

INNOVO GROUP INC
Form PRE 14A
April 15, 2005

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

SCHEDULE 14A

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 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)

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INNOVO GROUP INC.

5804 East Slauson Avenue

Commerce, California 90040

(323) 725-5516

April , 2005

Dear Stockholder:

You are cordially invited to attend the 2005 annual meeting of stockholders of Innovo Group Inc., or Innovo Group, which will be held at the Sofitel Hotel, 8555 Beverly Boulevard, Los Angeles, California 90048, on Thursday, June 9, 2005. The 2005 annual meeting of stockholders will begin promptly at 10:00 a.m. local time.

The accompanying notice of annual meeting and proxy statement, which you are urged to read carefully, provides important information regarding the business to be conducted at the annual meeting.

Your Board of Directors recommends a vote **FOR** all of the director nominees and proposals.

You are requested to complete, date and sign the enclosed proxy card and promptly return it in the enclosed envelope, whether or not you plan to attend the annual meeting. If you do attend the meeting, you may vote in person even if you have submitted a proxy card. **REGARDLESS OF THE NUMBER OF SHARES YOU OWN OR WHETHER YOU PLAN TO ATTEND THE ANNUAL MEETING, IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AND VOTED.** If you hold your shares in street name (that is, through a broker, bank or other nominee), please review the instructions on the proxy forwarded by your broker, bank or other nominee regarding the option, if any, to vote on the Internet or by telephone. If you plan to attend the meeting in person, please remember to bring a form of personal identification with you and, if you are acting as a proxy for another stockholder, please bring written confirmation from the record owner that you are acting as a proxy.

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

Sincerely,

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

INNOVO GROUP INC.

5804 East Slauson Avenue

Commerce, California 90040

(323) 725-5516

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON THURSDAY, JUNE 9, 2005

| | |
|---------------------------------------|--|
| Time and Date | 10:00 a.m., local time on Thursday, June 9, 2005 |
| Place | Sofitel Hotel, 8555 Beverly Boulevard, Los Angeles, California 90048 |
| Items of Business | <p>(1) To elect eight directors to serve on the Board of Directors until the 2006 annual meeting of stockholders or until their respective successors are elected and qualified;</p> <p>(2) To consider and approve an amendment to the Fifth Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock available for issuance by 40 million shares from 40 million to 80 million;</p> <p>(3) 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 3 million shares from 1,265,172 shares to 4,265,172 shares;</p> <p>(4) To ratify the appointment of Ernst & Young, LLP as our independent registered public accounting firm for the fiscal year ending November 26, 2005; and</p> <p>(5) To transact such other business as may properly come before the annual meeting or any adjournments thereof.</p> |
| Adjournments and Postponements | Any action on the items of business described above may be considered at the annual meeting at the time and on the date specified above or at any time and date to which the annual meeting may be properly adjourned or postponed. |
| Record Date | You are entitled to vote only if you are an Innovo Group common stockholder as of the close of business on April 25, 2005, or the Record Date. |
| Meeting Admission | You are entitled to attend the annual meeting only if you are an Innovo Group common stockholder as of the close of business on the Record Date or hold a valid proxy for the annual meeting. You should be prepared to present photo identification for admittance. If you are not a |

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common stockholder of record, but hold shares through a broker, bank or other nominee (i.e., street name), you should provide proof of beneficial ownership as of the Record Date, such as your most recent account statement prior to April 25, 2005, a copy of the proxy 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.

**List of Common Stockholders
Entitled to Vote**

A list of our common stockholders entitled to vote at the annual meeting will be open for the examination by any common stockholder for any purpose germane to the annual meeting during ordinary business hours for a period of ten days before the annual meeting at our office at 5804 East Slauson Avenue, Commerce, California, 90040.

Voting

YOUR VOTE IS VERY IMPORTANT TO US. WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, WE ENCOURAGE YOU TO READ THIS PROXY STATEMENT AND TO SUBMIT YOUR PROXY AS SOON AS POSSIBLE. YOU MAY SUBMIT YOUR PROXY FOR THE ANNUAL MEETING BY COMPLETING, SIGNING, DATING AND RETURNING YOUR PROXY IN THE PRE-ADDRESSED ENVELOPE PROVIDED, OR IN SOME CASES, BY USING THE TELEPHONE OR INTERNET. FOR SPECIFIC INSTRUCTIONS ON HOW TO VOTE YOUR SHARES, PLEASE REFER TO THE SECTION ENTITLED *QUESTIONS AND ANSWERS* BEGINNING ON PAGE 1 OF THIS PROXY STATEMENT OR THE INFORMATION PROVIDED TO YOU BY YOUR BROKER, BANK OR OTHER NOMINEE.

EVEN IF YOU HAVE VOTED YOUR PROXY, YOU MAY STILL VOTE IN PERSON IF YOU ATTEND THE MEETING. PLEASE NOTE, HOWEVER, THAT IF YOUR SHARES ARE HELD OF RECORD BY A BROKER, BANK OR OTHER NOMINEE AND YOU WISH TO VOTE IN PERSON AT THE MEETING, YOU MUST OBTAIN FROM SUCH BROKER, BANK OR OTHER NOMINEE, A PROXY ISSUED IN YOUR NAME.

By Order of the Board of Directors,

Samuel J. Furrow
Chairman of the Board of Directors
Los Angeles, California
April , 2005

*This notice of annual meeting and proxy statement and proxy are first being mailed to our common
stockholders on or about April , 2005.*

**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.

Q: Why am I receiving these materials?

A: The Board of Directors of Innovo Group, or the Board of Directors, is providing these proxy materials to you in connection with our annual meeting of stockholders, which will take place on Thursday, June 9, 2005. 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 the 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 elect eight directors to serve on the Board of Directors until the 2006 annual meeting of stockholders or until their respective successors are elected and qualified;
- (2) To consider and approve an amendment to the Fifth Amended and Restated Certificate of Incorporation, or Restated Certificate, to increase the number of authorized shares of common stock available for issuance by 40 million from 40 million to 80 million;
- (3) To consider and approve an amendment to the 2004 Stock Incentive Plan, or the 2004 Stock Plan, to increase the number of authorized shares available for issuance under the 2004 Stock Plan by 3 million shares from 1,265,172 shares to 4,265,172 shares;

(4) To ratify the appointment of Ernst & Young, LLP as our independent registered public accounting firm for the fiscal year ending November 26, 2005.

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 each of the nominees to the Board of Directors;

FOR the approval of the amendment to the Restated Certificate;

FOR the approval of the amendment to the 2004 Stock Plan; and

FOR the ratification of the appointment of Ernst & Young, LLP as our independent registered public accounting firm for the fiscal year ending November 26, 2005.

Q: What shares can I vote?

A: Each share of our common stock issued and outstanding as of the close of business on the April 25, 2005, or the Record Date, is entitled to be voted 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 April 11, 2005, we had approximately 31,677,810 shares of common stock issued and outstanding and approximately 940 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, North American Transfer Company, you are considered with respect to those shares the common stockholder of record and these proxy materials are being sent directly to you by us. As the common stockholder of record, you have the right to grant your voting proxy directly to us or to vote in person at the annual meeting. We have enclosed a proxy card for you to use.

Beneficial Owner

If your shares are held in a brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares of our common stock held in street name, and these proxy materials are being forwarded to you by your broker, bank or nominee who is considered with respect to those shares the common stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or other nominee on how to vote and are also invited to attend the annual meeting. However, since you are not the common stockholder of record, you may not vote these shares in person at the annual meeting unless you obtain a legal proxy from the broker, bank, or nominee that holds your shares giving you the right to vote the shares at the annual meeting. Your broker, bank or nominee has enclosed a voting instruction card for you to use in directing the broker or nominee regarding how to vote your shares. You may also be able to vote your shares by Internet or telephone as described below under [How can I vote my shares without attending the annual meeting?](#)

Q: How can I attend the annual meeting?

A: You are entitled to attend the annual meeting only if you are an Innovo Group common stockholder 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 April 25, 2005, 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 the 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 Innovo Group 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 Innovo Group 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 North American Transfer 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 election of directors, the eight persons receiving a plurality of **FOR** votes at the annual meeting will be elected. For the approval of the amendment to our Restated Certificate, the proposal requires the affirmative **FOR** vote of a majority of our issued and outstanding common stock. All other proposals require the affirmative **FOR** vote of a majority of those shares present in person or represented by proxy and entitled to vote on those proposals at the annual meeting. If you hold shares beneficially in street name and do not provide your broker with voting instructions, your shares may constitute broker non-votes. Generally, broker non-votes occur on a matter

when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions are not given. Brokers may not vote shares on Proposals 2 and 3 without instructions from the beneficial owner of such shares. If the broker is not instructed with respect to Proposals 2 and 3, 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 count as a vote against Proposal 2, but will not affect the outcome of any other matter being voted on at the meeting, assuming a quorum is obtained. Abstentions have the same effect as votes against the matter.

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

A: Other than the four 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 persons named as proxyholders, Samuel J. Furrow, Jr. and 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 the 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 may decide to hire The Altman Group, Inc. to solicit proxies by personal interviews, telephone, telegram or otherwise. In the event we decide to hire The Altman Group, Inc. to assist with the solicitation of proxies, we anticipate that we would be expected to pay The Altman Group, Inc. an initial fee of approximately \$5,500, plus additional compensation for telephone solicitation and solicitations made by other means.

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

A: We will announce preliminary voting results at the annual meeting and publish final results in our quarterly report on Form 10-Q for the third quarter of fiscal 2005, or voluntarily in an earlier quarterly report on Form 10-Q.

Q: Where can I obtain a copy of Innovo Group's Annual Report on Form 10-K and Amendment No. 1 to Innovo Group's Annual Report on Form 10-K for the year ended November 27, 2004?

A: A copy of our Annual Report on Form 10-K and Amendment No.1 to our Annual Report on Form 10-K for the year ended November 27, 2004 is 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) 725-5516 and requests in writing should be sent to Innovo Group Inc., Attention: Corporate Secretary, 5804 East Slauson 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 2006 annual meeting of stockholders on or around mid-May to early-June of 2006. Our common stockholders may submit proposals that they believe should be voted upon at the 2006 annual meeting consistent with regulations of the Securities and Exchange Commission, or 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 2006 proxy statement. Any such stockholder proposals must be submitted in writing to and received by the Corporate Secretary of Innoovo Group at 5804 East Slauson Avenue, Commerce, California 90040 no later than January 3, 2006. 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 March 19, 2006. 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 the proposals upon which a vote is scheduled to be taken at this annual meeting of stockholders.

INNOVO GROUP INC.

5804 EAST SLAUSON AVENUE

COMMERCE, CALIFORNIA 90040

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON

THURSDAY, JUNE 9, 2005

PROPOSAL 1

ELECTION OF DIRECTORS

Our bylaws provide that our Board of Directors will consist of not less than three directors, with the exact number of directors (subject to such minimum and any range of size established by our common stockholders) to be determined by resolution of our Board of Directors. Currently, our Board of Directors has set the number of directors at eight directors. At our annual meeting, eight directors will be elected to serve until the 2006 annual meeting of stockholders, which we expect to hold around mid-May to early-June of 2006. Our Board of Directors' nominees for election are set forth below.

In connection with investments by Commerce Investment Group, LLC and other investors affiliated with two of our significant common stockholders, Hubert Guez and Paul Guez, or collectively, the Commerce Group, during August and October 2000, we entered into an investor rights agreement whereby Commerce Group has the right to nominate three individuals for election to our Board of Directors. Additionally, one of Commerce Group's nominees, if elected, will have the right to serve on each of the committees of our Board of Directors. At this time, Commerce Group has not nominated any person to serve as a member on our Board of Directors. Joseph Mizrachi, pursuant to investments made in October 2000, has the right to nominate one individual for election to our Board of Directors, with this individual having the right to serve on the committees of our Board of Directors if elected. Mr. Mizrachi, at this time, has not nominated any person to be elected as a member of our Board of Directors.

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

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

be voted by the proxy holders for the election of such other person or persons as the Board of Directors may recommend.

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

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

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

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

| Name | Age | Position | Year First Elected Director |
|-----------------------------|-----|---|-----------------------------|
| Samuel J. (Sam) Furrow | 63 | Chairman of the Board of Directors | 1998 |
| Samuel J. (Jay) Furrow, Jr. | 31 | Chief Executive Officer and Director | 1999 |
| Marc B. Crossman | 33 | President, Chief Financial Officer and Director | 1999 |
| Dean Factor(1)(2) | 40 | Director | 2004 |
| Kelly Hoffman(3)(4) | 47 | Director | 2004 |
| Suhail R. Rizvi(1)(2) | 39 | Director | 2003 |
| Vincent Sanfilippo(1)(2)(3) | 39 | Director | 2003 |
| Kent Savage(1)(3) | 43 | Director | 2003 |

(1) Member of the Audit Committee

(2) Member of the Compensation and Stock Option Committee

(3) Member of the Nominating and Governance Committee

(4) Mr. Hoffman served as a Member of the Compensation and Stock Option Committee during fiscal 2004 and resigned from this committee in early 2005.

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

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

Samuel J. (Sam) Furrow has served as Chairman of our Board of Directors since October 1998. Mr. Furrow became a member of our Board of Directors in April 1998 and served as our Chief Executive Officer from October 1998 until December 2000. Mr. Furrow also has been Chairman of the Board of Furrow Auction Company, a real estate and equipment sales company with its headquarters in Knoxville, Tennessee, since April 1968; Chairman of Furrow-Justice Machinery Corporation, a six-branch industrial and construction equipment dealer, since 1983; owner of Knoxville Motor Company-Mercedes Benz and Land Rover of Knoxville since December 1980 and July 1997, respectively. Mr. Furrow has been a Director of Southeastern Advertising Inc., an advertising agency, since April 1968; and a Director of Goody's Family Clothing, Inc. (NASDAQ: GDYS), a publicly traded retail clothing chain, since 1995. Mr. Furrow received his undergraduate and J.D. degree from the University of Tennessee. Sam Furrow is the father of our Chief Executive Officer, Samuel J. (Jay) Furrow, Jr.

Samuel J. (Jay) Furrow, Jr. has served as our Chief Executive Officer since July 2002 and a member of our Board of Directors since January 1999. Prior to that, Mr. Furrow served as our President from December 2000 until July 2002, served as our Chief Operating Officer from April 1999 until March 2003, our Acting Chief Financial Officer from August 2000 until March 2003, and our Vice-President for Corporate Development and In-House Counsel from August 1998 until April 1999. Mr. Furrow currently serves on the Board of Directors of Digital Lifestyles Group, Inc. (DLFG.OB), a publicly traded manufacturer and distributor of personal computers and VTV: Varsity Television, Inc., a television company and network dedicated to teenagers. Mr. Furrow received his J.D. degree from Southern Methodist University School of

Law and his B.S. degree in Political Science from Vanderbilt University. Jay Furrow is the son of the Chairman of our Board of Directors, Samuel J. (Sam) Furrow.

Marc B. Crossman has served as our Chief Financial Officer since March 2003, our President since September 2004 and a member of our Board of Directors since January 1999. Prior to joining our company, Mr. Crossman served as a Vice President and Equity Analyst with J.P. Morgan Securities Inc., New York City, New York, from January 1999 until March 2003. Prior to joining J.P. Morgan Securities, Inc., Mr. Crossman served as a Vice President and Equity Analyst with CIBC Oppenheimer Corporation from September 1997 until January 1999. Mr. Crossman also serves on the Board of Directors of Digital Lifestyles Group, Inc. (DLFG.OB), a publicly traded manufacturer and distributor of personal computers. Mr. Crossman received his B.S. degree in Mathematics from Vanderbilt University.

Dean Factor has served as a member of our Board of Directors since April 2004. Mr. Factor has served as the Chairman of the Board of Directors and Chief Executive Officer of SBX Holding Company, which includes Smashbox Studios and Smashbox Cosmetics, since he founded the company in 1990. Prior to founding Smashbox Enterprises, Mr. Factor was a financial analyst and an inventory analyst with Eldon Industries from 1987 until 1989. Prior to that, Mr. Factor worked for Drexel Burnham Lambert from 1981 until 1983. Mr. Factor received his B.S. degree in Business Administration from American University and his M.B.A. from University of Southern California.

