

Edgar Filing: Art Design, Inc. - Form 10-Q

Art Design, Inc.  
Form 10-Q  
November 13, 2008

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 September 30, 2008

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

Commission File No. 000-52690

Art Design, Inc.  
(Exact Name of Registrant as specified in its charter)

Colorado  
(State or other jurisdiction  
of incorporation)

86-1061005  
(IRS Employer File Number)

3636 S. Jason Street  
Englewood, Colorado  
(Address of principal executive offices)

80113  
(zip code)

(303) 781-7280  
(Registrant's telephone number, including area code)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐  
Non-accelerated filer ☐ (Do not check if a smaller reporting company)  
company ☒

Accelerated filer ☐  
Smaller reporting

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes ☐ No ☒

The number of shares outstanding of the Registrant's common stock, as of the latest practicable date, November 1, 2008, was 10,820,600.

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FORM 10-Q

Art Design, Inc.

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PART I FINANCIAL INFORMATION

References in this document to "us," "we," or "Company" refer to Art Design, Inc. and its subsidiary, Art Dimensions, Inc.

ITEM 1. FINANCIAL STATEMENTS

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ART DESIGN, INC.

CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Quarter Ended September 30, 2008

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Art Design, Inc.  
Consolidated Financial Statements  
(Unaudited)

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ART DESIGN, INC.  
CONSOLIDATED BALANCE SHEETS

	Dec. 31, 2007	Sept. 30, 2008 (Unaudited)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 112,664	\$ 82,732
Accounts receivable	19,230	39,613
Total current assets	131,894	122,345
Accounts receivable - related party	7,290	
Fixed assets	13,269	13,269
Less accumulated depreciation	(11,234)	(9,649)
Other assets	2,759	2,759
	12,084	6,379
<b>Total Assets</b>	<b>\$ 143,978</b>	<b>\$ 128,724</b>
<b>LIABILITIES &amp; STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 984	\$ 2,067
Accounts payable - related party	29,135	34,442
Note payable - related party	34,201	34,201
Total current liabilities	64,320	70,710
<b>Total Liabilities</b>	<b>64,320</b>	<b>70,710</b>
<b>Stockholders' Equity</b>		
Preferred stock, \$.10 par value; 1,000,000 shares authorized; No shares issued & outstanding	-	-
Common stock, \$.001 par value; 50,000,000 shares authorized; 10,820,600 shares issued & outstanding	10,821	10,821
Additional paid in capital	163,165	185,218
Accumulated deficit	(94,328)	(138,025)
<b>Total Stockholders' Equity</b>	<b>79,658</b>	<b>58,014</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 143,978</b>	<b>\$ 128,724</b>

The accompanying notes are an integral part of the consolidated financial statements.

ART DESIGN, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended Sept. 30, 2007	Three Months Ended Sept. 30, 2008	Nine Months Ended Sept. 30, 2007	Nine Months Ended Sept. 30, 2008
Sales - net of returns	\$ 31,615	\$ 33,295	\$ 62,584	\$ 153,671
Cost of goods sold	22,902	31,442	45,443	148,475
Gross profit	8,713	1,853	17,141	5,196
Operating expenses:				
Amortization & depreciation	444	27	1,332	81
General and administrative	17,164	9,826	39,670	48,812
	17,608	9,853	41,002	48,893
Gain (loss) from operations	(8,895)	(8,000)	(23,861)	(43,697)
Other income (expense):				
Interest expense	(1,241)	-	(1,241)	-
	(1,241)	-	(1,241)	-
Income (loss) before provision for income taxes	(10,136)	(8,000)	(25,102)	(43,697)
Provision for income tax	-	-	-	-
Net income (loss)	\$ (10,136)	\$ (8,000)	\$ (25,102)	\$ (43,697)
Net income (loss) per share (Basic and fully diluted)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding	10,820,600	10,820,600	10,531,378	10,820,600

The accompanying notes are an integral part of the consolidated financial statements.



ART DESIGN, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended Sept. 30, 2007	Nine Months Ended Sept. 30, 2008
Cash Flows From Operating Activities:		
Net income (loss)	\$ (25,102)	\$ (43,697)
Adjustments to reconcile net loss to net cash provided by (used for) operating activities:		
Amortization & depreciation	1,332	81
Donated services	4,500	
Accounts receivable	(11,426)	(13,093)
Accrued payables - related party	17,877	21,953
Accrued payables	3,194	1,083
Compensatory equity issuances		5,407
Other assets	(2,759)	(1,666)
Net cash provided by (used for) operating activities	(12,384)	(29,932)
Cash Flows From Investing Activities:		
	-	-
Net cash provided by (used for) investing activities	-	-

(Continued On Following Page)

The accompanying notes are an integral part of the consolidated financial statements.

