

INNOVATIVE DESIGNS INC
Form 10-Q
March 15, 2010

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, 2010

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: 000-51791

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

Delaware
(State or other jurisdiction of
incorporation or organization)

03-0465528
(I.R.S. Employer
Identification No.)

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

(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

As of March 12, 2010, there were 18,703,743 shares of the Registrant's common stock, par value \$.0001 per share, outstanding.

Transitional Small Business Disclosure Format: YES NO

Innovative Designs, Inc.

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ITEM 1. CONDENSED FINANCIAL STATEMENTS

INNOVATIVE DESIGNS, INC.

CONDENSED BALANCE SHEETS

January 31, 2010 (Unaudited) and October 31, 2009

| | 2010 | 2009 |
|--|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 218,175 | \$ 26,872 |
| Accounts receivable | 194,567 | 119,123 |
| Inventory | 630,422 | 811,730 |
| Deposits on inventory | 136,758 | 123,312 |
| Total current assets | 1,179,922 | 1,081,037 |
| PROPERTY AND EQUIPMENT, NET | 1,402 | 4,642 |
| TOTAL ASSETS | \$ 1,181,324 | \$ 1,085,679 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 61,403 | \$ 53,983 |
| Current portion of notes payable | 96,774 | 177,029 |
| Accrued interest expense | 94,000 | 98,800 |
| Accounts payable - related party | 28,220 | 28,220 |
| Related party debt | 63,000 | 84,000 |
| Shareholders advances | 206,364 | 214,764 |
| Accrued expenses | 896 | 896 |
| Total current liabilities | 550,657 | 657,692 |
| LONG-TERM LIABILITIES: | | |
| Long-term portion of notes payable | 380,930 | 388,928 |
| Total long term liabilities | 380,930 | 388,928 |
| TOTAL LIABILITIES | 931,587 | 1,046,620 |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, \$.0001 par value, 100,000,000 shares authorized | | |
| Common stock, \$.0001 par value, 500,000,000 shares authorized, 18,703,743 shares issued and outstanding | 1,873 | 1873 |
| Additional paid in capital | 5,638,018 | 5,638,018 |
| Accumulated deficit | (5,390,154) | (5,600,832) |
| Total stockholders' equity | 249,737 | 39,059 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 1,181,324 | \$ 1,085,679 |

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

INNOVATIVE DESIGNS, INC.

STATEMENTS OF OPERATIONS
(Unaudited)For the Three Months Ended
January 31, 2010 January 31, 2009

| | | |
|---|------------|------------|
| REVENUE | \$ 636,676 | \$ 591,164 |
| OPERATING EXPENSES: | | |
| Cost of sales | 264,572 | 255,150 |
| Selling, general and administrative expenses | 149,528 | 105,439 |
| | 414,100 | 360,589 |
| Income from operations | 222,576 | 230,575 |
| INTEREST EXPENSE | (11,898) | (5,465) |
| Net income | \$ 210,678 | \$ 225,110 |
| Per share information - basic and fully diluted | | |
| Weighted Average Shares Outstanding | 18,646,743 | 18,449,910 |
| Net income per share | .011 | .012 |

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

INNOVATIVE DESIGNS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)
January 31, 2010 (Unaudited) and October 31, 2009

| | Common Stock Shares | Amount | Additional Paid in Capital | Retained Deficit | Total |
|---|------------------------|----------|-------------------------------|------------------|-------------|
| Balance at October 31, 2008 | 18,455,243 | \$ 1,846 | \$ 5,565,045 | \$ (5,622,832) | \$ (55,941) |
| Shares issued for services | 185,500 | 21 | 54,779 | - | 54,800 |
| Shares issued for cash | 90,000 | 9 | 28,991 | - | 29,000 |
| Return of shares for non-performance of services | (27,000) | (3) | (10,797) | - | (10,800) |
| Net income | - | - | - | 22,000 | 22,000 |
| Balance at October 31, 2009 | 18,703,743 | 1,873 | 5,638,018 | (5,600,832) | 39,059 |
| Net income | - | - | - | 210,678 | 210,678 |
| Balance at January 31, 2010 | 18,703,743 | \$ 1,873 | \$ 5,638,018 | \$ (5,390,154) | \$ 249,737 |