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

Suhail R. Rizvi has served as a member of our Board of Directors since April 2003. Mr. Rizvi has served as Chairman of the Board of Directors for the AG Holdings, a privately held company with investments in a diversified portfolio of manufacturing companies since January 2004 and Rizvi Interests, a privately held investment company since January 2000. In addition, Mr. Rizvi has served as the general partner of Rizvi Opportunistic Equity Fund LP, a \$250 million dollar private equity fund since August 2004. Mr. Rizvi has over 19 years of private equity investing experience for his own account and as a fiduciary for institutional investors. Since 1991, Mr. Rizvi has made debt and equity investments in a number of manufacturing and technology oriented companies totaling in excess of \$200 million. Mr. Rizvi also serves as a member of the Board of Directors for Digital Lifestyles Group, Inc. (DLFG.OB), a publicly traded manufacturer and distributor of personal computers. Mr. Rizvi received his B.S. degree in Economics from the Wharton School of the University of Pennsylvania.

Vincent Sanfilippo has served as a member of our Board of Directors since July 2003. Mr. Sanfilippo is the Chief Investment Officer and Principal of Urdang Capital Management, Inc., a real estate investment management firm with a portfolio of real estate investments valued at approximately \$2 billion. Mr. Sanfilippo has been responsible for originating or overseeing the acquisition of approximately \$3 billion of real estate assets during his 15 years with Urdang. Mr. Sanfilippo received his B.S. degree in Economics from the Wharton School of the University of Pennsylvania.

Kent Savage has served as a member of our Board of Directors since July 2003. Mr. Savage currently serves as Chief Executive Officer for Digital Lifestyles Group, Inc. (DLFG.OB), a publicly traded manufacturer and distributor of personal computers. Prior to joining Digital Lifestyles, formerly Northgate Innovations, Inc., in January 2004, Mr. Savage served as co-founder, Chief Sales and Marketing Officer for TippingPoint, Technologies (NASDAQ: TPTI) from September 2002 until February 2003. Prior to joining TippingPoint, Mr. Savage served as co-founder, CEO and President for Netpliance, Inc., from February 1999 until August 2001. Prior to joining Netpliance, Mr. Savage served as General Manager, Broadband for Cisco Systems Inc. Service Provider Line of Business from April 1998 until February 1999. Prior to joining Cisco, Mr. Savage served as Vice President, Sales and Marketing for NetSpeed, Inc., from July 1996 until April 1998. Mr. Savage received his B.S. degree in Business from Oklahoma State University, attended University of Virginia's Executive Leadership Program, and received his M.B.A. degree from Southern Methodist University.

Q: How are the Board of Directors elected and how many meetings were held in fiscal 2004?

A: Each member of our Board of Directors is elected at the annual meeting of stockholders and serves until the next annual meeting of stockholders and until a successor has been elected and qualified or his or her earlier death, resignation or removal. Vacancies on the Board of Directors are filled by a majority vote of the remaining Board of Directors. Our Board of Directors manages us through board meetings and through its committees. During fiscal 2004, our Board of Directors met or acted through written consent a total of fifteen times. No incumbent member of our Board of Directors who served as a director in fiscal 2004 attended in person or via teleconference less than 75% of all the meetings of our Board of Directors and the committees on which he served during fiscal 2004. Although we do not have a formal policy regarding attendance at our annual meeting of stockholders, we attempt to accommodate the schedules of each member of our Board of Directors in choosing a date for our annual meeting of stockholders and our annual meeting of our Board of Directors. In fiscal 2004, all of our members of our Board of Directors attended the annual meeting of our Board of Directors either in person or via teleconference. Only one member of our Board of Directors was not in attendance in person at the annual meeting of stockholders on June 3, 2004.

Q: What committees does the Board of Directors have?

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

Audit Committee. The Audit Committee is currently comprised of Messrs. Factor, Rizvi, Sanfilippo and Savage. Mr. Rizvi serves as Chairman of the Audit Committee. The Audit Committee met or acted through written consent a total of seven times in fiscal 2004.

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

rules and regulations of the SEC, and Mr. Rizvi has also been designated to be an audit committee financial expert as such term is defined in the rules and regulations of the SEC. A copy of the Audit Committee charter can be found on our website at www.innovogroup.com under our Investor Relations heading.

Compensation and Stock Option Committee. The Compensation and Stock Option Committee is currently comprised of Messrs. Factor, Rizvi and Sanfilippo. In early 2005, Mr. Hoffman resigned as a member of the Compensation and Stock Option Committee and was replaced by Mr. Sanfilippo. Mr. Rizvi serves as Chairman of the Compensation and Stock Option Committee. The Compensation and Stock Option Committee met or acted through written consent a total of five times in fiscal 2004.

The principal responsibilities of the Compensation and Stock Option Committee are to (a) assist our Board of Directors in ensuring that a proper system of long-term and short-term compensation is in place to provide performance-oriented incentives to management, and that compensation plans are appropriate and competitive and properly reflect the objectives and performance of management and the company; (b) discharge our Board of Director's responsibilities relating to compensation of our executive officers; (c) evaluate our Chief Executive Officer and set his remuneration package; (d) prepare an annual report on executive compensation for inclusion in our annual proxy statement; (e) make recommendations to our Board of Directors with respect to incentive-compensation plans and equity-based plans; and (f) perform such other functions as our Board of Directors may from time to time assign. The Compensation and Stock Option Committee has a charter that details its duties and responsibilities, which was adopted by our Board of Directors on May 22, 2003. Currently, all Compensation and Stock Option Committee members are independent under NASDAQ listing standards. A copy of the Compensation and Stock Option Committee charter can be found on our website at www.innovogroup.com under our Investor Relations heading.

Nominating and Governance Committee. The Nominating and Governance Committee is currently comprised of Messrs. Hoffman, Sanfilippo and Savage. Mr. Sanfilippo serves as Chairman of the Nominating and Governance Committee. The Nominating and Governance Committee met a total of two times in fiscal 2004 and met on April 8, 2005 to propose a slate of nominees for election to our Board of Directors by our common stockholders at this annual meeting.

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

The Nominating and Governance Committee has a charter that details its duties and responsibilities, which was adopted by our Board of Directors on May 22, 2003. Currently, all Nominating and Governance Committee members are independent under NASDAQ listing standards. There is no specific procedure outlined in the charter for the Nominating and Governance Committee to consider nominees to our Board of Directors that are recommended by our common stockholders, but such nominees will be considered in accordance with the principal responsibilities of the Nominating and Governance Committee, our bylaws and all applicable rules and regulations relating to such nominations by our common stockholders. Please see our

Questions and Answers on page 6 for deadlines to propose actions for consideration at next year's annual meeting of stockholders or to nominate individuals to serve as directors. The Nominating and Governance Committee has the responsibility for developing criteria for the selection of new directors and nominees for vacancies. The members of the Nominating and Governance Committee have the discretion to choose candidates that have the desired experience, mix of skills and other qualities to assure appropriate composition while taking into account the current members and the specific needs of Innovo Group and our Board of Directors. To date, no more specific criteria has been developed than that set forth in the charter. Furthermore, we have not had a common stockholder propose a nominee to our Board of Directors nor have we paid any third party a fee to assist us in the process of identifying or evaluating candidates for our Board of Directors. A copy of the Nominating and Governance Committee charter can be found on our website at www.innovogroup.com under our Investor Relations heading.

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

A: For fiscal 2004 and pursuant to our 2004 Stock Plan, each non-employee director received annual compensation at our annual meeting of stockholders following his election as a director in the form of a grant of options to buy common stock. These options vested on a monthly basis over a period of twelve months from the date of grant and expire ten years from the date of grant. The exercise price was set at the fair market value of the common stock on the date of grant. For fiscal 2004, each non-employee director received a grant of options to purchase up to 45,000 shares of our common stock at an exercise price of \$1.58 per share.

Prior to fiscal 2004, pursuant to our former 2000 Director Stock Incentive Plan, each non-employee director received an option to buy common stock with an aggregate fair market value of \$10,000 with an exercise price is set at 50% of the fair market value of the common stock on the date of grant. The discount was originally proposed to be in lieu of director fees. In addition to this stock option compensation, at the annual meeting of stockholders held on May 22, 2003, our Board of Directors voted to compensate all non-employee directors in the form of a cash payment at an annual rate of \$12,500 for service as a member of our Board of Directors. In fiscal 2004, our Board of Directors elected not to compensate all non-employee directors in the form of a cash payment. Also, as a result of service as members of our Board of Directors for almost a full calendar year prior to receiving any form of compensation, Messrs. Savage and Sanfilippo received an additional grant of options to purchase up to 25,000 shares of our common stock at an exercise price of \$1.58 per share. Members of our Board of Directors who are employees receive no additional compensation for service as members of our Board of Directors. Members of our Board of Directors who also serve on one or more committees of our Board of Directors do not receive any additional compensation for such service.

After this annual meeting of stockholders on June 9, 2005, our Board of Directors will meet to discuss compensation arrangements for members of our Board of Directors for service throughout fiscal 2005. We expect the compensation arrangements to be similar to those for fiscal 2004.

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

A: Our Board of Directors adopted a Code of Business Conduct and Ethics for all of our directors, officers and employees on May 22, 2003. Our Code of Business Conduct and Ethics is available on our website at www.innovogroup.com or you may request a free copy of our Code of Business Conduct and Ethics from our Chief Operating Officer at our corporate headquarters at the following address: 5804 East Slauson Avenue, Commerce, California 90040 or by calling (323) 725-5526.

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

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

A: At the present time, our Board of Directors has not adopted a formal policy to set forth a process by which our common stockholders may communicate with its members. However, any communications directed to members of our Board of Directors will be given due consideration and will be handled in accordance with the principal responsibilities of various committees, the duties as a member of our Board of Directors, our bylaws and all applicable rules and regulations relating to communications by our common stockholders.

PROPOSAL 2

APPROVAL OF AMENDMENT TO OUR FIFTH AMENDED AND RESTATED CERTIFICATE OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES BY 40 MILLION FROM 40 MILLION TO 80 MILLION

Our Board of Directors has approved and recommended the adoption of an amendment to our Fifth Amended and Restated Certificate of Incorporation, or Restated Certificate, to increase the number of authorized shares of common stock available for issuance by 40 million from 40 million to 80 million. We are asking our common stockholders to consider and approve the amendment to our Restated Certificate. Currently, we have 40 million shares of our common stock and 5 million shares of our preferred stock authorized for issuance. In the event of approval of this amendment, our authorized shares of common stock would be increased by 40 million to 80 million. Our authorized shares of preferred stock will remain the same. If this proposal is approved, the additional shares would be part of the existing class of common stock and if and when issued, would have the same rights and privileges as the shares of common stock presently issued and outstanding. As of April 11, 2005, we had 31,677,810 shares of common stock outstanding.

Q: Why is the Board recommending this Proposal?

A: Our Board believes that this amendment to our Restated Certificate is necessary to provide us with a sufficient reserve of shares of common stock to provide us with flexibility to issue more shares of common stock for corporate purposes that may be identified from time to time, such as financings, acquisitions, strategic business relationships, stock dividends, including stock splits in the form of stock dividends, or issuances under our benefit plans. Having additional authorized shares of common stock available for issuance in the future would give us greater flexibility and allow shares of common stock to be issued without the expense and delay of a stockholders meeting, except as may be required by applicable law or regulations. We have no present commitment, plan or intent to issue any of the additional shares of common stock provided for in this Proposal 2. The increase in authorized shares of our common stock also could be used to make a change in control of us more difficult. Though we have no current plan or intention to issue such shares as a takeover defense, the additional authorized shares of common stock could be used to discourage persons from attempting to gain control of us or make more difficult the removal of management. Management is not currently aware of any specific effort to obtain control of us by means of a merger, tender offer, solicitation in opposition of management, or otherwise. If this Proposal 2 is approved, the additional authorized

shares of common stock, as well, as the currently authorized but unissued shares of common stock (but for those shares which are reserved for issuance), would be immediately available in the future for such corporate purposes as the Board deems advisable from time to time without further action by our common stockholders, unless such action is required by applicable law or any stock exchange or securities market upon which our shares may be listed.

It should be noted that, subject to the limitations as discussed above, all of the types of Board action described in the preceding paragraph can currently be taken and the power of the Board to take such actions would not be enhanced by the passage of this Proposal 2, although this Proposal 2 would increase the number of shares that are subject to such action.

Q: How will the Restated Certificate be amended?

A: If this Proposal 2 is approved and the amendment to the Restated Certificate becomes effective, the first paragraph of Article Fourth of the Restated Certificate, which sets forth our presently authorized capital stock, will be amended to read as set forth below.

FOURTH. (a) The total number of shares of capital stock that the Corporation shall be authorized to issue is 85 million divided into two classes as follows: (i) 80 million (80,000,000) shares of common stock having a par value of \$0.10 per share (Common Stock), and (ii) five million (5,000,000) shares of serial preferred stock in series having a par value of \$0.10 per share (Preferred Stock).

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

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

Q: When would the amendment become effective?

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

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

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

PROPOSAL 3

APPROVAL OF AMENDMENT TO 2004 STOCK INCENTIVE PLAN

On April 7, 2004, our Board of Directors adopted the 2004 Stock Incentive Plan, or the 2004 Stock Plan. Our common stockholders approved the 2004 Stock Plan at the annual meeting of stockholders on June 3, 2004. We are asking you to consider and approve an increase in the reservation of the total shares available for issuance thereunder by 3 million shares from 1,265,172 shares of common stock to 4,126,172 shares of common stock.

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

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

A: The affirmative **FOR** vote of a majority of the shares present in person or represented by proxy at the annual meeting is required to approve the amendment to the 2004 Stock Plan.

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

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

Q: Why is the Board recommending this Proposal?

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

Q: How will the 2004 Stock Plan be amended?

A: If approved by our common stockholders, the 2004 Stock Plan would be amended and restated to increase the total shares available for issuance under the 2004 Stock Plan by 3 million shares from 1,265,172 shares of common stock to 4,265,172 shares of common stock.

Q: When would the amendment become effective?

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

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

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

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

Effective Date. The 2004 Stock Plan became effective on June 3, 2004.

Number of Shares. Subject to adjustment for certain corporate events, the total number of shares of common stock which are available for the grant of awards under the 2004 Stock Plan cannot exceed 1,265,172 shares of common stock. If this Proposal 3 is approved, the total number of shares of common stock which are available for the grant of awards under the 2004 Stock Plan will be increased from 1,265,172 shares of common stock to 4,265,172 shares of common stock; provided, that, for purposes of this limitation, any common stock subject to an option which is canceled or expires without exercise will again become available for award under the 2004 Stock Plan. Upon forfeiture of awards in accordance with the provisions of the 2004 Stock Plan and the terms and conditions of the award, such shares will again be available for subsequent awards under the 2004 Stock Plan. Subject to adjustment, no employee will be granted, during any one (1) year period, options to purchase more than 1,250,000 shares of common stock, and the number of shares of common stock subject to any awards other than options or stock appreciation rights will not exceed 1,250,000 shares of common stock. Common stock available for issue or distribution under the 2004 Stock Plan will be authorized and unissued shares or shares reacquired by us in any manner.

Administration. The Compensation and Stock Option Committee of our Board of Directors will administer the 2004 Stock Plan. The Compensation and Stock Option Committee is currently comprised of Messrs. Rizvi, Factor and Sanfilippo. In early 2005, Mr. Hoffman resigned as a member of the Compensation and Stock Option Committee and was replaced by Mr. Sanfilippo. Mr. Rizvi is Chairman of the Compensation and Stock Option Committee. All of Messrs. Rizvi, Factor and Sanfilippo are non-employee directors within the meaning of Rule 16b-3 as promulgated under Section 16 of the Securities Exchange Act of 1934, as amended, and are also outside directors within the meaning of Section 162(m) of the Code. The Compensation and Stock Option Committee will (i) approve the

selection of participants, (ii) determine the type of stock awards to be made to participants, (iii) determine the number of shares of common stock subject to awards, (iv) determine the terms and conditions of any awards granted there under (including, but not limited to, any restriction and forfeiture conditions on such awards) and (v) have the authority to interpret the 2004 Stock Plan, to establish, amend, and rescind any rules and regulations relating to the 2004 Stock Plan, to determine the terms and provisions of any agreements entered into there under, and to make all other determinations necessary or advisable for the administration of the 2004 Stock Plan.

Eligibility. Employees, officers, directors and consultants of us and our subsidiaries selected by the Compensation and Stock Option Committee are eligible to receive grants of awards under the 2004 Stock Plan.

