

Edgar Filing: INNOVO GROUP INC - Form DEFR14A

INNOVO GROUP INC  
Form DEFR14A  
April 24, 2003

SCHEDULE R14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange  
Act of 1934

Filed by the Registrant  [X]

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))
- [X] Definitive Proxy Statement
- [ ] Definitive Additional Materials
- [ ] Soliciting Material under Rule 240.14a-12

INNOVO GROUP INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- [X] No fee required.
- [ ] Fee computed on table below per Exchange Act Rules 14a-6(i) (1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

Edgar Filing: INNOVO GROUP INC - Form DEFR14A

(5) Total fee paid:

Fee paid previously with preliminary materials.

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

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

INNOVO GROUP INC.  
5900 S. Eastern Ave., Suite 104  
Commerce, California 90040  
(323) 725-5516

April 24, 2003

Dear Stockholder:

You are cordially invited to attend the Annual Meeting of Stockholders (the "Annual Meeting") of Innoovo Group Inc. (the "Company"), which will be held at The Wyndham Commerce Hotel, 5757 Telegraph Road, Commerce, CA 90040, (near Los Angeles, CA), on Thursday, May 22, 2003. The Annual Meeting will begin promptly at 10:00 a.m. local time.

The accompanying Notice and Proxy Statement, which you are urged to read carefully, provide important information regarding the business to be conducted at the Annual Meeting. In addition to electing seven directors and ratifying the appointment of the independent auditors, stockholders will be asked to consider and vote upon amendments to the Company's 2000 Employee Stock Incentive Plan to increase the number of shares available for issuance and to increase the maximum number of shares of the Company's Common Stock that may be granted to any individual during any calendar year under the 2000 Employee Stock Incentive Plan.

Edgar Filing: INNOVO GROUP INC - Form DEF14A

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

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 bank, broker or other nominee), please review the instructions on the proxy forwarded by your bank, broker 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 the Company and urge you to vote FOR all of the proposals and nominees.

Sincerely,

Samuel J. Furrow  
Chairman

INNOVO GROUP INC.  
5900 S. Eastern Ave., Suite 104  
Commerce, California 90040  
(323) 725-5516

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON THURSDAY, MAY 22, 2003

NOTICE IS HEREBY GIVEN that the 2003 Annual Meeting of Stockholders (the "Annual Meeting") of Innoovo Group Inc. (the "Company") will be held Thursday, May 22, 2003 at 10:00 a.m. (local time) at The Wyndham Commerce Hotel, 5757 Telegraph Road, Commerce, CA 90040, to consider and act upon the following proposals:

1. To elect seven directors to serve on the Board of Directors until the 2004 annual meeting of stockholders and until their respective successors are elected and qualified;

2. To approve amendments to the 2000 Employee Stock Incentive Plan to increase the number of shares of the Company's Common Stock available for issuance under the 2000 Employee Stock Incentive Plan by 2,000,000 shares from 1,000,000 to 3,000,000 shares and increase the maximum number of shares of the Company's Common Stock that may be granted under the 2000 Employee Stock

Edgar Filing: INNOVO GROUP INC - Form DEF14A

Incentive Plan to any individual during any calendar year from 500,000 shares to 1,250,000 shares and;

3. To ratify the appointment of Ernst & Young, LLP as the Company's independent auditors for the fiscal year ending November 30, 2003;

4. To transact such other business as may properly come before the Annual Meeting or any adjournments thereof.

Only stockholders of record of the Company at the close of business on April 17, 2002 are entitled to notice of and to vote at the Annual Meeting or any adjournments thereof. A list of the Company's stockholders entitled to vote at the Annual Meeting will be open to the examination of any stockholder for any purpose germane to the meeting during ordinary business hours for a period of ten days before the Annual Meeting at the Company's offices.

All stockholders are cordially invited to attend the Annual Meeting in person. However, to ensure your representation at the Annual Meeting, you are urged to mark, sign and return the enclosed proxy as promptly as possible in the postage prepaid envelope enclosed for that purpose. Any stockholder attending the Annual Meeting may vote in person even though he or she has returned a proxy.

By Order of the Board of Directors

Samuel J. Furrow  
Chairman  
Los Angeles, CA  
April 24, 2003

IN ORDER TO ENSURE YOUR REPRESENTATION AT THE ANNUAL MEETING, YOU ARE REQUESTED TO COMPLETE, DATE AND SIGN THE ACCOMPANYING PROXY AS PROMPTLY AS POSSIBLE AND RETURN IT IN THE ENCLOSED ENVELOPE. FOR SPECIFIC INSTRUCTIONS ON VOTING, PLEASE REFER TO THE INSTRUCTIONS ON THE PROXY OR THE INFORMATION FORWARDED BY YOUR BROKER, BANK OR OTHER HOLDER OF RECORD. 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.

INNOVO GROUP INC.  
5900 S. Eastern Ave. Suite 104  
Commerce, California 90040

PROXY STATEMENT

ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON  
THURSDAY, MAY 22, 2003

INTRODUCTION

This Proxy Statement and the accompanying Notice of Annual Meeting and Proxy Card are being furnished, on or about April 24,

## Edgar Filing: INNOVO GROUP INC - Form DEF14A

2003, to the stockholders of Innoovo Group Inc. (the "Company") in connection with the solicitation of proxies by the Board of Directors of the Company to be used at the 2003 Annual Meeting of Stockholders of the Company (the "Annual Meeting") to be held on Thursday, May 22, 2003 at 10:00 a.m. (local time) The Wyndham Commerce Hotel, 5757 Telegraph Road, Commerce, CA 90040, and any adjournment thereof. The Company's 2002 Annual Report, which includes its consolidated financial statements and is not part of the proxy solicitation material, is being mailed with this Proxy Statement.

At the Annual Meeting, the holders of the Company's Common Stock (the "Common Stock") will vote upon: (a) the election of seven directors to serve until the Company's 2004 annual meeting of stockholders and until their respective successors are elected and qualified; (b) amendments to the 2000 Employee Stock Incentive Plan to increase the number of shares of Common Stock available for issuance under the 2000 Employee Stock Incentive Plan by 2,000,000 shares from 1,000,000 to 3,000,000 shares and to increase the maximum number of shares of the Company's Common Stock that may be granted under the 2000 Employee Stock Incentive Plan to any individual during any calendar year from 500,000 shares to 1,250,000 shares (the "2000 Employee Stock Incentive Plan Amendments"); (c) the ratification of the appointment of Ernst & Young, LLP as the Company's independent auditors for the fiscal year ending November 30, 2003; and (d) such other matters as may properly come before the Annual Meeting or any adjournment or postponement thereof.

A proxy for use at the Annual Meeting is enclosed. Any stockholder who executes and delivers such proxy has the right to revoke it at any time before it is exercised. The presence of a stockholder at the Annual Meeting will not automatically revoke such stockholder's proxy. Stockholders may, however, revoke a proxy at any time prior to its exercise by filing with the Secretary of the Company a written notice of revocation, by delivering to the Company a duly executed proxy bearing a later date or by attending the Annual Meeting and voting in person.

Subject to such revocation, if the enclosed form of proxy is properly executed and returned to the Company in time to be voted at the Annual Meeting, the shares represented thereby will be voted in accordance with the instructions thereon. If no instruction is specified with respect to a written matter to be acted upon, shares represented by the proxy will be voted: (a) "FOR" election of the Board of Director's seven nominees for director; (b) "FOR" 2000 Employee Stock Plan Amendments; and (c) "FOR" the ratification of the appointment of Ernst & Young LLP as the Company's independent auditors.

If any other matters are properly brought before the Annual Meeting, proxies will be voted in the discretion of the proxy holders. The Company is not aware of any other matters to be presented at its Annual Meeting.

The cost of preparing, assembling, printing and mailing this Proxy Statement and the material used in the Solicitation of Proxies will be borne entirely by the Company. It is contemplated that the proxies will be solicited by mail, but directors, officers and regular employees of the Company may

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

solicit proxies personally, without extra remuneration, by personal interviews, telephone, telegraph or otherwise. The Company will request persons, firms and corporations holding shares in their name or in the names of their nominees, which are beneficially owned by others, to send proxy materials to and obtain proxies from the beneficial owners and will reimburse the holders for their reasonable expenses in doing so.

### VOTING SECURITIES

The securities that may be voted at the Annual Meeting are the Company's shares of Common Stock. Each outstanding share of Common Stock entitles its owner to one vote on each matter as to which a vote is taken at the Annual Meeting. Holders of Common Stock do not have cumulative voting rights. The close of business on April 17, 2003 has been fixed by the Board of Directors as the record date (the "Record Date") for determination of stockholders entitled to notice of and to vote at the Annual Meeting. On the Record Date, approximately 15,129,764 shares of Common Stock will be outstanding and entitled to vote. The presence, in person or by proxy, of the holders of record of at least a majority of the shares of Common Stock issued and outstanding and entitled to vote on the Record Date is necessary to constitute a quorum for the transaction of business at the Annual Meeting.

