

INNOVATIVE DESIGNS INC
Form 10-Q
March 27, 2009

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 January 31, 2009

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: 000-5179

INNOVATIVE DESIGNS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware 03-0465528
(State or (I.R.S.
other Employer
jurisdiction of Identification
incorporation No.)
or
organization)

223 North Main Street, Suite 1
Pittsburgh, Pennsylvania 15215
(Address of Principal Executive Offices, Zip Code)

(412) 799-0350
(Issuer's Phone Number Including Area Code)

N/A
(Former Name or Former Address, if changed since last report)

Check whether the issuer (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and 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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting Company” in Rule 12b-2 of the Exchange Act.

(Check One)

Large Accelerated Filer []

Accelerated Filer []

Non-accelerated Filer []

Smaller reporting company [X]

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [] NO [X]

As of March 26, 2009, there were 18,720,743 shares of the Registrant's common stock, par value \$.0001 per share, outstanding.

Transitional Small Business Disclosure Format: YES [] NO [X]

Innovative Designs, Inc.

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ITEM 1. CONDENSED FINANCIAL STATEMENTS

INNOVATIVE DESIGNS, INC.

CONDENSED BALANCE SHEETS

January 31, 2009 (Unaudited) and October 31, 2008

| ASSETS | 2009 | 2008 |
|---|---------------------|---------------------|
| CURRENT ASSETS: | | |
| Cash | \$ 177,556 | \$ 22,523 |
| Accounts receivable | 234,995 | 159,128 |
| Inventory | 786,610 | 732,295 |
| Deposits on inventory | 53,817 | 305,000 |
| Total current assets | 1,252,978 | 1,218,946 |
| PROPERTY AND EQUIPMENT, NET | | |
| | 9,478 | 10,675 |
| TOTAL ASSETS | \$ 1,262,456 | \$ 1,229,621 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 38,041 | \$ 88,889 |
| Customer deposits | - | 9,823 |
| Current portion of notes payable | 116,813 | 169,530 |
| Accrued interest expense | 118,000 | 118,000 |
| Accounts payable - related party | 28,220 | 28,220 |
| Related party debt | 95,000 | 128,000 |
| Shareholders advances | 272,564 | 328,500 |
| Accrued expenses | 2,772 | 17,485 |
| Total current liabilities | 671,410 | 888,447 |
| LONG-TERM LIABILITIES: | | |
| Long-term portion of notes payable | 392,427 | 397,115 |
| Total long term liabilities | 392,427 | 397,115 |
| TOTAL LIABILITIES | 1,063,837 | 1,285,562 |
| STOCKHOLDERS' EQUITY (DEFICIT): | | |
| Preferred stock, \$.0001 par value, 100,000,000 shares authorized | | |
| Common stock, \$.0001 par value, 500,000,000 shares authorized, 18,546,743 and 18,455,243 shares issued and outstanding | 1,856 | 1,846 |
| Additional paid in capital | 5,594,485 | 5,565,045 |
| Accumulated deficit | (5,397,722) | (5,622,832) |
| Total stockholders' equity (deficit) | 198,619 | (55,941) |

| | | |
|--|--------------|--------------|
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ 1,262,456 | \$ 1,229,621 |
|--|--------------|--------------|

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

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INNOVATIVE DESIGNS, INC.

STATEMENTS OF OPERATIONS
(Unaudited)

| | For the Three Months Ended | |
|--|-------------------------------|---------------------|
| | January 31, 2009 | January 31, 2008 |
| REVENUE | \$ 591,164 | \$ 234,183 |
| OPERATING EXPENSES: | | |
| Cost of sales | 254,700 | 135,825 |
| Non-cash stock compensation | 450 | 2,400 |
| Selling, general and administrative expenses | 105,439 | 113,853 |
| | 360,589 | 252,078 |
| Income (loss) from operations | 230,575 | (17,895) |
| INTEREST EXPENSE | (5,465) | (7,021) |
| Net income (loss) | \$ 225,110 | \$ (24,916) |
| Per share information - basic and fully diluted | | |
| Weighted Average Shares Outstanding | 18,449,910 | 17,522,343 |
| Net income (loss) per share | .012 | (.001) |