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

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

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

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

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

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

(3) Performance Shares. Performance shares may be granted in the form of actual shares of common stock or common stock units having a value equal to an identical number of shares of common stock. The performance conditions and the length of the performance period will be determined by the Compensation and Stock Option Committee, but in no event may a performance period be less than twelve (12) months. The Compensation and Stock Option Committee will determine in its sole discretion whether performance shares granted in the form of common stock units will be paid in cash, common stock, or a combination of cash and common stock. Awards of

performance shares to Covered Employee (as defined in the 2004 Stock Plan) will be subject to performance goals. Performance goals may be expressed in terms of one or more of the following business criteria: revenue, earnings before interest, taxes, depreciation and amortization, or EBITDA, funds from operations, funds from operations per share, operating income, pre or after tax income, cash available for distribution, cash available for distribution per share, net earnings, earnings per share, return on equity, return on assets, share price performance, improvements in our attainment of expense levels, and implementing or completion of critical projects, or improvement in cash-flow (before or after tax). The Compensation and Stock Option Committee will establish the relevant performance conditions

within ninety (90) days after the commencement of the performance period (or such later date as may be required by Section 162(m) of the Code. A performance goal may be measured over a performance period on a periodic, annual, cumulative or average basis and may be established on a corporate-wide basis or established with respect to one or more operating units, divisions, subsidiaries, acquired businesses, minority investments, partnerships, or joint ventures. The maximum number of performance shares subject to any award to a Covered Employee is 1,250,000 for each twelve (12) months during the performance period (or, to the extent the award is paid in cash, the maximum dollar amount of any such award is the equivalent cash value, based on the fair market value of the common stock, of such number of shares of common stock on the last day of the performance period). An award of performance shares to a participant who is a Covered Employee will (unless the Compensation and Stock Option Committee determines otherwise) provide that in the event termination of continuous service prior to the end of the performance period for any reason, such award will be payable only if the applicable performance objectives are achieved and to the extent, if any, as the Compensation and Stock Option Committee will determine. The Compensation and Stock Option Committee may reduce or eliminate the amount of payment with respect to any award of performance shares notwithstanding the achievement of specified performance objective however, no adjustments will be made that would adversely impact a participant following a change in control.

No payments will be made with respect to any performance award unless and until the Compensation and Stock Option Committee certifies the achievement of the performance goals.

(4) Share Purchases. The Compensation and Stock Option Committee may authorize eligible individuals to purchase common stock at price equal to, below or above the fair market value of the common stock at the time of grant.

(5) Share Awards. Subject to such performance and employment conditions as the Compensation and Stock Option Committee may determine, awards of common stock or awards based on the value of the common stock may be granted either alone or in addition to other awards granted under the 2004 Stock Plan.

(6) Stock Appreciation Rights. The Compensation and Stock Option Committee may, either alone or in connection with the grant of another award grant stock appreciation rights, the terms of which will be set forth in an agreement.

Change in Control. Unless otherwise provided in an award agreement, upon the occurrence of a Change in Control (as defined in the 2004 Stock Plan), all options and stock appreciation rights will automatically become vested and exercisable in full and all restrictions or performance conditions, if any, on any common stock awards, restricted common stock, restricted common stock units, performance shares or performance share units granted will automatically lapse.

Adjustments. The 2004 Stock Plan provides that in the event of certain corporate events or changes in the common stock, awards and the number of shares under the 2004 Stock Plan may be adjusted to reflect such event.

Deferrals. The Compensation and Stock Option Committee will be authorized to establish procedures pursuant to which the payment of any award may be deferred.

Amendment and Termination. The 2004 Stock Plan will expire on June 3, 2014 (except as to awards outstanding on that date). The Board may terminate or amend the 2004 Stock Plan in any respect at any time, except that, no amendment will be made without our common stockholder approval, if such approval is necessary to comply with any applicable law, regulation or stock exchange rule and, no amendment will be

made that would adversely affect the rights of a participant without such participant's written consent, except as provided under Adjustments.

Q: What are the federal income tax consequences of options granted under the 2004 Stock Plan under the federal tax laws currently in effect?

The following is a summary of the material federal tax consequences of receiving options in the 2004 Stock Plan and is based upon an analysis of the present provisions of the Code and the regulations promulgated thereunder, all of which are subject to change. A participant may also be subject to state and local taxes, the consequences of which are not discussed herein, in the jurisdiction in which he works and/or resides. This summary is for general information purposes only and is not tax advice.

Section 162(m) Limitation. Subject to a limited number of exceptions, Section 162(m) of the Code denies a deduction to a publicly held corporation for payments of remuneration to certain employees to the extent the employee's remuneration for the taxable year exceeds \$1,000,000. For this purpose, remuneration attributable to stock options is included within the \$1,000,000 limitation. However, to the extent that certain procedural requirements are met (e.g., the 2004 Stock Plan is approved by our common stockholders, grants are made by the Compensation and Stock Option Committee, the exercise price is equal to the fair market value of the underlying shares upon grant, etc.), gain from the exercise of stock options should not be subject to the \$1,000,000 limitation. We have attempted to structure the 2004 Stock Plan in such a manner that the remuneration attributable to the stock options will not be subject to the \$1,000,000 limitation. We have not, however, requested a ruling from the Internal Revenue Service or an opinion of counsel regarding this issue.

Non-Qualified Stock Options. An individual receiving non-qualified stock options should not recognize taxable income at the time of grant. A participant should generally recognize ordinary compensation income in an amount equal to the excess, if any, in the fair market value of the option shares on exercise of the non-qualified stock options over the exercise price thereof. In general, subject to the limitations set forth in Section 162(m) and discussed above, we are entitled to deduct from our taxable income the amount that the participant is required to include in ordinary income at the time of such inclusion.

Incentive Stock Options. An individual granted an incentive stock option will not generally recognize taxable income at the time of grant or, subject to certain conditions, at the time of exercise, although he or she may be subject to alternative minimum tax. In general, if a disqualifying disposition should occur (i.e., the shares acquired upon exercise of the option are disposed of within the later of two years from the date of grant or one year from the date of exercise), a participant will generally recognize ordinary compensation income in the year of disposition in an amount equal to the excess, if any, of the fair market value of the option shares at the time of exercise (or, if less, the amount realized on disposition), over the exercise price thereof. We are not entitled to any deduction on account of the grant of the incentive stock options or the participant's exercise of the option to acquire common stock. However, in the event of a subsequent disqualifying disposition of such shares of common stock acquired pursuant to the exercise of an incentive stock option under circumstances resulting in taxable compensation to the participant, subject to the limitations set forth in Section 162(m) and discussed above, in general, we should be entitled to a tax deduction equal to the amount treated as taxable compensation to the participant.

Q: What would the new 2004 Stock Plan benefits have been if the 2004 Stock Plan had been in effect for the fiscal 2004 year?

A: The amounts payable under the 2004 Stock Plan for 2004 which may be received by each of (a) our executive officers named in the Summary Compensation Table herein; (b) our executive officers as a group; and (c) our employees who are not executive officers as a group, are not currently determinable.

PROPOSAL 4

**RATIFICATION OF SELECTION OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM**

Our Board of Directors has appointed Ernst & Young LLP, or E&Y, as our independent registered public accounting firm for the fiscal year ending November 26, 2005, subject to ratification by common stockholders at our annual meeting. Representatives of E&Y will be present at the annual meeting and will have the opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

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

A: The affirmative **FOR** vote of a majority of the shares present in person or represented by proxy at the annual meeting is required to ratify the selection of E&Y as our independent registered public accounting firm for the year ending November 26, 2005. Unless otherwise instructed on the proxy, properly executed proxies will be voted in favor of ratifying the appointment of E&Y.

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

A: Our Board of Directors unanimously recommends a vote **FOR** the ratification and approval of the selection of E&Y to serve as our independent registered public accounting firm for the fiscal year ending November 26, 2005.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table provides information as of April 15, 2005 concerning beneficial ownership of common stock held by (1) each person or entity known by us to beneficially own more than 5% of our outstanding common stock, (2) each of our directors and nominees for election as a director, (3) each of our named executive officers, and (4) all of our directors and executive officers as a group. The information as to beneficial ownership has been furnished by our respective common stockholders, directors and executive officers, and, unless otherwise indicated, each of our common stockholders has sole voting and investment power with respect to the shares beneficially owned. Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities.

Unless indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Pursuant to the rules of the SEC, certain shares of our common stock that a beneficial owner set forth in this table has a right to acquire within 60 days of the date hereof pursuant to the exercise of options or warrants for the purchase of shares of common stock are deemed to be outstanding for the purpose of computing the percentage ownership of that owner but are not deemed outstanding for the purpose of computing percentage ownership of any other beneficial owner shown in the table. Percentages are calculated based on 31,677,810 shares outstanding as of April 11, 2005. The address for the officers and directors is our corporate office located at 5804 East Slauson Avenue, Commerce, California, 90040.

| Beneficial Owner | Number of Shares Beneficially Owned | Percentage of Common Stock |
|---|-------------------------------------|----------------------------|
| Samuel J. (Jay) Furrow, Jr. Chief Executive Officer and Director | 1,574,104(1) | 4.97% |
| Marc B. Crossman President, Chief Financial Officer and Director | 1,237,015(2) | 3.91% |
| Shane Whalen Chief Operating Officer | 50,000(3) | *% |
| Richard A. Quiroga Vice President of Finance (Principal Accounting Officer) | 41,667(4) | *% |
| Samuel J. (Sam) Furrow Chairman of Board of Directors Over 5% Stockholder | 3,195,105(5) | 10.09% |
| Dean Factor Director | 55,000(6) | *% |
| Kelly Hoffman Director | 45,000(7) | *% |

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| | | |
|--|---------------|--------|
| Suhail R. Rizvi Director | 62,692(8) | *% |
| Vincent Sanfilippo Director | 75,000(9) | *% |
| Kent Savage Director | 80,250(10) | *% |
| Azteca Production International, Inc. Over 5% Stockholder 5804 East Slauson Avenue Commerce, California 90040 | 3,442,508(11) | 10.87% |
| Doweling, Joseph L. III Over 5% Stockholder 540 Madison Ave., 38 th Floor New York, NY 10022 | 1,593,600(12) | 5.03% |
| Guez, Hubert Over 5% Stockholder 5804 East Slauson Avenue Commerce, California 90040 | 1,837,287(13) | 5.80% |
| Guez, Paul Over 5% Stockholder 5804 East Slauson Avenue Commerce, California 90040 | 2,921,312(14) | 9.22% |
| Innavation LLC, Seymour Braun, Yardworth Mortgage Corp., and Praha Trust Over 5% Stockholder 110 East 59th Street, Suite 3201 New York, New York 10022 | 2,547,820(15) | 8.04% |
| S.A.C. Capital Advisors, LLC, S.A.C. Capital Management, LLC, SAC Capital Associates, Sigma Capital Management, LLC, Sigma Capital Associates and Steven A. Cohen Over 5% Stockholder 72 Cummings Point Road Stamford, CT 06902 | 2,491,173(16) | 7.86% |
| Stadia Capital, LLC, Enrique Abeyta, John J. Fleming, and Richard J. Swift Over 5% Stockholder 780 Third Avenue, 9 th Floor New York, NY 10017 | 1,597,945(17) | 5.04% |
| All directors and executive officers, as a group (10 persons) (1)(2)(3)(4)(5)(6)(7)(8)(9)(10) | 6,415,833 | 20.25% |

* Represents beneficial ownership of less than 1%.

- (1) Includes (i) 1,136,604 shares held for the personal account of Jay Furrow; and (ii) 437,500 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Furrow's personal account.
- (2) Includes (i) 43,500 shares held for Mr. Crossman's personal account; and (ii) 1,193,515 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Crossman's personal account.
- (3) Includes 50,000 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Whalen's personal account.
- (4) Includes 41,667 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Quiroga's personal account.
- (5) Includes (i) 3,083,598 shares held for the personal account of Sam Furrow; (ii) 15,300 shares held for the account of Mr. Furrow's spouse; and (iii) 96,207 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Furrow's personal account. Mr. Furrow disclaims beneficial ownership of such shares held for the account of his spouse.
- (6) Includes (i) 10,000 shares held for the personal account of Dean Factor; (ii) 45,000 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Factor's personal account.
- (7) Includes 45,000 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Hoffman's personal account.
- (8) Includes (i) 10,000 shares held for the account of R-2 Group Holdings LLC, a limited liability company which Mr. Rizvi serves as managing member; and (ii) 52,692 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Rizvi's personal account. Mr. Rizvi disclaims beneficial ownership of such shares held for the account of R-2 Group Holdings LLC except to the extent of his pecuniary interest in such shares.
- (9) Includes (i) 5,000 shares held for the personal account of Mr. Sanfilippo; and (ii) 70,000 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Sanfilippo's personal account.

(10) Includes (i) 10,250 shares held for the account of Savage Interests LP, a limited partnership which Mr. Savage and his spouse are limited partners; (ii) 70,000 shares issuable upon the exercise of currently exercisable (or exercisable within 60 days) options held for Mr. Savage's personal account. Mr. Savage disclaims beneficial ownership of such shares held for the account of Savage Interests LP except to the extent of his pecuniary interest in such shares.

(11) Includes (i) 1,929,121 shares held for the account of Azteca Production International, Inc., or Azteca, an entity jointly owned by Mr. Hubert Guez and Mr. Paul Guez, as to which such shares Mr. Paul Guez exercise sole voting and investment control; and (ii) 1,513,387 shares

held for the account of Azteca, an entity jointly owned by Mr. Hubert Guez and Mr. Paul Guez, as to which such shares Mr. Hubert Guez exercises sole voting and investment control. This information is based upon a Schedule 13D/A filed with the SEC on April 15, 2005.

(12) Includes (i) 541,824 shares held for the account of Narragansett I, L.P.; and (ii) 1,051,776 shares held for the account of Narragansett Offshore Ltd. By virtue of his status as sole managing member of entities that have the power to control the investment decisions of Narragansett I, L.P. and Narragansett Offshore Ltd., Mr. Doweling may be deemed to be the beneficial owner of such shares and may be deemed to have the sole power to vote or direct the vote of and sole power to dispose or direct the disposition of such securities. This information is based upon a Schedule 13G filed with the SEC on February 14, 2005

(13) Includes (i) 23,900 shares held for the personal account of Hubert Guez; (ii) 300,000 shares issuable upon exercise of currently exercisable warrants held for the account of Commerce Investment Group LLC, or Commerce, an entity jointly owned by Mr. Hubert Guez and Mr. Paul Guez, as to which such shares Mr. Hubert Guez exercises sole voting and investment control; and (iii) 1,513,387 shares held for the account of Azteca, an entity jointly owned by Mr. Hubert Guez and Mr. Paul Guez, as to which such shares Mr. Hubert Guez exercises sole voting and investment control. This information is based upon a Schedule 13D/A filed with the SEC on April 15, 2005.

(14) Includes (i) 1,929,121 shares held for the account of Azteca, an entity jointly owned by Mr. Hubert Guez and Mr. Paul Guez and as to which such shares Mr. Paul Guez exercises sole voting and investment control; (ii) 149,101 shares held for the account of S.H.D. Investments, LLC, a California limited liability company for which Mr. Paul Guez serves as President and as to which such shares Mr. Paul Guez exercises sole voting and investment control; and (iii) 843,090 shares held for the account of Integrated Apparel Resources, LLC, a California limited liability company jointly owned by Mr. Hubert Guez and Mr. Paul Guez, as to which such shares Mr. Paul Guez exercises sole voting and investment control. This information is based upon a Schedule 13D/A filed with the SEC on April 15, 2005.

(15) Innvation, LLC, a Delaware limited liability company, is owned 85% by Yardworth Mortgage Corp., or Yardworth, a corporation organized under the laws of Aruba. The beneficial owner of Yardworth is Praha Trust, a trust organized under the laws of Canada. As sole trustee of Praha Trust, Mr. Seymour Braun has the right to vote all shares owned by Innvation, LLC. This information is based upon a Form 4 filed with the SEC on February 9, 2004.

(16) This information is based upon a Schedule 13G/A filed with the SEC on December 31, 2004. S.A.C. Capital Advisors LLC, S.A.C. Capital Management, LLC and Mr. Cohen may be deemed to beneficially own 2,491,173 shares and Sigma Capital Management and Mr. Cohen may be deemed to beneficially own 25,000 shares. Each of S.A.C. Capital Advisors, S.A.C. Capital Management, Sigma Capital Management and Mr. Cohen disclaim beneficial ownership of any of the securities covered in its Schedule 13G/A.

(17) This information is based upon a Schedule 13G filed with the SEC March 18, 2005. The shares reported are

held in the accounts of various private investment funds, the investments of which are managed by Stadia Capital LLC or its affiliate, of which Enrique J. Abeyta, John J. Fleming and Richard J. Swift are managing members.

