

INNOVO GROUP INC  
Form 10-Q  
July 10, 2007

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended May 26, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 0-18926

**INNOVO GROUP INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**11-2928178**

(I.R.S. Employer Identification No.)

**5901 South Eastern Avenue, Commerce, California**

(Address of principal executive offices)

**90040**

(Zip Code)

**(323) 837-3700**

(Registrant's telephone number, including area code)

**NO CHANGE**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes       No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

(Check One):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares of the registrant's common stock outstanding as of July 9, 2007 was 44,928,105.

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INNOVO GROUP INC.

QUARTERLY REPORT ON FORM 10-Q

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Item 4T.          Controls and Procedures

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements.

## INNOVO GROUP INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	May 26, 2007 (unaudited)	November 25, 2006
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 337	\$ 385
Accounts receivable, net of allowance for customer credits and returns of \$2,081 (2007) and \$469 (2006)	1,090	498
Inventories, net	11,311	6,267
Due from related parties	1,789	2,163
Prepaid expenses and other current assets	780	671
Total current assets	15,307	9,984
Property and equipment, net	745	837
Goodwill	20	20
Intangible assets, net	176	200
Other assets	9	56
Total assets	\$ 16,257	\$ 11,097
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities		
Accounts payable and accrued expenses	\$ 7,050	\$ 6,819
Due to factor	1,944	888
Due to related parties		82
Total current liabilities	8,994	7,789
Commitments and Contingencies		
Stockholders' equity		
Preferred stock, \$0.10 par value: 5,000 shares authorized, no shares issued or outstanding		
Common stock, \$0.10 par value: 80,000 shares authorized, 41,390 shares issued and 41,178 outstanding (2007) and 34,455 shares issued and 34,343 outstanding (2006)	4,141	3,447
Additional paid-in capital	82,775	79,763
Accumulated deficit	(76,877)	(77,126)
Treasury stock, 112 shares	(2,776)	(2,776)
Total stockholders' equity	7,263	3,308
Total liabilities and stockholders' equity	\$ 16,257	\$ 11,097

The accompanying notes are an integral part of these financial statements.

## INNOVO GROUP INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	Three months ended May 26, 2007 (unaudited)	May 27, 2006	Six months ended May 26, 2007 (unaudited)	May 27, 2006
Net sales	\$ 15,171	\$ 9,787	\$ 28,985	\$ 20,214
Cost of goods sold	7,822	6,556	16,541	15,163
Gross profit	7,349	3,231	12,444	5,051
<b>Operating expenses</b>				
Selling, general and administrative	6,605	5,494	11,587	11,228
Depreciation and amortization	87	63	175	122
	6,692	5,557	11,762	11,350
Income (loss) from continuing operations	657	(2,326)	682	(6,299)
Interest expense	(202)	(116)	(395)	(245)
Other income	(28)	(68)	(25)	(68)
Income (loss) from continuing operations, before taxes	427	(2,510)	262	(6,612)
Income taxes	5	7	13	15
Income (loss) from continuing operations	422	(2,517)	249	(6,627)
Loss from discontinued operations, net of tax		(2,461)		(2,043)
Net income (loss)	\$ 422	\$ (4,978)	\$ 249	\$ (8,670)
<b>Earnings (loss) per common share - Basic</b>				
Income (loss) from continuing operations	\$ 0.01	\$ (0.08)	\$ 0.01	\$ (0.20)
Loss from discontinued operations		(0.07)		(0.06)
Earnings (loss) per common share - Basic	\$ 0.01	\$ (0.15)	\$ 0.01	\$ (0.26)
<b>Earnings (loss) per common share - Diluted</b>				
Income (loss) from continuing operations	\$ 0.01	\$ (0.08)	\$ 0.01	\$ (0.20)
Loss from discontinued operations		(0.07)		(0.06)
Income (loss) per common share - Diluted	\$ 0.01	\$ (0.15)	\$ 0.01	\$ (0.26)
<b>Weighted average shares outstanding</b>				
Basic	41,227	33,428	40,334	33,365
Diluted	43,365	33,428	41,976	33,365

The accompanying notes are an integral part of these financial statements.

## INNOVO GROUP, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six months ended May 26, 2007 (unaudited)	May 27, 2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash (used in) provided by continuing activities	\$ (4,044 )	\$ 2,767
Cash provided by discontinued operations		601
Net cash (used in) provided by operating activities	(4,044 )	3,368
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales of property and equipment	2	
Purchases of property and equipment	(61 )	(148 )
Net cash used in investing activities	(59 )	(148 )
Cash provided by discontinued operations		612
Net cash (used in) provided by investing activities	(59 )	464
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from (payments on) factor borrowing, net	359	(2,630 )
Proceeds from issuance of common stock	3,696	
Net cash provided by (used in) continuing activities	4,055	(2,630 )
Cash used in discontinued operations		(1,242 )
Net cash provided by (used in) financing activities	4,055	(3,872 )
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(48 )</b>	<b>(40 )</b>
CASH AND CASH EQUIVALENTS, at beginning of period	385	560
<b>CASH AND CASH EQUIVALENTS, at end of period</b>	<b>\$ 337</b>	<b>\$ 520</b>

The accompanying notes are an integral part of these financial statements.

**INNOVO GROUP INC AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

(in thousands)

Preferred Stock		Common Stock		Additional	Accumulated	Treasury	Total
Shares	Par Value	Shares	Par Value	Paid-In Capital	Deficit	Stock	Stockholders Equity