A plurality of the votes duly cast by holders of Common Stock is required for the election of the directors. That is, the nominees receiving the greatest number of votes will be elected.

Approval of the 2000 Employee Stock Plan Amendments requires the affirmative vote of a majority of the votes duly cast by holders of Common Stock.

Ratification of the appointment of Ernst & Young, LLP as the Company's independent auditors for the fiscal year ending November 30, 2003 requires the affirmative vote of a majority of the votes duly cast by holders of Common Stock.

Unless otherwise required by law or the Company's Certificate of Incorporation or the Company's Amended and Restated Bylaws (the "Bylaws"), any other matter put to a stockholder vote will be decided by the affirmative vote of a majority of the votes duly cast by holders of Common Stock.

Abstentions and broker non-votes will be counted as present for the purpose of determining if a quorum is present. Broker non-votes occur when a nominee holding shares for a beneficial owner does not vote on a particular matter because the nominee does not have discretionary voting power with respect to that matter and has not received instructions from the beneficial owner.

In connection with the election of the director nominees, the approval of the 2000 Employee Stock Plan Amendments, the ratification of the appointment of Ernst & Young, LLP as the Company's independent auditors for the fiscal year ending November 30, 2003 and the adoption of all other proposals that may properly come before the Annual Meeting, abstentions and broker non-votes will not be deemed "votes cast" and accordingly will not have the effect of votes in opposition.

## Edgar Filing: INNOVO GROUP INC - Form DEF14A

### NO APPRAISAL RIGHTS

Under the General Corporation Law of the State of Delaware, stockholders of the Company do not have appraisal rights in connection with any of the proposals upon which a vote is scheduled to be taken at the Annual Meeting.

THE BOARD OF DIRECTORS RECOMMENDS THAT STOCKHOLDERS VOTE FOR APPROVAL OF THE PROPOSALS SET FORTH IN THIS PROXY STATEMENT.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table provides information as of April 22, 2003 concerning beneficial ownership of Common Stock by (1) each person or entity known by the Company to beneficially own more than 5% of the outstanding Common Stock, (2) each Director and nominee for election as a Director of the Company, (3) each Named Executive Officer, and (4) all Directors and executive officers of the Company as a group. The information as to beneficial ownership has been furnished by the respective stockholders, Directors and executive officers of the Company, and, unless otherwise indicated, each of the stockholders has sole voting and investment power with respect to the shares beneficially owned.

Name and Offices	Shares of Common Stock Beneficially Owned (1)	
	Number	Percent
Samuel J. (Sam) Furrow Chairman and Director	3,338,293 (2) (9)	22.06%
Hubert Guez 5804 E. Slauson Avenue Commerce, California 90040	6,337,537 (3)	41.89%
Patricia Anderson President and Director	683,146 (4)	4.52%
Daniel A. (Dan) Page Director	353,251 (5) (9)	2.33%
Samuel J. (Jay) Furrow, Jr. CEO and Director	1,713,158 (6)	11.32%
Marc B. Crossman Chief Financial Officer and Director	158,641 (7) (9)	1.05%

## Edgar Filing: INNOVO GROUP INC - Form DEF14A

John G. Looney, MD Director	158,641 (8) (9)	1.23%
Joseph Mizrachi 7700 Congress Avenue, Ste. 3106 Boca Raton, Florida 33487	2,738,500 (10)	18.10%
Joe Dahan President of Joe's Jeans, Inc.	632,990 (11)	4.18%
Seymour Braun Braun & Goldberg 110 East 59th St, Suite 3201 New York, NY 10022	3,312,500 (12)	21.89%
Suhail Rizvi Director	--	--
All Executive Officers and Directors as a Group (2) (4) (5) (6) (7) (8) (9) (11) (8 persons)	7,182,130	47.47%

---

\* Less than 1%

- (1) Pursuant to the rules of the Securities and Exchange Commission ("SEC"), certain shares of the Company's 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 15,129,764 shares outstanding as of April 22, 2003.

The address for the officers and Directors is the corporate office of the Company located at 5900 S. Eastern Ave., Suite 124 Commerce, California, 90040.

- (2) Includes 10,000 shares subject to currently exercisable options with an exercise price of \$1.00 per share expiring in April 2022 and 750,000 shares subject to exercisable warrants with a 3-year term expiring October 2003 and an exercise price of \$2.10 per share.
- (3) Includes 650,000 shares solely owned by Azteca Productions International, Inc., 23,900 shares owned solely by Hubert Guez, 250,000 shares and currently exercisable warrants aggregating 500,000 shares which have an exercise price of \$2.10 per share and an expiration date of October 29, 2003 and are owned solely by SHD Investments, LLC, of which Mr. Guez's brother is the manager, 1,863,637 shares and currently exercisable warrants aggregating 1,000,000 shares which have an exercise price of \$2.10 per share and an expiration date of October 29, 2003 and currently exercisable warrants aggregating 300,000 shares which



## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

have an exercise price of \$2.10 per share and an expiration date of October 1, 2005 and are owned solely by Commerce Investment Group, LLC, 250,000 shares and currently exercisable warrants aggregating 250,000 shares which have an exercise price of \$2.10 per share and an expiration date of October 29, 2003 and are owned solely by the Griffin James Aron Guez Irrevocable Trust dated September 13, 1996, currently exercisable warrants aggregating 250,000 shares which have an exercise price of \$2.10 per share and an expiration date of October 29, 2003 and are owned solely by the Stephan Avner Felix Guez Irrevocable Trust dated September 13, 1996, currently exercisable warrants aggregating 1,000,000 shares which have an exercise price of \$2.10 per share and an expiration date of October 29, 2003 and are owned solely by Integrated Apparel, LLC. All parties listed herein are members of a "group" for the purposes of Section 13(d) of the Exchange Act and with the exception of the 23,900 shares owned solely by Mr. Guez, Mr. Guez disclaims beneficial ownership of all securities described herein .

- (4) Includes 100,000 shares subject to currently exercisable options with an exercise price of \$2.40 per share and a 5-year term expiring in December 2007 and 300,000 shares subject to exercisable options pursuant to a 400,000 option grant of nonqualified options made in June 2001 with an exercise price of \$1.25 per share and expiring June 5, 2005; also includes 250,000 shares purchased by Ms. Anderson pursuant to the 1997 Stock Purchase Right Award, awarded to her in February 1997. Under the terms of the 1997 Stock Purchase Right Award, Ms. Anderson was permitted to, and elected to, pay for the purchase of the 250,000 shares (the "1997 Award Shares") by the execution of a non-recourse note (the "Note") to the Company for the exercise price of \$2.8125 per share (\$703,125) in the aggregate. The Note was originally due without interest on April 30, 2002, and has been extended to April 30, 2005, and is collateralized by the 1997 Award Shares purchased therewith. Ms. Anderson may pay or prepay (without penalty) all or any part of the Note by (i) the payment of cash, or (ii) the delivery to the Company of other shares of Common Stock (other than the 1997 Award Shares) that Ms. Anderson has owned for a period of at least six months, which shares would be credited against the Note on the basis of the closing bid price for the Common Stock on the date of delivery. The 1997 Award Shares will be forfeited and returned (at the rate of one shares per \$2.8125) to the Company to the extent the Note is not paid on or before its maturity; accordingly, the number of shares owned by Ms. Anderson could decrease in the future.
- (5) Includes 10,000 shares subject to exercisable options at an exercise price of \$1.00 per share and expiring April 2022.
- (6) Includes 100,000 shares subject to currently exercisable options with an exercise price of \$2.40 per share and a 5-year term expiring in December 2007; 150,000 shares subject to exercisable options pursuant to a 200,000 option grant of nonqualified options made in June 2001 with an exercise price of \$1.25 per share and expiring June 5, 2005; 100,000 shares subject to currently exercisable options with an exercise price of \$4.75 expiring in February 2004; 25,000 shares subject to currently exercisable

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

options with an exercise price of \$3.31 per share expiring in July 2003, and 750,000 shares subject to currently exercisable warrants with an exercise price of \$2.10 per share and a 3-year term expiring in October 2003.