ART DESIGN, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

(Continued From Previous Page)

	Nine Months Ended Sept. 30, 2007	Nine Months Ended Sept. 30, 2008
Cash Flows From Financing Activities:		
Deferred offering costs		
Issuance of common stock	109,330	
Net cash provided by (used for) financing activities	109,330	-
Net Increase (Decrease) In Cash	96,946	(29,932)
Cash At The Beginning Of The Period	31,173	112,664
Cash At The End Of The Period	\$ 128,119	\$ 82,732

Schedule Of Non-Cash Investing And Financing Activities

In 2007 the Company recorded \$16,646 in paid in capital from related party debt relief.

Supplemental Disclosure

Cash paid for interest	\$ 1,241	\$ -
Cash paid for income taxes	\$ -	\$ -

The accompanying notes are an integral part of the consolidated financial statements.

ART DESIGN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1. ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Art Design, Inc. (the “Company”), was incorporated in the State of Colorado on January 16, 2002. The Company sells art work and interior decorating to professional and business offices.

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-QSB and do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. All adjustments which are, in the opinion of management, necessary for a fair presentation of the results of operations for the interim periods have been made and are of a recurring nature unless otherwise disclosed herein. The results of operations for such interim periods are not necessarily indicative of operations for a full year.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less as cash equivalents.

Accounts receivable

The Company reviews accounts receivable periodically for collectability and establishes an allowance for doubtful accounts and records bad debt expense when deemed necessary.

Property and equipment

Property and equipment are recorded at cost and depreciated under accelerated methods over each item's estimated useful life, which is five years for vehicles, computers and other items.

Revenue recognition

Revenue is recognized on an accrual basis after services have been performed under contract terms, the event price to the client is fixed or determinable, and collectibility is reasonably assured. Standard contract policy calls for partial payment up front with balance due upon receipt of final billing.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of Art Design, Inc. and its wholly owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation.

ART DESIGN, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

NOTE 1. ORGANIZATION, OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued):

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income tax

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109 ("SFAS 109"). Under SFAS 109 deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Net income (loss) per share

The net income (loss) per share is computed by dividing the net income (loss) by the weighted average number of shares of common outstanding. Warrants, stock options, and common stock issuable upon the conversion of the Company's preferred stock (if any), are not included in the computation if the effect would be anti-dilutive and would increase the earnings or decrease loss per share.

Financial Instruments

The carrying value of the Company's financial instruments, including cash and cash equivalents and accrued payables, as reported in the accompanying balance sheet, approximates fair value.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATION

The following discussion of our financial condition and results of operations should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements and notes thereto included in, Item 1 in this Quarterly Report on Form 10-Q. This item contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those indicated in such forward-looking statements.

### Forward-Looking Statements

This Quarterly Report on Form 10-Q and the documents incorporated herein by reference contain forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations, estimates, and projections about our industry, management beliefs, and certain assumptions made by our management. Words such as “anticipates”, “expects”, “intends”, “plans”, “believes”, “seeks”, “estimates”, variations of such words, and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. However, readers should carefully review the risk factors set forth herein and in other reports and documents that we file from time to time with the Securities and Exchange Commission, particularly the Report on Form 10-SB, and Annual Reports on Form 10-KSB, Quarterly reports on Form 10-Q and any Current Reports on Form 8-K.

### Overview and History

Art Design, Inc. was incorporated in the State of Colorado on January 16, 2002. We are a provider of custom framed artwork, accessories and interior design consulting. We market and sell our products and services to commercial and professional business offices, along with residential clients. We believe we have developed a presence in the State of Colorado for creating custom framed mirrors, art, and design furnishings.

On June 18, 2007 we closed our public offering. We sold a total of 520,600 shares at a price of \$.25 per share, for a total of \$130,150.

On January 29, 2008, we incorporated Art Dimensions, Inc. in the State of Colorado. Art Dimensions, Inc. is a wholly owned subsidiary of ours, and was formed to provide art consulting and marketing services and advise or represent individuals who are in the business of creating, producing and selling art.

