

INNOVATIVE DESIGNS INC
Form 10-Q
March 17, 2011

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, 2011

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

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

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

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

Indicate by check mark whether the registrant (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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). YES NO

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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 15, 2011, there were 18,730,743 shares of the Registrant’s common stock, par value \$.0001 per share, outstanding.

Transitional Small Business Disclosure Format: YES NO

Innovative Designs, Inc.

Index

Form 10-Q for the Quarter Ended January 31, 2011

| | Page No. |
|---|----------|
| Part I -- Financial Information | |
| Item 1. Condensed Financial Statements (unaudited) | |
| Condensed Balance Sheets at January 31, 2011 (Unaudited) and October 31, 2010 | 1 |
| Condensed Statements of Operations for the Three Months Ended January 31, 2011 and 2010 | 2 |
| Condensed Statement of Changes in Stockholders' Equity at January 31, 2011 and October 31, 2010 | 3 |
| Condensed Statements of Cash Flows for the Three Months Ended January 31, 2011 and 2010 | 4 |
| Notes to Condensed Financial Statements | 5 - 6 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 7 - 9 |
| Item T. Controls and Procedures | 9 |
| Part II -- Other Information | |
| Item 6. Exhibits | 10 - 14 |

ITEM 1. CONDENSED FINANCIAL STATEMENTS

INNOVATIVE DESIGNS, INC.

CONDENSED BALANCE SHEETS

January 31, 2011 (Unaudited) and October 31, 2010

ASSETS

| | 2011 | 2010 |
|--|---------------------|---------------------|
| CURRENT ASSETS: | | |
| Cash | \$ 213,896 | \$ 116,950 |
| Accounts receivable | 269,279 | 152,207 |
| Inventory - net of obsolete inventory reserve of \$126,192 | 553,222 | 904,487 |
| Deposits on inventory | 120,244 | - |
| Total current assets | 1,156,641 | 1,173,644 |
| PROPERTY AND EQUIPMENT, NET | 1,670 | 1,805 |
| TOTAL ASSETS | \$ 1,158,311 | \$ 1,175,449 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | | |
|--|----------------|------------------|
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 51,489 | \$ 43,511 |
| Current portion of notes payable | 108,859 | 280,859 |
| Accrued interest expense | 100,701 | 104,620 |
| Accounts payable - related party | 28,220 | 28,220 |
| Related party debt | 23,416 | 41,416 |
| Due to shareholders | 180,364 | 209,364 |
| Accrued expenses | 812 | 896 |
| Total current liabilities | 493,861 | 708,886 |
| LONG-TERM LIABILITIES | | |
| Long-term portion of notes payable | 371,224 | 373,277 |
| Total long term liabilities | 371,224 | 373,277 |
| TOTAL LIABILITIES | 865,085 | 1,082,163 |
| STOCKHOLDERS' EQUITY: | | |
| Preferred stock, \$.0001 par value, 100,000,000 shares authorized | | |
| Common stock, \$.0001 par value, 500,000,000 shares authorized, 18,730,743 and 18,703,743 issued and outstanding | 1,875 | 1,875 |
| Additional paid in capital | 5,643,667 | 5,643,666 |
| Accumulated deficit | (5,352,316) | (5,552,255) |
| Total stockholders' equity | 293,226 | 93,286 |

| | | | | |
|--|----|-----------|----|-----------|
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ | 1,158,311 | \$ | 1,175,449 |
|--|----|-----------|----|-----------|

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

- 1 -

INNOVATIVE DESIGNS, INC.
 STATEMENTS OF OPERATIONS
 (Unaudited)

| | For the Three Months Ended | |
|--|-------------------------------|---------------------|
| | January 31, 2011 | January 31, 2010 |
| REVENUE | \$681,009 | \$636,676 |
| OPERATING EXPENSES: | | |
| Cost of sales | 299,297 | 264,572 |
| Selling, general and administrative expenses | 159,371 | 149,528 |
| | 458,668 | 414,100 |
| Income from operations | 222,341 | 222,576 |
| INTEREST EXPENSE | (22,401) | (11,898) |
| Net income | \$199,940 | \$210,678 |
| Per share information - basic and fully diluted | | |
| Weighted Average Shares Outstanding | 18,722,743 | 18,646,743 |
| Net income per share | .011 | .011 |