- (7) Includes 100,000 shares subject to currently exercisable options with an exercise price of \$4.75 per share and expiring February 2004, 10,000 shares subject to currently exercisable options with an exercise price of \$1.00 per share and expiring April 2022. Excludes 41,666 shares that may be deemed beneficially owned by Mr. Crossman, if Proposal 2 is approved by stockholders. See "Approval to Amend the 2000 Employee Stock Incentive Plan to Increase the Number of Shares Available for Issuance under the 2000 Employee Stock Incentive Plan and to Increase the Maximum Number of Shares of the Company's Common Stock that may be granted to any Individual During any Calendar Year-Marc B. Crossman" for a further discussion of the terms of the option grant to Mr. Crossman.
- (8) Includes 10,000 shares subject to currently exercisable options with an exercise price of \$1.00 per share and expiring in February 2022.
- (9) Includes 25,641 shares subject to exercisable 20-year term options with an exercise price of \$0.39 per share granted under the Company's 2000 Director Stock Incentive Plan in lieu of cash directors' fees. See "Director Compensation and 2000 Director Stock Incentive Plan" below.
- (10) Includes 1,497,500 shares of common stock (includes 10,000 shares of Common Stock owned by the wife of Joseph Mizrachi, Cheryl Mizrachi through CJ Rahm, LP) and includes 1,241,000 warrants to purchase shares of common stock (including 16,000 warrants owned by the wife of Joseph Mizrachi, Cheryl Mizrachi through CJ Rahm, L.P.). This information is based solely upon information set forth in a Schedule 13D filed with the Securities and Exchange Commission, dated November 30, 2000 and may include some shares and warrants owned by Innovation, LLC (see footnote 12 below); currently, it is unclear as to the exact amount in question.
- (11) Includes 500,000 shares as to which Mr. Dahan, President of the Joes Jeans, Inc. subsidiary, shares beneficial ownership and 250,000 shares subject to currently exercisable options with an exercise price of \$1.00 per share and expiring in February 2005.
- (12) Includes 1,500,000 shares of Common Stock subject to currently exercisable warrants with an exercise price of \$2 per share expiring October 31, 2003. Pursuant to a convertible note and pledge agreement dated on or about November 1, 2000 ("Note") whereby Yardworth Mortgage Corp. ("Yardworth") loaned Joseph Mizrachi ("Mizrachi") \$1,500,000, Yardworth had the right to convert the outstanding Note into an 85% membership interest in Innovation, LLC, a Delaware limited liability company ("Innovation"), wholly-owned

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

by Mizrachi. Innovation owns 1,812,500 shares of the Company and 1,500,000 shares of Common Stock subject to currently exercisable warrants with an exercise price of \$2 per share expiring October 31, 2003. Yardworth's 85% membership interest in Innovation equals 1,540,625 shares of the Company and 1,275,000 shares of cCommon Stock subject to currently exercisable warrants to purchase shares of the Company. On February 6, 2003, Yardworth provided written notice to Mizrachi that it was converting the Note into the 85% membership interest in Innovation effective February 21, 2003. Yardworth has the right to vote all shares and warrants owned by Innovation. Seymour Braun ("Braun"), an attorney located at 110 East 59th Street, Suite 3201, New York, NY 10022, is the sole trustee of Praha Trust ("Praha"), a trust organized under the laws of Canada, with an address of 105 Penstraat, Curacao, Netherlands Antilles. Praha is the beneficial owner of Yardworth. Braun, as the sole trustee of Praha Trust, which beneficially owns Yardworth, has the sole power to vote or direct the vote and dispose or direct the disposition of 3,312,500 shares of Common Stock, including 1,500,00 warrants to purchase 1,500,000 shares of Common Stock. This information is based solely upon information set forth in a Schedule 13D filed with the Securities and Exchange Commission, dated March 6, 2003.

### ELECTION OF DIRECTORS (PROPOSAL 1)

The Company's Bylaws provide that the Board of Directors shall consist of not fewer than three Directors, with the exact number of Directors (subject to such minimum and any range of size established by the Company's stockholders) to be determined by resolution of the Board of Directors. The Board of Directors currently consists of seven Directors. At the Annual Meeting, seven Directors will be elected to serve until the 2004 annual meeting of stockholders, which is expected to be held in May 2004. The Board of Directors' nominees for election are set forth below.

Each of the Company's Directors is elected at the annual meeting of stockholders and serves until the next annual meeting and until a successor has been elected and qualified or their earlier death, resignation or removal. Vacancies in the Board of Directors are filled by a majority vote of the remaining members of the Board of Directors.

In connection with investments by Commerce Investment Group, LLC and other investors affiliated with Hubert Guez ("Commerce Group") during August and October 2000, (as discussed in this Proxy Statement under "Certain Related Party Transactions"), the Company agreed that Mr. Guez shall have the right to nominate three individuals for election to the Board. Additionally, one of Mr. Guez's nominees, if elected, shall have the right to serve on the each of the Company's Board committees. Mr. Guez has not nominated any Board member at this time. Joseph Mizrachi,

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

pursuant to investments made in October 2000, has the right to nominate one individual for election to the Board, with this individual having the right to serve on the Company's Board committees upon election. Mr. Mizrachi, at this time, has not nominated a member to the Board.

As a condition to the investment made by the Commerce Group, the Company amended its Bylaws to provide that from November 2, 2000 until November 1, 2003 the number of members of the Board of Directors will be between three and twelve, with the exact number to be designated by the Board of Directors. The investments made by the Commerce Group are further discussed in this Proxy Statement under "Certain Relationships and Related Transactions."

Unless otherwise instructed on the proxy, properly executed proxies will be voted for the election as Directors of all of the nominees set forth below. The 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. Directors will be elected by a plurality vote.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF ITS NOMINEES FOR DIRECTORS.

Information with respect to Nominees for Directors and Executive Officers

The following table and biographical description sets forth certain information regarding the persons nominated for election as Directors of the Company as of March 25, 2003, based upon information furnished to the Company by each Director.

Name	Age	Position with the Company
Samuel J. (Sam) Furrow Sr.	61	Chairman of the Board and Director
Samuel J. (Jay) Furrow, Jr.	29	Chief Executive Officer, Chief Operating Officer and Director
Patricia Anderson	44	President and Director
Marc B. Crossman	31	Chief Financial Officer and Director
Daniel A. (Dan) Page (1) (2)	54	Director
John G. Looney, MD (1) (2)	61	Director
Suhail Rizvi (1) (2)	37	Director

---

(1) Member of the audit committee of the Board of Directors

(2) Member of the executive compensation committee of the Board of Directors

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

Following is information with respect to the business experience for at least the last five years and certain other information regarding each of the nominees for election as a Director.

Samuel J. (Sam) Furrow became a Director in April 1998 and the Company's Chairman and Chief Executive Officer in October 1998. He served as Chief Executive Officer until December, 2000, when Ms. Anderson resumed that position. Mr. Furrow has also been the Chairman of Furrow Auction Company (a real estate and equipment sales company) since April 1968, and previously the Chairman of Furrow-Justice Machinery Corporation (a six-branch industrial and construction equipment dealer) since September 1983 (to whom now Mr. Furrow provides advisory services), owner of Knoxville Motor Company - Mercedes Benz since December 1980 and of Land Rover of Knoxville and Chattanooga since July 1997. Mr. Furrow has been a Director of Southeastern Advertising Inc. (an advertising agency) since April 1968, a Director of First American National Bank since September 1993, and of Goody's Family Clothing, Inc, a publicly traded retail clothing store chain, since 1995. Sam Furrow is Jay Furrow's father.

Samuel J. (Jay) Furrow, Jr. became the Company's Vice President for Corporate Development and In-House Counsel in August 1998 and a Director in January 1999. Mr. Furrow served as President from December 2000 until July 2002, when he became Chief Executive Officer. He has also served as the Company's Chief Operating Officer since April 1999 and its Acting Chief Financial Officer from August 2000 through March 2003. Mr. Furrow is an attorney. Mr. Furrow has a J.D degree from Southern Methodist University School of Law and has a B.S degree from Vanderbilt University. Jay Furrow is Sam Furrow's son.

Patricia Anderson has been a Director of the Company since August 1990, President of the Company from August 1990 through December 2000 and since July 2002, and President of the Company's Innovo, Inc. subsidiary since she founded that company in 1987. From August 1990 until August 1997, Ms. Anderson was also the Chairman and Chief Executive Officer of the Company, and she once again served as Chief Executive Officer from December 2000 through July 2002.

Marc B. Crossman has been a Director since January 1999 and Chief Financial Officer since March 2003. Mr. Crossman has also been a Vice President and Equity Analyst with J.P. Morgan Securities Inc., New York, New York, since January 1999, and was previously a Vice President and Equity Analyst with CIBC Oppenheimer Corp. from September 1997 through January 1999 and an Associate and Equity Analyst with Dain Rauscher Wessels from November 1994 through September 1997. Mr. Crossman has extensive experience in financial analysis and has been involved in corporate finance at many levels. Mr. Crossman has a degree in mathematics from Vanderbilt University.

Daniel A. Page was the chief operating officer of the Company from August 1997 through April 1999 and has been a Director of the Company since August 1997. From June 1993 until August 1997, Mr. Page was the principal operating and executive officer of Southeast Mat Company, a privately held manufacturer

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

of automobile floor mats. Prior thereto Mr. Page was the president of Tennessee Properties Company, a privately held real estate development company.

John G. Looney, MD has been a Director since August 1999. Dr. Looney is a psychiatrist employed by the Duke Medical Center since 1986. Dr. Looney just completed a role as Medical Director of Peninsula Behavioral Health, a multi-hospital psychiatric treatment system in East Tennessee. He was responsible for building the clinical programs of this large enterprise. Dr. Looney is currently working with Carolinas' Medical Center in Charlotte, North Carolina, pursuant to a contract between the Duke Medical Center and Carolinas' Medical Center. Dr. Looney has been a Board of Director member of Covenant Behavioral Health, Knoxville, TN, since 1995. He also participates in a variety of venture capital investments independent of Duke, Carolinas' Medical Center and the Company.