Our headquarters are located at 3636 S. Jason Street, Englewood, Colorado 80113. Our phone number at our headquarters is (303) 781-7280. Our fiscal year end is December 31.

We have not been subject to any bankruptcy, receivership or similar proceeding.

### Results of Operations

The following discussion involves our results of operations for the three months and nine months ending September 30, 2008 and September 30, 2007.

We had sales-net of returns of \$33,295 for the three months ended September 30, 2008. This compares with sales-net of returns of \$31,615 for the three months ended September 30, 2007.



Our costs of goods for the three months ended September 30, 2008 was \$31,442, or approximately 94.4% of sales-net of returns. Our costs of goods for the three months ended September 30, 2007 was \$22,902, or approximately 72.4% of sales-net of returns. Costs of goods sold include all direct costs incurred in selling products. We do not separate sales of different product lines into operating segments.

The difference between total sales-net of returns and costs of goods is gross profit. Our gross profit for the three months ended September 30, 2008 was \$1,853. This compares with gross profit for the three months ended September 30, 2007 of \$8,713. The higher costs of goods sold directly affected our profitability.

Operating expenses, which includes depreciation and general and administrative expenses for the three months ended September 30, 2008 was \$9,853. This compares to operating expenses for the three months ended September 30, 2007 of \$17,608. The major components of operating expenses include professional fees, salaries and associated payroll costs, rent and telephone expenses.

We had a net loss of \$8,000 for the three months ended September 30, 2008. This compares with a net loss of \$10,136 for the three months ended September 30, 2007.

Comparing our operations for the nine months ended September 30, 2008, we had sales-net of returns of \$153,671. This compares with sales-net of returns of \$62,584 for the nine months ended September 30, 2007.

Our costs of goods for the nine months ended September 30, 2008 was \$148,475 or approximately 96.6 % of sales-net of returns. Our costs of goods for the nine months ended September 30, 2007 was \$45,443 or approximately 72.6% of sales-net of returns. Costs of goods sold include all direct costs incurred in selling products. We do not separate sales of different product lines into operating segments.

The difference between total sales-net of returns and costs of goods is gross profit. Our gross profit for the nine months ended September 30, 2008 was \$5,196. This compares with gross profit for the nine months ended September 30, 2007 of \$17,141. The higher costs of goods sold directly affected our profitability.

Operating expenses, which includes depreciation and general and administrative expenses for the nine months ended September 30, 2008 was \$48,893. This compares to operating expenses for the nine months ended September 30, 2007 of \$41,002. The major components of operating expenses include professional fees, salaries and associated payroll costs, rent and telephone expenses.

We had a net loss of \$43,697 for the nine months ended September 30, 2008. This compares with a net loss of \$25,102 for the nine months ended September 30, 2007.

To the extent that we market more products and fewer consulting services in connection with our sales, our cost of goods is a much larger factor, which tends to reduce our gross profitability. We make a higher gross profit from our consulting services than from our product sales. In addition, some product sales have higher profit margins.

We believe that operating expenses in current operations should remain fairly constant as product sales and consulting services improve. Each additional sale or service and correspondingly the gross profit of such sale or service have minimal offsetting operating expenses. Thus, additional sales could become profit at a higher return on sales rate as a result of not needing to expand operating expenses at the same pace.

Based upon our current plans, we have adjusted our operating expenses so that cash generated from operations and from working capital is expected to be sufficient for the foreseeable future to fund our operations at our currently forecasted levels. This has not always been the case, since we have had a history of losses. To try to operate at a break-even level based upon our current level of anticipated business activity, we believe that we must generate approximately \$200,000 in revenue per year. However, if our forecasts are inaccurate, we will need to raise additional funds. On the other hand, we may choose to scale back our operations to operate at break-even with a smaller level of business activity, while adjusting our overhead to meet the revenue from current operations. In addition, we expect that we will need to raise additional funds if we decide to pursue more rapid expansion, the development of new or enhanced services and products, appropriate responses to competitive pressures, or the acquisition of complementary businesses or technologies, or if we must respond to unanticipated events that require us to make additional investments. We cannot assure that additional financing will be available when needed on favorable terms, or at all.

We have a history of losses. Furthermore, our losses may continue into the future. We have never had a profitable fiscal year, including the fiscal year ended December 31, 2007.

The changes in revenues from year to year have been a direct result of our marketing efforts, or lack thereof, and the number of clients and projects we generate.

Our ability to achieve and maintain profitability and positive cash flow is dependent upon our ability to locate clients who will purchase our products and use our services and our ability to generate revenues.