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, 2010 January 31, 2009**CASH FLOWS FROM OPERATING ACTIVITIES**

| | | |
|---|------------|------------|
| Net income | \$ 210,678 | \$ 225,110 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Common stock issued for services | - | 450 |
| Depreciation and amortization | 3,240 | 1,197 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (75,444) | (75,867) |
| Inventory | 181,308 | (52,315) |
| Deposit on inventory | (13,446) | 251,183 |
| Accounts payable | 7,420 | (50,848) |
| Accrued expenses | - | (14,713) |
| Accrued interest expense | (4,800) | - |
| Customer deposits | - | (9,823) |
| Net cash provided by operating activities | 308,956 | 274,374 |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|---|-----------|-----------|
| Payments on note payable | (88,253) | (57,405) |
| Payment on related party debt | (21,000) | (33,000) |
| Payment of shareholder advances | (8,400) | (55,936) |
| Common stock issued for cash | - | 27,000 |
| Net cash (used in) provided by financing activities | (117,653) | (119,341) |

| | | |
|----------------------|------------|------------|
| Net increase in cash | \$ 191,303 | \$ 155,033 |
|----------------------|------------|------------|

| | | |
|--------------------------|------------|------------|
| Cash - beginning of year | \$ 26,872 | \$ 22,523 |
| Cash - end of period | \$ 218,175 | \$ 177,556 |

Supplemental cash flow information:

| | | |
|------------------------|-----------|----------|
| Cash paid for interest | \$ 11,898 | \$ 5,465 |
|------------------------|-----------|----------|

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

INNOVATIVE DESIGNS, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
For the Three Month Period Ended January 31, 2010

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, 2009. 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, 2010 or any future period.

2. FASB ACCOUNTING STANDARDS CODIFICATION TOPIC 718 SHARE-BASED PAYMENT (FASB ASC 718)

FASB ASC 718 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 Accounting Standard Codification does not change the accounting guidance for share-based payment transactions with parties other than employees provided in FASB ASC 718 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 Accounting Standard Codification 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 FASB ASC 718 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 FASB ASC Topic 260, 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
For the Three Month Period Ended January 31, 2010

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 had experienced significant losses from operations. However, the Company's 2008 operations resulted in net income of \$22,000 and during the first quarter of 2010, the Company had net income of approximately \$211,000. This positive trend from operations has helped decrease the Company accumulated deficit which was \$5,390,154 at January 31, 2010.

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.

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.

On March 31, 2009, Eliotex, srl ("Eliotex") and Elio Cattan ("Cattan") filed a Motion to Strike Assignment and Satisfaction of Judgment in the Court of Common Pleas of Allegheny County, Pennsylvania at Case No. GD-06-011327. The Motion requests that the Court invalidate State Court execution proceedings on the default judgment entered against Eliotex and Cattan by Greystone, Inc. ("Greystone") by which Greystone purchased at Sheriff Sale the default judgment against IDI entered in favor of Eliotex and Cattan in Italian arbitration proceedings and confirmed by the District Court. The Motion further requests that the Court strike the purchase of an assignment of that judgment from Greystone, and its subsequent satisfaction, by Elite Properties, LLC. IDI consented to the issuance of a Rule to Show Cause why the relief should not be granted.

INNOVATIVE DESIGNS, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
For the Three Month Period Ended January 31, 2010

On June 10, 2009, Eliotex and Cattan filed a Verification to their Motion. IDI filed its Answer to Rule to Show Cause on June 23, 2009. Eliotex and Cattan conducted no discovery within the 60 day time period provided for by the Order issuing the Rule, and no oral argument on the Rule has been requested. The Motion is dormant and likely to remain so for the foreseeable future.

On January 22, 2010, counsel for IDI and Eliotex/Cattan participated in a oral argument before the Honorable R. Stanton Wettick, Jr. of the Court of Common Pleas of Allegheny County, Pennsylvania on the Rule to Show Cause regarding Eliotex/Cattan's Motion to Strike Assignment of Judgement. The Judge heard arguments, and has asked the parties to brief two issues: (1) whether Eliotex/Cattan has standing to challenge the assignment from Greystone to Elite Properties; and (2) whether the dealings between IDI and Greystone constitute champerty and maintenance.

Counsel for IDI is confident that the Motion will be adjudicated in favor of Innovative Designs, Inc. The Motion is based on the grounds that the District Court expressly refused to adopt, and is being adjudicated by Judge Wettick,, who in 2007 upheld the propriety of the execution proceedings at the time of a prior challenge by Eliotex/Cattan.

5. INCOME TAXES

The Company follows FASB ASC Topic 740 "Accounting for Income Taxes." Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in asset or liability each period. The Company has net operating losses (NOLs) carry forwards that can be used to eliminate the tax liability in the current period and therefore no tax liability or tax provision is reflected in these current quarterly financial statements.

The Company will continue to evaluate its income tax obligation throughout the year and will record a tax provision when it is necessary.

6. SUBSEQUENT EVENTS

The Company has evaluated subsequent events in accordance with Accounting Standards Codification Topic 855, Subsequent Events, through March 12, 2010, which is the date financial statements were available to be issued. During the evaluation no subsequent event items were identified by the Company.

INNOVATIVE DESIGNS, INC.

For the Three Month Period Ended January 31, 2010

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, 2010.

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.

For the Three Month Period Ended January 31, 2010

Results of Operations

Comparison of the Three Months Ended January 31, 2010 with the Three Months Ended January 31, 2009.