Suhail R. Rizvi has been a Director since March 2003. Since 1995, Mr. Rizvi has been the Chairman and a Director of Electronic Manufacturing Services, Inc., a Puerto Rico based OEM contract manufacturing company. From 1991 to 1995, Mr. Rizvi was the founder and principal in Suntel, Inc., a telecommunications services company that later became part of Access Authority, Inc., a company that provided international long distance resale services to customers in Europe and Asia. From 1986 to 1991, Mr. Rizvi was a financial analyst for MIG Companies, a multi-billion dollar investment management firm and in 1989, became a principal in the firm and headed up the firm's efforts in the real estate and corporate securities area. Mr. Rizvi has also been the Chairman and Director for JN Industries since April 2002, the Chairman and Director of R and C Technology since December 2001 and a Director for Doublespace Holdings since April 1999. Mr. Rizvi has a Bachelor of Science in Economics degree from the Wharton School of the University of Pennsylvania.

### Other Significant Employees

The biographical description of the Company's executive officers is provided above. The Company deems Joe Dahan, the President of Joe's Jeans, Inc., to be a "significant employee" as defined by Item 401 of Regulation S-K of the Securities Act of 1933. Mr. Dahan's biographical information is provided below.

Joe Dahan is the President and head designer of Joe's Jeans, Inc. Mr. Dahan is responsible for the design, development and marketing of Joe's Jeans, Inc.'s products. Prior to his employment with Joe's Jeans, Inc. Mr. Dahan was the head designer for Azteca Production International, Inc., where he was responsible for the design, development and merchandising of product lines developed by Azteca Production International, Inc. Mr. Dahan, prior to his employment with Azteca Production International, Inc., was engaged in the design and development of apparel products for a company of which he was an owner and operator.

### CORPORATE GOVERNANCE AND RELATED MATTERS

#### BOARD OF DIRECTORS AND COMMITTEES

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

### Board of Directors and Meetings of Directors

The Board of Directors manages the Company through Board meetings and through its committees. During 2002, the Board of Directors met five times and acted by unanimous written consent on seven occasions. No incumbent director who served as a director in 2002 attended less than 75% of all the meetings of the Board and the committees on which he or she served during 2002 except for Dan Page, who missed two Board meetings.

### Compensation of Directors

Pursuant to the Company's 2000 Director Stock Incentive Plan (the "2000 Director Plan"), each non-employee director receives annual compensation in the form of options to buy Common Stock with a nominal initial value of \$10,000. Directors who are also employees of the Company receive no additional compensation for their services as directors. Board Members who serve on the Board committees do not receive additional compensation for serving on the Board committees. See "Equity Compensation Plan Information" for further discussion of the 2000 Director Plan.

Prior to the adoption of the 2000 Director Plan, the Company customarily issued options to a new Board member upon joining the Board. The Company currently issues all Board options under the 2000 Director Plan. Mr. Page received a grant of nonqualified stock options to purchase 120,000 shares of Common Stock at an exercise price of \$3.31 per share upon becoming a Director in August 1997. All of such options are vested. Sam Furrow received a grant of nonqualified stock options to purchase 100,000 shares of Common Stock at an exercise price of \$4.75 per share upon becoming a Director in March 1998. These options expired on March 1, 2003. Jay Furrow received a grant of nonqualified stock options to purchase 100,000 shares of Common Stock at an exercise price of \$4.75 per share upon becoming a Director in February 1999. Mr. Crossman received a grant of nonqualified stock options to purchase 100,000 shares of Common Stock at an exercise price of \$4.75 per share upon becoming a Director in February 1999. All of such options are currently vested.

### Committees of the Board of Directors

The Board of Directors has an Audit Committee and an Executive Compensation Committee. The Board does not have a nominating committee. The Board selects director nominees to stand for election at the annual stockholder meetings. The Board will consider stockholder nomination(s), provided such nomination(s) are submitted in writing to the Secretary of the Company no later than December 23, 2003, together with the identity of the nominator and the number shares of the Company's stock owned, directly and indirectly, by the nominator. The Board also requires certain specified information pertaining to the nominee which requirements can be obtained from the Secretary of the Corporation by making a written request to the Company at 5900 S. Eastern Ave, Commerce, CA 90040. The submission of a director nomination by a stockholder does not guarantee that the Board will recommend such director nominee to the stockholder's for election at the annual meeting. No such nominations have been received as of the date hereof in connection with the Annual

Meeting.

The Audit Committee. The Audit Committee is primarily responsible for (i) monitoring the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance, (ii) monitoring the independence and performance of the Company's independent auditors and internal auditing department, and (iii) providing an avenue of communication among the independent auditors, management, the internal auditing department, and the Board of Directors. The Audit Committee has a charter that details its duties and responsibilities, which was adopted by the Board on June 8, 2000. A copy of the charter was filed with the Securities and Exchange Commission in connection with the filing of our proxy statement for our 2000 annual meeting of stockholders. The current members of the Audit Committee are Dr. Looney and Messrs. Page and Rizvi. Mr. Rizvi joined the Executive Compensation Committee by replacing Mr. Crossman as a member in March 2003. Mr. Crossman resigned from the Audit Committee when he was appointed to be the Company's Chief Financial Officer. Currently, all Audit Committee members are "independent" under NASDAQ listing standards. Dan Page was not considered "independent" last year under the guidelines because he had been a Company employee within the prior three years. During fiscal 2002, the Audit Committee met four times. The formal report of the Audit Committee with respect to 2002 begins on page 12 of this Proxy Statement.

Executive Compensation Committee. The Executive Compensation Committee reviews and recommends the compensation arrangements for management of the Company. The current members of the Executive Compensation Committee are Dr. Looney and Messrs. Page and Rizvi. Mr. Rizvi joined the Executive Compensation Committee by replacing Mr. Crossman as a member in March 2003. The Executive Compensation Committee administers the Company's 2000 Employee Stock Incentive Plan. In carrying out such responsibilities, the Executive Compensation Committee reviews the salaries, benefits, performance, and other incentive bonuses of key employees as well as the general terms and conditions of the other benefit plans. During fiscal 2002, the Executive Compensation Committee met one time. Executive officers of the Company are elected on an annual basis and serve at the discretion of the Board of Directors. The formal report of the Executive Compensation Committee with respect to 2002 executive compensation begins on page 13 of this Proxy Statement.

#### REPORT OF THE AUDIT COMMITTEE

In accordance with the written charter of the Audit Committee, which was approved by the Board of Directors on June 8, 2000, the Audit Committee assists the Board in oversight of the quality and integrity of the accounting, auditing, and financial reporting practices of the Company. In addition, the Audit Committee recommends to the full board the selection of the independent auditors.

The Audit Committee consists of three directors who are "Independent" for purposes of the NASDAQ listing standards.



## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

In performing its oversight function, the Audit Committee reviewed and discussed the audited consolidated financial statements of the Company as of and for the year ended November 30, 2002 with management and the Company's independent auditors. The Audit Committee also discussed with the Company's 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 the Company 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 its 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 the Company's audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2002 for filing with the Securities and Exchange Commission.

The Audit Committee:

JOHN G. LOONEY, MD  
Daniel A. Page  
Suhail R. Rizvi

### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 2002, the Executive Compensation Committee of the Board of Directors was comprised of John G. Looney, MD, Daniel A. Page and Marc B. Crossman. Mr. Crossman resigned from this Committee when he was appointed to be the Company's Chief Financial Officer. Mr. Suhail R. Rizvi replaced Mr. Crossman on the Executive Compensation Committee.

During 2002, no executive officer of the Company served on the board of directors or compensation committee of any other entity that had one or more executive officers serving as a member of the Board or Executive Compensation Committee of the Company.

### REPORT OF THE EXECUTIVE COMPENSATION COMMITTEE

As the Company's business grows, the Executive Compensation Committee expects to work closely with management to design an executive compensation program to assist the Company 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

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

elements: (i) providing compensation opportunities that are competitive with competing companies of similar size; and (ii) linking executives' compensation with the Company's or a division's financial performance by rewarding the achievement of short-term and long-term objectives of the Company.

The three principal components of the executive compensation program are expected to include annual base salary, short-term incentive compensation in the form of performance bonuses payable in cash each year, and long-term incentive compensation in the form of stock options. The Company has not previously needed to attract additional executive management through its compensation arrangement, but expects have such requirements in the near future. Executive officers of the Company are elected on an annual basis and serve at the discretion of the Board of Directors.

Mr. Jay Furrow became Chief Executive Officer in July 2002, succeeding Ms. Patricia Anderson, who currently serves as the Company's President. Prior to December 2002, the annual base salary for both Mr. Furrow and Ms. Anderson was \$150,000 and \$200,000 respectively. As of December 2002, the annual compensation for both Mr. Furrow and Ms. Anderson was increased to \$275,000 in base salary in addition to each receiving, in December 2002, a stock option grant of 100,000 of Common Stock with an exercise price of \$2.40 per share expiring in December 2007. Up to 1,000,000 shares of Common Stock, subject to adjustment as provided in the 2000 Employee Plan, may be issued under the 2000 Employee Plan.