We expect to incur operating losses in future periods because we will be incurring expenses and not generating sufficient revenues. We expect approximately \$15,000 in operating costs over the next three months. We cannot guarantee that we will be successful in generating sufficient revenues or other funds in the future to cover these operating costs. Failure to generate sufficient revenues or additional financing when needed could cause us to go out of business.

#### Liquidity and Capital Resources

As of September 30, 2008, we had cash or cash equivalents of \$82,732 compared to cash or cash equivalents of \$128,119 at September 30, 2007.

Net cash used for operating activities was \$29,932 for the nine months ended September 30, 2008, compared to net cash used for operating activities of \$12,384 for the period ended September 30, 2007.

Cash flows used for or provided by investing activities were \$-0- for both periods.

Cash used for or provided by financing activities was \$-0- for the nine months ended September 30, 2008, compared to cash provided by financing activities of \$109,330 for the period ended September 30, 2007. These activities were all related to our recent public offering.

Over the next three months we do not expect to incur any material capital costs.

We believe that our recent public offering will provide sufficient capital in the short term for our current level of operations. This is because we believe that we can attract sufficient additional product sales and services within our present organizational structure and resources to become profitable in our operations. Additional resources will be needed to expand into additional locations, which we have no plans to do at this time.





Otherwise, we do not anticipate needing to raise additional capital resources in the next three months.

Until current operations become cash flow positive, our officers and directors may be required to fund the operations to continue the business. Other than our cash, at this time we have no other resources on which to get funds if needed without their assistance.

Our principle source of liquidity is our operations. Our variation in revenues is based upon the level of our sales activity and will account for the difference between a profit and a loss. Also business activity is closely tied to the economy of Denver and the U.S. economy. A slow down in interior design work will have a negative impact to our business. In any case, we try to operate with minimal overhead. Our primary activity will be to seek to expand the interior design projects and, consequently, our sales. If we succeed in expanding our client base and generating sufficient sales, we will become profitable. We cannot guarantee that this will ever occur. Our plan is to build our company in any manner which will be successful.

#### Plan of Operation

Our plan for the twelve months immediately after the closing of our recent public offering is to operate at a profit or at break even. Our plan is to attract sufficient additional product sales and services within our present organizational structure and resources to become profitable in our operations.

Currently, we are conducting business in only one location in the Denver Metropolitan area. We have no plans to expand into other locations or areas. The timing of the completion of the milestones needed to become profitable are not directly dependent on the success of our recent public Offering. We believe that we can achieve profitability as we are presently organized with sufficient business.

Other than the shares offered by our recent public offering, no other source of capital has been identified or sought.

If we are not successful in our operations we will be faced with several options:

1. Cease operations and go out of business;
2. Continue to seek alternative and acceptable sources of capital;
3. Bring in additional capital that may result in a change of control; or
4. Identify a candidate for acquisition that seeks access to the public marketplace and its financing sources.

Currently, we have sufficient capital to implement our proposed business operations or to sustain them for the next three months. If we can become profitable, we could operate at our present level indefinitely.

With the proceeds of our recent public offering, we believe that we can adjust our sales and expenses to operate for at least one year before we become profitable or go out of business.

To date, we have never had any discussions with any possible acquisition candidate. However, if we cannot operate our business in a profitable manner, we may seek other opportunities, including, but not limited to, one or more acquisitions.



### Proposed Milestones to Implement Business Operations

At the present time, we are operating from one location in the Denver Metropolitan area. Our plan is to make our operation profitable by the end of our next fiscal year. We estimate that we must generate approximately \$16,000 in sales per month to be profitable.

We believe that we can be profitable or at break even by the end of the current fiscal year, assuming sufficient sales. Based upon our current plans, we have adjusted our operating expenses so that cash generated from operations and from working capital financing is expected to be sufficient for the foreseeable future to fund our operations at our currently forecasted levels. This has not always been the case, since we have had a history of losses. To try to operate at a break-even level based upon our current level of anticipated business activity, we believe that we must generate approximately \$200,000 in revenue per year. However, if our forecasts are inaccurate, we will need to raise additional funds. On the other hand, we may choose to scale back our operations to operate at break-even with a smaller level of business activity, while adjusting our overhead to meet the revenue from current operations. In addition, we expect that we will need to raise additional funds if we decide to pursue more rapid expansion, the development of new or enhanced services and products, appropriate responses to competitive pressures, or the acquisition of complementary businesses or technologies, or if we must respond to unanticipated events that require us to make additional investments. We cannot assure that additional financing will be available when needed on favorable terms, or at all.

