventory based line of credit. See "Managements Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" for a further discussion of these financing arrangements.

Apparel

Joe's. Joe's interest expense for the three months ended March 1, 2003 was approximately $16,000 compared to $2,000 for the three months ended March 2, 2002. While Joe's typically factors fewer receivables than Innovo and IAA, with the significant increase in revenues, Joe's borrowings against its factoring facility increased significantly in the first quarter of 2003 compared to 2002. Additionally, Joe's increase in interest expense reflects the interest expense associated with borrowing under Joe's inventory based line of credit. See "Managements Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources" for a further discussion of these financing arrangements.

IAA. IAA's interest expense increased for the three months ended March 1, 2003 as a result of IAA factoring a vast majority of its receivables and then borrowing funds against these receivables. However, offsetting a portion of the increased interest expense is a decrease in the interest payments on a note issued pursuant to the acquisition and creation of the IAA subsidiary. For the three months ended March 1, 2003, IAA's interest expense increased by approximately 18% to $87,000 compared to the three months ended March 2, 2002.

Other Income

The Company had other income of $102,000 in the first quarter of 2003 compared to other income of a $6,000 in first quarter of 2002.

IRI. The increase in other income for the three months ended March 1, 2003, is largely attributable to $85,000 of income from a management fee that Innovo Realty, Inc. ("IRI") receives pursuant to an investment the Company made through its newly formed IRI subsidiary in the second quarter of fiscal 2002, thus there was not other income affiliated with IRI for the first quarter of fiscal 2002 since the investment was not made until the second quarter of 2002.

The remaining other income is primarily associated with rental income generated from tenants who are occupying the Company's former manufacturing facility located in Springfield, TN.

Net Income

The Company generated net income of $282,000 for the three months ended March 1, 2003 compared to a net loss of $496,000 for the three months ended March 2, 2002. The Company's profitability is primarily attributable to the Company's significant increase in revenues due to the growth of the business of its three main consumer products operating subsidiaries as discussed above. Subsequently, the gross profit associated with the increase in revenues exceeded the Company's expenses during the period resulting in a net income of $282,000 for the first quarter of fiscal 2003.

Liquidity and Capital Resources

The Company's primary sources of liquidity are cash flows from operations, trade payables credit from vendors and related parties and borrowings from the factoring of accounts receivables.

Cash used for operating activities during the first quarter of 2003 was $777,000 compared to cash used for operating activities of $32,000 during the first quarter of 2002. During the quarter, cash generated from the reduction of inventory was offset by an increase in accounts receivable and a decrease in prepaid expenses and other current liabilities resulting in a net use of cash for operating activities of $777,000. Cash used in operating

activities combined with cash generated through a related party borrowing of $500,000 resulted in a slight use of cash of $85,000 during the quarter.

The Company is dependent on credit arrangements with suppliers and factoring agreements for working capital needs. From time to time, the Company has obtained short-term working capital loans from senior members of management and from members of the Board of Directors, and conducted equity financing through private placements.

The Company relied on the following primary sources to fund operations during the first quarter of fiscal 2003:

- A financing agreement with CIT Group, Inc. ("CIT")
- Cash reserves
- Trade payables credit with its domestic and international suppliers
- Trade payables credit from related parties

On June 1, 2000, the Company, through its three main operating subsidiaries, Joe's, Innovo, and IAA, entered into a financing agreement with CIT for the factoring of the Company's accounts receivables. Pursuant to the terms of the agreements the Company, at its option, can sell its accounts receivables to CIT and then borrow up to 85% of the amount factored against the receivables on a non-recourse basis, provided that CIT approves the receivables in advance. The Company may at its option also factor non-approved receivables on a recourse basis. The Company continues to be obligated in the event of product defects and other disputes, unrelated to the credit worthiness of the customer. The agreements call for a 0.8% factoring fee on invoices factored with CIT and a per annum rate equal to the greater of the Chase prime rate plus 0.25% on funds borrowed against the factored receivables or 6.5% per annum.

In August 2002, Joe's and Innovo amended their factoring agreements with CIT to include an inventory based line of credit. According to the terms of the agreements, amounts loaned against inventory are to bear an interest rate equal to the greater of the Chase prime rate plus 0.75% or 6.5% per annum. The Company is currently restricted in regards to how much CIT will loan against the inventory. The restrictions currently limit the amount Joe's and Innovo can borrow against its inventory at $400,000 for each subsidiary.