During fiscal 2002, the Executive Compensation Committee met during the Company's Board meeting held on November 27, 2002 at which time the Executive Compensation Committee voted in favor of granting the Company's Chief Executive Officer, Samuel J. Furrow, Jr. and the Company's President, Patricia Anderson each a raise to an annual salary of \$275,000 and 100,000 options priced at \$2.40. Such compensation was approved by the Executive Compensation Committee and ratified by the full Board of Directors and was based on individual performance and analysis of compensation for the positions at comparative companies.

Neither Ms. Anderson nor Mr. Furrow have employment agreements with the Company.

The SEC requires that this report comment upon the Company's policy with respect to Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Tax Code"), which limits the deductibility of the Company's tax return of nonperformance-based compensation in excess of \$1 million paid to any Named Executive Officers. The Executive Compensation Committee is monitoring the effects of the Company's compensation programs with respect to Section 162(m) of the Tax Code. To date, the Company has not suffered a loss of compensation deduction as a result of the \$1,000,000 limitation. The Executive Compensation Committee reserves the right to design programs that recognize a full range of performance criteria critical to the Company's success, even where the compensation paid under such programs may not be deductible.

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

The Executive Compensation Committee:

John G. Looney, MD  
 Daniel A. Page  
 Suhail R. Rizvi

The foregoing report of the Compensation Committee shall not be deemed incorporated by reference by any general statement incorporating by reference the Proxy Statement into any filing under the Securities Act of 1933, as amended, or the Exchange Act, and shall not otherwise be deemed filed under such Acts.

### Executive Compensation and Other Information

Summary Compensation Table. The following table sets forth the compensation paid to the Chief Executive Officer of the Company during fiscal 2002 and to the other executive officer of the Company who received annual compensation in excess of \$100,000 during fiscal 2002 (the "Named Executive Officers") during fiscal years 2002, 2001 and 2000.

Summary Compensation Table

Name and Principal Position -----	Annual Compensation(1)			Long-term Other Annual Compensation(2)	Compensation Options/ SARs(3) ----
	Year	Salary	Bonus		
Samuel J. Furrow, Jr. CEO and COO	2002	\$160,000	--	--	--
	2001	143,000	--	--	150,000
	2000	100,000	--	--	--
Patricia Anderson President	2002	\$206,000	--	--	--
	2001	200,000	--	--	300,000
	2000	195,000	--	--	--
Joe Dahan President, Joe's Jeans, Inc.	2002	\$100,000	--	--	--
	2001	61,538	--	--	250,000
	2000	--	--	--	--

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

(2) Does not include any royalties payable to Mr. Dahan by the Company for the acquisition of the licensing rights to the JD logo and Joe's Jeans trademark for all apparel and accessory products from JD Design, LLC, a company owned by Dahan.

(3) A stock option grant for 100,000 shares of Common Stock with an exercise price of \$2.40 per share expiring in December 2007 was granted to each of Mr. Furrow and Ms. Anderson in December 2002.

### Employment Contracts, Termination of Employment and Change in Control

The Company has entered into no employment or severance agreements other than an employment agreement with Joe Dahan

Edgar Filing: INNOVO GROUP INC - Form DEFR14A

in fiscal 2002. The employment agreement with Mr. Dahan, the President of the Company's Joe's Jeans, Inc. subsidiary, stipulates that Mr. Dahan shall receive an annual salary of \$100,000. Mr. Dahan's employment agreement can be terminated by either party by giving 60 days written notice prior to the anniversary date of the agreement acknowledging either parties desire to terminate the agreement.

The Company is in the process of finalizing a written employment agreement with Marc B. Crossman which will be effective as of March 25, 2003 the date Mr. Crossman became the Company's Chief Financial Officer. The written employment agreement shall be for a term of 2 years with an annual salary of \$275,000 and shall only be terminable for cause. The employment agreement shall provide that in the event of a change of control Mr. Crossman shall be entitled to be paid in full on the date of a change of control his remaining guaranteed salary under the employment agreement and all of Mr. Crossman's options to acquire shares of the Company's Common Stock, to the extent not then exercisable, will become immediately exercisable. The Executive Compensation Committee has granted Mr. Crossman an option to acquire 1,000,000 shares of the Company's Common Stock, subject to approval of Proposal 2. See "Approval to Amend the 2000 Employee Stock Incentive Plan to Increase the Number of Shares Available for Issuance under the 2000 Employee Stock Incentive Plan and to Increase the Maximum Number of Shares of the Company's Common Stock that may be granted to any Individual During any Calendar Year-Marc B. Crossman" for a further discussion of the terms of the option grant to Mr. Crossman.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information about the Common Stock that may be issued upon the exercise of options, warrants and rights under all of the Company's compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance, which includes the Company's 2000 Employee Stock Incentive Plan (the "2000 Employee Plan") and 2000 Director Plan. The table does not include the aggregate of 200,000 shares of Common Stock issued to each of the Company's Chief Executive Officer and President in December 2002; such shares are subject to approval and ratification of the option grants by the shareholders pursuant to Proposal 2 below.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plan (excluding securities reflected in Column (a))
-----	-----	-----	-----
	(a)	(b)	(c)

Equity compensation plans(1)  
approved by security holders:

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

2000 Employee Plan	930,000	\$1.42	70,000
2000 Director Plan	142,564	\$0.67	357,436

Equity compensation plans not approved by security holders:

Samuel (Jay) Furrow(2)	25,000	\$3.31	0
	100,000	\$4.75	0
Marc B. Crossman(3)	100,000	\$4.75	0
Total	1,297,564		427,436

(1) See "2000 Employee Stock Incentive Plan" and "2000 Director Stock Incentive Plan" described below.

(2) Include are 25,000 shares subject to currently exercisable options with an exercise price of \$3.31 per share expiring in July 2003 granted to Mr. Furrow in connection with his initial employment by the Company. Also includes 100,000 shares subject to currently exercisable options with an exercise price of \$4.75 per share expiring in February 2004 granted to Mr. Furrow in connection with becoming a member of the Board.

(3) 100,000 shares subject to currently exercisable options with an exercise price of \$4.75 expiring in February 2004.

### STOCK PLANS

#### 2000 Employee Plan

See "Proposal 2 - Proposal to Amend the 2000 Employee Stock Incentive Plan to Increase the Number of Shares Available under the 2000 Stock Employee Incentive Plan" for a summary description of the 2000 Employee Plan.

#### 2000 Director Plan

The purpose of the 2000 Director Plan is to permit the granting of stock options to Directors of the Company who are not employees of the Company at an exercise price less than market value at the date of grant in lieu of paying Directors' fees in cash, thereby advancing the interests of the Company by encouraging and enabling the acquisition of its common stock by Directors whose judgment and ability are relied upon by the Company for the attainment of its long-term growth and development. Accordingly the 2000 Director Plan is intended to promote a close identity of interest among the Company, the Directors, and its stockholders, as well as to provide a means to attract and attain well-qualified Directors. The 2000 Director Plan was adopted by the Company's Board of Directors on September 13, 2000 and approved by stockholders at the 2000 annual shareholder's meeting.

There are authorized for issuance or delivery upon the exercise of options to be granted from time to time under the 2000 Director Plan an aggregate of 500,000 shares, subject to adjustment as provided in the 2000 Director Plan. As of March 25, 2002, 142,564 shares have been issued under the 2000 Director Plan. The 2000 Director Plan is administered by

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

the Executive Compensation Committee, which shall consist of not less than two Directors appointed by the Board.

The 2000 Director Plan provides for the automatic grant of options to directors of the Company and its affiliates and subsidiaries (an "Affiliate") in place of director's fee payable in cash. Each non-management member of the Board of Directors receives annual compensation in the form of options to buy Common Stock with a nominal initial value of \$10,000. Board Members currently do not receive additional compensation for serving on the Company's Board committees.

Each option has an exercise price equal to one-half of the market price on the date of grant, and covers a number of shares equal to \$10,000 divided the exercise price per share. The market price is determined as of the close of business on the day of the Company's Board meeting immediately following the Company's annual shareholder meeting. The 2000 Director Plan will continue in effect until September 2010, unless terminated earlier. Options granted under the 2000 Director Plan are nonqualified stock options.

During 2002, the non-employee directors received exercisable 20-year term options to purchase 10,000 shares with an exercise price of \$1.00 per share under the Company's 2000 Director Plan in lieu of cash directors' fees.

### Aggregated Option/SAR Exercised in 2002 and Year-end Option/SAR 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 30, 2002. In addition, the table sets forth the number of shares covered by unexercised stock options held by the Named Executive Officers as November 30, 2002, 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 30, 2002.

Name	Shares Acquired on Exercise	Value Realized	Number of Unexercised Options/SARs at FY-End (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options/SARs (\$) Exercisable/ Unexercisable
----	-----	-----	-----	-----
Samuel J. Furrow Jr.	0	0	275,000/0	\$202,500 (1) (2) (3)
Pat Anderson	0	0	300,000/0	\$405,000 (1) (2)
Joe Dahan	0	0	250,000/0	\$400,000 (1)

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

(1) Based on a closing price per share of \$2.60 for the Common Stock on November 30, 2002, as reported by the Nasdaq Small Cap Market.