EXECUTIVE OFFICERS

Executive Officers

Our executive officers and their ages and positions as of April 15, 2005 are as follows:

| Name | Age | Position |
|-----------------------------|-----|---|
| Samuel J. (Jay) Furrow, Jr. | 31 | Chief Executive Officer and Director |
| Marc B. Crossman | 32 | President, Chief Financial Officer and Director |
| Shane Whalen | 33 | Chief Operating Officer |
| Richard A. Quiroga | 45 | Vice President of Finance |

Samuel J. (Jay) Furrow, Jr. has served as our Chief Executive Officer since July 2002 and a member of our Board of Directors since January 1999. Prior to that, Mr. Furrow served as our President from December 2000 until July 2002, served as our Chief Operating Officer from April 1999 until March 2003, our Acting Chief Financial Officer from August 2000 until March 2003, and our Vice-President for Corporate Development and In-House Counsel from August 1998 until April 1999. Mr. Furrow currently serves on the Board of Directors of Digital Lifestyles Group, Inc. (DLFG.OB), a publicly traded manufacturer and distributor of personal computers and VTV: Varsity Television, Inc., a television company and network dedicated to teenagers. Mr. Furrow received his J.D. degree from Southern Methodist University School of Law and his B.S. degree in Political Science from Vanderbilt University. Jay Furrow is the son of the Chairman of our Board of Directors, Samuel J. (Sam) Furrow.

Marc B. Crossman has served as our Chief Financial Officer since March 2003, our President since September 2004 and a member of our Board of Directors since January 1999. Prior to joining our company, Mr. Crossman served as a Vice President and Equity Analyst with J.P. Morgan Securities Inc., New York City, New York, from January 1999 until March 2003. Prior to joining J.P. Morgan Securities, Inc., Mr. Crossman served as a Vice President and Equity Analyst with CIBC Oppenheimer Corporation from September 1997 until January 1999. Mr. Crossman also serves on the Board of Directors of Digital Lifestyles Group, Inc. (DLFG.OB), a publicly traded manufacturer and distributor of personal computers. Mr. Crossman received his B.S. degree in Mathematics from Vanderbilt University.

Shane Whalen has served as our Chief Operating Officer since April 2003. Prior to that, Mr. Whalen served as our Vice President of Corporate Development from October 2002 until April 2003. Prior to joining our company, Mr. Whalen was an independent business consultant from November 2000 until September 2002. Prior to that, Mr. Whalen served as Chief Operating Officer for Next Generation, LLC, an entertainment production company, from August 1998 until November 2000. Prior to that, Mr. Whalen served as Manager of Financial Services & Transportation for Accenture Consulting from January 1994 until August 1998. Mr. Whalen received his B.A. degree in Economics from Vanderbilt University.

Richard A. Quiroga has served as our Vice President of Finance since August 2004. Prior to joining our company, Mr. Quiroga served from 1996 until 2003 as Vice President and Corporate Controller for Earthlink, Inc. in Pasadena, California, a national internet service provider. Prior to joining Earthlink in 1996, Mr. Quiroga served as the Chief Financial Officer at Thomas Safran and Associates, a Los Angeles based housing developer and property management company. Prior to that, Mr. Quiroga served as the Chief Financial Officer for two other companies after beginning his public accounting career as an auditor for PriceWaterhouseCoopers, formerly Coopers & Lybrand. Mr. Quiroga received his B.S. degree in accounting from Loyola Marymount University and is a licensed certified public accountant.

Other Significant Employees

Joe Dahan has served as the President and head designer for our Joe's Jeans, Inc. subsidiary, or Joe's, since its formation in February 2001. Mr. Dahan is responsible for the design, development and marketing of Joe's products. Prior to Joe's, Mr. Dahan was the head designer for Azteca Production International, Inc., or Azteca, where he was responsible for the design, development and merchandising of product lines developed by Azteca from 1996 until 2001. Azteca, which is owned by two of our significant common stockholders, is one of the world's largest manufacturers of denim related products. Prior to his employment with Azteca, Mr. Dahan was engaged in the design and development of apparel products for a company of which he was an owner and operator from 1989 until 1996.

Michel Soultanian has served as our Production Manager since August 2003. Mr. Soultanian initially joined our company in connection with our acquisition of the Blue Concept division from Azteca, as discussed in "Related Party Transactions" in this proxy statement. While at Azteca, Mr. Soultanian served as the production manager with the primary responsibility of managing thousands of employees in the United States and Mexico and ensuring the manufacturing of millions of garments per month for brands such as Tommy Hilfiger, Calvin Klein, J. Crew, American Eagle Outfitters and Bongo.

Compensation Committee Interlocks and Insider Participation

During fiscal 2004, the Compensation and Stock Option Committee of our Board of Directors was comprised of Messrs. Rizvi, Factor and Hoffman. The Compensation and Stock Option Committee is responsible for determining the salaries and incentive compensation of our executive officers and for providing recommendations for the salaries and incentive compensation of all other employees and consultants. The Compensation and Stock Option Committee also administers our benefit plans, including the 2004 Stock Plan. Mr. Rizvi serves as Chairman of the Compensation and Stock Option Committee. Neither Mr. Rizvi, Mr. Factor nor Mr. Hoffman has served as an executive officer or employee of Innovo Group. However, beginning in January of 2004, Mr. Furrow, one of our executive officers and a member of our Board of Directors, became a member of the Board of Directors for VTV, a privately held television company and network dedicated to teenagers, of which Mr. Hoffman currently serves as its Chief Executive Officer. VTV does not have a separate compensation committee, but Mr. Furrow has elected to not participate in compensation discussions involving Mr. Hoffman. In early 2005, Mr. Hoffman resigned as a member of the Compensation and Stock Option Committee of our Board of Directors and was replaced by Mr. Sanfilippo.

Executive Compensation

The following table sets forth certain information with respect to compensation for the years ended November 27, 2004, November 29, 2003, and November 30, 2002, respectively, paid to our chief executive officer and our other most highly compensated executive officers as of November 27, 2004. In this proxy statement, we refer to these individuals as our Named Executive Officers.

Summary Compensation Table

| Name and Principal Position | Year | Annual Compensation | | | Long Term Compensation Awards Securities Underlying Options (#) | All Other Compensation (\$) |
|--|------|---------------------|--------------|-----------------------------------|--|-----------------------------------|
| | | Salary | Bonus | Other Annual Compensation (\$) | | |
| Samuel J. Furrow, Jr. Chief Executive Officer | 2004 | \$ 280,770(1) | \$ 50,000(2) | \$ 3,209(3) | 250,000 | \$ 10,577(4) |
| | 2003 | 275,000 | | | 100,000 | |
| | 2002 | 160,000 | | | | (5) |
| Marc B. Crossman President and Chief Financial Officer | 2004 | \$ 275,000 | | \$ 12,403(3) | 200,000 | |
| | 2003 | 275,000 | | 12,000(6) | 1,000,000 | |
| | 2002 | | | | 17,874(7) | |
| Richard A. Quiroga Vice President of Finance | 2004 | \$ 49,038(8) | | \$ 12,403(3) | 100,000 | |
| | 2003 | | | | | |
| | 2002 | | | | | |
| Shane Whalen Chief Operating Officer | 2004 | \$ 125,000 | | | | |
| | 2003 | 125,000 | | \$ 1,000(6) | 50,000 | |
| | 2002 | 9,170(9) | | | | (5) |

(1) Mr. Furrow's annual salary was increased to \$300,000 from \$275,000 after the September 3, 2004 meeting of the Compensation and Stock Option Committee.

(2) The Compensation and Stock Option Committee established, on September 3, 2004, a quarterly bonus program for Mr. Furrow, which awards him with a quarterly bonus payment in the amount of \$25,000 in the event that we are profitable, as measured at the end of the immediately preceding fiscal quarter. Mr. Furrow was awarded a bonus payment for our performance in the third and fourth quarters of fiscal 2004; however, his fourth quarter bonus payment was made in March 2005, but is reported with his fiscal 2004 compensation.

(3) Represents amounts paid in connection with health insurance premiums in excess of health insurance benefits provided to other non-executive officers and employees.

(4) Represents payout for accrued but unused vacation time for fiscal 2004 at Mr. Furrow's daily rate.

(5) No executive officer received restricted stock awards or option grants during the fiscal year ending November 30, 2002.

- (6) This amount represents payments made in connection with relocation expenses.
- (7) These options were issued in fiscal 2002 in connection with Mr. Crossman's service during fiscal 2001 and fiscal 2002 as a non-employee member of our Board of Directors.
- (8) Mr. Quiroga commenced employment with us on August 2, 2004 as our Vice President of Finance with an annual salary of \$150,000.

(9) Mr. Whalen commenced employment with us in October 2002 as our Vice President of Corporate Development.

Employment Contracts, Termination of Employment and Change in Control

We have not entered into any employment or severance agreements with any of our Named Executive Officers. However, in connection with Mr. Crossman's option agreement for his grant in May 2003, in the event of a change in control of the company, Mr. Crossman's options granted prior to the adoption of the 2004 Stock Plan, to the extent not otherwise exercisable, immediately become exercisable. As of March 25, 2005, all options have vested for Mr. Crossman that are subject to this change in control provision. All options granted pursuant to our 2004 Stock Plan are subject to a change in control provision which provides for the immediate vesting in full of all grants or lapse of all restrictions for all grantees.

Stock Option Grants

The following table sets forth the stock options we granted during the fiscal year ended November 27, 2004 to each of our named executive officers. We have never granted any stock appreciation rights.

Amounts shown as potential realizable values are based on compounded annual rates of share price appreciation of five and ten percent over the 10-year term of the options, as mandated by rules of the SEC, and are not indicative of expected share price performance. Actual gains, if any, on share option exercises are dependent on future performance of the overall market conditions, as well as the option holders' continued employment through the vesting period. The amounts reflected in this table may not necessarily be achieved or may be exceeded. The indicated amounts are net of the option exercise price but before taxes that may be payable upon exercise.

Option Grants in the Fiscal Year Ended November 27, 2004

| Name | Number of Securities Underlying Options Granted (#)(1) | Individual Grants % of Total Options Granted to Employees in Fiscal Year (2) | Exercise or Base Price (\$/Sh) | Expiration Date | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (3) | |
|-----------------------|--|--|--------------------------------|-----------------|--|------------|
| | | | | | 5% (\$) | 10% (\$) |
| Samuel J. Furrow, Jr. | 250,000 | 21.8% | \$ 1.60 | 09/03/14 | \$ 252,500 | \$ 637,500 |
| Marc B. Crossman | 200,000 | 17.5% | \$ 1.60 | 09/03/14 | \$ 202,000 | \$ 510,000 |
| Richard A. Quiroga | 100,000 | 8.7% | \$ 1.55 | 08/02/14 | \$ 97,000 | \$ 247,000 |

Shane Whalen

0

(1) The exercise price per share of options granted represented the fair market value of the underlying shares of common stock on the date the options were granted.

(2) The total number of options granted to employees during the year ended November 27, 2004 was 1,145,000.

(3) As required under the SEC's rules, amounts represented by hypothetical gains that could be achieved for the respective option if exercised at the end of the option term. These gains are based on assumed rates of stock price appreciation of 5% and 10% compounded annually from the date the respective options were granted to their expiration date. These assumptions are not intended to forecast future appreciation of our stock price. The potential realizable value computation does not take into account federal or state income tax consequences of option exercises or sales of appreciated stock. If our stock price does not actually increase to a level above the applicable exercise price at the time of exercise, the realized value to the Named Executive Officers from these options will be zero.

Fiscal Year End Option Values

The following table sets forth certain information with respect to stock options exercised by the Named Executive Officers during the fiscal year ended November 27, 2004. In addition, the table sets forth the number of shares covered by unexercised stock options held by the Named Executive Officers as November 27, 2004, and the value of in-the-money stock options, which represents the positive spread between the exercise price of a stock and the market price of the shares subject to such option as of November 27, 2004.

Aggregated Option Exercises in Fiscal Year Ended November 27, 2004 and Fiscal Year End

Option Values

| Name | Shares | | Number of Securities | | | | Value of Unexercised In-the- | | | |
|-----------------------|-------------|---------------|------------------------|---------------|-------------|---------------|------------------------------|---------------|--|--|
| | Acquired | | Underlying Unexercised | | | | Money Options at FY-End | | | |
| | on Exercise | Value | Options at FY-End (#) | | (\$)(1) | | | | | |
| | (#) | Realized (\$) | Exercisable | Unexercisable | Exercisable | Unexercisable | Exercisable | Unexercisable | | |
| Samuel J. Furrow, Jr. | 0 | \$ 0 | 291,667 | 208,333 | \$ 163,667 | \$ 120,833 | | | | |
| Marc B. Crossman | 0 | \$ 0 | 910,181 | 333,334 | \$ 84,196 | \$ 96,667 | | | | |
| Richard A. Quiroga | 0 | \$ 0 | 12,500 | 87,500 | \$ 7,875 | \$ 55,125 | | | | |
| Shane Whalen | 0 | \$ 0 | 50,000 | 0 | \$ 0 | \$ 0 | | | | |

(1) Value realized is calculated based on a closing price per share of \$2.18 for our common stock on November 26, 2004, as reported by the NASDAQ SmallCap Market, less the per share exercise price multiplied by the number of shares issuable upon exercise of the option.

Option Repricing

The following table sets forth information concerning the repricing of options held by Marc Crossman, our Chief Financial Officer, with respect to options that were originally granted in connection with commencement of his employment as our Chief Financial Officer. However, on the original date of the grant of the options to Mr. Crossman, there were not enough shares authorized under the 2000 Employee Stock Incentive Plan to grant Mr. Crossman the options. As a result, Mr. Crossman's options were cancelled and reissued upon our common stockholder approval of an increase in shares authorized and available for grant under the 2000 Employee Stock Incentive Plan at our annual meeting of stockholders held on May 22, 2003. The term of the reissued option was 10 years rather than the 20 year term of the original option.

Ten Year Option Repricings

| Name and Position | Date | Number of Securities Underlying Options Repriced or Amended (#) | Market Price of Stock at Time of Repricing or Amendment (\$) | Exercise Price at Time of Repricing or Amendment (\$) | New Exercise Price (\$) | Length of Original Option Term Remaining at Date of Repricing or Amendment |
|---|-------------|--|---|--|--------------------------------|---|
| Marc B. Crossman President, Chief Financial Officer and Director | 5/22/03 | 1,000,000 | \$ 2.60 | \$ 2.86 | \$ 2.86 | 19.8 years |

401(k) Plan

On December 1, 2002, we established a tax qualified defined contribution 401(k) Profit Sharing Plan. All employees who have worked for us for 30 consecutive days may participate in the 401(k) Profit Sharing Plan and may contribute, subject to statutory limits, up to 100% of their salary to the plan. Our elective matching contributions may be made on a discretionary basis. All employees who have worked 500 hours qualify for profit sharing in the event at the end of each year we decide to do so. Costs of the plan charged to operations were \$8,000 for the year ended November 27, 2004 and \$20,000 for the year ended November 29, 2003, respectively.

Equity Compensation Plan Information

The following table sets forth certain information about our common stock that may be issued upon the exercise of options, warrants and rights under all of the our compensation plans (including individual compensation arrangements) under which our equity securities are authorized for issuance as of November 27, 2004, which includes our 2004 Stock Incentive Plan, our 2000 Employee Stock Incentive Plan and 2000 Director Stock Incentive Plan. We no longer grant options under our 2000 Employee Stock Incentive Plan or our 2000 Director Stock Incentive Plan after the adoption and approval of our 2004 Stock Incentive Plan on June 3, 2004.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Issuance Under Equity Compensation Plan (excluding securities reflected in column (a)) (c) |
|---|--|---|---|
| Equity Compensation Plans approved by security holders (1): | | | |
| 2004 Stock Plan | 1,145,000 | \$ 1.59 | 120,172 |
| 2000 Employee Plan | 1,850,008 | \$ 2.26 | |
| 2000 Director Plan | 203,546 | \$ 0.79 | |
| TOTAL | 3,198,554 | \$ 1.93 | 120,172 |

(1) See 2004 Stock Incentive Plan, 2000 Employee Stock Incentive Plan and 2000 Director Stock Incentive Plan described herein.