We expect to incur operating losses in future periods because we will be incurring expenses and not generating sufficient revenues. We expect approximately \$15,000 in operating costs over the next three months. We cannot guarantee that we will be successful in generating sufficient revenues or other funds in the future to cover these operating costs. Failure to generate sufficient revenues or additional financing when needed could cause us to go out of business.

No commitments to provide additional funds have been made by management or current shareholders. There is no assurance that additional funds will be made available to us on terms that will be acceptable, or at all, if and when needed. We expect to continue to generate and increase sales, but there can be no assurance we will generate sales sufficient to continue operations or to expand.

We also are planning to rely on the possibility of referrals from clients and will strive to satisfy our clients. We believe that referrals will be an effective form of advertising because of the quality of service that we bring to clients. We believe that satisfied clients will bring more and repeat clients.

In the next 12 months, we do not intend to spend any funds on research and development and do not intend to purchase any large equipment.

### Critical Accounting Policies

We have identified the following policies below as critical to our business and results of operations. For further discussion on the application of these and other accounting policies, see Note 1 to the accompanying audited financial statements for the periods ended September 30, 2008. Our reported results are impacted by the application of the following accounting policies, certain of which require management to make subjective or complex judgments. These judgments involve making estimates about the effect of matters that are inherently uncertain and may significantly impact quarterly or annual results of operations. For all of these policies, management cautions that future events rarely develop exactly as expected, and the best estimates routinely require adjustment. Specific risks associated with these critical accounting policies are described in the following paragraphs.



#### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Recently Issued Accounting Pronouncements

We do not expect the adoption of any recently issued accounting pronouncements to have a significant impact on our net results of operations, financial position, or cash flows.

#### Seasonality

We do not expect our sales to be impacted by seasonal demands for our products and services.

#### Trends

There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material impact on the net sales or revenues or income from our proposed operations. Our management has not made any commitments, which will require any material financial resources.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

None.

#### ITEM 4. CONTROLS AND PROCEDURES

Not applicable

#### ITEM 4T. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, based on an evaluation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Exchange Act), our Chief Executive Officer and the Chief Financial Officer has concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in our Exchange Act reports is recorded, processed, summarized, and reported within the applicable time periods specified by the SEC's rules and forms.

There were no changes in our internal controls over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

This report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Identified in connection with the evaluation required by paragraph (d) of Rule 240.13a-15 or Rule 240.15d-15 of this chapter that occurred during the registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.



## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

There are no legal proceedings, to which we are a party, which could have a material adverse effect on our business, financial condition or operating results.

### ITEM 1A. RISK FACTORS

You should carefully consider the risks and uncertainties described below; and all of the other information included in this document. Any of the following risks could materially adversely affect our business, financial condition or operating results and could negatively impact the value of your investment.

The occurrence of any of the following risks could materially and adversely affect our business, financial condition and operating result. In this case, the trading price of our common stock could decline and you might lose all or part of your investment.

We have had a history of losses and may not be able to develop profitability.

We had a net loss of \$8,000 on revenues of \$33,295 for the three months ended September 30, 2008, compared to a net loss of \$10,136 on revenues of \$31,615 for the three months ended September 30, 2007. We had a net loss of \$43,697 on revenues of \$153,671 for the nine months ended September 30, 2008, compared to a net loss of \$25,102 on revenues of \$62,584 for the nine months ended September 30, 2007. We cannot assure you that we will generate profits in the future, even if our sales increase dramatically. We will need to generate greater revenues and improved margins to achieve and maintain profitability in the future. If our operating losses continue on a long-term basis, we may experience a shortage of working capital that could adversely affect our business or our ability to continue our business, in which case our stock price may decline, perhaps significantly, and you could lose the value of your investment.

Because we had incurred continuing operating losses, our accountants have expressed doubts about our ability to continue as a going concern.

For the fiscal year ended December 31, 2007, our accountants have expressed doubt about our ability to continue as a going concern as a result of our continued net losses. Our ability to achieve and maintain profitability and positive cash flow is dependent upon:

- our ability to locate clients who will purchase our products and use our services; and
- our ability to generate revenues.