(2) Does not include a stock option grant of 100,000 shares of Common Stock with an exercise price of \$2.40 per share expiring in December 2007 which was granted to each of Furrow and Anderson-Lasko in December 2002.

(3) Does not include warrants for the purchase of up to 750,000 shares with an exercise price of \$2.10 per share and expiration of October 2003 which were acquired by Furrow in a debt assumption transaction in October 2000 and is unrelated to compensation.

### Stock Performance Graph

The following graph compares the cumulative total stockholder return of the Company, the NASDAQ Stock Market (U.S. companies) Index (the "Nasdaq Market Index") and the NASDAQ Non-Financial Stocks Index. Measurement points are the last trading day of each of the Company's fiscal years ended November 30, 1997, November 30, 1998, November 30, 1999, November 30, 2000, December 1, 2001 and November 30, 2002. The graph assumes that \$100 was invested on November 30, 1997 in the Common Stock of the Company, the Nasdaq Market Index and the Nasdaq Non-Financial Stocks Index and assumes reinvestment of any dividends. The stock price performance on the following graph is not necessary indicative of future stock price performance.

INNOVO GROUP, INC.  
COMPARISON OF CUMULATIVE TOTAL RETURN  
TO NASDAQ MARKET INDEX AND  
NASDAQ NON-FINANCIAL INDEX  
(PERFORMANCE GRAPH)

	1997	1998	1999	2000	2001	2002
	----	----	----	----	----	----
Innovo Group Inc.	\$100	\$ 21.91	\$ 24.29	\$ 12.39	\$ 29.86	\$ 39.60
NASDAQ Stock Market (US)	\$100	\$122.59	\$210.61	\$163.33	\$121.68	\$ 93.92
NASDAQ Non-Financial Stocks	\$100	\$124.42	\$224.33	\$172.06	\$122.73	\$ 90.68

### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company has adopted a policy requiring that any material transactions between the Company and persons or entities affiliated with officers, directors or principal stockholders of the Company be on terms no less favorable to the Company than reasonably could have been obtained in arms' length transactions with independent third parties. Related party transactions are approved by a majority of the disinterested directors.

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

### Anderson Stock Purchase Agreement

Pursuant to a Stock Purchase Right Award granted in February 1997, the Company's president purchased 250,000 shares of common stock (the Award Shares) with payment made by the execution of a non-recourse note (the Note) for the exercise price of \$2.81 per share (\$703,125 in the aggregate). The Note was due, without interest, on April 30, 2002, and was collateralized by the 1997 Award Shares. The Note may be paid or prepaid (without penalty) by (i) cash, or (ii) the delivery of the Company's common stock (other than the Award Shares) held for a period of at least six months, which shares would be credited against the Note on the basis of the closing bid price for the Common Stock on the date of delivery.

On July 18, 2002, the Board of Directors voted in favor of extending the term of Note until April 30, 2005. The remaining provisions of the Note remained the same. At November 30, 2002, \$703,000 remains outstanding under this promissory note.

### Purchases of Goods and Services

During fiscal 2000, the Company restructured its operations to focus on its core product categories with the highest volume and profit margin. The Company also raised additional working capital and converted certain indebtedness to equity. The restructuring was undertaken as a condition to the equity investment by the Commerce Group, a strategic investment partner, and resulted in Commerce and its affiliates becoming an affiliate of the Company. In an effort to reduce product costs and increase gross profit, the Company shifted manufacturing to third-party foreign manufacturers and outsourced certain distribution functions to the Commerce Group to increase the effectiveness of the distribution network and reduce freight costs. In September 2000, the Company completed the closure of its Knoxville, Tennessee, manufacturing and distribution operations and realigned these functions in accordance with terms under certain supply and distribution agreements with Commerce Group.

These agreements provide for Commerce Group or its designated affiliates to manufacture and supply specified craft products to the Company at agreed upon prices. In addition, Commerce Group provides distribution services to the Company for its craft products for an agreed upon fee, including warehousing, shipping and receiving, storage, order processing, billing, customer service, information systems, maintenance of inventory records, and all direct labor and management services. These agreements, which expired in 2002, were renewed for a two-year term ending 2004 and are renewable thereafter for consecutive two-year terms unless terminated by either party with 90 days notice. Purchases of craft goods and distribution services during the initial term were subject to a minimum of \$3,000,000, which the Company purchased from Commerce Group during the first term of the agreement. No minimum obligation is required for the renewal periods.

As required under the terms of the Commerce Group investment, the Company's Innoovo subsidiary purchased its craft goods and distribution and operational services from Commerce Group in fiscal 2002, 2001 and 2000. The services purchased included but were not limited to accounts receivable collections, certain general accounting functions, inventory management and



## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

distribution logistics. The following schedule represents Innovo's purchases from Commerce Group during fiscal 2002, 2001 and 2000 (in thousands):

		Innovo		
		2002	2001	2000
Goods		\$3,317	\$2,320	\$3,108
Distribution Services		644	362	196
Operational Services		203	112	--
		-----	-----	-----
Total		\$4,164	\$2,794	\$3,304
		-----	-----	-----
		-----	-----	-----

During fiscal 2002 and fiscal 2001, Joe's and IAA purchased goods and services from Commerce Group. Joe's and IAA did not purchase goods or services from Commerce Group in 2000. The purchases were made based on Joe's and IAA's needs during the period and were not made pursuant to contractual obligations. The distribution expenses are reflected in the cost of goods sold in the Company's financial statements. The following schedule represents Joe's and IAA's purchases from Commerce Group (in thousands):

		Joe's		IAA	
		2002	2001	2002	2001
Goods		\$6,102	\$1,102	\$6,171	\$1,794
Distribution Services		107	20	--	--
		-----	-----	-----	-----
Total		\$6,209	\$1,122	\$6,171	\$1,794
		-----	-----	-----	-----
		-----	-----	-----	-----

Additionally, the Company is charged an allocation expense from Commerce Group for expenses associated with the Company occupying space in Commerce Group's Commerce Group, California facility and the use of general business machines and communication services. These expenses totaled approximately \$25,000 for fiscal 2002 and fiscal 2001.

The Company from time to time will advance or loan funds to Commerce Group for use in the production process of the Company's goods or for other expenses associated with the Company's operations. The Company believes that all the transactions conducted between the Company and Commerce Group were completed on terms that were competitive and at market rates.

As part of the Commerce Group transaction completed in 2000, Mr. Hubert Guez, a principal of the Commerce Group, was given the right to nominate three directors to the Company's Board of Directors. Additionally, if elected, one of Mr. Guez's nominees shall have the right to serve on each of the Company's Board committees.

JD Design, LLC

Pursuant to the license agreement entered into with JD Design, LLC under which the Company obtained the licensing rights to Joe's Jeans, Joe's Jeans, Inc. is obligated to pay a 3%

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

royalty on the net sales of all products bearing the Joe's Jeans or JD trademark or logo. Joe Dahan, the President of the Company's Joe's Jeans, Inc. subsidiary, is a principal of JD Design, LLC. For fiscal 2002 and 2001, this amount totaled \$277,000 and \$46,000, respectively.

Azteca Production International, Inc.

In the third quarter of fiscal 2001, the Company acquired Azteca Productions International, Inc.'s Knit Division and formed the subsidiary Innovo-Azteca Apparel, Inc. Azteca Production International, Inc. is an affiliate of the Commerce Group and Mr. Hubert Guez. Pursuant to equity transactions completed in 2000, Azteca Production International, Inc. and its principals, including Mr. Hubert Guez, became affiliates of the Company. The Company purchased the Division's customer list, the right to manufacture and market all of the Knit Division's current products and entered into certain non-compete and non-solicitation agreements and other intangible assets associated with the Knit Division. As consideration, the Company issued to Azteca, 700,000 shares of Company's Common Stock valued at \$1.27 per share based upon the closing price of the common stock on August 24, 2001, and promissory notes in the amount of \$3.6 million. Included in due to related parties is \$2,250,000 at November 30, 2002 relating to amounts due to Commerce Group for goods and services described above.

### Facility Lease Arrangements

The Company currently leases its Knoxville, TN office and storage space from a company owned by Sam Furrow, the Company's Chairman. The office space is approximately 5,000 square feet consisting of the first floor of a two-story building located in downtown Knoxville, Tennessee, with a monthly rental of \$3,500 triple net. The storage space is used by the Company to store its documents and is currently rented on a month-to-month basis for \$450 per month.

