

INNOVATIVE DESIGNS INC
Form 10-Q
June 14, 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 April 30, 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 June 6, 2010, there were 18,710,743 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
April 30, 2010 (Unaudited) and October 31, 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash	\$ 109,613	\$ 26,872
Accounts receivable	61,247	119,123
Inventory	520,004	811,730
Deposits on inventory	354,917	123,312
Total current assets	1,045,781	1,081,037
LONG-TERM ASSETS		
Net deferred income tax asset	-	-
Property and equipment - net	812	4,642
Total long-term assets	812	4,642
TOTAL ASSETS	\$ 1,046,593	\$ 1,085,679
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 32,601	\$ 53,983
Current portion of notes payable	54,191	177,029
Accrued interest expense	92,000	98,300
Accounts payable - related party	28,220	28,620
Related party debt	55,000	84,000
Shareholders advances	206,364	214,764
Accrued expenses	896	896
Total current liabilities	469,272	657,692
LONG-TERM LIABILITIES:		
Net deferred income tax liability	-	-
Long-term portion of notes payable	380,930	388,928
Total long term liabilities	380,930	388,928
TOTAL LIABILITIES	850,202	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 and 18,703,743 shares issued and outstanding	1,873	1,873
Additional paid in capital	5,638,018	5,638,018

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Accumulated deficit	(5,443,500)	(5,600,832)
Total stockholders' equity	196,391	39,059
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,046,593	\$ 1,085,679

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

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ITEM 1. CONDENSED FINANCIAL STATEMENTS

INNOVATIVE DESIGNS, INC.

STATEMENTS OF OPERATIONS

Three Months Ended April 30, 2010 and 2009, Six Months Ended April 30, 2010 and 2009
(Unaudited)

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
REVENUE	\$ 118,414	\$ 57,666	\$ 755,090	\$ 648,830
OPERATING EXPENSES:				
Cost of sales	59,591	31,514	324,163	286,213
Non-stock compensation	-	52,850	-	53,300
Selling, general and administrative expenses	107,878	114,868	257,402	220,307
	167,469	199,232	581,565	559,820
(Loss)/income from operations	(49,055)	(141,566)	173,525	89,010
OTHER EXPENSE:				
Interest expense	(4,295)	(2,907)	(16,193)	(8,372)
Total other expense	(4,295)	(2,907)	(16,193)	(8,372)
Net (loss)/income before income taxes	(53,350)	(144,473)	157,332	80,638
Income taxes	-	-	-	-
NET (LOSS)/INCOME	\$ (53,350)	\$ (144,473)	\$ 157,332	\$ 80,638
Weighted Average Shares Outstanding	18,646,743	18,846,743	18,425,802	18,883,085
Net income/(loss) per share	\$ (.003)	\$ (.008)	\$.009	\$.004

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

INNOVATIVE DESIGNS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY
April 30, 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	-	-	-	157,332	157,332
Balance at April 30, 2010	18,703,743	\$ 1,873	\$ 5,638,018	\$ (5,443,500)	\$ 196,391

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

ITEM 1. CONDENSED FINANCIAL STATEMENTS

INNOVATIVE DESIGNS, INC.

STATEMENTS OF CASHFLOW
(Unaudited)For the Six Months Ended
April 30, 2010 April 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 157,332	\$ 80,638
Adjustments to reconcile net income to cash provided by operating activities:		
Common stock issued for services	-	53,300
Depreciation and amortization	3,830	2,394
Changes in operating assets and liabilities:		
Accounts receivable	57,876	123,813
Inventory	291,726	(53,518)
Deposits on inventory	(231,605)	196,450
Accounts payable	(21,382)	(54,550)
Accrued expenses	-	(16,804)
Customer deposits	-	(9,823)
Accrued interest on notes payable	(6,800)	(26,000)
Net cash provided by operating activities	250,977	295,900

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on note payable	(130,836)	(161,367)
Payment on note payable - related party	(29,000)	(63,000)
Payment of shareholder advances	(8,400)	(18,935)
Common stock issued for cash	-	29,000
Net cash used in financing activities	(168,236)	(214,302)

Net increase in cash	\$ 82,741	\$ 81,598
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Cash - beginning of year	\$ 26,872	\$ 22,523
Cash - end of period	\$ 109,613	\$ 104,121

Supplemental cash flow information:

Cash paid for interest	\$ 16,193	\$ 8,572
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The accompanying notes are an integral part of these financial statements.

INNOVATIVE DESIGNS, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

April 30, 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
April 30, 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'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

April 30, 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 have standing to challenge the assignment from Greystone to Elite Properties; and (2) whether the dealings between IDI and Greystone constitute champerty and maintenance.

On June 2, 2010, the Honorable R. Stanton Wettick, Jr. of the Court of Common Pleas of Allegheny County, Pennsylvania entered an Order denying Elio D. Cattan and Eliotex, SRL's motion to strike assignment and satisfaction of judgment. As Judge Arthur J. Schwab of the United States District Court for the Western District of Pennsylvania specifically deferred the question of the ownership of the judgment to the State Court, Judge Wettick's Order represents a final adjudication of this matter on the merits, and resolved the case in IDI's favor. IDI's legal counsel will now request that Judge Schwab reform the Federal Court docket to comport with the State Court's ruling.

The Company believes the possibility of an appeal of Judge Wettick's ruling is unlikely, and the likelihood of success of any such appeal, if filed, extremely remote.