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

INNOVATIVE DESIGNS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
January 31, 2009 (Unaudited) and October 31, 2008

| | Common Stock Shares | Amount | Additional Paid in Capital | Retained Deficit | Total |
|---|---------------------------|----------|----------------------------------|---------------------|----------------|
| Balance at October 31, 2007 | 17,096,193 | \$ 1,711 | \$ 5,049,064 | \$ (9,180,051) | \$ (4,129,276) |
| Shares issued for cash | 505,050 | 50 | 208,716 | - | 208,766 |
| Shares issued for services | 594,000 | 59 | 216,291 | - | 216,350 |
| Shares issued for extinguishment of debt | 260,000 | 26 | 90,974 | - | 91,000 |
| Net income | - | - | - | 3,557,219 | 3,557,219 |
| Balance at October 31, 2008 | 18,455,243 | 1,846 | 5,565,045 | (5,622,832) | (55,941) |
| Shares issued for services | 1,500 | 1 | 449 | - | 450 |
| Shares issued for cash | 90,000 | 9 | 28,991 | - | 29,000 |
| Net income | - | - | - | 225,110 | 225,110 |
| Balance at January 31, 2009 | 18,546,743 | \$ 1,856 | \$ 5,594,485 | \$ (5,397,722) | \$ 198,619 |

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

INNOVATIVE DESIGNS, INC.

STATEMENTS OF CASHFLOW
(Unaudited)

| | For the Three Months Ended | |
|---|-------------------------------|---------------------|
| | January 31, 2009 | January 31, 2008 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income (loss) | \$ 225,110 | \$ (24,916) |
| Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities: | | |
| Common stock issued for services | 450 | 2,400 |
| Depreciation and amortization | 1,197 | 1,197 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (75,867) | 53,573 |
| Inventory | (52,315) | (15,192) |
| Deposit on inventory | 251,183 | - |
| Accounts payable | (50,848) | (9,314) |
| Accrued expenses | (14,713) | (8,271) |
| Customer deposits | (9,823) | - |
| Net cash provided by (used in) operating activities | 274,374 | (523) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on note payable | (57,405) | (24,534) |
| Payment on related party debt | (33,000) | (20,000) |
| Payment of shareholder advances | (55,936) | - |
| Common stock issued for cash | 27,000 | 249,518 |
| Net cash (used in) provided by financing activities | (119,341) | 204,984 |
| Net increase in cash | \$ 155,033 | \$ 204,461 |
| Cash - beginning of year | \$ 22,523 | \$ 6,555 |
| Cash - end of period | \$ 177,556 | \$ 211,016 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 5,465 | \$ 3,049 |

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

INNOVATIVE DESIGNS, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

January 31, 2009

1. BASIS OF PRESENTATION - INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the general instructions to Form 10-Q. Accordingly, they do not include all information and footnotes required by GAAP for complete financial statements. These interim financial statements should be read in conjunction with our audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended October 31, 2008. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the periods presented are not necessarily indicative of the results that may be expected for the year ending October 31, 2009 or any future period.

2. ADOPTION OF SFAS NO. 123 (REVISED 2004) SHARE-BASED PAYMENT

In December 2004, FASB issued FASB No. 123 (Revised 2004) Share-Based Payment. This Statement establishes standards for the accounting and transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 as originally issued and EITF Issue No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." This Statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, Employers' Accounting for Employee Stock Ownership Plans. The adoption of SFAS 123 (Revised 2004) by the Company did not have a material impact on the Company's financial position, results of operations or cash flows. There was no change in the status of outstanding shares or in the Equity Compensation Plan since October 31, 2006, and no shares were granted to employees of the Company for services rendered or to be rendered.

3. EARNINGS PER SHARE

Innovative Designs, Inc. (the "Company") calculates net income (loss) per share as required by Statement of Financial Accounting Standard No. 128, Earnings per Share. Basic earnings (loss) per share is calculated by dividing income (loss) by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares and dilutive common stock equivalents outstanding. During the periods presented common stock equivalents were not considered as their effect would be anti-dilutive.

INNOVATIVE DESIGNS, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

January 31, 2009

4. GOING CONCERN AND LEGAL PROCEEDINGS

The Company's financial statements are presented on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business.

The Company's ability to continue as a going concern is contingent upon its ability to expand its operations and secure additional financing. The Company is currently pursuing financing for its operations and seeking to expand its operations. Failure to secure such financing or expand its operations may result in the Company not being able to continue as a going concern.

The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

We are subject to dispute and litigation in the ordinary course of our business. None of these matters, in the opinion of our management, is material or likely to result in a material effect on us based upon information available at this time. We applied for a federal trademark for the name "Artic Armor" which was approved by the Patent and Trademark Office. The application has been opposed by a third party who objects to the word "Armor". We are attempting to resolve the matter.