Based upon current plans, we expect to incur operating losses in future periods because we will be incurring expenses and not generating sufficient revenues. We expect approximately \$15,000 in operating costs over the next twelve months. We cannot guarantee that we will be successful in generating sufficient revenues or other funds in the future to cover these operating costs. Failure to generate sufficient revenues will cause us to go out of business.



Our limited operating history makes it difficult for us to evaluate our future business prospects and make decisions based on those estimates of our future performance.

The concept for our business model was developed in 2002. Even though we have operated as a corporation for some time, we have a limited operating history, based upon limited revenues and a lack of profitability. These factors make it difficult to evaluate our business on the basis of historical operations. As a consequence, our past results may not be indicative of future results. Although this is true for any business, it is particularly true for us because of our limited operating history. Reliance on historical results may hinder our ability to anticipate and timely adapt to increases or decreases in sales, revenues or expenses. For example, if we overestimate our future sales for a particular period or periods based on our historical growth rate, we may increase our overhead and other operating expenses to a greater degree than we would have if we correctly anticipated the lower sales level for that period and reduced our controllable expenses accordingly. If we make poor budgetary decisions as a result of unreliable historical data, we could be continue to incur losses, which may result in a decline in our stock price.

We have no experience as a public company.

We have never operated as a public company. We have no experience in complying with the various rules and regulations which are required of a public company. As a result, we may not be able to operate successfully as a public company, even if our operations are successful. We plan to comply with all of the various rules and regulations which are required of a public company. However, if we cannot operate successfully as a public company, your investment may be materially adversely affected. Our inability to operate as a public company could be the basis of your losing your entire investment in us.

Our clients have no obligation to purchase from us, which may result in sudden declines in sales.

Our client mix currently consists of approximately ninety percent commercial and professional business offices, and ten percent high-end residential homes. We do not have supply agreements or other volume commitments that are binding on our clients, and our sales originate solely from individual purchase orders that we negotiate with our individual clients. As a consequence, our clients are not obligated to purchase any amount of our products and they may choose to stop or decrease their level of product purchases from us at any time, without giving us prior notice. This could cause our sales to fluctuate, and we could experience a sudden and unexpected decline in sales. We could experience unexpected operational losses if our client sales were to decline significantly without notice.

We currently rely upon two clients for a majority of our sales, which means that we could be severally impacted by the loss of one or both of them.

Our revenue projections are subject to greater uncertainty than if we had volume commitments from one or more of our largest clients. Our two top clients in fiscal year 2006 accounted for approximately 62 % of our revenues, in fiscal year 2007 accounted for approximately 52 % of our revenues. We could be severally impacted by the loss of one or both of them. As long as we rely upon a few clients for a majority of our sales, we could be subject to uncertain revenue results, if we lose a major client. We cannot assure you that these clients, or any of our clients, will continue to purchase our products in significant volume, or at all.

We are implementing a strategy to grow and expand our business, which is expensive and may not generate increases in our revenues.

We intend to expand our business, and we plan to incur expenses associated with our growth and expansion. Although we recently raised funds through private offerings to implement our growth strategy, these funds may not be adequate to offset all of the expenses we incur in expanding our business. We will need to generate greater revenues to offset expenses associated with our growth, and we may be unsuccessful in achieving greater revenues, despite our attempts to grow our business. If our growth strategies do not result in increased revenues, we may have to abandon our plans for further growth or may even reduce the current size of our operations.

We may need to raise additional funds, and these funds may not be available when we need them.

Based on our current plans, we have adjusted our operating expenses so that cash generated from operations and from working capital financing is expected to be sufficient for the foreseeable future to fund our operations at our currently forecasted levels. This has not always been the case, since we have had a history of losses. To try to operate at a break-even level based upon our current level of anticipated business activity, we believe that we must generate approximately \$200,000 in revenue per year. However, if our forecasts are inaccurate, we will need to raise additional funds. On the other hand, we may choose to scale back our operations to operate at break-even with a smaller level of business activity, while adjusting our overhead to meet the revenue from current operations. In addition, we expect that we will need to raise additional funds if we decide to pursue more rapid expansion, the development of new or enhanced services and products, appropriate responses to competitive pressures, or the acquisition of complementary businesses or technologies, or if we must respond to unanticipated events that require us to make additional investments. . We cannot assure that additional financing will be available when needed on favorable terms, or at all. If these funds are not available when we need them, then we may need to change our business strategy and reduce our rate of growth.

We must effectively manage the growth of our operations, or we may outgrow our current infrastructure.

