

INNOVATIVE DESIGNS INC
Form 10-Q
March 22, 2013

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, 2013

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 other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

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124 Cherry Street

Pittsburgh, Pennsylvania 15223

(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

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

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

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(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 20, 2013, there were 18,965,743 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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Form 10-Q for the Quarter Ended January 31, 2013

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ITEM 1. CONDENSED FINANCIAL STATEMENTS**INNOVATIVE DESIGNS, INC.**

CONDENSED BALANCE SHEETS

January 31, 2013 (Unaudited) and October 31, 2012

| | 2013 | 2012 |
|--|------------------|------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$55,936 | \$54,995 |
| Accounts receivable | 88,753 | 102,350 |
| Inventory - net of obsolete inventory reserve of \$65,000 | 585,408 | 623,722 |
| Deposits on inventory | 23,602 | 44,514 |
| Prepaid insurance | 1,250 | 4,360 |
| Total current assets | 754,949 | 829,941 |
| PROPERTY AND EQUIPMENT - NET | 19,969 | 20,448 |
| TOTAL ASSETS | \$774,918 | \$850,389 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$77,619 | \$64,455 |
| Current portion of notes payable | 79,144 | 91,298 |
| Accrued interest expense | 194,359 | 190,859 |
| Due to shareholders | 198,600 | 266,600 |
| Loss contingency | 190,000 | 190,000 |
| Accrued expenses | 876 | 876 |
| Total current liabilities | 740,598 | 804,088 |
| Long-term portion of notes payable | 342,654 | 347,663 |
| TOTAL LIABILITIES | 1,083,252 | 1,151,751 |
| STOCKHOLDERS' DEFICIT | | |
| Preferred stock, \$0.0001 par value, 100,000,000 shares authorized | - | - |
| Common stock, \$0.0001 par value, 500,000,000 shares authorized, and 18,935,743 issued and outstanding as of January 31, 2013 and October 31, 2012 | 1,896 | 1,896 |
| Additional paid-in capital | 5,688,645 | 5,688,645 |

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| | | |
|--|------------------|------------------|
| Accumulated deficit | (5,998,875) | (5,991,903) |
| Total stockholders' deficit | (308,334) | (301,362) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$774,918 | \$850,389 |

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

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INNOVATIVE DESIGNS, INC.

CONDENSED STATEMENTS OF OPERATIONS

Three Month Period Ended January 31, 2013 and 2012 (Unaudited)

| | Three Months Ended January 31, | |
|--|--------------------------------|------------|
| | 2013 | 2012 |
| REVENUES - NET | \$ 295,046 | \$ 551,771 |
| OPERATING EXPENSES: | | |
| Cost of sales | 127,631 | 206,372 |
| Selling, general and administrative expenses | 150,064 | 215,684 |
| | 277,695 | 422,056 |
| INCOME FROM OPERATIONS | 17,351 | 129,715 |
| OTHER EXPENSE: | | |
| Interest expense | (24,323) | (21,696) |
| Total other expense | (24,323) | (21,696) |
| NET INCOME (LOSS) | \$ (6,972) | \$ 108,019 |
| PER SHARE INFORMATION | | |
| Basic and fully diluted | | |
| Net Income (Loss) Per Common Share | \$ (0.000) | \$ 0.006 |
| Weighted Average Number of Common Shares Outstanding | 18,935,743 | 18,755,743 |

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

INNOVATIVE DESIGNS, INC.

CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT

January 31, 2013 (Unaudited) and October 31, 2012

| | Common Stock Number of Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Total |
|-----------------------------|----------------------------------|------------------------|-------------------------------|------------------------|-------------|
| Balance at October 31, 2011 | 18,775,743 | \$ 1,880 | \$ 5,648,161 | \$(5,537,189) | \$112,852 |
| Shares issued for services | 160,000 | 16 | 40,484 | - | 40,500 |
| Net loss | - | - | - | (454,714) | (454,714) |
| Balance at October 31, 2012 | 18,935,743 | 1,896 | 5,688,645 | (5,991,903) | (301,362) |
| Net loss | - | - | - | (6,972) | (6,972) |
| Balance at January 31, 2013 | 18,935,743 | \$ 1,896 | \$ 5,688,645 | \$(5,998,875) | \$(308,334) |

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

INNOVATIVE DESIGNS, INC.**CONDENSED STATEMENTS OF CASH FLOWS**Three Month Period Ended January 31, 2013 and 2012 (Unaudited)

| | For the Three Months Ended | |
|--|-------------------------------|---------------------|
| | January 31, 2013 | January 31, 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net (loss) income | \$(6,972) | \$108,019 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | |
| Depreciation | 479 | 113 |
| Provision for inventory reserves | - | (51,439) |
| Increase (decrease) from changes in: | | |
| Accounts receivable | 13,597 | 44,881 |
| Inventory | 38,314 | 148,873 |
| Deposits on inventory | 20,912 | 37,896 |
| Prepaid insurance | 3,110 | - |
| Accounts payable | 13,164 | (28,055) |
| Accrued expenses | - | (5,594) |
| Accrued interest expense | 3,500 | (525) |
| Net cash provided by operating activities | 86,104 | 254,169 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on shareholder advances | (88,000) | (100,500) |
| Proceeds from shareholder advances | 20,000 | - |
| Payments on notes payable | (80,163) | (89,019) |
| Proceeds from notes payable | 63,000 | - |
| Net cash used in financing activities | (85,163) | (189,519) |
| Net increase in cash | 941 | 64,650 |
| CASH, BEGINNING OF YEAR | 54,995 | 91,209 |
| CASH, END OF THE PERIOD | \$55,936 | \$155,859 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$20,823 | \$22,221 |