STOCK PLANS**2004 Stock Incentive Plan**

Our 2004 Stock Incentive Plan, or 2004 Stock Plan, is designed to enhance our ability to attract and retain officers, directors, employees and consultants of outstanding ability and to provide selected officers, employees, directors and consultants with an interest in us parallel to that of our common stockholders. The 2004 Stock Plan provides for the award of options, whether nonqualified or incentive, restricted common stock, restricted common stock units, performance shares, performance share units, purchases, share awards, stock appreciation rights or other awards based on the value of our common stock to our officers, employees, directors and consultants, as well as those officers, employees, directors and consultants of our subsidiaries, such as Innovo, Inc., or Innovo, Innovo Azteca Apparel, Inc., or IAA, and Joe's Jeans, Inc., or Joe's. The 2004 Stock Plan became effective on June 3, 2004, the date it was approved by our common stockholders and continues in effect until June 3, 2014, unless earlier terminated by our Board of Directors. Options granted under the 2004 Stock Plan may be either incentive stock options, or ISOs, within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended, or the Code, or nonqualified stock options, or NQSOs.

Subject to adjustment for certain corporate events, the total of the number of shares of common stock which are available for the grant of awards under the 2004 Stock Plan is 1,265,172 shares of common stock; provided, that, for purposes of this limitation, any common stock subject to an option which is canceled or expires without exercise will again become available for award under the 2004 Stock Plan. Upon forfeiture of awards in accordance with the provisions of the 2004 Stock Plan and the terms and conditions of the award, such shares will again be available

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for subsequent awards under the 2004 Stock Plan. Subject to adjustment, no employee will be granted, during any one (1) year period, options to purchase more than 1,250,000 shares

of common stock, and the number of shares of common stock subject to any awards other than options or stock appreciation rights will not exceed 1,250,000 shares of common stock. Common stock available for issue or distribution under the 2004 Stock Plan will be authorized and unissued shares or shares reacquired by us in any manner.

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

The 2004 Stock Plan is intended to: (a) provide incentive to our officers and key employees and our affiliates to stimulate their efforts toward our continued success and to operate and manage the business in a manner that will provide for our long-term growth and profitability; (b) encourage stock ownership by officers and key employees by providing them with a means to acquire a proprietary interest in us, acquire shares of stock, or to receive compensation which is based upon appreciation in the value of the stock; and (c) provide means of obtaining, rewarding and retaining key personnel and consultants.

The number of shares of stock as to which a stock incentive may be granted will be determined by the Compensation and Stock Option Committee, in its sole discretion, subject to the limitations of the 2004 Stock Plan. To the extent required under Section 162(m) of the Code and the regulations thereunder for compensation to be treated as qualified performance based compensation, the maximum number of shares of stock with respect to which options may be granted during any one year period to any employee may not exceed 1,250,000.

Stock option grants issued under the 2004 Stock Plan may be granted only to our officers, employees, directors and consultants, as well as those officers, employees, directors and consultants of our subsidiaries. The aggregate fair market value (determined as of the date an ISO is granted) of stock with respect to which stock options intended to meet the requirements of Section 422 of the Code become exercisable for the first time by an individual during any calendar year under all of our plans and our subsidiaries may not exceed \$100,000; provided further, that if the limitation is exceeded, the ISOs which cause the limitation to be exceeded will be treated as NQSOs. As of November 27, 2004, 1,145,000 options have been issued under our 2004 Stock Plan. Awards under the 2004 Stock Plan are discretionary. Therefore, it is not possible to determine the benefits that will be received in the future by participants in the 2004 Stock Plan.

2000 Employee Stock Incentive Plan

The 2000 Employee Stock Incentive Plan, or the 2000 Employee Plan, provided for the grant of options to our officers, employees and consultants and to our affiliates. Upon the approval of the 2004 Stock Plan on June 3, 2004, we indicated that we would not make any further grants under the 2000 Employee Plan. The 2000 Employee Plan was adopted by our Board of Directors on March 12, 2000 and approved at the 2000 annual meeting of stockholders and amended at the annual meeting of stockholders held on May 22, 2003. Up

to 3,000,000 shares of our common stock, subject to adjustment as provided in the 2000 Employee Plan, were originally authorized for issuance under the 2000 Employee Plan. As of November 27, 2004, 1,850,008 options remained outstanding under our 2000 Employee Plan. The 2000 Employee Plan remains in effect for awards outstanding as of June 3, 2004. Options granted under the 2000 Employee Plan were either ISOs or NQSOs.

2000 Director Stock Incentive Plan

The purpose of the 2000 Director Stock Incentive Plan, or 2000 Director Plan, was to permit the granting of stock options to our Board of Directors who are not our employees at an exercise price less than market value at the date of grant in lieu of paying Board of Directors fees in cash, thereby advancing our interests by encouraging and enabling the acquisition of our common stock by our Board of Directors whose judgment and ability we rely upon for the attainment of our long-term growth and development. However, in addition to the grants, in fiscal 2003, we also paid all of our non-employee directors a cash fee in addition to this grant of stock options. Accordingly, the 2000 Director Plan intended to promote a close identity of interest among us, our Board of Directors, and our common stockholders, as well as to provide a means to attract and attain well-qualified members of our Board of Directors. The 2000 Director Plan was adopted by our Board of Directors on September 13, 2000 and approved by our common stockholders at the 1999 annual meeting of stockholders. An aggregate of 500,000 shares of our common stock, subject to adjustment, were authorized for issuance or delivery upon the exercise of options granted under the 2000 Director Plan. As of November 27, 2004, 203,546 options remained outstanding under the 2000 Director Plan. Upon the approval of the 2004 Plan on June 3, 2004, we indicated that we would not make any further grants under the 2000 Director Plan. The 2000 Director Plan remains in effect for awards outstanding as of June 3, 2004. Options granted under the 2000 Director Plan are nonqualified stock options.

REPORT OF THE COMPENSATION AND STOCK OPTION COMMITTEE

As our business grows, our Compensation and Stock Option Committee expects to work closely with management to design an executive compensation program to assist us in attracting and retaining needed outstanding executives and senior management personnel. The design and implementation of such program will evolve as needed, but will be based primarily on two elements: (i) providing compensation opportunities that are competitive with competing companies of similar size; and (ii) linking executives' compensation with our or a division's financial performance by rewarding the achievement of our short-term and long-term objectives.

The three principal components of the executive compensation program are annual base salary, short-term incentive compensation in the form of performance bonuses payable in cash, and long-term incentive compensation in the form of stock options and other equity awards. Our executive officers are elected on an annual basis and serve at the discretion of our Board of Directors. Each compensation package contains a mix of these components.

During fiscal 2004, the Compensation and Stock Option Committee met or acted through written consent a total of five times. In an effort to recruit a Vice President of Finance who could also serve as our principal accounting officer, the Compensation and Stock Option and Stock Option Committee met to discuss the appropriate base salary and incentive compensation package to recruit and retain such an individual. As a result, the Compensation Committee unanimously approved Mr. Quiroga's compensation package, which included a base salary of \$150,000 and an incentive stock award of an option to purchase up to 100,000 shares of our common stock vesting ratably over a 24 month period of continued employment. In light of this new hire, at the September 3, 2004 meeting, the Compensation and Stock Option Committee met to discuss the compensation arrangements for Mr. Furrow and Mr. Crossman, keeping in mind the principal components of

our executive compensation program and the recent promotion of Mr. Crossman to the position of President. Based upon these considerations, the Compensation and Stock Option Committee discussed the base salaries of Mr. Furrow and Mr. Crossman, bonus payments, if any, and incentive compensation in the form of stock option grants. Based upon individual performance and analysis of compensation for the positions at comparative companies, the contributions and duties of a CEO and the desire to provide incentive to direct the company to profitability, the Compensation and Stock Option Committee elected to increase the annual base salary for Mr. Furrow by \$25,000 from \$275,000 to \$300,000, establish a quarterly bonus program which would award and pay him a bonus payment in the amount of \$25,000 in the event that the company achieved profitability in its third quarter of fiscal 2004 and future quarters, and provided him with an incentive stock award of an option to purchase up to 250,000 shares of our common stock vesting ratably over a 12 month period of continued employment. The Compensation and Stock Option Committee, in discussing Mr. Crossman's promotion to President and his previous contributions to the company, elected to continue to pay Mr. Crossman an annual base salary of \$275,000, and provide him with an incentive stock award of an option to purchase up to 200,000 shares of our common stock vesting ratably over a 12 month period of continued employment.

Neither Mr. Furrow nor Mr. Crossman has an employment agreement with us, but Mr. Crossman does have a change in control provision in his stock option grant in fiscal 2003 which provides for the immediate vesting of all options to the extent not otherwise exercisable in the event of a change in control of the company, as discussed elsewhere in this proxy statement. As of March 25, 2005, all options have vested for Mr. Crossman that are subject to this change in control provision.

The SEC requires that this report of the Compensation and Stock Option Committee comment on our policy with respect to Section 162(m) of the Code which limits the deductibility of our tax return of nonperformance-based compensation in excess of \$1 million dollars paid to any of our named executive officers. The Compensation and Stock Option Committee is monitoring the effects of our compensation program with respect to Section 162(m) of the Code. To date, we have not suffered a loss of compensation as a result of the \$1 million dollar limitation. The Compensation and Stock Option Committee reserves the right to design programs that recognize a full range of performance criteria critical to our success, even where the compensation paid under such programs may not be deductible.

REPORT ON CEO COMPENSATION

Mr. Furrow's 2004 annual base salary, bonus payment and grant of stock options were based on the overall principles of executive compensation described above. The Compensation and Stock Option Committee reviewed Mr. Furrow's compensation and overall assessment of his performance during its September 3, 2004 meeting. As discussed above, the Compensation and Stock Option Committee made adjustments to Mr. Furrow's base salary, established a bonus program for him and granted him additional stock options in order to recognize the contributions and duties he has performed as a CEO coupled with the desire to provide incentive to direct the company to profitability and current market and organizational considerations. The Compensation and Stock Option Committee concluded that these modifications to his annual base salary, establishment of a bonus plan and grant of stock options were consistent with the overall performance of the company and industry standards for executives with similar responsibilities in similar companies.

The Compensation and Stock Option Committee for fiscal 2004:

Suhail R. Rizvi, Chairman of the Compensation and Stock Option Committee

Dean Factor

Kelly Hoffman

REPORT OF THE AUDIT COMMITTEE

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In accordance with the written charter of the Audit Committee, which was adopted by our Board of Directors on May 22, 2003, the Audit Committee assists the Board in oversight of the quality and integrity of our accounting, auditing, and financial reporting practices. In addition, the Audit Committee recommends to the full Board of Directors the selection of the independent auditors.

Currently, all Audit Committee members are independent under NASDAQ listing standards and as such term is defined in the rules and regulations of the SEC and Mr. Rizvi has also been designated to be an audit committee financial expert as such term is defined in the rules and regulations of the SEC.

In performing its oversight function, the Audit Committee reviewed and discussed our audited consolidated financial statements as of and for the year ended November 27, 2004 with management and our independent auditors. The Audit Committee also discussed with our independent auditors all matters required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, Communication with Audit Committees as amended by the Auditing Standards Board of the American Institute of Certified Public Accountants, and, with and without management present, discussed and reviewed the results of the independent auditors examination of the financial statements.

The Audit Committee obtained from the independent auditors a formal written statement describing all relationships between the independent auditors and us that might bear on the independent auditors independence consistent with Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees. The Audit Committee discussed with the independent auditors any relationships that may have an impact on their objectivity and independence and satisfied itself that the non-audit services provided by the independent accountants are compatible with maintaining their independence.

Based on the above-mentioned review and discussions with management and the independent auditors, the Audit Committee recommended to the Board of Directors that our audited consolidated financial statements be included in our Annual Report on Form 10-K for the fiscal year ended November 27, 2004 for filing with the SEC.

The Audit Committee for fiscal 2004:

Suhail R. Rizvi, Chairman of the Audit Committee

Dean Factor

Vincent Sanfilippo

Kent Savage

Stock Performance Graph

The following graph compares, as of each of the dates indicated, the cumulative total common stockholder return for Innovo Group, the Standard and Poor's 600 SmallCap Index, or S&P 600 Index, and the NASDAQ Stock Market (U.S.) Index, or the NASDAQ Market Index. Measurement points are the last trading day closest to each of our fiscal years ended November 30, 1999, November 30, 2000, December 1, 2001, November 30, 2002, November 29, 2003 and November 27, 2004. The graph assumes that an initial investment of \$100 in our common stock, the S&P 600 Index, the NASDAQ Market Index and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessary indicative of future stock price performance.

**COMPARE 5-YEAR CUMULATIVE TOTAL RETURN
AMONG INNOVO GROUP INC.,
NASDAQ MARKET INDEX AND S&P 600 INDEX**

ASSUMES \$100 INVESTED ON NOV. 30, 1999
ASSUMES DIVIDEND REINVESTED
FISCAL YEAR ENDING NOV. 27, 2004

| | 11/30/99 | 11/30/00 | 11/30/01 | 11/29/02 | 11/28/03 | 11/26/04 |
|---------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Innovo Group Inc. | \$ 100.00 | \$ 52.03 | \$ 125.44 | \$ 166.34 | \$ 262.40 | \$ 139.52 |
| S&P 600 | \$ 100.00 | \$ 107.72 | \$ 120.73 | \$ 113.88 | \$ 150.07 | \$ 183.29 |
| NASDAQ Market Index | \$ 100.00 | \$ 83.05 | \$ 62.15 | \$ 48.64 | \$ 64.83 | \$ 69.10 |

Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate this proxy statement or our future filings under those

statutes, the Compensation and Stock Option Committee Report, the Audit Committee Report and the Stock Performance Graph are not deemed filed with the SEC and will not be deemed incorporated by reference into any of those prior filings or into any future filings made by us under those statutes.

RELATED PARTY TRANSACTIONS

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We have adopted a policy requiring that any material transaction between us and persons or entities affiliated with officers, directors or principal common stockholders of our company be on terms no less favorable to us than reasonably could have been obtained in arms length transactions with independent third parties and all transactions between us and related parties must be approved by our Audit Committee.

Anderson Stock Purchase Agreement

Pursuant to a Stock Purchase Right Award granted in February 1997, our former President, Pat Anderson, purchased 250,000 shares of common stock, or the Award Shares, with payment made by the execution of a non-recourse note, or the Anderson Note, for the exercise price of \$2.81 per share, or \$703,125 in the aggregate. The Anderson Note was due, without interest, on April 30, 2002, and was collateralized by the 1997 Award Shares. On July 18, 2002, our Board of Directors voted in favor of extending the term of the Anderson Note until April 30, 2005. Ms. Anderson resigned as our President and member of our Board of Directors on September 3, 2004. As of March 15, 2005, Ms. Anderson has repaid the outstanding balance of the Anderson Note.

Crossman Loan

In February 2003, we entered into two separate loan agreements with Marc Crossman, then a member of our board of directors and now also our President and Chief Financial Officer, whereby Mr. Crossman loaned us an aggregate of \$500,000. Our disinterested directors approved the loans from Mr. Crossman. In October 2004, upon approval by the Audit Committee, the parties executed an Amended and Restated Promissory Note and Security Agreement, or Restated Note, regarding the repayment of the aggregate principal amount of \$500,000 plus unpaid and accrued interest and interest thereon at the default interest rate of 10%. In addition to repayment of unpaid accrued interest and interest thereon, the Restated Note bears interest at a rate of 10% and calls for repayment of principal and interest on a weekly basis over a nine month period. We may prepay the Restated Note, at any time, without penalty during the nine months. The Restated Note is secured by a subordinated security interest in all goods, equipment, inventory, contract rights and general intangibles. The balance outstanding as of November 27, 2004 is \$439,000.

Purchases of Goods and Services

As required under the terms of the investment by Commerce Group LLC, or Commerce, and its affiliates, our Innovo, Joe s, and IAA subsidiaries each purchased its craft goods and certain distribution and operational services from Commerce and its affiliates in 2004, 2003 and 2002. The services purchased included but were not limited to accounts receivable collections, certain general accounting functions, inventory management and distribution logistics. The following schedule represents Innovo s, Joe s and IAA s purchases from Commerce and its affiliates during 2004, 2003 and 2002:

| | (in thousands) | | |
|---|----------------|-----------|-----------|
| | 2004 | 2003 | 2002 |
| Supply agreement | \$ 67,812 | \$ 43,993 | \$ 12,273 |
| Distribution agreement | 203 | 127 | 107 |
| Verbal facilities agreement | 886 | 343 | 25 |
| Interest on related party note payable | 863 | 482 | |
| Discontinued craft & accessories business segment Supply and Distribution agreement | 3,019 | 3,741 | 4,164 |
| Earn-out due to Sweet Sportswear | 1,566 | 694 | |

Additionally, we are charged an allocation expense from Commerce for expenses associated with us occupying space in Commerce's Commerce, California facility and the use of general business machines and communication services. These expenses are included in the verbal facilities agreement line above. We also pay to Sweet Sportswear pursuant to an earn-out agreement in connection with the Blue Concept Division acquisition. The earn-out to Sweet Sportswear, an entity owned by Hubert Guez and Paul Guez, is calculated on a quarterly basis equal to 2.5% of the gross sales solely attributable to American Eagle Outfitters, Inc., or AEO. This earn-out agreement was additional consideration for the acquisition of the Blue Concept Division.