### Crossman Loan to the Company

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

### Joseph Mizrachi and Yardworth Mortgage Corp. Transactions

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

Pursuant to a convertible note and pledge agreement dated on or about November 1, 2000 ("Note") whereby Yardworth Mortgage Corp. ("Yardworth") loaned Joseph Mizrachi ("Mizrachi") \$1,500,000, Yardworth had the right to convert the outstanding Note into an 85% membership interest in Innovation, LLC, a Delaware limited liability company ("Innovation"), wholly-owned by Mizrachi. Innovation owns 1,812,500 shares of the Company and 1,500,000 shares of Common Stock subject to currently exercisable warrants with an exercise price of \$2 per share expiring October 31, 2003. Yardworth's 85% membership interest in Innovation equals 1,540,625 shares of the Company and 1,275,000 shares of common stock subject to currently exercisable warrants to purchase shares of the Company. On February 6, 2003, Yardworth provided written notice to Mizrachi that it was converting the Note into the 85% membership interest in Innovation effective February 21, 2003. Yardworth has the right to vote all shares and warrants owned by Innovation. Seymour Braun, an attorney located at 110 East 59th Street, Suite 3201, New York, NY 10022, is the sole trustee of Praha Trust ("Praha"), a trust organized under the laws of Canada, with an address of 105 Penstraat, Curacao, Netherlands Antilles. Praha is the beneficial owner of Yardworth. This information is based solely upon information set forth in a Schedule 13D filed with the Securities and Exchange Commission, dated March 6, 2003.

Pursuant to an investment with Mizrachi and his affiliates, in October 2000, the Company granted Mizrachi the right to nominate an individual to serve on the Company's Board of Directors, and if elected, the nominated Director shall have the right to serve on each of the Company's Board committees.

### Section 16 Beneficial Ownership Reporting Compliance

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

Based solely on a review of copies of such forms furnished to the Company and certain of the Company's internal records, or upon written representations that no Form 5s were required, the Company believes that during the year ended December 31, 2001, all Section 16(a) filing requirements applicable to its directors, officers and greater than ten percent beneficial owners were satisfied on a timely basis except that Mr. Guez inadvertently failed to timely file a Form 4 reporting the acquisition of 500 shares in December 2001, the acquisition of 2,100 shares in January 2002 and the acquisition of 1,300 shares in February 2002.

APPROVAL TO AMEND THE 2000 EMPLOYEE STOCK INCENTIVE PLAN TO INCREASE THE NUMBER OF SHARES AVAILABLE FOR ISSUANCE UNDER THE 2000 EMPLOYEE STOCK INCENTIVE PLAN AND TO INCREASE THE MAXIMUM NUMBER OF SHARES OF THE COMPANY'S COMMON STOCK THAT MAY BE

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

GRANTED TO ANY INDIVIDUAL DURING ANY CALENDAR YEAR

(PROPOSAL 2)

### General

The Board of Directors has unanimously adopted a resolution approving, declaring and recommending to the holders of Common Stock for their approval, amendments to the 2000 Employee Stock Incentive Plan to increase the number of shares of Common Stock available for issuance under the 2000 Employee Stock Incentive Plan from 1,000,000 to 3,000,000 shares and to increase the maximum number of shares of the Company's Common Stock that may be granted under the 2000 Employee Stock Incentive Plan to any individual during any calendar year from 500,000 shares to 1,250,000 shares (the "Amended 2000 Employee Stock Plan"). As of March 25, 2003, 930,000 shares were subject to issuance under options and 70,000 shares of Common Stock are available for the grant of options under the 2000 Employee Stock Incentive Plan. The Board believes that the 2000 Employee Stock Plan Amendments are important in order to attract, retain and reward valuable personnel. The principal provisions of the 2000 Employee Stock Incentive Plan, as amended, are summarized below. This summary does not purport to be a complete and is qualified in its entirety by reference to the provisions of the 2000 Employee Stock Incentive Plan, a copy of which may be obtained by written request from the Secretary of the Company. Capitalized term used but not defined in this proxy statement shall have the meanings set forth in the 2000 Employee Stock Incentive Plan.

### Purpose

The purpose of the Amended 2000 Employee Stock Plan is to: (a) provide incentive to officers and key employees of the Company and its Affiliates to stimulate their efforts toward the continued success of the Company and to operate and manage the business in a manner that will provide for the long-term growth and profitability of the Company; (b) encourage stock ownership by officers and key employees by providing them with a means to acquire a proprietary interest in the Company, acquire shares of stock, or to receive compensation which is based upon appreciation in the value of stock; and (c) provide a means of obtaining, rewarding and retaining key personnel and consultants.

### Administration

The Amended 2000 Employee Plan will be administered by a committee appointed by the Board of Directors of the Company. The Board of Directors has appointed the Executive Compensation Committee of the Board of Directors to administer the Amended 2000 Employee Stock Plan (the "Plan Committee"). The Plan Committee has exclusive authority to grant stock options, interpret the Amended 2000 Employee Stock Plan and otherwise administer the Amended 2000 Employee Stock Plan.

### Eligibility

Stock incentives may be granted only to officers, key employees and consultants of the Company, or any affiliates of the Company; provided, however, that an incentive stock option

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

may only be granted to an employee of the Company or any subsidiary corporation of the Company within the meaning of Section 424(f) of the Internal Revenue Code of 1986, as amended (the "Code"). The Plan Committee selects grantees and determines the number of shares to be subject to each award, taking into account the duties and responsibilities of the grantee, the value of the grantee's services, the grantee's present and potential contribution to the success of the Company and other relevant factors.

### Shares Available for Issuance and Limits

Subject to adjustment, under the Amended 2000 Employee Plan, 3,000,000 shares of Common Stock will be available for the grant of options, all of which may be granted as incentive stock options. For purposes of this limit, any Common Stock subject to a stock incentive that is forfeited, cancelled, expires or otherwise not settled in full will again be available for award under the Amended 2000 Employee Stock Plan. This is an increase from the share limit of 1,000,000 shares of Common Stock that is currently available under the 2000 Employee Stock Plan.

The maximum number of shares of Common Stock with respect to which options may be granted to any individual during any calendar year is 1,250,000. Under the Code, the aggregate market value of stock with respect to which incentive stock options become exercisable for the first time under all plans of the Company by an individual during any calendar year may not exceed \$100,000. This is an increase from the individual share limit of 500,000 shares of Common Stock that is currently available under the 2000 Employee Stock Plan.

The market value of the Company's Common Stock as reported on NASDAQ as of April 22, 2003 was \$2.72 per share.

### Type of Awards

Incentive stock options and nonqualified stock options may be granted under the 2000 Employee Plan. In addition, the Plan Committee may award cash bonuses to participants to pay all or a portion of any federal, state or local taxes imposed upon such participant as a consequence of the grant and/or exercise of a stock incentive. All awards shall be evidenced by an agreement between the Company and the participant.

### Terms of Options

**Vesting and Exercise.** Upon grant, the Plan Committee determines when options may become vested and exercisable.

**Exercise Price.** The exercise price of any option is determined by the Plan Committee upon grant and may not be less than 100% of fair market value of the Common Stock on the date that it is granted. No options granted under the Plan may be directly or indirectly repriced.

**Method of Exercise.** Options may be exercised, in whole or in part, by written notice to the Company, specifying the number of shares to be purchased together with payment in full of the

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

exercise price. The exercise price may be paid in such form as the Plan Committee shall determine, including: (i) cash, (ii) surrender of Common Stock held by the optionee for at least six (6) months if so permitted by the Plan Committee, (iii) through a broker-assisted same-day sale or cashless share withholding program, (iv) through additional methods prescribed by the Committee, or (v) by any combination of the foregoing, to the extent permitted by applicable law.

**Termination of Employment.** Each option agreement entered into upon the grant shall specify what happens to such option upon a termination of employment. In general, incentive stock options exercise after three (3) months following termination of employment (one-year in the event of disability and no-limit in the event of death) shall lose their characteristic as incentive stock options and shall become nonqualified stock options.

**Term of Options.** Options granted under the Amended 2000 Employee Plan will have the term provided in the option agreement except that an incentive stock option will have a term of no more than ten years from the date of grant, or five years if an optionee owns stock representing more than 10% of the combined voting power of all classes of stock of the Company or any parent or subsidiary.

**Options Not Transferable.** In general, options may not be transferred except by will or the laws of descent and distribution.

**Change in Control.** The Plan Committee retains the right to accelerate vesting of any option upon the occurrence of certain events, including, without limitation, a change in control.

**Adjustments.** In the event of certain corporate events, including, without limitation, a merger, consolidation, reorganization, tender offer, change in capitalization, stock split or stock dividend then the Plan Committee may make adjustments to outstanding awards and the number of shares available under the 2000 Employee Plan to account for any such event.

**Amendment and Termination.** Subject to earlier termination pursuant to the terms of the Amended 2000 Employee Stock Plan, the Amended 2000 Employee Stock Plan shall have an indefinite term; provided that, the ability to grant incentive stock options will terminate on March 12, 2010. The Board may amend, suspend or terminate the Amended 2000 Employee Stock Plan at any time; provided that, (a) no such amendment shall be made without shareholder approval if such approval is necessary to comply with applicable law, regulation or stock exchange rule and (b) except as provided in the Amended 2000 Employee Stock Plan, no amendment shall be made that would adversely affect rights previously granted under the Amended 2000 Employee Stock Plan.