On July 30, 2008, Elio D. Cattan and Eliotex srl filed a Motion to Strike Satisfaction of Judgment in the action filed at 04-00593 in the United States District Court for the Western District of Pennsylvania. The basis for the relief requested was Cattan's averment that Innovative Designs defrayed certain of the expenses in Greystone, Inc.'s litigation in the United States, and that assistance violated Pennsylvania public policy regarding champerty and maintenance.

On February 5, 2009, The Honorable Arthur J. Schwab entered an Order on the Motion of Elio Cattan and Eliotex, SRL (collectively, "Cattan") to strike the assignment and satisfaction of judgment filed at Docket No. 04-00593 by Elite Properties, LLC. Counsel for Innovative Designs, Inc. sought to preclude the District Court from rendering any determination on the merits as to the ownership of the Judgment or the propriety of the State Court execution proceedings by which ownership of the Judgment was transferred.

The District Court did not adopt or substantiate the legal argument brought forward by Counsel for Cattan, and did not render any findings on the merits that would disturb Elite Properties, LLC's ownership of the IDI Judgment at the time it was satisfied. In the event that any further such action is brought, it must be filed in the State Court, the forum in which the execution proceedings took place, and in which those proceedings were specifically approved and authorized by the Court.

Management and the Company's Counsel believes that the results of the above-referenced litigation were beneficial to the Company, and that the likelihood of further proceedings, or of any outcome detrimental to the Company, is remote.

INNOVATIVE DESIGNS, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

January 31, 2009

5. COMMON STOCK

On December 11, 2008, we issued a total of 20,000 shares of our common stock for cash for \$.40 per share or \$8,000. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On December 30, 2008, we issued a total of 70,000 shares of our common stock for cash for \$.30 per share or \$21,000. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On December 30, 2008, we issued a total of 1,500 shares of our common stock for cash for \$.30 per share or \$450. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

INNOVATIVE DESIGNS, INC.

January 31, 2009

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

General

The following information should be read in conjunction with the consolidated financial statements and the notes thereto and in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended October 31, 2008.

Disclosure Regarding Forward-Looking Statements

Certain statements made in this report, and other written or oral statements made by or on behalf of the Company, may constitute "forward-looking statements" within the meaning of the federal securities laws. When used in this report, the words "believes," "expects," "estimates," "intends" and similar expressions are intended to identify forward-looking statements. Statements regarding future events and developments and our future performance, as well as our expectations, beliefs, plans, intentions, estimates or projections relating to the future, are forward-looking statements within the meaning of these laws. Examples of such statements in this report include descriptions of our plans and strategies with respect to developing certain market opportunities, and our overall business plan. All forward-looking statements are subject to certain risks and uncertainties that could cause actual events to differ materially from those projected. We believe that these forward-looking statements are reasonable; however, you should not place undue reliance on such statements. These statements are based on current expectations and speak only as of the date of such statements. We undertake no obligations to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise.

Background

Innovative Designs, Inc. (hereinafter referred to as the "Company", "we or "our") was formed on June 25, 2002. We market and sell clothing products such as hunting apparel, and cold weather gear called "Artic Armor" that are made from INSULTEX, a material with buoyancy, scent block and thermal resistant properties. We obtain INSULTEX through a license agreement with the owner and manufacturer of the material. Since our formation we have devoted our efforts to:

- Completing the development, design and prototypes of our products,
- Obtaining retail stores or sales agents to offer and sell our products, and
- Developing our website to sell more of our products.

INNOVATIVE DESIGNS, INC.

January 31, 2009

Results of Operations

Comparison of the Three Months Ended January 31, 2009 with the Three Months Ended January 31, 2008

Revenues

The following table shows a comparison of the results of operations between the three months ended January 31, 2009 and three months ended January 31, 2008:

| | Three Months Ended January 31, 2009 | % of Sales | Three Months Ended January 31, 2008 | % of Sales | \$ Increase (Decrease) | % Change |
|---|---|---------------|---|---------------|---------------------------|------------|
| REVENUE | \$ 591,164 | 100% | \$ 234,183 | 100% | \$ 356,981 | 152.4% |
| OPERATING EXPENSES | | | | | | |
| Cost of sales | 254,700 | 43.1% | 135,825 | 58.0% | 118,875 | 87.5% |
| Non-stock compensation | 450 | 0.08% | 2,400 | 1.0% | (1,950) | (81.3)% |
| Selling, general and administrative expenses | 105,439 | 17.8% | 113,853 | 48.6% | (8,414) | (7.4)% |
| | 360,589 | 61.0% | 252,078 | 107.6% | 108,511 | 43.0% |
| Income (loss) from operations | 230,575 | 39.0% | (17,895) | (7.6)% | 248,470 | (1,388.5)% |
| OTHER INCOME (EXPENSE) | | | | | | |
| INTEREST EXPENSE | (5,465) | (.9)% | (7,021) | (3.0)% | 1,556 | (22.2)% |
| | (5,465) | (.9)% | (7,021) | (3.0)% | 1,556 | (22.2)% |
| Net income (loss) | \$ 225,110 | 38.1% | \$ (24,916) | (10.6)% | \$ 250,026 | (1,003.5)% |