As part of the acquisition of the Blue Concept Division from Azteca Production International, Inc., or Azteca, in July 2003, IAA and AZT International SA de CV, a Mexico corporation and wholly owned subsidiary of Azteca, or AZT, entered into a two-year, renewable, non-exclusive Supply Agreement for products to be sold by the Blue Concept Division. In addition to the customary obligations, the Supply Agreement requires that AZT will receive payment immediately upon receipt of invoices for our purchase orders and that AZT will charge a per unit price such that IAA will have a guaranteed profit margin of 15 percent on a per unit basis. In addition, AZT is responsible for all quality defects in merchandise manufactured. IAA also utilizes AZT to distribute goods manufactured under the Supply Agreement, and has AZT invoice and collect payments from AEO, for goods manufactured in Mexico.

We believe that all the transactions conducted between us and Commerce were completed on terms that were competitive and at market rates. As of November 27, 2004 and November 29, 2003, the balances due (to) and from Commerce and/or related affiliates are as follows:

| | (in thousands) | |
|----------------------------|----------------|----------|
| | 2004 | 2003 |
| Commerce Investment Group | \$ 1,557 | \$ (446) |
| AZT International SA de CV | 56 | 56 |
| Owenslab Jean, LLC | 61 | |
| Team Pro International | 15 | |
| Blue Concepts, LLC/Yanuk | 58 | |
| | \$ 1,747 | \$ (390) |

The approximate \$1.6 million aggregate balance due from Commerce in the above table represents and includes advances against Commerce's work in progress (WIP) based on purchase orders issued by Innovo Group. As of December 6, 2004, Commerce's estimated WIP which includes raw material such as fabric and trim, based on purchase orders received by us, is approximately \$6.8 million. Upon delivery of these finished goods, the balance due from Commerce of approximately \$1.6 million is expected to be applied against any resulting payables due to Commerce. We have purchased the majority of our products from Commerce and its affiliates. The loss of Commerce and its affiliates could have a material adverse impact on us.

Blue Concept Division Acquisition

On July 17, 2003, IAA entered into an asset purchase agreement, or APA with Azteca, Hubert Guez and Paul Guez, whereby IAA acquired the division known as the Blue Concept division, or the Blue Concept Division, of Azteca. The Blue Concept Division sells primarily denim jeans to AEO, a national retailer. Hubert Guez and Paul Guez, two of our substantial common stockholders and parties to the APA, together have a controlling interest in Azteca.

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Pursuant to the terms of the APA, IAA paid \$21.8 million for the Blue Concept Division, subject to adjustment as noted below. Pursuant to the APA, IAA employed all of the existing employees of the Blue Concept Division but did not assume any of the Blue Concept Division's or Azteca's existing liabilities. The purchase price was paid through the issuance of a seven-year convertible promissory note, or the Blue Concept Note. On March 5, 2004, in accordance with the APA and Nasdaq rules, we held a special meeting of our stock holders to convert up to \$12.5 million of the debt into up to 4,166,667 shares of our common stock. The conversion was approved by our common stockholders and as a result, Azteca and the Guez brothers have initially been issued 3,125,000 shares of our common stock at a conversion price of \$4.00 per share, or the Azteca Conversion Shares, with the possible issuance of up to 1,041,667 additional shares of common stock upon the occurrence of certain contingencies described in the Blue Concept APA. As a result of this conversion, the Blue Concept Note was reduced from \$21.8 million to \$9.3 million.

In the event that sales of the Blue Concept Division fell below \$70 million during the first 17 month period, or Period I, following the closing of the acquisition, or \$65 million during the 12 month period, or Period II following Period I, certain terms of the APA allow for a reduction in the purchase price through a decrease in the principal balance of the Blue Concept Note and/or the return of certain locked-up shares of our common stock. Period I ended on December 31, 2004 and the revenue target for Period I was met, resulting in no reduction in the purchase price.

In the event the principal amount of the Blue Concept Note needs to be reduced beyond the outstanding principal balance, then an amount of the locked-up shares equal to the balance of the required reduction shall be returned to us. For these purposes, the locked-up shares will be valued at \$4.00 per share. Under the Blue Concept APA, we had additional protections during the 12 month period following the closing that have been removed.

In the event the revenues of the Blue Concept Division decrease to \$35 million or less during Period II, IAA will have the right to sell the purchased assets back to Azteca, and Azteca will have the right to buy back the purchased assets for the remaining balance of the Blue Concept Note and any and all locked-up shares will be returned to us.

In addition, IAA pays to Sweet Sportswear, an entity owned by Hubert Guez and Paul Guez who were parties to the Blue Concept asset purchase agreement, an amount equal to 2.5% of IAA's net revenues generated as a result of sales to AEO.

As part of the transaction, IAA and AZT, entered into a two-year, renewable, non-exclusive supply agreement, or Supply Agreement, for products to be sold by our Blue Concept Division. Under the terms of the Supply Agreement, we have agreed to market and sell the products to be purchased from AZT to certain of our customers, more particularly the customers of our Blue Concept Division. In addition to the customary obligations, the Supply Agreement required that: (i) we will submit written purchase orders to AZT on a monthly basis specifying (x) the products to be supplied, and (y) a specified shipping date for products to be shipped; (ii) we will give AZT reasonable time allowances upon placing its purchase orders with AZT prior to delivery of the products by AZT; (iii) AZT will receive payment immediately upon receipt by us of invoices for our purchase orders; (iv) we will have a guaranteed profit margin on a per unit basis of 15%; and (v) the products to be supplied shall be subject to quality control measures by us and by the customer of the Blue Concept Division. IAA also utilizes AZT to distribute goods manufactured under the Supply Agreement and until such time that we can establish a Mexican subsidiary to invoice and collect payments from AEO, temporarily has AZT invoice and collect payments from AEO for goods manufactured in Mexico.

Management and the board of directors entered into the acquisition of the Blue Concept Division for the following reasons: (i) the ability to enter into an acquisition with a seller with which we have a long-standing relationship; (ii) the ability to acquire a profitable business that has a financial history of producing

conservative profit margins with significant revenues; (iii) a strong customer relationship with AEO; (iv) the manufacturing relationships to produce products effectively and efficiently; and (v) the ability to acquire the personnel and talent of a profitable business. Further, although there can be no assurance the Blue Concept Division is expected to increase our revenue growth and is expected to maintain positive cash flows. In fiscal 2004, net sales to AEO attributable to the Blue Concept Division accounted for \$62,658,000 or 60% of our overall net sales.

JD Design, LLC

Pursuant to the license agreement entered into with JD Design, LLC under which we obtained the license rights to Joe's Jeans, Joe's is obligated to pay a 3% royalty on the net sales of all products bearing the Joe's Jeans or JD trademark or logo. For fiscal 2004, fiscal 2003 and fiscal 2002, this amount totaled \$548,000, \$339,000 and \$277,000, respectively. Included in due to related parties on the balance sheet are accrued royalties of \$143,000 and \$189,000 for fiscal 2004 and fiscal 2003, respectively.

Facility Lease Arrangements

We currently lease office and storage space from a company owned by Sam Furrow, Chairman of our Board of Directors in Knoxville, Tennessee. In March 2005, we moved from one facility owned by Mr. Furrow, to another facility also owned by Mr. Furrow. We lease approximately 5,000 square feet of office and warehouse space at a rate of approximately \$2,500 per month. We are presently negotiating a formal written lease for the space.

SECTION 16 BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act, as amended, requires our directors, officers and persons who beneficially own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the SEC on a timely basis. Directors, officers and greater than ten percent beneficial owners are required by the SEC's regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on a review of copies of such forms furnished to us and certain of our internal records, or upon written representations that no Form 5s were required, we believe that during the year ended December 31, 2004, all Section 16(a) filing requirements applicable to our directors, officers and greater than ten percent beneficial owners were satisfied on a timely basis except as follows: one Form 4 for Samuel J. Furrow relating to one indirect purchase transaction by his spouse was inadvertently not timely filed, one Form 4 for Marc B. Crossman relating to one individual grant of stock option in a prior fiscal year for 2001 was inadvertently not timely filed, two Form 4s for Paul Guez relating to 30 individual sale transactions and in April 2005, two Form 4s relating to ten individual sale transactions for sales in 2004 were inadvertently not timely filed; one Form 4 for Innvation LLC relating to one individual sale transaction was inadvertently not timely filed.

**FEES PAID TO THE INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM**

For the fiscal years ended November 27, 2004 and November 29, 2003, E&Y billed the approximate fees as further described below.

Audit Fees

Fees for audit services totaled approximately \$480,500 for the year ended November 27, 2004 and \$528,000 for the year ended November 29, 2003, including fees associated with the annual audit, reviews of our quarterly reports on Form 10-Q, and assistance with and review of registration statements filed with the SEC including consents related to registration statements for equity issuances.

Audit-Related Fees

Fees for audit-related services totaled approximately \$12,000 for the year ended November 27, 2004 and approximately \$63,000 for the year ended November 29, 2003. Audit related services principally included assistance with internal control requirements under Section 404 of the Sarbanes-Oxley Act of 2002, assistance with audit committee meetings and board meetings and consultation on transactions and acquisitions for fiscal 2003.

Tax Fees

Fees for tax services, including tax compliance and return preparation, tax advice, and tax planning, totaled approximately \$129,100 for the year ended November 27, 2004 and approximately \$123,000 for the year ended November 29, 2003 and approximately \$83,000 for the year ended November 30, 2002.

All Other Fees

There were no other fees for the year ended November 27, 2004 or for the year ended November 29, 2003.

The Audit Committee has adopted a policy which requires the Audit Committee's pre-approval of audit and non-audit services performed by the independent auditor to assure that the provision of such services does not impair the auditor's independence. The Audit Committee approves such services on an on going basis prior to the incurrence of any such audit and non-audit services. The Audit Committee pre-approved all of the audit and non-audit services rendered by E&Y listed above.

The Audit Committee has determined that the services provided by E&Y were compatible with maintaining E&Y's independence.

OTHER BUSINESS TO BE TRANSACTED

As of the date of this proxy statement, the Board of Directors knows of no other business which may come before the annual meeting. If any other business is properly brought before the annual meeting, it is the intention of the proxy holders to vote or act in accordance with their best judgment with respect to such matters.

INNOVO GROUP INC.

2004 STOCK INCENTIVE PLAN

(WITH PROPOSED AMENDMENT TO SHARE AMOUNT)

1. **Purpose.** The purpose of the Innovo Group Inc. 2004 Stock Incentive Plan (the Plan) is to enhance the ability of Innovo Group Inc. (the Company) and its Subsidiaries to attract and retain officers, employees, directors and consultants of outstanding ability and to provide selected officers, employees, directors and consultants with an interest in the Company parallel to that of the Company s shareholders. The term Company as used in this Plan with reference to employment shall include the Company and its Subsidiaries, as appropriate.

2. **Definitions.**

(a) **Award** shall mean an award determined in accordance with the terms of the Plan.

(b) **Board** shall mean the Board of Directors of the Company.

(c) **Cause** shall mean (i) if a Participant is party to an employment agreement or similar agreement with the Company and such agreement includes a definition of Cause, the definition contained therein or (ii) if no such employment or similar agreement exists, it shall mean (A) the Participant's failure to perform the duties reasonably assigned to him or her by the Company, (B) a good faith finding by the Company of the Participant's dishonesty, gross negligence or misconduct, (C) a material breach by the Participant of any written Company employment policies or rules or (D) the Participant's conviction for, or his or her plea of guilty or nolo contendere to, a felony or for any other crime which involves fraud, dishonesty or moral turpitude.

(d) **Change in Control** of the Company means the occurrence of one of the following events:

(i) individuals who, on the Effective Date, constitute the Board (the Incumbent Directors) cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the Effective Date whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for director, without objection to such nomination) shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest with respect to directors or as a result of any other actual or threatened solicitation of proxies by or on behalf of any person other than the Board shall be an Incumbent Director;

(b) Board shall mean the Board of Directors of the Company.

(ii) **any person (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the Exchange Act) and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) is or becomes, after the Effective Date, a beneficial owner (as**

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defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities eligible to vote for the election of the Board (the Company Voting Securities); provided, however, that an event described in this paragraph (ii) shall not be deemed to be a Change in Control if any of following becomes such a beneficial owner: (A) the Company or any majority-owned subsidiary (provided, that this exclusion applies solely to the ownership levels of the Company or the majority-owned subsidiary), (B) any tax-qualified, broad-based employee benefit plan sponsored or maintained by the Company or any majority-owned subsidiary, (C) any underwriter temporarily holding securities pursuant to an offering of such securities, or (D) any person pursuant to a Non-Qualifying Transaction (as defined in paragraph (iii));

(iii) **the consummation of a merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company or any of its Subsidiaries that requires the approval of the Company's stockholders, whether for such transaction or the issuance of securities in the transaction (a Business Combination), unless immediately following such Business Combination: (A) 60% or more of the total voting power of (x) the corporation resulting from such Business Combination (the Surviving Corporation), or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of 100% of the voting securities eligible to elect directors of the Surviving Corporation (the Parent Corporation), is represented by Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Company Voting Securities among the holders thereof immediately prior to the Business Combination, (B) no person (other than any employee benefit plan (or related trust) sponsored or maintained by the Surviving Corporation or the Parent Corporation), is or becomes the beneficial owner, directly or indirectly, of more than 50% of the total voting power of the outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) and (C) at least a majority of the members of the board of directors of the Parent Corporation (or if there is no Parent Corporation, the Surviving Corporation) following the consummation of the Business Combination were Incumbent Directors at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination (any Business Combination which satisfies all of the criteria specified in (A), (B) and (C) above shall be deemed to be a Non-Qualifying Transaction); or**

(ii) any person (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934)

(iv) **Stockholder approval of a liquidation or dissolution of the Company, unless the voting common equity interests of an ongoing entity (other than a liquidating trust) are beneficially owned, directly or indirectly, by the Company's shareholders in substantially the same proportions as such shareholders owned the Company's outstanding voting common equity interests immediately prior to such liquidation and such ongoing entity assumes all existing obligations of the Company under this Plan.**

Notwithstanding the foregoing, a Change in Control of the Company shall not be deemed to occur solely because any person acquires beneficial ownership of more than 50% of the

Company Voting Securities as a result of the acquisition of Company Voting Securities by the Company which reduces the number of Company Voting Securities outstanding; provided, that, if after such acquisition by the Company such person becomes the beneficial owner of Company Voting Securities that increases the percentage of outstanding Company Voting Securities beneficially owned by such person, a Change in Control of the Company shall then occur.

(e) **Code** shall mean the Internal Revenue Code of 1986, as amended.

(f) **Committee** shall mean a committee of at least two members of the Board appointed by the Board to administer the Plan and to perform the functions set forth herein and who are non-employee directors within the meaning of Rule 16b-3 as promulgated under Section 16 of the Securities Exchange Act of 1934, as amended (the Exchange Act) and who are also outside directors within the meaning of Section 162(m) of the Code.

(g) **Common Stock** shall mean the common stock of the Company.

(h) **Continuous Service** means that the Participant s service as an employee, director or consultant with the Company or a Subsidiary which is not interrupted or terminated. The Participant s Continuous Service shall not be deemed to have terminated merely because of a change in the capacity in which the Participant renders service to the Company or a Subsidiary as an employee, director or consultant or a change in the entity for which the Participant renders such service; provided, that, there is no interruption or termination of

the Participant's Continuous Service other than an approved leave of absence. The Committee, in its sole discretion, may determine whether Continuous Service shall be considered interrupted.

(i) Covered Employee shall have the meaning set forth in Section 162(m)(3) of the Code.

(j) Disability shall have the same meaning as provided in any long-term disability plan maintained by the Company or any Subsidiary in which a Participant then participates (the LTD Plans); provided, that, if no such plan exists, it shall have the meaning set forth in Section 22(e)(3) of the Code.