As of March 1, 2003, the Company had borrowed the maximum amount available to the Company under the inventory line from CIT. The CIT agreements may be terminated by CIT with 60 days notice by CIT, or on the anniversary date, by the Company provided 60 days written notice is given. Joe's and Innovo's agreements with CIT expire on June 1, 2003 and IAA's agreement expires on September 10, 2003. The Company believes that it will be able to renew the agreements with CIT or will be able to find similar financing with another financing organization on similar terms. The Company is currently reviewing its cash requirements

and availability on the factoring lines with CIT.

Based on the Company's anticipated internal growth in 2003, the Company believes that it will be necessary to obtain additional working capital sources in order to meet the operational needs associated with such growth. The Company believes that it will address these needs by increasing the availability of funds offered to the Company under its financing agreements with CIT or other financial institutions. The Company is currently seeking additional working capital if it can be obtained at suitable terms. The Company may be required to obtain additional capital through debt or equity financing.

The Company believes that any additional capital, to the extent needed, may be obtained from the sale of equity securities or through short-term working capital loans. However, there can be no assurance that this or other financing will be available if needed. The inability of the Company to be able to fulfill any interim working capital requirements would force the Company to constrict its operations. The Company intends to pursue acquisitions that may result in the Company raising additional capital through debt or equity financing. The Company believes that the relatively moderate rate of inflation over the past few years has not had a significant impact on the Company's revenues or profitability.

Equity Financing

Subsequent to the end of the first quarter of fiscal 2003, the Company completed two private placement of equity totaling net proceeds of $571,000. The first placement, executed on March 19, 2003 raised gross proceeds of $437,000 at $2.65 per share and the second placement executed on March 26, 2003 raised gross proceeds of $168,000 also at $2.65 per share. In aggregate the Company issued 228,500 shares as a result of the two private placements.

Short-Term Debt

Crossman Loan

On February 7, 2003 the Company entered into a loan agreement with Marc Crossman, a member of the Company's Board of Directors and the Company's current Chief Financial Officer. The loan was funded in two phases of $250,000 each on February 7, 2003 and February 13, 2003 for an aggregate loan value of $500,000. In the event of default, each phase is collateralized by 125,000 shares of the Company's common stock as well as a general unsecured claim on the assets of the Company, subordinate to existing lenders. Each phase matures six months and one day from the date of its respective funding, at which point the principal amount and any accrued interest is due in full. The loan carries an 8% annualized interest rate with interest due on a monthly basis. The loan may be repaid by the Company at any time during the term of the loan without penalty. Further, the Company has the option to extend the term of the loan for an additional period of six months and one day at anytime before

maturity. The disinterested directors of the Company approved the loan from Mr. Crossman.

Long-Term Debt

Long-term debt consists of the following (in thousands):

	3/01/03	11/30/02
First mortgage loan on Springfield property	$ 538	$ 558
Promissory note to Azteca	741	786
Promissory note to Azteca	1,926	2,043
Total long-term debt	3,205	3,387
Less current maturities	778	756
	$ 2,427	$ 2,631

The first mortgage loan held by First Independent Bank of Gallatin, is collateralized by a first deed of trust on real property in Springfield, TN (with a carrying value of $1,220,000 at March 1, 2003), and by an assignment of key-man life insurance on the President of the Company, Pat Anderson, in the amount of $1 million. The loan bears interest at 2.75% over the lender's prime rate per annum and requires monthly principal and interest payments of $9,900 through February 2010. The loan is also guaranteed by the Small Business Administration (SBA). In exchange for the SBA guarantee, the Company, Innovo, Nasco Products International, Inc., a wholly-owned subsidiary of the Comapny, and the President of the Company, Pat Anderson, have also agreed to act as guarantors for the obligations under the loan agreement.

In connection with the acquisition of the knit division from Azteca Production International, Inc., the Company issued promissory notes in the face amounts of $1.0 million and $2.6 million, which bear interest at 8.0% per annum and require monthly payments of $20,276 and $52,719, respectively. The notes have a five-year term and are unsecured.

The $1.0 million note was subject to adjustment in the event that the sales of the knit division did not reach $10.0 million during the 18-month term following the closing of the Acquisition. The principal amount was to be reduced by an amount equal to the sum of $1.5 million less 10% of the net sales of the knit division during the 18 months following the Acquisition. For the 18-month period following the closing of the knit acquisition, nets sales for the knit division exceeded the $10 million threshold.