The increase in sales revenue for the three months ended January 31, 2009 over the corresponding period ending January 31, 2008 is a result of our selling more of our Artic Armor line of products. We also utilized a television advertising campaign during the period that was very effective for our internet sales. We do not pay sales commissions on such sales. We are also offering more of a selection in terms of color and other refinements to our Artic Armor line that has increased its acceptance to the railroad industry as well as EMS and police units. Most of our sales during the period were for this product line.

Because of the seasonal nature of our current product lines, Artic Armor and our hunting line. We do not expect the next quarter to show as strong sales of these items as in the prior quarter.

INNOVATIVE DESIGNS, INC.

January 31, 2009

Our increase in the cost of sales is the result of selling more of our products. During the period ending January 31, 2009, we paid approximately \$23,000 in legal expenses.

Liquidity and Capital Resources

During the quarter ended January 31, 2009, we funded our operations with revenues from sales and the selling of our securities in private transactions. We will continue to fund operations from revenues and borrowings and the possible sale of securities. Our ability to obtain outside funding of either debt or equity is being adversely affected in part, by the general inability to obtain commercial lending.

Short Term: We funded our operations with revenues from sales and the sale of our securities. We sold approximately \$29,000 worth of our common stock in private transactions during the period and we repaid approximately \$88,000 in related party debt and shareholder advances. The financial institution has restricted the amounts we can borrow on our lines of credit and they will not increase our borrowing capacity on the lines of credit. The Company continues to pay its creditors when payments are due and has been successful in expanding its sales base into the oil and gas industry and to the railroad industry as well as to other sectors of the market.

Long Term: The Company will continue to fund operations from revenues, borrowings and the possible sale of its securities. The Company is currently pursuing financing to fund its long-term liquidity needs, however, the general state of the credit industry has made borrowing more difficult.

ITEM T. CONTROLS AND PROCEDURES

Management has developed and implemented a policy and procedures for reviewing, on a quarterly basis, our disclosure controls and procedures and our internal control over financial reporting. Management, including our principal executive and financial officer, evaluated the effectiveness of the design and operation of disclosure controls and procedures as of January 31, 2009 and, based on their evaluation, our principal executive and financial officers have concluded that these controls and procedures are not operating effectively. Effective March 19, 2008, our Chief Executive Officer temporarily assumed the duties of our Chief Financial Officer. As of the date of filing this Form 10-Q, the Chief Executive Officer continues these duties. During the fourth quarter of 2008, a number of adjusting journal entries were recorded in order to adjust the ending inventory balance to the correct balance. The nature of these entries related primarily to inventory valuation with regards to the correct balance. Consequently, during the first quarter of 2009, a number of adjustments were recorded in order to correct the Company's books and records. The adjustments included the following: adjustments were made to ending cash balances which were not properly reconciled; inventory was adjusted for items which were received during this quarter but not entered into the inventory system by the Company and not reflected in the ending inventory balance; notes payables were corrected for payments made by the Company to lenders; and adjustments were made in order to adjust cost of sales to the correct balances. The Chief Executive Officer is currently in the process of evaluating the Company's controls and procedures surrounding the evaluation of inventory and properly stating cost of sales.

INNOVATIVE DESIGNS, INC.

January 31, 2009

PART II

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

On December 11, 2008, we issued a total of 20,000 shares of our common stock for cash for \$.40 per share or \$8,000. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On December 30, 2008, we issued a total of 70,000 shares of our common stock for cash for \$.30 per share or \$21,000. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On December 30, 2008, we issued a total of 1,500 shares of our common stock for cash for \$.30 per share or \$450. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

ITEM 6. EXHIBITS

*3.1 Certificate of Incorporation

*3.2 By Laws

31.1 Rule 13a - 14a Certification of Chief Executive Office and Chief Financial Officer

32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial officer

* Incorporated by reference to the Company's registration statement on Form SB-2, filed March 11, 2003

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Innovative Designs, Inc.
Registrant

Date: March 26, 2009

/s/ Joseph Riccelli
Joseph Riccelli, Chief Executive Officer
and Chief Financial Officer