As of September 30, 2008, we had two employees. If we experience rapid growth of our operations, we could see a backlog of client orders. We can resolve these capacity issues by hiring additional personnel and upgrading our infrastructure. However, we cannot guarantee that sufficient additional personnel will be available or that we will find suitable technology to aid our growth. In any case, we will continue pursuing additional sales growth for our company. Expanding our infrastructure will be expensive, and will require us to train our workforce, and improve our financial and managerial controls to keep pace with the growth of our operations.

Because we are small and do not have much capital, we must limit our operations. A company in our industry with limited operations has a smaller opportunity to be successful.

Because we are small and do not have much capital, we must limit our operations. We must limit our operations to the State of Colorado as the only geographical area in which we operate. Because we may have to limit our operations, we may not generate sufficient sales to make a profit. If we do not make a profit, we may have to suspend or cease operations.

Because our current officers and directors are involved with other businesses in the same industry, the manner in which we operate may create the possibility of a conflict of interest.

All of our officers and directors are also involved with other businesses in the same industry. Mr. and Mrs. Sheehan own the Accessory Warehouse, Inc. Mrs. Gregarek is an independent contractor for interior design work. These other arrangements could create conflict of interest with respect to our operations. Each of our officers and directors is aware of their responsibilities with respect to corporate opportunities and plans to operate our Company in such a manner as to minimize the effect of any conflict of interest. Each officer and director has agreed to contract with the Company on the same or better terms and conditions than each would with unaffiliated third parties and to deal with the public for interior design work only through the Company. Each of these officers and directors will use their best judgments to resolve all potential conflicts. The other related business activities of our officers and directors involve sales limited to design professionals. We cannot guarantee that any potential conflicts can be avoided.

Our success will be dependent upon our management.

Our success will be dependent upon the decision making of our directors and executive officers. These individuals intend to commit as much time as necessary to our business, but this commitment is no assurance of success. The loss of any or all of these individuals, particularly Mr. and Mrs. Sheehan, could have a material, adverse impact on our operations. We have no written employment agreements with any officers and directors, including Mr. and Mrs. Sheehan. We have not obtained key man life insurance on the lives of any of these individuals.

We face substantial competition from numerous sources, many of which have access to better resources.

Competition in sale of art work and interior design services is intense. We compete with a diverse group of competitors ranging from internet businesses to traditional brick-and-mortar companies, many of which have greater resources than we do. We believe that barriers to entry in this business are not significant and start-up costs are relatively low, so our competition may increase in the future. Our belief that there are minimal barriers to entry is based on our observation that operations such as ours do not require the ownership of warehouses, showrooms or factories to operate, which we think is because (i) our direct ship business can be operated with minimal warehousing needs and costs, which are significantly less than traditional models, (ii) wholesale product orders can be placed after receipt of client orders, in order to further reduce warehousing needs, (iii) samples can be shown to clients at little or no cost, without the necessity of showroom space for actual product, (iv) if a competitor wants showroom space, it is typically available for lease at competitive rates in most United States markets, and (v) all manufacturing can be done by third party suppliers, so there is no need to own or lease a manufacturing facility. New competitors may be able to launch new businesses similar to ours, and current competitors may replicate our business model, at a relatively low cost. If competitors with significantly greater resources than ours decide to replicate our business model, they may be able to quickly gain recognition and acceptance of their business methods, products and services through marketing and promotion. We may not have the resources to compete effectively with current or future competitors. If we are unable to effectively compete, we will lose sales to our competitors and our revenues will decline.

Our directors have the ability to significantly influence any matters to be decided by the stockholders, which may prevent or delay a change in control of our company.

The current members of our Board of Directors beneficially own, in the aggregate, approximately 83% of our common stock, on a fully diluted basis. As a result, if they choose to vote in concert, our directors are collectively able to significantly influence the outcome of any corporate matters submitted to our stockholders for approval, including any transaction that might cause a change in control, such as a merger or acquisition. It is unlikely that stockholders in favor of a matter, which is opposed by the Board of Directors, would be able to obtain the number of votes necessary to overrule the vote of the Board of Directors. Further, the control by the directors means that they may make decisions for us with which you may disagree or that you may feel is not in our best interests.

We may need to substantially increase our marketing efforts in order to grow our business, which is expensive.

