

INNOVATIVE DESIGNS INC  
Form 10-Q  
September 15, 2008

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 July 31, 2008

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 shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of July 31, 2008, there were 18,325,243 shares of the Registrant's common stock, par value \$.0001 per share, outstanding.

Transitional Small Business Disclosure Format: YES  NO

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Innovative Designs, Inc.

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**ITEM 1. CONDENSED FINANCIAL STATEMENTS****INNOVATIVE DESIGNS, INC.****CONDENSED BALANCE SHEETS**  
**July 31, 2008 (Unaudited) and October 31, 2007**

|   | 2008                | 2007                |
|---|---------------------|---------------------|
| <b><u>ASSETS</u></b>  |                     |                     |
| <b>CURRENT ASSETS:</b>  |                     |                     |
| Cash  | \$ 60,974           | \$ 6,555            |
| Accounts receivable   | 75,450              | 209,000             |
| Inventory   | 891,388             | 1,046,090           |
| Deposits on inventory   | 285,000             | -                   |
| Total current assets  | 1,312,812           | 1,261,645           |
| <b>PROPERTY AND EQUIPMENT, NET</b>  | <b>11,873</b>       | <b>13,752</b>       |
| <b>TOTAL ASSETS</b>   | <b>\$ 1,324,685</b> | <b>\$ 1,275,397</b> |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIT)</u></b>  |                     |                     |
| <b>CURRENT LIABILITIES:</b>   |                     |                     |
| Accounts payable  | \$ 8,399            | \$ 9,314            |
| Customer deposits   | 58,750              | -                   |
| Current portion of notes payable  | 166,295             | 300,742             |
| Accrued interest expense  | 98,405              | 91,995              |
| Accounts payable - related party  | 28,220              | 28,220              |
| Current portion of related party debt   | 113,200             | 146,000             |
| Due to shareholders   | 314,500             | 236,500             |
| Accrued expenses  | 21,340              | 4,476               |
| Accrued liability related to arbitration award  | -                   | 4,176,000           |
| Total current liabilities   | 809,109             | 4,993,247           |
| <b>LONG-TERM LIABILITIES:</b>   |                     |                     |
| Long-term portion of notes payable  | 400,007             | 411,426             |
| Total long term liabilities   | 400,007             | 411,426             |
| <b>TOTAL LIABILITIES</b>  | <b>1,209,116</b>    | <b>5,404,673</b>    |
| <b>STOCKHOLDERS' EQUITY/(DEFICIT):</b>  |                     |                     |
| Preferred stock, \$.0001 par value, 100,000,000 shares authorized   |                     |                     |
| Common stock, \$.0001 par value, 500,000,000 shares authorized, 18,325,243 and 17,096,193 shares issued and outstanding | 1,835               | 1,711               |
| Additional paid in capital  | 5,513,053           | 5,049,064           |
| Accumulated deficit   | (5,399,319)         | (9,180,051)         |
| Total stockholders' equity/(deficit)  | 115,569             | (4,129,276)         |

|  |    |           |    |           |
|--|----|-----------|----|-----------|
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY/(DEFICIT) | \$ | 1,324,685 | \$ | 1,275,397 |
|--|----|-----------|----|-----------|

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

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**INNOVATIVE DESIGNS, INC.**

**CONDENSED STATEMENTS OF OPERATIONS**  
Three Months Ended July 31, 2008 and 2007, Nine Months Ended July 31, 2008 and 2007  
(Unaudited)

