

INNOVO GROUP INC
Form 10-Q
July 06, 2006

**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 27, 2006

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.)

5804 East Slauson Avenue, Commerce, California

(Address of principal executive offices)

90040

(Zip Code)

(323) 725-5516

(Registrant's telephone number, including area code)

N/A

(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 5, 2006 was 34,343,454.

INNOVO GROUP INC.

QUARTERLY REPORT ON FORM 10-Q

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

INNOVO GROUP INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	05/27/06 (unaudited)	11/26/05
ASSETS		
Current assets		
Cash and cash equivalents	\$ 520	\$ 560
Accounts receivable, net of allowance for customer credits and returns of \$723 (2006) and \$412 (2005)	620	60
Inventories, net	4,738	12,083
Due from related parties, net		2,781
Prepaid expenses and other current assets	546	96
Assets of discontinued operations	947	11,233
Total current assets	7,371	26,813
Property and equipment, net	477	428
Goodwill	20	20
Intangible assets, net	224	248
Other assets	135	87
Total assets	\$ 8,227	\$ 27,596
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 3,308	\$ 3,859
Due to factor	225	2,855
Due to related parties, net	714	54
Liabilities of discontinued operations	71	9,271
Total current liabilities	4,318	16,039
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 34,455 shares issued and 34,343 outstanding (2006) and 33,414 shares issued and 33,302 outstanding (2005)	3,447	3,343
Additional paid-in capital	79,741	78,823
Accumulated deficit	(76,503)	(67,833)
Treasury stock, 112 shares	(2,776)	(2,776)
Total stockholders' equity	3,909	11,557
Total liabilities and stockholders' equity	\$ 8,227	\$ 27,596

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		Six months ended	
	05/27/06	05/28/05	05/27/06	05/28/05
	(unaudited)		(unaudited)	
Net sales	\$ 9,787	\$ 9,715	\$ 20,214	\$ 15,824
Cost of goods sold	6,556	5,457	15,163	9,071
Gross profit	3,231	4,258	5,051	6,753
Operating expenses				
Selling, general and administrative	5,494	4,890	11,228	8,490
Depreciation and amortization	63	38	122	72
	5,557	4,928	11,350	8,562
Loss from continuing operations	(2,326)	(670)	(6,299)	(1,809)
Interest expense	(116)	(271)	(245)	(494)
Other income (expense)	(68))	(68)	7)
Loss from continuing operations, before taxes	(2,510)	(941)	(6,612)	(2,296)
Income taxes	7	9	15	18
Loss from continuing operations	(2,517)	(950)	(6,627)	(2,314)
Income (loss) from discontinued operations, net of tax	(2,461)	1,655	(2,043)	2,201
Net income (loss)	\$ (4,978)	\$ 705	\$ (8,670)	\$ (113)
Earnings (loss) per common share - Basic				
Earnings (loss) from continuing operations	\$ (0.08)	\$ (0.03)	\$ (0.20)	\$ (0.08)
Earnings (loss) from discontinued operations	(0.07)	0.05	(0.06)	0.07
Earnings (loss) per common share - Basic	\$ (0.15)	\$ 0.02	\$ (0.26)	\$ (0.01)
Earnings (loss) per common share - Diluted				
Earnings (loss) from continuing operations	\$ (0.08)	\$ (0.03)	\$ (0.20)	\$ (0.08)
Earnings (loss) from discontinued operations	(0.07)	0.05	(0.06)	0.07
Earnings (loss) per common share - Diluted	\$ (0.15)	\$ 0.02	\$ (0.26)	\$ (0.01)
Weighted average shares outstanding				
Basic	33,428	31,763	33,365	30,590
Diluted	33,428	31,763	33,365	30,590

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	
	05/27/06	05/28/05
	(unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash provided by (used in) continuing activities	\$ 2,767	\$ (3,701)
Cash provided by discontinued operations	601	389
Net cash provided by (used in) operating activities	3,368	(3,312)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(148)	(200)
Net cash used in continuing activities	(148)	(200)
Cash provided by (used in) discontinued operations	612	(26)
Net cash used in investing activities	464	(226)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payments on) factor borrowing, net	(2,630)	527
Payments on note payable officer		(333)
Proceeds from promissory note - former officer		703
Exercise of stock options		566
Exercise of warrants		2,175
Payment of stock issuance expense		(2)
Net cash (used in) provided by continuing activities	(2,630)	3,636
Cash (used in) provided by discontinued operations	(1,242)	254
Net cash (used in) provided by financing activities	(3,872)	3,890
NET CHANGE IN CASH AND CASH EQUIVALENTS	(40)	352
CASH AND CASH EQUIVALENTS, at beginning of period	560	312
CASH AND CASH EQUIVALENTS, at end of period	\$ 520	\$ 664

The accompanying notes are an integral part of these financial statements

INNOVO GROUP INC AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Additional	Promissory	Total
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