### General Federal Tax Consequences

The following is a brief summary of the U.S. federal income treatment that will generally apply to options granted under the Amended 2000 Employee Stock Plan based on federal income tax laws in effect as of this date. This summary is not intended to be exhaustive and optionees should consult their own tax advisors concerning tax implications of option grants and exercises and the disposition of stock acquired upon such exercise. This summary is not intended to

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

be tax advice.

Section 162(m) Limitation. Subject to a limited number of exceptions, Section 162(m) 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 plan is approved by the stockholders of the Company, grants are made by a valid compensation committee comprised solely of 2 or more "outside directors", 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.

The Company has attempted to structure the plan in such a manner that the remuneration attributable to the stock options will not be subject to the \$1,000,000 limitation. The Company has 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, the Company is entitled to deduct from its 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 generally not 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. The Company is 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, the Company should be entitled to a tax deduction equal to the amount treated as taxable compensation to the participant.

The exercise of an incentive stock option may subject the optionee to alternative minimum tax. Alternative minimum tax will be due if the tax determined under a prescribed formula exceeds the regular tax of the taxpayer for the year. In computing alternative minimum taxable income, shares purchased upon exercise of an incentive stock option

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

are treated as if they had been acquired by the optionee pursuant to exercise of a nonqualified stock option. As a result, the optionee recognizes alternative minimum taxable income equal to the excess of the fair market value of the shares on the date of exercise over the option's exercise price. If an optionee pays alternative minimum tax, the amount of such tax may be carried forward as a credit against any subsequent year's regular tax in excess of the alternative minimum tax for such year.

### Registration with SEC

If this Proposal 2 is adopted, the Company intends to file a registration statement covering the offering of the shares under the Amended 2000 Employee Stock Plan with the SEC pursuant to the Securities Act of 1933, as amended.

Marc B. Crossman (1)

Assuming Proposal 2 is approved, the Plan Committee has determined that, in connection with the Company's hiring Mr. Crossman as the Company's Chief Financial Officer on March 25, 2003, Mr. Crossman will receive a ten (10) year option to purchase 1,000,000 shares of the Company's Common Stock with an exercise price per share equal to the greater of (1) \$2.86 and (2) 100% of the fair market value per share of one share of the Company's Common Stock on the date Proposal 2 is approved by the Company's stockholders. Assuming Proposal 2 is approved, these options shall vest in 24 nearly equal monthly installments commencing on April 25, 2003 until the option is 100% vested; provided, that Mr. Crossman continues to serve as Chief Financial Officer of or another senior executive position at the Company on each vesting date.

The granting of these options was material to the inducement of Mr. Crossman accepting the position of Chief Financial Officer. The Plan Committee believes that Mr. Crossman's compensation package is no more generous than market for similar types of compensation packages for similar type companies and are a benefit to the Company.

### New Plan Benefits

Name and Position -----	Number of Options -----
Marc B. Crossman	1,000,000

Except for the Plan Committee's grant of 1,000,000 options shares to Mr. Crossman, subject to approval of Proposal 2, the Plan Committee has not granted nor contemplates granting any options for shares of the Company's Common Stock pursuant to the Amended 2000 Employee Plan prior to approval of Proposal 2, and thus, since future participation in the Amended 2000 Employee Stock Plan and the level of participation will vary, it is not possible to determine the value of benefits which may be obtained by other individuals eligible to participate in the Amended 2000 Employee Stock Plan.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 2.

-----  
(1) A previous twenty-year option for 1,000,000 shares of the Company's Common Stock at an exercise price of \$2.86 per share



## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

was rescinded by the Executive Compensation Committee in April 2003.

### RATIFICATION OF SELECTION OF INDEPENDENT AUDITORS (Proposal 3)

The Board of Directors has appointed Ernst & Young LLP, ("E&Y") as the Company's independent auditors for the fiscal year ended November 30, 2003, subject to ratification by stockholders at the 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 be available to respond to appropriate questions. Unless otherwise instructed on the proxy, properly executed proxies will be voted in favor of ratifying the appointment of E&Y to audit the books and accounts of the Company for the fiscal year ended November 30, 2002. The affirmative vote of a majority of the votes present in person or represented by proxy at the Annual Meeting is required to approve Proposal 3.

For the fiscal year ended November 30, 2002, E&Y billed the approximate fees set forth below:

#### Audit Fees

The aggregate fees billed for professional services rendered by E&Y for the audit of the Company's consolidated financial statements for the fiscal year ended November 30, 2002, including the reviews of the Company's condensed consolidated financial statements included in its quarterly reports on Form 10-Q during the fiscal year ended November, 30 2002, were approximately \$203,917. E&Y also billed the Company \$49,211 for audit related services, which primarily consisted of accounting consultations and audit work related to an acquired business.

#### Financial Information Systems Design and Implementation Fees

E&Y did not render any services to the Company related to financial information systems design and implementation during the fiscal year ended November 30, 2002.

#### All Other Fees

The aggregate fees billed for all other professional services rendered by E&Y during the fiscal year ended November 30, 2002 other than those described above were approximately \$16,580. These services consisted primarily of tax return preparation fees.

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

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 3.

### 2004 STOCKHOLDER PROPOSALS

The Company expects to hold its 2004 annual meeting of stockholders in May 2004. Stockholders of the Company may submit

## Edgar Filing: INNOVO GROUP INC - Form DEFR14A

proposals that they believe should be voted upon at the 2004 annual meeting consistent with regulations of the Securities and Exchange Commission and the Company's Bylaws.

Pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, some stockholder proposals may be eligible for inclusion in the Company's 2004 proxy statement. Any such stockholder proposals must be submitted in writing to and received by the Secretary of the Company at 5900 S. Eastern Ave., Suite 104, Commerce, California 90040 no later than December 23, 2003. The submission of a stockholder proposal does not guarantee that it will be included in the Company's proxy statement.

A stockholder may also submit a proposal for consideration outside of Rule 14a-8. Pursuant to Rule 14(a)(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 the Secretary of the Company no later than March 8, 2004. The submission of a stockholder proposal does not guarantee that it will be presented at the annual meeting.

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 Company's Bylaws, as applicable.

### 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.

A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED NOVEMBER 30, 2002 ACCOMPANIES THIS PROXY STATEMENT. STOCKHOLDERS MAY OBTAIN, FREE OF CHARGE, AN ADDITIONAL COPY OF THE COMPANY'S 2002 ANNUAL REPORT ON FORM 10-K (WITHOUT EXHIBITS) BY WRITING TO INNOVO GROUP INC., ATTENTION: INVESTOR RELATIONS, 5900 S. EASTERN AVE, SUITE 124, COMMERCE, CA 90040. THE COMPANY WILL PROVIDE COPIES OF THE EXHIBITS TO THE FORM 10-K UPON PAYMENT OF A REASONABLE FEE.

INNOVO GROUP INC.

PROXY FOR ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD THURSDAY, MAY 22, 2003

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

The undersigned stockholder of Innovo Group Inc. (the "Company") hereby appoints Samuel J. Furrow, Jr., and Patricia Anderson or either of them, with full power of substitution, as proxies to cast all votes, as designated below,

Edgar Filing: INNOVO GROUP INC - Form DEFR14A

which the undersigned stockholder is entitled to cast at the 2003 Annual Meeting of Stockholders (the "Annual Meeting") to be held on Thursday, May 22, at 10:00 a.m. (local time) at The Wyndham Commerce Hotel, 5757 Telegraph Road, Commerce, CA, 90040 upon the following matters and any other matter as may properly come before the Annual Meeting or any adjournments thereof.

1. Election of seven Directors to serve on the Board of Directors:

Samuel J. Furrow	Samuel J. Furrow, Jr.	Suhail Rizvi
Patricia Anderson	Marc B. Crossman	
Daniel A. Page	John G. Looney	

[ ] 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. To approve the 2000 Employee Stock Plan Amendments to increase the aggregate number of shares of the Company's Common Stock that may be issued under the 2000 Employee Stock Incentive Plan by 2,000,000 shares from 1,000,000 shares to 3,000,000 shares and to increase the maximum number of shares of the Company's Common Stock that may be granted to any individual during any calendar year from 500,000 shares to 1,250,000 shares.

[ ] FOR [ ] AGAINST [ ] ABSTAIN

3. Proposal to ratify the appointment of Ernst & Young LLP as the independent auditors of the Company for the fiscal year ending November 30, 2002.

[ ] 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 IN ACCORDANCE WITH THE BEST JUDGMENT OF THE PROXIES AS TO OTHER MATTERS.

Edgar Filing: INNOVO GROUP INC - Form DEF14A

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

The undersigned hereby acknowledges prior receipt of the Notice of Annual Meeting of Stockholders and Proxy Statement dated April 24, 2003, and the Annual Report on Form10-K for the year ended November 30, 2002, 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 Annual Meeting and voting in person.

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

Date: \_\_\_\_\_, 2003.

\_\_\_\_\_  
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.

[ ] I PLAN TO ATTEND THE MAY 22, 2003 ANNUAL STOCKHOLDERS MEETING

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.