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 June 11, 2010, which is the date financial statements were available to be issued. During the evaluation it was determined that the Company issued 12,000 shares of stock for services on May 25, 2010. The value of the shares were \$.20 per share or \$2,400. No other subsequent events were identified by the Company.

INNOVATIVE DESIGNS, INC.

April 30, 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, 2009.

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.

April 30, 2010

Results of Operations

Comparison of the Three Months Ended April 30, 2010 with the Three Months Ended April 30, 2009.

Revenues

The following table shows a comparison of the results of operations between the three months ended April 30, 2010 and three months ended April 30, 2009:

	Three Months Ended April 30, 2010	% of Sales	Three Months Ended April 30, 2009	% of Sales	\$ Increase (Decrease)	% Change
REVENUE	\$ 118,414	100%	\$ 57,666	100%	\$ 60,748	105.3%
OPERATING EXPENSES						
Cost of sales	59,591	50.3%	31,514	54.6%	28,077	89.1%
Non-stock compensation	-	-	52,850	91.6%	(52,850)	(100)%
Selling, general and administrative expenses	107,878	91.1%	114,868	199.2%	(6,990)	(6.1)%
	167,469	141.4%	199,232	345.5%	(31,763)	(15.9)%
Loss from operations	(49,055)	(41.4)%	(141,566)	(245.5)%	92,511	65.3%
OTHER INCOME (EXPENSE)						
INTEREST EXPENSE	(4,295)	(3.63)%	(2,907)	(5.0)%	(1,388)	(47.7)%
	(4,295)	(3.63)%	(2,907)	(5.0)%	(1,388)	(47.7)%
Net (loss)/income	\$ (53,350)	45.1%	\$ (144,473)	(250.5)%	\$ 91,123	63.1%

Three Months Ended April 30, 2010 and 2009.

The increase in revenue for the three months ended April 30, 2010 compared to the corresponding period ended April 30, 2009, is the result of our continuing trend of selling more of our Arctic Armor product line and the inclusion of selling in the Alaska market which has a longer cold season. Nearly all of our sales for the period were for our Arctic Armor product line. We stopped our television advertising program in March of this year as planned. During the period we had approximately \$31,000 in professional fees.

INNOVATIVE DESIGNS, INC.

April 30, 2010

The following table shows a comparison of the results of operations between the six months ended April 30, 2010 and six months ended April 30, 2009:

	Six Months Ended April 30, 2010	% of Sales	Six Months Ended April 30, 2009	% of Sales	\$ Increase (Decrease)	% Change
REVENUE	\$ 755,090	100%	\$ 648,830	100%	\$ 106,260	16.4%
OPERATING EXPENSES						
Cost of sales	324,163	42.9%	286,213	44.1%	37,950	13.3%
Non-stock compensation	-	-	53,300	8.2%	(53,300)	(100)%
Selling, general and administrative expenses	257,402	34.1%	220,307	34.0%	37,095	16.8%
	581,565	77.0%	559,820	86.3%	21,745	3.9%
Income from operations	173,525	23.0%	89,010	13.7%	84,515	95.0%
OTHER INCOME (EXPENSE)						
INTEREST INCOME (EXPENSE)	(16,193)	(2.1)%	(8,372)	(1.3)%	(7,821)	(93.4)%
	(16,193)	(2.1)%	(8,372)	(1.3)%	(7,821)	(93.4)%
Net income	\$ 157,332	20.8%	\$ 80,638	12.4%	\$ 76,694	95.1%

The increase in revenue for the six months ended April 30, 2010 over the corresponding period ended April 30, 2009, was a result of the introduction of our Arctic Armor product line into the Alaska market and the increased acceptance of our cold weather products by the marketplace through increased distributorships and internet sales. Because of the seasonal nature of our sales we expect the third quarter to have much lower revenue than other quarters. We will again offer our Early Order Booking program. The program offers free shipping and better credit terms for those customers who indicate their intention to place a firm order in the future. With the signing of Canadian Tire we expect a large order to be shipped in the late summer. We have begun to send out sample yardage runs of our building wrap product to interested parties such as builders and distributors.

INNOVATIVE DESIGNS, INC.

April 30, 2010

Liquidity and Capital Resources

During the quarter ended April 30, 2010, we funded our operations with revenues from sales. We will continue to fund operations from revenues and borrowings and the possible sale of securities. Our ability to obtain outside funding of either debt or equity is being adversely affected in part, by the general inability to obtain commercial lending.

Short Term: We funded our operations with revenues from sales. The financial institution has restricted the amounts we can borrow on our lines of credit and they will not increase our borrowing capacity on the lines of credit. The Company continues to pay its creditors when payments are due and has been successful in expanding its sales base into the oil and gas industry and to the railroad industry as well as to other sectors of the market.

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

ITEM T. CONTROLS AND PROCEDURES

Management has developed and implemented a policy and procedures for reviewing, on a quarterly basis, our disclosure controls and procedures and our internal control over financial reporting. 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 and second 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.

April 30, 2010

PART II

ITEM 6. EXHIBITS

- *3.1 Certificate of Incorporation
- *3.2 By Laws
- 31.1 Rule 13a - 14a Certification of Chief Executive Office and Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer and Chief Financial officer
- * Incorporated by reference to the Company's registration statement on Form SB-2, filed March 11, 2003

SIGNATURES

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

Innovative Designs, Inc.
Registrant

Date: June 11, 2010

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