In the event that the Company determines, from time to time, at the reasonable discretion of the

Company's management, that its available funds are insufficient to meet the needs of its business, the Company may elect to defer the payment of principal due under the promissory notes for as many as six months in any one year (but not more than three consecutive months) and as many as eighteen months, in the aggregate, over the term of the notes. The term of the notes shall automatically be extended by one month for each month the principal is deferred, and interest shall accrue accordingly. As of March 1, 2003, the Company has not elected to defer any payments due under the promissory notes.

At the election of Azteca, the balance of the promissory notes may be offset against monies payable by Azteca or its affiliates to the Company for the exercise of issued and outstanding stock warrants that are owned by Azteca or its affiliates (including the Commerce Investment Group).

The following table sets forth the Company's contractual obligations and commercial commitments as of March 1, 2003:

CONTRACTUAL OBLIGATIONS	PAYMENTS DUE BY PERIOD				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long Term Debt	$3,205	$573	$1,700	$844	$88
Operating Leases	627	103	239	285	--
Other Long Term Obligations-Minimum Royalties	3,748	381	2,302	1,065	--

Licenses

In the first quarter of fiscal 2003, the Company's IAA subsidiary entered into a 44 month exclusive licensing agreement for the United States, its territories and possessions with the recording artist and entertainer Eve for the license of the Fetish trademark for use with the production and distribution of apparel and accessory products. The Company has guaranteed minimum net sales obligations of $8,000,000 in the first 18 months of the agreement, $10,000,000 in the following 12 month period and $12,000,000 in 12 month period following thereafter. According to the terms of the agreement the Company is required to pay an 8% royalty and a 2% advertising fee on the nets sales of products bearing the Fetish logo. In the event the Company does not meet the minimum guaranteed sales, the Company will be obligated to make royalty and advertising payments equal to the minimum guaranteed sales multiplied by the royalty rate of 8% and advertising fee of 2%. The Company also has the right of first refusal in regards to the licensing

rights for the Fetish trademark in the apparel and accessories category upon the expiration of the agreement, subject to the Company meeting certain sales performance targets during the term of the agreement. Additionally, the Company has the right of first refusal for the apparel and accessory categories in territories in which the Company does not currently have the licensing rights for the Fetish trademark.

Seasonality

The Company's business is seasonal. The majority of the marketing and sales activities take place from late fall to early spring. The greatest volume of shipments and sales are generally made from late spring through the summer, which coincides with the Company's second and third fiscal quarters and the Company's cash flow is strongest in its third and fourth fiscal quarters. Due to the seasonality of the business, the third quarter results are not necessarily indicative of the results for the fourth quarter.

Management's Discussion of Critical Accounting Policies

Management believes that the accounting policies discussed below are important to an understanding of our financial statements because they require management to exercise judgment and estimate the effects of uncertain matters in the preparation and reporting of financial results. Accordingly, management cautions that these policies and the judgments and estimates they involve are subject to revision and adjustment in the future. While they involve less judgment, management believes that the other accounting policies discussed in Note 2 "Summary of Significant Accounting Polices" of the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended November 30, 2002 are also important to an understanding of our financial statements. The Company believes the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

Revenues are recorded on the accrual basis of accounting when the Company ships products to its customers. Sales returns must be approved by the Company and are typically only allowed for damaged goods. Such returns have historically not been material.

During the three months ended March 1, 2003 and March 2, 2002, allowances for co-op and other advertising programs when calculated as a percentage of sales to a customer have been recorded as a reduction of gross sales. In prior years all advertising allowances were recorded as a components of selling, general and administrative expenses.

Shipping and Handling Costs

During the first quarter ended March 1, 2003, the Company outsourced its distribution function to the

Commerce Investment Group, an affiliated company. Shipping and handling costs include costs to warehouse, pick, pack and deliver inventory to customers. In certain cases the Company is responsible for the cost of freight to deliver goods to the customer. Shipping and handling costs were approximately $205,000 and $1150,000 for the three months ended March 1, 2003 and March 2, 2002, respectively, and are included in selling, general and administrative expenses.

Accounts Receivable-Allowance for Returns, Discounts and Bad Debts

The Company evaluates its ability to collect on accounts receivable and charge-backs (disputes from the customer) based upon a combination of factors. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filings, substantial downgrading of credit sources), a specific reserve for bad debts is taken against amounts due to reduce the net recognized receivable to the amount reasonably expected to be collected. For all other customers, the Company recognizes reserves for bad debts and charge-backs based on the Company's historical collection experience. If collection experience deteriorates (i.e., an unexpected material adverse change in a major customer's ability to meet its financial obligations to the Company), the estimates of the recoverability of amounts due us could be reduced by a material amount.