|   | Three Months Ended July 31, |             | Nine Months Ended July 31, |             |
|---|-----------------------------|-------------|----------------------------|-------------|
|   | 2008                        | 2007        | 2008                       | 2007        |
| <b>REVENUE</b>                                  | \$ 85,141                   | \$ 35,093   | \$ 353,457                 | \$ 293,727  |
| <b>OPERATING EXPENSES:</b>                      |                             |             |                            |             |
| Cost of sales                                   | 74,127                      | 20,354      | 382,425                    | 124,300     |
| Non-cash stock compensation                     | 14,000                      | -           | 23,600                     | 6,000       |
| Selling, general and administrative expenses    | 84,055                      | 63,254      | 308,128                    | 197,606     |
|   | 172,182                     | 83,608      | 714,153                    | 327,906     |
| <b>Loss from operations</b>                     | (87,041)                    | (48,515)    | (360,696)                  | (34,179)    |
| <b>OTHER INCOME AND (EXPENSE):</b>              |                             |             |                            |             |
| Interest income (expense)                       | (566)                       | (3,851)     | (34,572)                   | (30,495)    |
| Reversal of arbitration award                   | 4,176,000                   | -           | 4,176,000                  | -           |
| Total other income and (expense)                | 4,175,434                   | (3,851)     | 4,141,428                  | (30,495)    |
| <b>NET INCOME/(LOSS)</b>                        | \$ 4,088,393                | \$ (52,366) | \$ 3,780,732               | \$ (64,674) |
| Per share information - basic and fully diluted |                             |             |                            |             |
| Weighted Average Shares                         |                             |             |                            |             |
| Outstanding                                     | 18,034,743                  | 16,906,193  | 18,052,743                 | 16,902,304  |
| Net income/(loss) per share                     | \$ 22.7                     | \$ (.003)   | \$ 20.9                    | \$ (.003)   |

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

**INNOVATIVE DESIGNS, INC.****CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY/(DEFICIT)**  
**July 31, 2008 (Unaudited) and October 31, 2007**

|  | Common Stock<br>Shares | Amount   | Additional<br>Paid in Capital | Retained Deficit | Total       |
|--|------------------------|----------|-------------------------------|------------------|-------------|
| Balance at October 31, 2006              | 16,901,193             | \$ 1,691 | \$ 4,971,084                  | \$ (9,233,144)   | (4,260,369) |
| Shares issued for services               | 15,000                 | 2        | 5,998                         | -                | 6,000       |
| Services performed - shares to be issued | 180,000                | 18       | 71,982                        | -                | 72,000      |
| Net income                               | -                      | -        | -                             | 53,093           | 53,093      |
| Balance at October 31, 2007              | 17,096,193             | 1,711    | 5,049,064                     | (9,180,051)      | (4,129,276) |
| Shares issued for services               | 239,000                | 8        | 83,192                        | -                | 83,200      |
| Shares issued for cash                   | 840,050                | 101      | 328,312                       | -                | 328,413     |
| Shares issued for extinguishment of debt | 150,000                | 15       | 521,485                       | -                | 52,500      |
| Net income                               | -                      | -        | -                             | 3,780,732        | 3,780,732   |
| Balance at July 31, 2008                 | 18,325,243             | \$ 1,835 | \$ 5,513,053                  | \$ (5,399,319)   | 115,569     |

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

**INNOVATIVE DESIGNS, INC.**

**CONDENSED STATEMENTS OF CASHFLOW**  
**For the Nine Months Ended July 31, 2008 and 2007**  
**(Unaudited)**

|  | For the Nine Months Ended |               |
|--|---------------------------|---------------|
|  | July 31, 2008             | July 31, 2007 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                           |               |
| Net income (loss)  | \$ 3,780,732              | \$ (64,674)   |
| Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities: |                           |               |
| Common stock issued for services   | 23,600                    | 6,000         |
| Depreciation and amortization  | 1,879                     | 9,380         |
| Changes in operating assets and liabilities:   |                           |               |
| Accounts receivable  | 133,550                   | 236,276       |
| Inventory  | 154,702                   | (77,069)      |
| Deposits on inventory  | (285,000)                 | -             |
| Accounts payable   | (915)                     | -             |
| Accrued expenses   | 16,864                    | (2,592)       |
| Customer deposits  | 58,750                    | 9,000         |
| Deferred revenue   | -                         | (213,781)     |
| Accrued interest on notes payable  | 6,410                     | -             |
| Accrued liability related to arbitration   | (4,176,000)               | -             |
| Net cash used in operating activities  | (285,428)                 | (97,460)      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                           |               |
| Payments on note payable   | (54,866)                  | (104,149)     |
| Payment of notes payable-related party   | (32,800)                  | -             |
| Shareholder advances (payments)  | 78,000                    | 143,000       |
| Common stock issued for cash   | 349,513                   | -             |
| Net cash provided by financing activities  | 339,847                   | 38,851        |
| Net increase (decrease) in cash  | \$ 54,419                 | \$ (58,609)   |
| Cash - beginning of year   | 6,555                     | 66,275        |
| Cash - end of period   | \$ 60,974                 | \$ 7,666      |
| <b>Supplemental cash flow information:</b>   |                           |               |
| Cash paid for interest   | \$ 566                    | \$ 5,076      |

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



**INNOVATIVE DESIGNS, INC.**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

July 31, 2008

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-KSB for the fiscal year ended October 31, 2007. 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, 2008 or any future period.