Revenues

The following table shows a comparison of the results of operations between the three months ended January 31, 2010 and three months ended January 31, 2009:

| | Three Months Ended January 31, 2010 | % of Sales | Three Months Ended January 31, 2009 | % of Sales | \$ Increase (Decrease) | % Change |
|---|---|---------------|---|---------------|---------------------------|----------|
| REVENUE | \$ 636,676 | 100% | \$ 591,164 | 100% | \$ 45,512 | 7.7% |
| OPERATING EXPENSES | | | | | | |
| Cost of sales | 264,572 | 41.6% | 254,700 | 43.1% | 9,872 | 3.9% |
| Selling, general and administrative expenses | 149,528 | 23.5% | 105,889 | 17.9% | 43,639 | 41.2% |
| Income (loss) from operations | 414,100 | 65.0% | 360,589 | 61.0% | 53,511 | 14.8% |
| OTHER INCOME (EXPENSE) | | | | | | |
| INTEREST EXPENSE | (11,898) | (1.9)% | (5,465) | (.9)% | (6,433) | (117.7)% |
| | (11,898) | (1.9)% | (5,465) | (.9)% | (6,433) | (117.7)% |
| Net income (loss) | \$ 210,678 | 33.1% | \$ 225,110 | 38.1% | \$ (14,432) | (6.4)% |

For the three months ended January 31, 2010, revenues were \$636,676 compared to revenues of \$591,164 for the three month period ended January 31, 2009. The increase in sales revenue for the three months ended January 31, 2010, over the corresponding period ending January 31, 2009, is a result of our selling more of our Artic Armor line of products. Nearly all of our sales are for this product line. As Artic Armor is a cold weather product line, as the weather changes from the cold seasons, our sales greatly decrease. During the quarter we continued to utilize television advertising which is very effective for our internet sales. We do not pay sales commissions on such sales.

Our selling, general and administrative expenses increased by approximately \$44,000 from the comparable three month period. The increase from the three month period ended January 31, 2009, was a result mostly of the following; an increase in professional fees of approximately \$12,000, salary expenses increased by \$15,000, increased selling commissions of approximately \$4,000, an increase in our loan repayments of approximately \$7,000, advertising cost increases of approximately \$2,700 and a rent payment caused by timing of approximately \$6,000.

INNOVATIVE DESIGNS, INC.

For the Three Month Period Ended January 31, 2010

In March 2010, we signed up two sales agencies agreements one that covers the state of Alaska and the other with a sale group that covers twenty-two states.

Liquidity and Capital Recourses

During the quarter ended January 31, 2010, we funded our operations from revenues from sales.

Short Term: We will continue to fund our operations from sales and short term borrowings from shareholders and others and the possible sale of our securities. We currently have no commercial credit facilities available to us. We continue to pay our creditors when payments are due.

Long Term: The Company will continue fund its operations from revenues, borrowings from private parties and the possible sale of our securities. We will continue to seek to obtain commercial lending, but our former bankruptcy filing and the general tight lending environment has made this task difficult. Should we not be able to rely on the private sources for borrowing, our operations would be severely effected as we would not be able to fund our purchase orders to our suppliers for finished goods. We continue to pursue commercial funding sources which would greatly assist our cash flow and allow us to expand our marketing efforts.

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. 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 second quarter of 2009, the Company hired an outside Certified Public Accountant to analyze and prepare the books and records on a quarterly basis. As such, only immaterial reclassifications were made during the first quarter of 2010.

Changes in Internal Control Over Financial Reporting

During the most recent fiscal quarter, there were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13(a)-15 or 15d-15 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

INNOVATIVE DESIGNS, INC.

For the Three Month Period Ended January 31, 2010

PART II

ITEM I. LEGAL PROCEEDINGS

During the period on January 22, 2010, counsel for IDI and Eliotex/Cattan participated in an oral argument before the Honorable R. Stanton Wettick, Jr. of the Court of Common Pleas of Allegheny County, Pennsylvania on the Rule to Show Cause regarding Eliotex/Cattan's Motion to Strike Assignment of Judgment. The Judge heard arguments, and has asked the parties to brief two issues: (1) whether Eliotex/Cattan have standing to challenge the assignment from Greystone to Elite Properties; and (2) whether the dealings between IDI and Greystone constitute champerty and maintenance.

Counsel for IDI is confident that the Motion will be adjudicated in favor of Innovative Designs, Inc. The Motion is based on the grounds that the District Court expressly refused to adopt, and is being adjudicated by Judge Wettick, who in 2007 upheld the propriety of the execution proceedings at the time of a prior challenge by Eliotex/Cattan.

ITEM 6. EXHIBITS

- *3.1 Certificate of Incorporation
- *3.2 By Laws
- 10.1A Form of Sales Agency Agreement
- 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

INNOVATIVE DESIGNS, INC.

For the Three Month Period Ended January 31, 2010

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 12, 2010

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