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

INNOVATIVE DESIGNS, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY
January 31, 2011 (Unaudited) and October 31, 2010

| | Common Stock | | Additional Paid in Capital | Retained Deficit | Total |
|--|-----------------|----------|----------------------------------|---------------------|------------|
| | Shares | Amount | | | |
| Balance at October 31, 2009 | 18,703,743 | \$ 1,873 | \$ 5,638,018 | \$(5,600,832) | \$ 39,059 |
| Shares issued for services | 32,000 | 3 | 7,397 | - | 7,400 |
| Return of shares for non-performance of services | (5,000) | (1) | (1,749) | - | (1,750) |
| Net income | - | - | - | 48,577 | 48,577 |
| Balance at October 31, 2010 | 18,730,743 | 1,875 | 5,643,666 | (5,552,255) | 93,286 |
| Net income | - | - | - | 199,940 | 199,940 |
| Balance at January 31, 2011 | 18,730,743 | \$ 1,875 | \$ 5,643,666 | \$(5,352,315) | \$ 293,226 |

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, 2011 | January 31, 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 199,940 | \$ 210,678 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation | 135 | 3,240 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (117,072) | (75,444) |
| Inventory | 351,265 | 181,308 |
| Deposit on inventory | (120,244) | (13,446) |
| Accounts payable | 7,978 | 7,420 |
| Accrued interest expense | (3,919) | (4,800) |
| Accrued expenses | (84) | - |
| Net cash provided by operating activities | 317,999 | 308,956 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on note payable | (174,053) | (88,253) |
| Payment on related party debt | (47,000) | (21,000) |
| Payment of shareholder advances | - | (8,400) |
| Net cash used in financing activities | (221,053) | (117,653) |
| Net increase in cash | \$ 96,946 | \$ 191,303 |
| Cash - beginning of year | \$ 116,950 | \$ 26,872 |
| Cash - end of period | \$ 213,896 | \$ 218,175 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$ 26,320 | \$ 11,898 |

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, 2011

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, 2010. 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, 2011 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, 2011

4. 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.

5. SUBSEQUENT EVENTS

The Company has evaluated subsequent events in accordance with Accounting Standards Codification Topic 855, Subsequent Events, through March 17, 2011, 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, 2011

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 outdoor 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, 2011

Results of Operations

Comparison of the Three Months Ended January 31, 2011 with the Three Months Ended January 31, 2010.

Revenues

The following table shows a comparison of the results of operations between the three months ended January 31, 2011 and three months ended January 31, 2010:

| | Three Months Ended January 31, 2011 | % of Sales | | Three Months Ended January 31, 2010 | % of Sales | | \$ Increase (Decrease) | % Change | |
|---|---|---------------|----|---|---------------|----|---------------------------|----------|----|
| REVENUE | \$681,009 | 100 | % | \$636,676 | 100 | % | \$44,333 | 6.7 | % |
| OPERATING EXPENSES | | | | | | | | | |
| Cost of sales | 299,297 | 43.9 | % | 264,572 | 41.6 | % | 34,725 | 13.1 | % |
| Selling, general and administrative expenses | 159,371 | 23.4 | % | 149,528 | 23.5 | % | 9,843 | 6.6 | % |
| Income from operations | 222,341 | 32.6 | % | 414,100 | 65.0 | % | (191,759) | (46.3 |)% |
| INTEREST EXPENSE | (22,401) | (3.3 |)% | (11,898) | (1.9 |)% | (10,503) | (88.3 |)% |
| Net income | \$199,940 | 29.4 | % | \$210,678 | 33.1 | % | \$(10,738) | (10,738 |)% |

Revenues for the quarter ended January 31, 2011, were \$681,009 compared to revenues of \$636,676 for the quarter ended January 31, 2010. The increase was a result of more retailers being added that sell our Artic Armour product line. Nearly all of our revenue for the period was from the Artic Armour product line.

INNOVATIVE DESIGNS, INC.

For the Three Month Period Ended January 31, 2011

Liquidity and Capital Recourses

During the quarter ended January 31, 2011, 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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a smaller reporting company, we are not required to provide the information otherwise required by this Item.

ITEM 4 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. During the fourth quarter and December 31, 2010, it was noted that the Company was not able to close the books and records in a timely fashion hence the delay in the Form 10K. However, only immaterial reclassifications were made during the first quarter of 2011.

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, 2011

PART II

ITEM 6. EXHIBITS

*3.1Certificate of Incorporation

*3.2By Law

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

32.1Section 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, 2011

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 17, 2011

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