In order to grow our business, we will need to develop and maintain widespread recognition and acceptance of our company, our business model, our services and our products. We believe that we have presented our service and product offering to only a small percentage of the potential market. Currently, we rely primarily on word of mouth from our existing clients and contacts we develop personally through industry events to promote and market ourselves. In order to successfully grow our company, we may need to significantly increase our financial commitment to creating awareness and acceptance of our company among retailers, which would be expensive. In fiscal year 2005, marketing and advertising expenses were negligible. If we fail to successfully market and promote our business, we could lose current clients to our competitors, or our growth efforts may be ineffective. If we incur significant expenses promoting and marketing ourselves, it could cause our profitability to decline.

Our business is not diversified, which could result in significant fluctuations in our operating results.

All of our business is involved in the marketing of art work products and interior design services, and, accordingly, is dependent upon trends in the interior design sector. Downturns in the interior design sector could have a material adverse effect on our business. A downturn in the interior design sector may reduce our stock price, even if our business is successful.

Buying low-priced penny stocks is very risky and speculative.

Our common stock is defined as a penny stock under the Securities and Exchange Act of 1934, and rules of the Commission. The Exchange Act and such penny stock rules generally impose additional sales practice and disclosure requirements on broker-dealers who sell our securities to persons other than certain accredited investors who are, generally, institutions with assets in excess of \$5,000,000 or individuals with net worth in excess of \$1,000,000 or annual income exceeding \$200,000, or \$300,000 jointly with spouse, or in transactions not recommended by the broker-dealer. For transactions covered by the penny stock rules, a broker-dealer must make a suitability determination for each purchaser and receive the purchaser's written agreement prior to the sale. In addition, the broker-dealer must make certain mandated disclosures in penny stock transactions, including the actual sale or purchase price and actual bid and offer quotations, the compensation to be received by the broker-dealer and certain associated persons, and deliver certain disclosures required by the Commission. Consequently, the penny stock rules may affect the ability of broker-dealers to make a market in or trade our common stock and may also affect your ability to resell any shares you may purchase in the public markets.

Our common stock currently has no trading market and there is no guarantee a trading market will ever develop for our securities.

There is presently no demand for our common stock. While we do intend to apply for quotation in the Over-the-Counter Bulletin Board, we cannot guarantee that our application will be approved and our stock listed and quoted for sale. If no market is ever developed for our common stock, it will be difficult for you to sell any shares you purchase. In such a case, you may find that you are unable to achieve any benefit from your investment or liquidate your shares without considerable delay, if at all. In addition, if we fail to have our common stock quoted on a public trading market, your common stock will not have a quantifiable value and it may be difficult, if not impossible, to ever resell your shares, resulting in an inability to realize any value from your investment.

The over-the-counter market for stock such as ours has had extreme price and volume fluctuations.

The securities of companies such as ours have historically experienced extreme price and volume fluctuations during certain periods. These broad market fluctuations and other factors, such as new product developments and trends in the our industry and in the investment markets generally, as well as economic conditions and quarterly variations in our operational results, may have a negative effect on the market price of our common stock.

All of our common stock is restricted but could become eligible for resale under Rule 144; this could cause the market price of our common stock to drop significantly, even if our business is doing well.

Of our total outstanding shares, 10,300,000 or approximately 95% are restricted from immediate resale but may be sold into the market subject to volume and manner of sale limitations under Rule 144 beginning in May, 2008. This could cause the market price of our common stock to drop significantly, even if our business is doing well. We have outstanding 10,820,600 shares of common stock outstanding at November 1, 2008. This includes the common shares which we sold to the public in our recent public offering, which may be resold in the public market immediately.

As restrictions on resale end, the market price of our stock could drop significantly if the holders of restricted shares sell them or are perceived by the market as intending to sell them.

We do not expect to pay dividends on common stock.

We have not paid any cash dividends with respect to our common stock, and it is unlikely that we will pay any dividends on our common stock in the foreseeable future. Earnings, if any, that we may realize will be retained in the business for further development and expansion.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None



ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1*	Articles of Incorporation
3.2*	Amended and Restated Articles of Incorporation
3.3*	Bylaws
31.1	Certification of CEO/CFO pursuant to Sec. 302
32.1	Certification of CEO/CFO pursuant to Sec. 906

\* Previously filed with Form SB-2 Registration Statement, July 25, 2006.

Reports on Form 8-K

We filed no under cover of Form 8K for the fiscal quarter ended September 30, 2008.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized on NOVEMBER 13, 2008.

Art Design, Inc.

By: /s/ Kathy Sheehan  
Kathy Sheehan, President and Chief Executive and Financial  
Officer