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

In December 2004, FASB issued SFAS 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

July 31, 2008

4. GOING CONCERN

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 has experienced a significant loss from operations as a result of its investment necessary to achieve its operating plan, which is long-range in nature. For the nine month period ended July 31, 2008 and 2007, the Company incurred a net income/(loss) of \$3,780,732 and (\$30,495), respectively. The net income for the three months ended July 31, 2008 is primarily comprised of the reversal of the arbitration award of \$4,176,000 due to the dismissal of the bankruptcy against the Company, as discussed below. The Company incurred significant losses, which included the recording of the arbitration award of \$4,176,000, since inception resulting in a retained deficit of (\$5,399,319) at July 31, 2008. The Company has working capital of \$503,703 and (\$3,920,269) and a stockholders' equity/(deficit) of \$115,569 and (\$4,319,043) at July 31, 2008 and 2007, respectively.

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 November 2, 2007, the Company participated in oral argument before a three-judge panel of the United States Court of Appeals for the Third Circuit regarding its appeal from the Orders of the Honorable Arthur J. Schwab finding Innovative Designs bound to the terms of an arbitration clause set forth in a contract to which it was not a party, and recognizing and enforcing a foreign arbitral award purportedly entered by default in arbitration proceedings in Italy. No one participated in oral argument on behalf of the Appellees, Elio D. Cattan ("Cattan") and Eliotex, SRL ("Eliotex"), and no appeal brief was ever filed on their behalf. During 2008, the Court ruled that the issue was moved.

Greystoner Inc., which purchased the judgment at Sheriff Sale on September 5, 2007, subsequently sold the judgment by assignment to a Pennsylvania LLC controlled by an affiliate of our Chief Executive Officer at the behest of the Company. The Company has elected not to cause the judgment entered by Judge Schwab to be satisfied of record at this time, in order not to moot its appeal Innovative Designs is confident in its position, and seeks vindication by the Third Circuit. The Company has an understanding by which it may purchase and satisfy the judgment at a time of its choosing. In the opinion of legal counsel, the judgment no longer represents a threat to the legal or economic viability of the Company. Once the appeal has been determined, the Company will request the judgment be satisfied of record.

**INNOVATIVE DESIGNS, INC.**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS  
July 31, 2008

The Company does have the right to administratively reopen the case for the purpose of adjudicating the claims it originally brought in the action, seeking, inter alia, a Declaration of Non-Infringement of the Cattan/Eliotex patent and a Declaration the patent is null and void under applicable U.S. law. No decision has yet been made as to whether or not to pursue further relief before Judge Schwab. Neither Cattan, Eliotex nor their counsel has played any role in the case subsequent to the filing of the Company's appeal.

United States Bankruptcy Court for the Western District of Pennsylvania  
Case No. 06-23921-MBM

On September 24, 2007, the Company filed a Motion to Dismiss the bankruptcy case initiated by Cattan and Eliotex, citing the fact that the Petitioning Creditors no longer own any interest in the judgment which formed the basis of their claim, and asserting that the Petitioning Creditors no longer had standing to pursue the claims, or, hence, the case.

On October 22, 2007, the Company filed Objections to Claims Nos. 1, 2, 3, 4 and 5, asserting that the instant claims, representing the claims of each of the Petitioning Creditors, were improper and null and void, as the judgment which formed the basis of those claims was no longer owned by any of the Petitioning Creditors, and hence the Petitioning Creditors had no standing to pursue the claims further.

On October 26, 2007, a Stipulation between the Petitioning Creditors and the Company was entered seeking a Stipulated Order of Dismissal of the bankruptcy case, which Order was signed by the Honorable Chief Bankruptcy Court Judge M. Bruce McCullough on October 31, 2007- the Company is no longer in bankruptcy, and notice to that effect was immediately transmitted to the appropriate regulatory bodies.