As of March 1, 2003, the balance in the allowance for returns, discounts and bad debts reserves was $428,000 compared to $383,000 at November 30, 2002.

Inventory

The Company's inventories are valued at the lower of cost or market. Under certain market conditions, estimates and judgments regarding the valuation of inventory are employed by the Company to properly value inventory.

	3/01/03	11/30/02
Finished goods	$ 5,273	$ 5,741
Raw materials	9	74
	5,282	5,815
Less allowance for obsolescence and slow moving items	(143)	(105)
	$ 5,139	$ 5,710

1356:

Valuation of Long-lived and Intangible Assets and Goodwill

The Company assesses the impairment of

identifiable intangibles, long-lived assets and goodwill whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors considered important that could trigger an impairment review include the following:

- a significant underperformance relative to expected historical or projected future operating results;
- a significant change in the manner of the use of the acquired asset or the strategy for the overall business; or
- a significant negative industry or economic trend.

When the Company determines that the carrying value of intangibles, long-lived assets and goodwill may not be recoverable based upon the existence of one or more of the above indicators of impairment, the Company will measure any impairment based on a projected discounted cash flow method using a discount rate determined by our management. No impairment indicators existed as of March 1, 2003.

In 2002, the Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets," became effective. This statement establishes financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, Intangible Assets. The Company adopted SFAS No. 142 beginning with the first quarter of 2002. SFAS No. 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized but, instead, tested at least annually for impairment while intangible assets that have finite useful lives continue to be amortized over their respective useful lives. Accordingly, the Company has not amortized goodwill.

SFAS No. 142 requires that goodwill and other intangibles be tested for impairment using a two-step process. The first step is to determine the fair value of the reporting unit, which may be calculated using a discounted cash flow methodology, and compare this value to its carrying value. If the fair value exceeds the carrying value, no further work is required and no impairment loss would be recognized. The second step is an allocation of the fair value of the reporting unit to all of the reporting unit's assets and liabilities under a hypothetical purchase price allocation.

Income Taxes

As part of the process of preparing the Company's consolidated financial statements, management is required to estimate income taxes in each of the jurisdictions in which it operates. The process involves estimating actual current tax expense along with assessing temporary differences resulting from differing treatment of items for book and tax purposes. These timing differences result in deferred tax assets and liabilities, which are included in the Company's consolidated balance sheet. Management records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be

realized. Management has considered future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance. Increases in the valuation allowance result in additional expense to be reflected within the tax provision in the consolidated statement of income. Reserves are also estimated for ongoing audits regarding Federal, state and international issues that are currently unresolved. The Company routinely monitors the potential impact of these situations and believes that it is properly reserved.

Contingencies

The Company accounts for contingencies in accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, "Accounting for Contingencies". SFAS No. 5 requires that the Company record an estimated loss from a loss contingency when information available prior to issuance of the Company's financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies such as legal and income tax matters requires management to use judgment. Many of these legal and tax contingencies can take years to be resolved. Generally, as the time period increases over which the uncertainties are resolved, the likelihood of changes to the estimate of the ultimate outcome increases. Management believes that the accruals for these matters are adequate.

New Accounting Pronouncements

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This standard sets forth the impairment of long-lived assets, whether they are held and used or are disposed of by sale or other means. It also broadens and modifies the presentation of discontinued operations. The standard will be effective for the Company's fiscal year 2003, although early adoption is permitted, and its provisions are generally to be applied prospectively. The Company is in the process of evaluating the adoption of this standard, but does not believe it will have a material impact on its consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds or modifies existing authoritative pronouncements including FASB Statement No. 4 "Reporting Gains and Losses from Extinguishment of Debt." As a result of the issuance of SFAS No. 145, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Opinion 30. "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." Applying the provisions of Opinion 30 will distinguish transactions that are part of an entity's recurring operations from those that are

unusual or infrequent or that meet the criteria for classification as an extraordinary item. The provisions of this Statement related to the rescission of Statement 4 shall be applied in fiscal years beginning after May 15, 2002. Any gain or loss on extinguishment of debt that was classified as an extraordinary item in prior periods presented that does not meet the criteria in Opinion 30 for classification as an extraordinary item shall be reclassified. Early application of the provisions of this Statement related to the rescission of Statement 4 is encouraged. Innovo is currently evaluating the impact that this statement may have on any potential future extinguishments of debt. Upon adoption of SFAS No. 145, Innovo will reclassify items previously reported as extraordinary items as a component of operating income on the accompanying statements of income.