(k) Fair Market Value shall mean, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system for the last market trading day prior to the date of determination, as reported in *The Wall Street Journal* or such other source as the Committee deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its Fair Market Value shall be the mean of the closing bid and asked prices for the Common Stock on the date prior to the date of determination as reported in *The Wall Street Journal*

(h) Continuous Service means that the Participant's service as an employee, director or con

or such other source as the Committee deems reliable; or

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(ii)

If the Common Stock is regularly quoted by a recognized securities dealer but selling prices

(iii) **In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Committee.**

(l) **Immediate Family Member shall mean, except as otherwise determined by the Committee, a Participant's spouse, ancestors and descendants.**

(m) **Incentive Stock Option shall mean a stock option which is intended to meet the requirements of Section 422 of the Code.**

(n) **Nonqualified Stock Option shall mean a stock option which is not intended to be an Incentive Stock Option.**

(o) **Option shall mean either an Incentive Stock Option or a Nonqualified Stock Option.**

(p) **Participant shall mean an officer, employee, director or consultant of the Company or its Subsidiaries who is selected to participate in the Plan in accordance with Section 5.**

(q) **Performance Goals shall mean or may be expressed in terms of any of the following business criteria: revenue, earnings before interest, taxes, depreciation and amortization (EBITDA), funds from operations, funds from**

(iii) **In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Committee.**

operations per share, operating income, pre or after tax income, cash available for distribution, cash available for distribution per share, net earnings, earnings per share, return on equity, return on assets, share price performance, improvements in the Company's attainment of expense levels, and implementing or completion of critical projects, or improvement in cash-flow (before or after tax). A Performance Goal may be measured over a Performance Period on a periodic, annual, cumulative or average basis and may be established on a corporate-wide basis or established with respect to one or more operating units, divisions, subsidiaries, acquired businesses, minority investments, partnerships or joint ventures. Unless otherwise determined by the Committee by no later than the earlier of the date that is ninety days after the commencement of the Performance Period or the day prior to the date on which twenty-five percent of the Performance Period has elapsed, the Performance Goals will be determined by not accounting for a change in GAAP during a Performance Period.

(r) Performance Objective shall mean the level or levels of performance required to be attained with respect to specified Performance Goals in order that a Participant shall become entitled to specified rights in connection with an Award of performance shares.

(s) Performance Period shall mean the calendar year, or such other shorter or longer period designated by the Committee, during which performance will be measured in order to determine a Participant's entitlement to receive payment of an Award.

(q) Performance Goals shall mean or may be expressed in terms of any of the following business

(t) **Subsidiary** shall mean any affiliate of the Company selected by the Board; provided, that, with respect to Incentive Stock Options, it shall mean any subsidiary of the Company that is a corporation and which at the time qualifies as a subsidiary corporation within the meaning of Section 424(f) of the Code.

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3. **Shares Subject to the Plan.** Subject to adjustment in accordance with Section 18, the total of the number of shares of Common Stock which shall be available for the grant of Awards under the Plan shall not exceed 4,265,172(1) shares of Common Stock; provided, that, for purposes of this limitation, any Common Stock subject to an Option which is canceled or expires without exercise shall again become available for Award under the Plan. Upon forfeiture of Awards in accordance with the provisions of the Plan and the terms and conditions of the Award, such shares shall again be available for subsequent Awards under the Plan. Subject to adjustment in accordance with Section 18, no employee shall be granted, during any one (1) year period, Options to purchase more than 1,250,000 shares of Common Stock and, the number of shares of Common Stock subject to any Awards other than Options or stock appreciation rights shall not exceed 1,250,000 shares of Common Stock. Common Stock available for issue or distribution under the Plan shall be authorized and unissued shares or shares reacquired by the Company in any manner.

4. **Administration.**

(a) **The Plan shall be administered by the Committee. All references to the Committee hereinafter shall mean the Board if no such Committee has been appointed. Notwithstanding the foregoing, the Board or Committee may (i) delegate to a committee of one or more members of the Board who are not outside directors within the meaning of Section 162(m) of the Code the authority to grant Awards to eligible persons who are either (A) not then Covered Employees and are not expected to be Covered Employees at the time of recognition of income resulting from such Award or (B) not persons with respect to whom the Company wishes to comply with Section 162(m) of the Code or (ii) delegate to a committee of one or more members of the Board who are not non-employee directors within the meaning of Rule 16b-3 the authority to grant Awards to eligible persons who are not subject to Section 16 of the Exchange Act.**

(b) **The Committee shall (i) approve the selection of Participants, (ii) determine the type of Awards to be made to Participants, (iii) determine the number of shares of Common Stock subject to Awards, (iv) determine the terms and conditions of any Award granted hereunder (including, but not limited to, any restriction and forfeiture conditions on such Award) and (v) have the authority to interpret the Plan, to establish, amend, and rescind any rules and regulations relating to the Plan, to determine the terms and provisions of any agreements entered into hereunder, and to make all other determinations necessary or advisable for the administration of the Plan. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or in any**

Award in the manner and to the extent it shall deem desirable to carry it into effect.

(c) Any action of the Committee shall be final, conclusive and binding on all persons, including the Company and its Subsidiaries and shareholders, Participants and persons claiming rights from or through a Participant.

(1) This number assumes approval of Proposal 3 at our annual meeting of stockholders to be held on June 9, 2005. In the event that this amendment to our 2004 Stock Incentive Plan in Proposal 3 is not approved, this number will remain at 1,265,172.

(b) The Committee shall (i) approve the selection of Participants, (ii) determine the type of Award

(d) **The Committee may delegate to officers or employees of the Company or any Subsidiary, and to service providers, the authority, subject to such terms as the Committee shall determine, to perform administrative functions with respect to the Plan and Award agreements.**

(e) **Members of the Committee and any officer or employee of the Company or any Subsidiary acting at the direction of, or on behalf of, the Committee shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified by the Company with respect to any such action or determination.**

5. **Eligibility. Individuals eligible to receive Awards under the Plan shall be the offices, employees, directors and consultants of the Company and its Subsidiaries selected by the Committee; provided, that, only employees of the Company and its Subsidiaries may be granted Incentive Stock Options.**

6. **Awards. Awards under the Plan may consist of Options, restricted Common Stock, restricted Common Stock units, performance shares, performance share units, purchases, share awards, stock appreciation rights or other awards based on the**

value of the Common Stock. Incentive Stock Options may only be granted to employees of the Company and its Subsidiaries. Awards shall be subject to the terms and conditions of the Plan and shall be evidenced by an agreement containing such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall deem desirable.

7. Options. Options may be granted under the Plan in such form as the Committee may from time to time approve pursuant to terms set forth in an Option agreement.

(a) Types of Options. Each Option agreement shall state whether or not the Option will be treated as an Incentive Stock Option or Nonqualified Stock Option. The aggregate Fair Market Value of the Common Stock for which Incentive Stock Options granted to any one employee under this Plan or any other incentive stock option plan of the Company or of any of its Subsidiaries may by their terms first become exercisable during any calendar year shall not exceed \$100,000, determining Fair Market Value as of the date each respective Option is granted. In the event such threshold is exceeded in any calendar year, such excess Options shall be automatically deemed to be Nonqualified Stock Options. To the extent that any Option granted under this Plan which is intended to be an Incentive Stock Option fails for any reason to qualify as such at any time, such Option shall be a Nonqualified Stock Option.

(b) **Option Price.** The purchase price per share of the Common Stock purchasable under an Option shall be determined by the Committee; provided, however, the exercise price for Incentive Stock Options will be not less than 100% of the Fair Market Value of the Common Stock on the date of the grant and in the case of Incentive Stock Options granted to an employee owning stock possessing more than 10% of the total combined voting power of all classes of shares of the Company and its Subsidiaries (a 10% Shareholder) the price per share specified in the agreement relating to such Option shall not be less than 110% of the Fair Market Value per share of the Common Stock on the date of grant. Notwithstanding any other provision in this Plan to the contrary, the Committee may reduce the option price of any outstanding

Option either through a direct amendment to such Option or through a cancellation of such Option and immediate grant of a new Option with a lower option price or in any other manner it deems appropriate.

(c) **Option Period.** The term of each Option shall be fixed by the Committee, but no Option shall be exercisable after the expiration of ten (10) years from the date the Option is granted; **provided, that,** in the case of Incentive Stock Options granted to 10% Shareholders, the term of such Option shall not exceed 5 years from the date of grant. Notwithstanding the foregoing, unless otherwise provided in an Award agreement, upon the death of a Participant, Options (other than Incentive Stock Options) that would otherwise remain exercisable following such death, shall remain exercisable for one year following such death, notwithstanding the term of such Option.

(d) **Exercisability.** Each Option shall vest and become exercisable at a rate determined by the Committee on the date of grant.

(e) **Method of Exercise.** Options may be exercised, in whole or in part, by giving written notice of exercise to the Company in a form approved by the Company specifying the number shares of Common Stock to be purchased. Such notice shall be accompanied by the payment in full of the Option exercise price. The exercise price of the Option may be paid by (i) cash or certified or bank check, (ii) surrender of Common Stock held by the Optionee for at least six (6) months prior to exercise (or such longer or shorter period as may be required to avoid a charge to earnings for financial accounting purposes) or

(b) Option Price. The purchase price per share of the Common Stock purchasable under an Option

the attestation of ownership of such shares, in either case, if so permitted by the Company, where such Common Stock has a Fair Market Value equal to the aggregate exercise price of the Option at the time of exercise, (iii) if established by the Company, through a same day sale commitment from optionee and a broker-dealer that is acceptable to the Company that is a member of the National Association of Securities Dealers (an NASD Dealer) whereby the optionee irrevocably elects to exercise the Option and to sell a portion of the shares so purchased sufficient to pay for the total exercise price and whereby the NASD Dealer irrevocably commits upon receipt of such shares to forward the total exercise price directly to the Company, (iv) through additional methods prescribed by the Committee, all under such terms and conditions as deemed appropriate by the Committee in its discretion, or (v) by any combination of the foregoing, and, in all instances, to the extent permitted by applicable law. A Participant's subsequent transfer or disposition of any Common Stock acquired upon exercise of an Option shall be subject to any Federal and state laws then applicable, specifically securities law, and the terms and conditions of this Plan.

8. **Restricted Common Stock.** The Committee may from time to time award restricted Common Stock under the Plan to eligible Participants. Shares of restricted Common Stock may not be sold, assigned, transferred or otherwise disposed of, or pledged or hypothecated as collateral for a loan or as security for the performance of any obligation or for any other purpose, for such period (the Restricted Period) as

the Committee shall determine. The Committee may define the Restricted Period in terms of the passage of time or in any other manner it deems appropriate. The Committee may alter or waive at any time any term or condition of restricted Common Stock that is not mandatory under the Plan. Unless otherwise determined by the Committee, upon termination of a Participant's Continuous Service with the Company for any reason prior to the end of the Restricted Period, the restricted Common Stock

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shall be forfeited and the Participant shall have no right with respect to the Award. Except as restricted under the terms of the Plan and any Award agreement, any Participant awarded restricted Common Stock shall have all the rights of a shareholder including, without limitation, the right to vote restricted Common Stock. If a share certificate is issued in respect of restricted Common Stock, the certificate shall be registered in the name of the Participant, but shall be held by the Company for the account of the Participant until the end of the Restricted Period. The Committee may also award restricted Common Stock in the form of restricted Common Stock units having a value equal to an identical number of shares of Common Stock. Payment of restricted Common Stock units shall be made in Common Stock or in cash or in a combination thereof (based upon the Fair Market Value of the Common Stock on the day the Restricted Period expires), all as determined by the Committee in its sole discretion.

9. **Performance Shares.**

(a) **Type of Awards.** Performance shares may be granted in the form of actual shares of Common Stock or Common Stock units having a value equal to an identical number of shares of Common Stock. In the event that a share certificate is issued in respect of performance shares, such certificate shall be registered in the name of the Participant, but shall be held by the Company until the time the performance shares are earned. The Performance Objectives and the length of the Performance Period shall be determined by the Committee. The Committee shall determine in its sole discretion whether performance shares granted in the form of Common Stock units shall be paid in cash, Common Stock, or a combination of cash and Common Stock.

(b) **Performance Objectives.** The Committee shall establish the Performance Objective for each Award of performance shares, consisting of one or more business criteria permitted as Performance Goals hereunder, one or more levels of performance with respect to each such criteria, and the amount or amounts payable or other rights that the Participant will be entitled to upon achievement of such levels of

performance. The Performance Objective shall be established by the Committee prior to, or reasonably promptly following the inception of, a Performance Period but, to the extent required by Section 162(m) of the Code, by no later than the earlier of the date that is ninety days after the commencement of the Performance Period or the day prior to the date on which twenty-five percent of the Performance Period has elapsed. More than one Performance Goal may be incorporated in a Performance Objective, in which case achievement with respect to each Performance Goal may be assessed individually or in combination with each other. The Committee may, in connection with the establishment of Performance Objectives for a Performance Period, establish a matrix setting forth the relationship between performance on two or more Performance Goals and the amount of the Award of performance shares payable for that Performance Period. The level or levels of performance specified with respect to a Performance Goal may be established in absolute terms, as objectives relative to performance in prior periods, as an objective compared to the performance of one or more comparable companies or an index covering multiple companies, or otherwise as the Committee may determine. Performance Objectives shall be objective and shall otherwise meet the requirements of Section 162(m) of the Code. Performance Objectives may differ for performance shares granted to any one Participant or to different Participants. An Award of performance shares to a Participant who is a Covered Employee shall (unless the Committee determines otherwise) provide that in the event of the Participant's termination of

Continuous Service prior to the end of the Performance Period for any reason, such Award will be payable only (i) if the applicable Performance Objectives are achieved and (ii) to the extent, if any, as the Committee shall determine.

(c) **Certification.** Following the completion of each Performance Period, the Committee shall certify in writing, in accordance with the requirements of Section 162(m) of the Code, whether the Performance Objectives and other material terms of an Award of performance shares have been achieved or met. Unless the Committee determines otherwise, performance shares shall not be settled until the Committee has made the certification specified under this Section 9(c).

(d) **Adjustment.** The Committee may, in its discretion, reduce or eliminate the amount of payment with respect to an Award of performance shares to a Covered Employee, notwithstanding the achievement of a specified Performance Objectives; provided, that, no such adjustment shall be made which would adversely impact a Participant following a Change in Control.

(e) **Maximum Amount Payable** Subject to Section 18, the maximum number of performance shares subject to any Award to a Covered Employee is 1,250,000 for each 12 months during the Performance Period (or, to the extent the Award is paid in cash, the maximum dollar amount of any such Award is the equivalent cash value, based on the Fair Market Value of the Common Stock, of such number of shares of Common Stock on the last day of the Performance Period).

10. **Share Purchases.** The Committee may authorize eligible individuals to purchase Common Stock in the Company at a price equal to, below or above the Fair Market Value of the Common Stock at the time of grant. Any such offer may be subject to the conditions and terms the Committee may impose.

11. **Stock Appreciation Rights.** The Committee may in its discretion, either alone or in connection with the grant of another Award, grant stock appreciation rights in accordance with the Plan, the terms and conditions of which shall be set forth in an agreement. If granted in connection with an Option, a stock appreciation right shall cover the same number of shares of Common Stock covered by the Option (or such lesser number of shares as the Committee may determine) and shall, except as provided in this Section 11, be subject to the same terms and conditions as the related Option.

(a) **Time of Grant.** A stock appreciation right may be granted (i) at any time if unrelated to an Option, or (ii) if related to an Option, either at the time of grant, or in the case of Nonqualified Stock Options, at any time thereafter during the term of such Option.

(b) **Stock Appreciation Right Related to an Option.**

(i) **A stock appreciation right granted in connection with an Option shall be exercisable at such time or times and only to the extent that the related Options are exercisable, and will not be transferable except to the extent the related Option may be transferable. A stock appreciation right granted in connection with an Incentive Stock Option**

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shall be exercisable only if the Fair Market Value of a share of Common Stock on the date of exercise exceeds the purchase price specified in the related Incentive Stock Option agreement.