United States District Court for the Western District of Pennsylvania  
Case No. 06-00582-AJS

This case was filed by Cattan and Eliotex seeking relief ancillary to the judgment obtained by Cattan and Eliotex against the Company, which judgment, as aforesaid, was subsequently purchased at Sheriff Sale by Greystone, Inc. and subsequently sold to a Pennsylvania LLC owned by a related party.

Counsel for Cattan and Eliotex has indicated to counsel for the Company that it has requested authority from Cattan and Eliotex to dismiss the action with prejudice and, failing that, to seek leave to withdraw as counsel for Cattan and Eliotex.

On October 29, 2007, Cattan and Eliotex's counsel filed a Motion to Withdraw as Attorneys for Plaintiff. Judge Schwab denied the Motion until such time as Cattan and Eliotex have secured substitute counsel. The case remained in limbo as Cattan and Eliotex had taken no action to secure substitute counsel. The Company believed much, if not all, of the averments made in the Complaint have been rendered moot by the subsequent purchase and assignment of the Cattan/Eliotex judgment. The Company was not directly implicated in this suit.

**INNOVATIVE DESIGNS, INC.**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS  
July 31, 2008

The Company no longer faces any legal or financial jeopardy as a result of the Cattan/Eliotex litigation, is no longer in bankruptcy and has been able to resume its business operations in earnest.

The judgment entered against it by Elio Cattan and Eliotex SRL, subsequently executed upon and sold to Greystone, Inc., and assigned in turn to Elite Properties LLC, has been satisfied.

Notice of the satisfaction of the judgment has been filed in both the Court of Common Pleas of Allegheny County, Pennsylvania and in the United States District Court for the Western District of Pennsylvania. The Honorable Arthur J. Schwab has closed the last remaining action pending against IDI and its CEO, Joseph Riccelli. Accordingly, the obligation for \$4,176,000 for the arbitration award was removed from the books during the third quarter ended July 31, 2008.

## 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-KSB for the fiscal year ended October 31, 2007.

### 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 "Arctic 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:

- Raising funding either through the sale of our common stock or through borrowing;
  - Developing and evolving our marketing plan;
- Completing the development, design and prototypes of our products, and
- Obtaining retail stores or sales agents to offer and sell our products.

In November 2006, we were placed into involuntary Chapter 7 bankruptcy proceeding which was subsequently converted to a Chapter 11 proceeding. On October 31, 2007, we were dismissed from the bankruptcy proceeding.

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

### Results of Operations

Comparison of the Three Months Ended July 31, 2008 with the Three Months Ended July 31, 2007.

#### Revenues

The following table shows a comparison of the results of operations between the three months ended July 31, 2008 and three months ended July 31, 2007:

|  | Three Months<br>Ended<br>July 31, 2008 | % of<br>Sales | Three Months<br>Ended<br>July 31, 2007 | % of<br>Sales | \$ Increase<br>(Decrease) | % Change |
|--|--|---------------|--|---------------|---------------------------|----------|
| REVENUE                                      | \$ 85,141                              | 100%          | \$ 35,093                              | 100%          | \$ 50,048                 | 58.8%    |
| <b>OPERATING EXPENSES</b>                    |  |               |  |               |                           |          |
| Cost of sales                                | 74,127                                 | 87.1%         | 20,354                                 | 58.0%         | 53,773                    | 72.5%    |
| Non-stock compensation                       | 14,000                                 | 16.4%         | -                                      | -             | 14,000                    | 100%     |
| Selling, general and administrative expenses | 84,055                                 | 98.7%         | 63,254                                 | 180.2%        | 20,801                    | 24.7%    |
|  | 172,182                                | 202.2%        | 83,608                                 | 238.2%        | 88,574                    | 106%     |
| Income (loss) from operations                | (87,041)                               | (102.2)%      | (48,515)                               | (138.2)%      | (38,526)                  | (44.3)%  |
| <b>OTHER INCOME (EXPENSE)</b>                |  |               |  |               |                           |          |
| Interest income (expense)                    | (566)                                  | (1)%          | (3,851)                                | (10.9)%       | 3,285                     | (580.3)% |
| Reversal of arbitration award                | 4,176,000                              | -             | -                                      | -             | 4,176,000                 | 100%     |
|  | 4,175,434                              | 4,904.1%      | (3,851)                                | (10.9)%       | 4,179,285                 | 100.1%   |
| Net income (loss)                            | \$ 4,088,393                           | 4,801.9%      | \$ (52,366)                            | (149.2)%      | \$ 4,140,759              | 101.3%   |