During 2002, the FASB issued SFAS No. 148, "Accounting for Stock Based Compensation - Transaction and Disclosure, an amendment to FASB Statement No. 123." This Statement requires more extensive interim disclosure related to stock based compensation for all companies and for companies that elect to use the fair value method for employee stock compensation, permits additional transition methods. This statement is effective for fiscal years ending after December 15, 2002, with early adoption regarding annual disclosure encouraged. Innovo is currently evaluating the impact of adoption of this standard.

In June 2002, the FASB issued Statement of Financial Accounting Standards No. 146, Accounting for Costs Associated with Exit or Disposal Activities (Statement No. 146). Under Statement No. 146, it addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company will adopt Statement No. 146 in the first quarter of 2003 and do not expect the adoption to have a material effect on its results of operations, financial position or cash flows.

In December 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 148 "Accounting for Stock-Based Compensation-Transition and Disclosure" (SFAS 148), which amends SFAS No. 123, "Accounting for Stock-Based Compensation". Statement 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, Statement 148 amends the disclosure requirements of Statement 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of Statement 148 are effective for fiscal years ending after December 15, 2002, with earlier application permitted in certain circumstances. The interim disclosure provisions are effective for

financial reports containing financial statements for interim periods beginning after December 15, 2002. The Company does not plan on changing its method of accounting for stock-based employee compensation and will comply with the new disclosure requirements beginning with its annual report and Form 10-K for the year ending November 29, 2003. The Company is in the process of evaluating the adoption of this standard, but does not believe it will have a material impact on its consolidated financial statements.

The Company determines its allowance for doubtful accounts using a number of factors including historical collection experience, the financial prospects of specific customers and market sectors, and general economic conditions. Generally, the Company establishes an allowance for doubtful accounts based on our collection experience when measured by the amount of time an account receivable is past its payment due date. In certain circumstances where the Company believes an account is unable to meet its financial obligations, the Company records a specific allowance for doubtful accounts to reduce the account receivable to the amount the Company believes will be collected.

The Company evaluates its long-lived assets for impairment based on accounting pronouncements that require management to assess fair value of these assets by estimating the future cash flows that will be generated by the assets and then selecting an appropriate discount rate to determine the present value of these future cash flows. An evaluation for impairment must be conducted when circumstances indicate that an impairment may exist; but not less frequently than on an annual basis. The determination of impairment is subjective and based on facts and circumstances specific to the company and the relevant long-lived asset. Factors indicating an impairment condition exists may include permanent declines in cash flows, continued decreases in utilization of a long-lived asset or a change in business strategy. We adopted Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets," beginning with the first quarter of 2002. SFAS No. 142 requires that goodwill and intangible assets that have indefinite useful lives not be amortized but, instead, tested at least annually for impairment while intangible assets that have finite useful lives continue to be amortized over their respective useful lives. SFAS No. 142 requires that goodwill be tested for impairment using a two-step process. The first step is to determine the fair value of the reporting unit, which may be calculated using a discounted cash flow methodology, and compare this value to its carrying value. If the fair value exceeds the carrying value, no further work is required and no impairment loss would be recognized. The second step is an allocation of the fair value of the reporting unit to all of the reporting unit's assets and liabilities under a hypothetical purchase price allocation.

The Company believes that its other long-lived assets are currently being carried on the Company's books at their fair value. However, as a result of the recent decrease in rental revenue from the Company's

Springfield facility, the Company will be monitoring the fair value of the facility in accordance with SFAS No. 144.

The Company has entered into agreements and transaction with related parties and the Company has adopted a policy requiring that any material transactions between the Company and persons or entities affiliated with officers, Directors or principal stockholders of the Company be on terms no less favorable to the Company than reasonably could have been obtained in arms' length transactions with independent third parties.

We continually evaluate the composition of our inventories, assessing slow-turning, ongoing product as well as product from prior seasons. Market value of distressed inventory is valued based on historical sales trends of our individual product lines, the impact of market trends and economic conditions, and the value of current orders relating to the future sales of this type of inventory.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to certain market risks arising from transactions in the normal course of its business, and from debt incurred in connection with the acquisitions it has made. Such risk is principally associated with interest rate and foreign exchange fluctuations, as well as changes in the Company's credit standing.