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

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INNOVATIVE DESIGNS, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the Three Month Period Ended January 31, 2013 (Unaudited)

In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary to present fairly the Company's financial position as of January 31, 2013, the changes therein for the three month period then ended and the results of operations for the three month periods ended January 31, 2013 and 2012.

The financial statements included in the Form 10-Q are presented in accordance with the requirements of the Form and do not include all of the disclosures required by accounting principles generally accepted in the United States of America. For additional information, reference is made to the Company's annual report on Form 10-K for the fiscal year ended October 31, 2012. The results of operations for the three month periods ended January 31, 2013 and 2012 are not necessarily indicative of operating results for the full year.

NOTE 3. INVENTORY

Inventory consists principally of purchased finished goods. Inventory is stated at the lower of cost or market on a first-in, first-out basis. The Company has decided to discontinue the manufacturing of its hunting and swimming line of apparel. The Company has booked a reserve against this inventory at October 31, 2012 of \$65,000 and continues to maintain this reserve as of January 31, 2013. Management will continue to evaluate its obsolete inventory reserve throughout the year and make adjustments as needed.

NOTE 4. EARNINGS PER SHARE

Innovative Designs, Inc. (the "Company") calculates net income (loss) per share in accordance with FASB Accounting Standard Codification ("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. During the periods presented, the Company only has common stock outstanding. As a result diluted earnings per share was not calculated.

NOTE 5. DEPOSITS

The Company only has one manufacturer that produces the apparel on behalf of the Company, located in Indonesia. The Company will send deposits to the manufacturer for future production of the apparel. As of January 31, 2013, the Company had \$23,602 on deposit for the production of apparel.

NOTE 6. INCOME TAXES

The Company accounts for income taxes in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 740 “*Income Taxes*”, which requires an asset and liability approach for financial reporting purposes. Deferred income taxes are provided for differences between the tax bases of assets and liabilities and the financial reporting amounts at the end of the period, and for net operating loss and tax credit carryforwards available to offset future taxable income. Changes in enacted tax rates or laws result in adjustments to recorded deferred tax assets and liabilities in the periods in which the tax laws are enacted or tax rates are changed.

INNOVATIVE DESIGNS, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the Three Month Period Ended January 31, 2013 (Unaudited)

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

NOTE 7. SHIPPING AND HANDLING COSTS

The Company pays shipping and handling costs on behalf of customers for purchased merchandise. These costs are billed back to the customer through the billing invoice. The shipping and handling costs associated with merchandise ordered by the Company are included as part of cost of goods sold. The shipping and handling costs were approximately \$23,000 and \$41,000 for the three month periods ending January 31, 2013 and 2012, respectively. These costs are included in selling, general and administrative expenses.

NOTE 8. DEBT

The Company entered into three Note Payable Agreements during the three month period ended January 31, 2012. Two of these notes, totaling \$63,000, were from private lenders, with an additional \$20,000 note from a shareholder. These borrowings were used to fund operations during the quarter.

NOTE 9. LITIGATION

The Company filed a civil complaint during 2012 in which we assert that the defendants made deceptive claims in their advertising and promotions that are aimed at our Arctic Armor products in order to gain an unfair competitive advantage over our products. The Company is seeking damages from each defendant in excess of \$75,000. This matter is currently in the discovery phase.

The Company was named as a defendant in a complaint asserting libel, slander, and torturous interference during 2012. As a result of the Company not responding in a timely manner to the summons, a default judgment hearing was scheduled for February 2013. The Company filed a motion for an extension, which was granted and lifted the default

judgment. As a result of this complaint the Company recorded a contingent liability of \$190,000 as of October 31, 2012. No adjustment was made to the contingent liability as the litigation is still ongoing and an outcome cannot be reasonably determined at this time.

NOTE 10. SUBSEQUENT EVENTS

The Company has evaluated subsequent events in accordance with Accounting Standards Codification Topic 855, “*Subsequent Events*”, through March 20, 2013, which is the date financial statements were available to be issued. With the exception of the matters discussed below, no subsequent event items were identified by the Company.

On February 4, 2013 the Company issued 30,000 shares of stock for professional services for \$0.30 per share, or \$9,000.

INNOVATIVE DESIGNS, INC.

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, 2012.

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 "Arctic Armor" that are made from INSULTEX, a material with buoyancy, scent block and thermal resistant properties. We also market our House Wrap product line which is a building material with thermal qualities. House Wrap is also made from INSULTEX. 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,
- Developing our website to sell more of our products, and
- Establishing distribution channels for our House Wrap product.