#### Three Months ended July 31, 2008 and 2007

Revenues for the three months ended July 31, 2008, were \$85,141 compared to \$35,093 for the three months ended July 31, 2007. The increase in revenue is a result of more retailers selling our products. Cost of Sales as of July 30, 2008 includes the sales of certain products the Company no longer markets. Consequently, these products were sold below our cost which resulted in a loss from this sale of approximately \$14,000. Because of our adverse financial condition as a result of our being in bankruptcy, we are only offering our cold weather products, Artic Armor and our hunting line. Therefore, there is a very seasonal nature to our sales cycle. We do anticipate purchases to be much greater for the next three month period. As discussed below, we do have written orders for delivery late in the year and as the year progresses, we expect orders to continue to increase as the cold season approaches. Included in net income for the three months ended July 31, 2008 is the reversal of the arbitration award in the amount of \$4,176,000. This matter is further discussed in the notes to the condensed financial statements



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

The following table shows a comparison of the results of operations between the nine months ended July 31, 2008 and nine months ended July 31, 2007:

|  | Nine Months<br>Ended<br>July 31, 2008 | % of<br>Sales | Nine Months<br>Ended<br>July 31, 2007 | % of<br>Sales | \$ Increase<br>(Decrease) | % Change |
|--|---------------------------------------|---------------|---------------------------------------|---------------|---------------------------|----------|
| REVENUE                                      | \$ 353,457                            | 100%          | \$ 293,727                            | 100%          | \$ 52,730                 | 14.9%    |
| <b>OPERATING EXPENSES</b>                    |                                       |               |                                       |               |                           |          |
| Cost of sales                                | 382,425                               | 108.2%        | 124,300                               | 42.3%         | 258,125                   | 67.5%    |
| Non-stock compensation                       | 23,600                                | 6.7%          | 6,000                                 | 20.4%         | 17,600                    | 74.6%    |
| Selling, general and administrative expenses | 308,128                               | 87.1%         | 197,606                               | 67.3%         | 110,522                   | 35.9%    |
|  | (714,153)                             | (202)%        | 327,906                               | 111.6%        | (1,042,059)               | (145.9)% |
| Income (loss) from operations                | (360,696)                             | (102)%        | (34,179)                              | (11.6)%       | (326,517)                 | (90.5)%  |
| <b>OTHER INCOME (EXPENSE)</b>                |                                       |               |                                       |               |                           |          |
| Interest income (expense)                    | (34,572)                              | (9.8)%        | (30,495)                              | (10.4)%       | (4,077)                   | 11.8%    |
| Reversal of arbitration award                | 4,176,000                             | 1,181.4%      |                                       |               | 4,176,000                 | 100%     |
|  | 4,141,428                             | 1,171.7%      | (30,495)                              | (10.4)%       | 4,171,923                 | 100.7%   |
| Net (loss) income                            | \$ 3,780,732                          | 1,070%        | \$ (64,674)                           | (22.0)%       | \$ 3,845,406              | 101.7%   |

Nine Months ended July 31, 2008 and 2007

Revenues for the nine months ended July 31, 2008, were \$353,456 compared to \$293,727 for the nine months ended July 31, 2007. Cost of Sales as of July 30, 2008 includes the sales of certain products the Company no longer markets. Consequently, these products were sold below our cost which resulted in a loss from this sale of approximately \$14,000. The increase was due primarily to our use of sales agents who were familiar with the industries that had a need for our Artic Armor line of products and the fact that more retailers are carrying our cold weather product lines. Most of our sales for the nine month period ended July 31, 2008, were for our Artic Armor product line.

Included in net income for the nine months ended July 31, 2008 is the reversal of the arbitration award in the amount of \$4,176,000. This matter is further discussed in the notes to the condensed financial statements.