(ii) **Upon the exercise of a stock appreciation right related to an Option, the Participant shall be entitled to receive an amount determined by multiplying (A) the excess of the Fair Market Value of a share of Common Stock on the date preceding the date of exercise of such stock appreciation right over the per share purchase price under the related Option, by (B) the number of shares of Common Stock as to which such stock appreciation right is being exercised. Notwithstanding the foregoing, the Committee may limit in any manner the amount payable with respect to any stock appreciation right by including such a limit in the agreement evidencing the stock appreciation right at the time it is granted.**

(iii) **Upon the exercise of a stock appreciation right granted in connection with an Option, the Option shall be canceled to the extent of the number of shares as to which the stock appreciation right is exercised, and upon the exercise of an Option granted in connection with a stock appreciation right, the stock appreciation right shall be canceled to the extent of the number of shares of Common Stock as to which the Option is exercised or surrendered.**

(c) **Stock Appreciation Right Unrelated to an Option. The Committee may grant to a Participant stock appreciation rights unrelated to Options. Stock appreciation rights unrelated to Options shall contain such terms and conditions as to exercisability, vesting and duration as the Committee shall determine, but in no event shall they have a term of greater than ten (10) years; provided, that, unless otherwise provided in an Award agreement, upon the death of a Participant, stock appreciation rights that would otherwise remain exercisable for a period of time following such death, shall remain exercisable**

(i) A stock appreciation right granted in connection with an Option shall be exercisable at such

for one year following death notwithstanding the term of the Award. Upon exercise of a stock appreciation right unrelated to an Option, the Participant shall be entitled to receive an amount determined by multiplying (i) the excess of the Fair Market Value of a share on the date preceding the date of exercise of such stock appreciation right over the per share exercise price of the stock appreciation right, by (ii) number of shares of Common Stock as to which the stock appreciation right is being exercised. Notwithstanding the foregoing, the Committee may limit in any manner the amount payable with respect to any stock appreciation right by including such a limit in the agreement evidencing the stock appreciation right at the time it is granted.

(d) **Method of Exercise.** Stock appreciation rights shall be exercised by a Participant only by a written notice delivered in person or by mail to the Company at the Company's principal executive office, specifying the number of shares of Common Stock with respect to which the stock appreciation right is being exercised. If requested by the Committee, the Participant shall deliver the agreement evidencing the stock appreciation right being exercised and the agreement evidencing any related Option to the Company who shall endorse thereon a notation of such exercise and return such agreement to the Participant.

(e) **Form of Payment.** Payment of the amount determined under this Section 11 may be made in the discretion of the Committee solely in whole shares of Common Stock in a number determined at their Fair Market Value on the date preceding the date of exercise of the stock appreciation right, or solely in cash, or in a combination of cash and shares.

(c) Stock Appreciation Right Unrelated to an Option. The Committee may grant to a Participant

(e) Form of Payment. Payment of the amount determined under this Section 11 may be made

If the Committee decides to make full payment in shares in Common Stock and the amount payable results in a fractional share, payment for the fractional share will be made in cash.

12. **Share Awards.** Subject to such performance and employment conditions as the Committee may determine, awards of Common Stock or awards based on the value of the Common Stock may be granted either alone or in addition to other Awards granted under the Plan. Any Awards under this Section 12 and any Common Stock covered by any such Award may be forfeited to the extent so provided in the Award agreement, as determined by the Committee. Payment of Common Stock awards made under this Section 12 which are based on the value of Common Stock may be made in Common Stock or in cash or in a combination thereof (based upon the Fair Market Value of the Common Stock on the date of payment), all as determined by the Committee in its sole discretion.

13. **Special Provisions.**

(a) **Change in Control.** Unless otherwise provided in an Award agreement, upon the occurrence of a Change in Control, all Options and stock appreciation rights shall automatically become vested and exercisable in full and all restrictions or

performance conditions, if any, on any Common Stock awards, restricted Common Stock, restricted Common Stock units, performance shares or performance share units granted hereunder shall automatically lapse. The Committee may, in its discretion, include such further provisions and limitations in any agreement documenting such Awards as it may deem equitable and in the best interests of the Company.

(b) **Deferral.** The Committee shall be authorized to establish procedures pursuant to which the payment of any Award may be deferred. Subject to the provisions of the Plan and any Award agreement, the recipient of an Award (including, without limitation, any deferred Award) may, if so determined by the Committee, be entitled to receive, currently or on a deferred basis, cash dividends, or cash payments in amounts equivalent to cash dividends on shares (dividend equivalents), with respect to the number of shares of Common Stock covered by the Award, as determined by the Committee, in its sole discretion, and the Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional shares or otherwise reinvested.

14. **Withholding.** Upon (a) disposition of shares of Common Stock acquired pursuant to the exercise of an Incentive Stock Option granted pursuant to the Plan within two years of the grant of the Incentive Stock Option or within one year after exercise of the Incentive Stock Option, or (b) exercise of a Nonqualified Stock Option (or an Incentive Stock Option treated as a Nonqualified Stock Option),

exercise of a stock appreciation right or the vesting or payment of any other Award under the Plan, or (c) under any other circumstances determined by the Committee in its sole discretion, the Company shall have the right to require any Participant, and such Participant by accepting the Awards granted under the Plan agrees, to pay to the Company the amount of any taxes which the Company shall be required to withhold with respect thereto. In the event of clauses (a), (b) or (c), with the consent of the Committee, at its sole discretion, such Participant may elect to pay to the Company an amount equal to the amount of the taxes which the Company shall be required to withhold by delivering to the Company shares of Common Stock having a Fair Market Value equal to the amount of the withholding tax

obligation as determined by the Company; provided, however, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law. Such shares so delivered to satisfy the minimum withholding obligation may be either shares withheld by the Company upon the exercise of the Option or other shares. At the Committee's sole discretion, a Participant may elect to have additional taxes withheld and satisfy such withholding with cash or shares of Common Stock held for at least six (6) months prior to exercise, if, in the opinion of the Company's outside accountants, doing so, would not result in a charge against earnings.

15. **Nontransferability, Beneficiaries. Unless otherwise determined by the Committee with respect to the transferability of Nonqualified Stock Options by a Participant to his Immediate Family Members (or to trusts or partnerships or limited liability companies established for such family members), no Award shall be assignable or transferable by the Participant, otherwise than by will or the laws of descent and distribution or pursuant to a beneficiary designation, and Options shall be exercisable, during the Participant's lifetime, only by the Participant (or by the Participant's legal representatives in the event of the Participant's incapacity). Each Participant may designate a beneficiary to exercise any Option held by the Participant at the time of the Participant's death or to be assigned any other Award outstanding at the time of the Participant's death. If no beneficiary has been named by a deceased Participant, any Award held by the Participant at the time of death shall be transferred as provided in his will or by the laws of descent and distribution. Except in the case of the holder's incapacity, an Option may only be exercised**

by the holder thereof.

16. **No Right to Continuous Service.** Nothing contained in the Plan or in any Award under the Plan shall confer upon any Participant any right with respect to the continuation of service with the Company or any of its Subsidiaries, or interfere in any way with the right of the Company or its Subsidiaries to terminate his or her Continuous Service at any time. Nothing contained in the Plan shall confer upon any Participant or other person any claim or right to any Award under the Plan.

17. **Governmental Compliance.** Each Award under the Plan shall be subject to the requirement that if at any time the Committee shall determine that the listing, registration or qualification of any shares issuable or deliverable thereunder upon any securities exchange or under any Federal or state law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition thereof, or in connection therewith, no such grant or award may be exercised or shares issued or delivered unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

18. **Adjustments; Corporate Events.**

- (a) **In the event of any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, reclassification, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, liquidation, dissolution, or sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company, or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or**

other securities of the Company, or other similar corporate transaction or event (an **Event**), and in the Committee's opinion, such event affects the Common Stock such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to an Award, then the Committee shall, in such manner as it may deem equitable, including, without limitation, adjust any or all of the following: (i) the number and kind of shares of Common Stock (or other securities or property) with respect to which Awards may be granted or awarded; (ii) the number and kind of shares of Common Stock (or other securities or property) subject to outstanding Awards; and (iii) the grant or exercise price with respect to any Award. The Committee determination under this Section 18(a) shall be final, binding and conclusive. Any such adjustment made to an Incentive Stock Option shall be made in accordance with Section 424(a) of the Code unless otherwise determined by the Committee in its sole discretion. The Committee's determination under this Section 18(a) shall be final, binding and conclusive.

(b) Upon the occurrence of an Event in which outstanding Awards are not to be assumed or otherwise continued following such an Event, the Committee may, in its discretion, terminate any outstanding Award without a Participant's consent and (i) provide for either the purchase of any such Award for an amount of cash equal to the amount that could have been attained upon the exercise of such Award or realization of the Participant's rights had such Award been currently exercisable or payable or fully vested or the replacement of such Award with other rights or property selected by the Committee in its sole discretion and/or (ii) provide that such Award shall be exercisable (whether or not vested) as to all shares covered thereby for at least thirty (30) days prior to such Event.

(c) The existence of the Plan, the Award agreement and the Awards granted hereunder shall not affect or restrict in any way the right or power of the Company or the shareholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures,

(a) In the event of any dividend or other distribution (whether in the form of cash, Common Stock

preferred or prior preference stocks whose rights are superior to or affect the Common Stock or the rights thereof or which are convertible into or exchangeable for Common Stock, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

19. **Award Agreement.** Each Award under the Plan shall be evidenced by an agreement setting forth the terms and conditions, as determined by the Committee, which shall apply to such Award, in addition to the terms and conditions specified in the Plan.

20. **Amendment.** The Board may amend, suspend or terminate the Plan or any portion thereof at any time, provided that (a) no amendment shall be made without shareholder approval if such approval is necessary to comply with any applicable law, regulation or stock exchange rule and (b) except as provided in Section 18, no amendment shall be made that would adversely affect the rights of a Participant under an Award theretofore granted, without such Participant's written consent.

21. **General Provisions.**

(a) **The Committee may require each Participant purchasing or acquiring shares pursuant to an Award under the Plan to represent to and agree with the Company in writing that such Participant is acquiring the shares for investment and without a view to distribution thereof.**

(b) **All certificates for Common Stock delivered under the Plan pursuant to any Award shall be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed, and any applicable Federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions. If the Committee determines that the issuance of Common Stock hereunder is not in compliance with, or subject to an exemption from, any applicable Federal or state securities laws, such shares shall not be issued until such time as the Committee determines that the issuance is permissible.**

(c) **It is the intent of the Company that the Plan satisfy, and be interpreted in a manner that satisfies, the applicable requirements of Rule 16b-3 as promulgated under Section 16 of the Exchange Act so that Participants will be entitled to the benefit of Rule 16b-3, or any other rule promulgated under**

Section 16 of the Exchange Act, and will not be subject to short-swing liability under Section 16 of the Exchange Act. Accordingly, if the operation of any provision of the Plan would conflict with the intent expressed in this Section 21(c), such provision to the extent possible shall be interpreted and/or deemed amended so as to avoid such conflict.

(d) Except as otherwise provided by the Committee in the applicable grant or Award agreement, a Participant shall have no rights as a shareholder with respect to any shares of Common Stocks subject to an Award until a certificate or certificates evidencing shares of Common Stock shall have been issued to the Participant and, subject to Section 18, no adjustment shall be made for dividends or distributions or other rights in respect of any share for which the record date is prior to the date on which Participant shall become the holder of record thereof.

(e) The law of the State of Delaware shall apply to all Awards and interpretations under the Plan regardless of the effect of such state s conflict of laws principles.

(f) Where the context requires, words in any gender shall include any other gender.

(g) Headings of Sections are inserted for convenience and reference; they do not constitute any part of this Plan.

(c) It is the intent of the Company that the Plan satisfy, and be interpreted in a manner that satisfies

(h) **The Committee shall have the power to accelerate the time at which an Award shall be exercisable or vest notwithstanding the terms of any Award agreement.**

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(i) **No payment pursuant to the Plan shall be taken into account in determining any benefits pursuant to any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Subsidiary except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.**

(j) **The expenses of administering the Plan shall be borne by the Company and its Subsidiaries.**

(k) **No fractional shares of Common Stock shall be issued and the Committee shall determine, in its discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding up or down as appropriate.**

(l) **The Plan is intended to be an unfunded plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Award agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Subsidiary.**

22. **Expiration of the Plan. Subject to earlier termination pursuant to Section 20, no Award may be granted following the 10-year anniversary of the Effective Date and except with respect to outstanding**

Awards, this Plan shall terminate.

23. **Effective Date; Approval of Shareholders.**
The Plan is effective as of the date it is approved by the affirmative vote of the holders of a majority of the securities of the Company present, or represented, and entitled to vote at a meeting of stockholders duly held in accordance with the applicable laws of the State of Delaware (the **Effective Date**)*. If the Plan is approved, no further grants shall be made under the terms of the Company's 2000 Employee Stock Incentive Plan and the 2000 Director Stock Incentive Plan (collectively, the **Prior Plans**) on or after the **Effective Date**; provided, that, any outstanding awards granted thereunder shall remain outstanding in accordance with the terms and conditions of such **Prior Plans** and the award agreements evidencing such awards. Unless the Company determines to submit Section 9 of the Plan and the definition of **Performance Goal** to the Company's stockholders at the first stockholder meeting that occurs in the fifth year following the year in which the Plan was last approved by stockholders (or any earlier meeting designated by the Board), in accordance with the requirements of Section 162(m) of the Code, and such stockholder approval is obtained, then no further performance shares shall be made to **Covered**

Employees under Section 9 after the date of such annual meeting, but the remainder of the Plan shall continue in effect.

*Approved by the stockholders on June 3, 2004

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INNOVO GROUP INC.

PROXY FOR ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD JUNE 9, 2005

THIS PROXY IS BEING SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS.

The undersigned stockholder of Innoovo Group Inc., or the Company, hereby appoints Samuel J. Furrow, Jr., and Marc B. Crossman or either of them, with full power of substitution, as proxies to cast all votes, as designated below, which the undersigned stockholder is entitled to cast at the 2005 annual meeting of stockholders to be held on Thursday, June 9, 2005, at 10:00 a.m. (local time) at the Sofitel Hotel, 8555 Beverly Boulevard, Los Angeles, California, 90048 upon the following matters and any other matter as may properly come before the 2005 annual meeting of stockholders or any adjournments thereof.

1. Election of eight directors to serve on the Board of Directors:

Samuel J. Furrow
Dean Factor
Kent Savage

Samuel J. Furrow, Jr.
Kelly Hoffman
Vincent Sanfilippo

Marc B. Crossman
Suhail R. Rizvi

FOR all the nominees listed above (except as marked to the contrary below).

WITHHOLD AUTHORITY to vote for all the nominees listed above.

(INSTRUCTION: TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE, WRITE THAT NOMINEE'S NAME ON THE SPACE PROVIDED BELOW.)

2. Proposal to approve an amendment to the Fifth Amended and Restated Certificate of Incorporation.

FOR **AGAINST** **ABSTAIN**

23. Effective Date; Approval of Shareholders. The Plan is effective as of the date it is approved.

3. Proposal to approve an amendment to the 2004 Stock Incentive Plan.

FOR **AGAINST** **ABSTAIN**

4. Proposal to ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company for the fiscal year ending November 26, 2005.

FOR **AGAINST** **ABSTAIN**

(continued and to be dated and signed on reverse side.)

(continued from other side)

This proxy, when properly executed, will be voted as directed by the undersigned stockholder and in accordance with the best judgment of the proxies as to other matters. **IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED FOR THE NOMINEES LISTED IN PROPOSAL 1, FOR PROPOSAL 2, FOR PROPOSAL 3 AND FOR PROPOSAL 4 IN ACCORDANCE WITH THE BEST JUDGMENT OF THE PROXIES AS TO OTHER MATTERS.**

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE NOMINEES LISTED IN PROPOSAL 1, FOR PROPOSAL 2, FOR PROPOSAL 3 AND FOR PROPOSAL 4.

The undersigned hereby acknowledges prior receipt of the notice of annual meeting of stockholders and proxy statement dated April , 2005, the Annual Report on Form 10-K and Amendment No. 1 to the Annual Report on Form 10-K for the year ended November 27, 2004 and hereby revokes any proxy or proxies heretofore given. This proxy may be revoked at any time before it is voted by delivering to the Secretary of the Company either a written revocation of proxy or a duly executed proxy bearing a later date, or by appearing at the 2005 annual meeting of stockholders and voting in person.

If you receive more than one proxy card, please sign and return all cards in the accompanying envelope.

Date: _____, 2005.

Signature of Stockholder or Authorized Representative

Please date and sign exactly as name appears hereon. Each executor, administrator, trustee, guardian, attorney-in-fact and other fiduciary should sign and indicate his or her full title. In the case of stock ownership in the name of two or more persons, all persons should sign.

o I PLAN TO ATTEND THE JUNE 9, 2005 ANNUAL MEETING OF STOCKHOLDERS.

PLEASE COMPLETE, DATE AND SIGN THIS PROXY AND RETURN IT PROMPTLY TO ENSURE A QUORUM AT THE MEETING. IT IS IMPORTANT WHETHER YOU OWN FEW OR MANY SHARES. DELAY IN RETURNING YOUR PROXY MAY SUBJECT THE COMPANY TO ADDITIONAL EXPENSE.