INNOVATIVE DESIGNS, INC.**Results of Operations**Comparison of the Three Months Ended January 31, 2013 with the Three Months Ended January 31, 2012.

The following table shows a comparison of the results of operations between the three month periods ended January 31, 2013 and January 31, 2012:

| | Three Months Ended January 31, 2013 | % of Sales | Three Months Ended January 31, 2012 | % of Sales | Increase (Decrease) | % Change |
|--|--|---------------|--|---------------|------------------------|-------------|
| REVENUE | \$295,046 | 100.00% | \$551,771 | 100.00% | \$(256,725) | -46.53 % |
| OPERATING EXPENSES | | | | | | |
| Cost of sales | 127,631 | 43.26 % | 206,372 | 37.40 % | (78,741) | -38.15 % |
| Selling, general and administrative expenses | 150,064 | 50.86 % | 215,684 | 39.09 % | (65,620) | -30.42 % |
| Income from operations | 17,351 | 5.88 % | 129,715 | 23.51 % | (112,364) | -86.62 % |
| OTHER INCOME/(EXPENSE) | | | | | | |
| Interest expense | (24,323) | -8.24 % | (21,696) | -3.93 % | (2,627) | 12.11 % |
| Net income (loss) | \$(6,972) | -2.36 % | \$108,019 | 19.58 % | \$(114,991) | -106.45 % |

Revenues for the quarter ended January 31, 2013 were \$295,046 compared to revenues of \$551,771 for the quarter ended January 31, 2012. The decrease is attributable, in large part, to the warm winter. However, management is also of the opinion that the actions alleged in its complaint against the defendants in the action currently before the court in the Western District of Pennsylvania have also resulted in lost sales of our Arctic Armor products. Also, due to the warmer winter that was experienced, our customers are ordering later in the year. Nearly all of our revenue was from the sales of our Arctic Armor cold weather product line.

Our selling, general and administrative expenses were \$150,064 for the three months ended January 31, 2013 compared to \$215,684 for the three months ended January 31, 2012.

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INNOVATIVE DESIGNS, INC.

Liquidity and Capital Recourses

During the quarter ended January 31, 2013, we funded our operations from revenues from sales and short-term advances. During the quarter, we received three short-term advances totaling \$83,000, \$63,000 from private lenders and \$20,000 from a shareholder.

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 to fund its operations from revenues, borrowings from private parties and the possible sale of our securities. We have ceased trying to obtain commercial lending. 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.

INNOVATIVE DESIGNS, INC.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In July, 2012, we filed a civil complaint in the District Court for the Western District of Pennsylvania against Striker Brands, LLC and Korky's Outpost, LLC. We assert in the complaint that the defendants make deceptive claims in their advertising and promotions that are aimed at our Arctic Armor products in order to gain an unfair competitive advantage over our products. We are asking for damages from each defendant in excess of \$75,000. This matter is currently in the discovery phase.

The defendants filed a complaint in the District Court for Ramsey County, Second Judicial District, State of Minnesota alleging interference with prospective business advantage and defamation. They also named an independent sale agent of the Company. In addition, the Company did not timely respond to a summons and filed a motion with the court requesting an extension. The motion was granted but the Company was ordered to pay \$3,150 in attorney fees. The matter is now in the discovery phase. The Company recorded a contingent liability of \$190,000 as of October 31, 2012 as a result of this complaint. This liability will be evaluated as this matter progresses.

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 4T. CONTROLS AND PROCEDURES

Management has developed and implemented a policy and procedures for reviewing, on a quarterly basis, our disclosure controls and procedures. During the quarter ended January 31, 2013, our principle executive/financial officer concluded that these controls and procedures were ineffective. At this time we do not have the financial resources to employ a financial staff with accounting and financial expertise, once we have the necessary financial resources, we plan to hire and designate an individual responsible for identifying reportable developments and to implement procedures designed to remediate the material weakness by focusing additional attention and resources in our internal accounting functions. During the first quarter ended January 31, 2013, the Company was not able to close

the books and records in a timely fashion. Consequently, the Company was unable to file its Form 10-Q within the timeline established by the SEC and requested an extension of five days in which to file the report. There were no reclassifications made during the first quarter of 2013.

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.

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INNOVATIVE DESIGNS, INC.

ITEM 6. EXHIBITS

*3.1 Certificate of Incorporation

*3.2 By-Laws

10.1 Note Agreement between Xunjin Hua and Innovative Designs, Inc. dated November 22, 2012.

10.2 Note Agreement between Corinthian Development, LLC and Innovative Designs, Inc. dated January 15, 2013

10.3 Note Agreement between Janet Thomas and Innovative Designs, Inc. dated January 22, 2013.

31.1 Rule 13a - 14a Certification of Chief Executive Officer 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

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

Innovative Designs, Inc.
Registrant

Date: March 20, 2013 by: /s/ Joseph Riccelli
Joseph Riccelli, Chief Executive Officer and Chief Financial Officer