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

As of September 12, 2008, we had written orders for approximately \$290,000 of our products. The orders are from retail customers and deliveries are scheduled for October, November and December of 2008. The orders do not require any monetary deposit and can be cancelled by the customer at any time.

### **Liquidity and Capital Resources**

During the quarter ended July 31, 2008, we funded our operations with revenues from sales, loans from our Chief executive Officer and sales of our common stock 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 has been adversely affected by our former status in bankruptcy.

**Short Term:** We funded our operations with revenues from sales, loans from our Chief Executive Officer and sales of our common stock in private transactions. Our ability to obtain outside funding of either debt or equity has been adversely affected by our former status in bankruptcy. Further, the bankruptcy status has resulted in customers reducing their sales activity or ceasing to do business with us or all together. The loss of this revenue had an adverse impact on the Company's short term liquidity. 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 other industries that have a need for our cold weather products.

**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.

## ITEM 4T. 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 July 31, 2008 and, based on their evaluation, our principal executive and financial officers have concluded that these controls and procedures are operating effectively. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports we file under the Exchange Act is accumulated and communicated to management, including the principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

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

## PART II

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

On November 1, 2007, we issued a total of 425,000 shares of our common stock for cash for \$.35 a share. Based on the closing price, the value of the common stock issued was \$148,750. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities act of 1933, as amended.

On November 3, 2007, we issued 110,000 shares of our common stock to a noteholder in exchange for the note. The closing price of our common stock on that date was \$.35 per share making the value of the transaction \$38,500. The shares were issued without registration pursuant to the exemption provided by Section 4 (2) of the Securities Act of 193, as amended.

On November 3, 2007, we issued a total of 31,000 shares of our common stock to a total of two consultants for their services. The closing price of our common stock on that date was \$.40. Based on the closing price, the value of the common stock issued was \$12,400. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On November 3, 2007, we issued a total of 47,150 shares of our common stock for cash for \$.40 a share. Based on the closing price, the value of the common stock issued was \$18,860. 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 1, 2007, we issued each of our director's except our CEO and Chairman of the Board 25,000 shares of our common stock for their services. We also issued 25,000 shares to our Vice-president Sales, 80,000 shares to one of our legal counsel for their services and 25,000 shares for marketing services. The closing price of our common stock was \$.40 per share. Based on the closing price, the value of the shares issued was \$62,000. 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 2, 2007, we issued a total of 118,800 shares of our common stock to five investors in a private placement. Total proceeds were \$50,335. The shares were issued without registration pursuant to the exemption provided in Section 506 of regulation D, promulgated under the Securities Act of 1933, as amended as an offering to "accredited investors" as that term is defined in Regulation D.

On January 4, 2008, we issued 30,375 shares of our common stock for cash. The proceeds were \$13,669. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On January 7, 2008, we issued 40,000 shares of our common stock in exchange for debt. The closing price of our common stock on that date was \$.35 per share. Based on the closing price, the value of the stock was \$14,000. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On February 29, 2008, we issued 110,000 shares of our common stock in exchange for debt and accrued interest for \$.35 per share. Based on the closing price, the value of the stock was \$38,500. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On February 29, 2008, we issued 11,100 shares of our common stock for cash for \$.45 per share or \$4,995. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On March 18, 2008, we issued 18,000 shares of our common stock for professional services for \$.40 per share or \$7,200. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On May 23, 2008, we issued 25,000 shares of our common stock for consulting services for \$.40 per share or \$10,000. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On June 30, 2008, we issued 10,000 shares of our common stock for consulting services for \$.40 per share or \$4,000. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On June 30, 2008, we issued 62,500 shares of our common stock for cash for \$.40 per share or \$25,000. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On July 8, 2008, we issued 125,000 shares of our common stock for cash for \$.40 per share or \$50,000. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On July 29, 2008, we issued 50,000 shares of our common stock for cash for \$.40 per share or \$20,000. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

ITEM 5. OTHER INFORMATION

Effective March 19, 2008, our Chief Executive Officer temporarily assumed the duties of Chief Financial Officer and Principal Accounting Officer.

ITEM 6. EXHIBITS

\*3.1 Certificate of Incorporation

\*3.2 By Laws

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

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SIGNATURE

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: September 15, 2008

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

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