Interest Rate Risk

The Company's long-term debt bears a fixed interest rate. However, because the Company's obligations under its receivable and inventory financing agreements bear interest at floating rates (primarily JPMorgan Chase prime rate), the Company is sensitive to changes in prevailing interest rates. A 10% increase or decrease in market interest rates that affect the Company's financial instruments would have a material impact on earning or cash flows during the next fiscal year.

Foreign Currency Exchange Rates

Foreign currency exposures arise from transactions, including firm commitments and anticipated contracts, denominated in a currency other than an entity's functional currency, and from foreign-denominated revenues translated into U.S. dollars. Our primary foreign currency exposures relate to the Joe's Jeans Japan subsidiary and resulting Yen Investments. The Company believes that a 10.0% adverse change in the Yen rate in respect to the US dollar would not have a material impact on earning or cash flows during the next fiscal year because of the relatively small size of the subsidiary compared to the rest of the Company.

The Company generally purchases its products in U.S. dollars. However, the Company sources most of its products overseas and, as such, the cost of these

products may be affected by changes in the value of the relevant currencies. Changes in currency exchange rates may also affect the relative prices at which the Company and its foreign competitors sell products in the same market. The Company currently does not hedge its exposure to changes in foreign currency exchange rates. The Company cannot assure that foreign currency fluctuations will not have a material adverse impact on the Company's financial condition and results of operations.

The Company believes that its current cash on hand and cash received pursuant to factored receivables under the factoring and asset based line of credit arrangements with CIT should provide sufficient working capital to fund operations and required debt reductions during fiscal 2002. However, due to the seasonality of the Company's business and negative cash flow during the first three months of the year, the Company may be required to obtain additional capital through debt or equity financing. The Company believes that any additional capital, to the extent needed, could be obtained from the sale of equity securities or short-term working capital loans. There can be no assurance that this or other financing will be available if needed. The inability of the Company to be able to fulfill any interim working capital requirements would force the Company to constrict its operations.

ITEM 4. CONTROLS AND PROCEDURES

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the chief executive officer and acting chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on that evaluation, the Company's management, including the chief executive officer and chief financial officer, concluded that the Company's disclosure controls and procedures are effective. There were no significant changes in the Company's internal controls or other factors that could significantly affect these internal controls subsequent to the date of the completion of their evaluation.

PART II: OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) Exhibits. The following exhibit is filed herewith.

Exhibit No.	Description
10.96	Licensing Agreement with Blondie Rockwell, Inc. for the Fetish Trademark
10.97	Crossman Loan Note, February 7, 2003
10.98	Crossman Loan Note, February 13, 2003
99.1	Certification Pursuant to 18 U.S.C.

Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 90 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

Current Report on Form 8-K dated March 17, 2003 containing a copy of the Company's press release dated March 17, 2003 titled "Innovo Group Reports Fiscal 2002 and Fourth Quarter Results."

Current Report on Form 8-K dated April 15, 2003 containing a copy of the Company's press release dated April 15, 2003 titled "Innovo Group Reports Record First Quarter Results with Revenues Increasing 272%."

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

INNOVO GROUP INC.

Dated: April 15, 2003 By: /s/ Samuel Joseph Furrow, Jr.

Samuel Joseph Furrow, Jr.,
Chief Executive Officer

Dated: April 15, 2003 By: /s/ Marc B. Crossman

Marc B. Crossman,
Chief Financial Officer
(Principal Accounting Officer)

CERTIFICATION BY SAMUEL JOSEPH FURROW, JR. AS CHIEF EXECUTIVE OFFICER

I, Samuel Joseph Furrow, Jr. certify that:

1. I have reviewed this quarterly report on Form 10-Q of Innovo Group Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 15, 2003 /s/ Samuel Joesph Furrow, Jr.

Samuel Joseph Furrow, Jr.
Chief Executive Officer

CERTIFICATION BY MARC B. CROSSMAN AS CHIEF FINANCIAL OFFICER (PRINCIPAL ACCOUNTING OFFICER)

I, Marc B. Crossman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Innovo Group Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 15, 2003

/s/ Marc B. Crossman

Marc B. Crossman
Chief Financial Officer

Exhibit Index

Exhibit No.	Description
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.