

INNOVATIVE DESIGNS INC
Form 10-Q
March 21, 2012

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, 2012

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

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(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) 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)

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)

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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, 2012, there were 18,755,743 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, 2012

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ITEM 1. CONDENSED FINANCIAL STATEMENTS**INNOVATIVE DESIGNS, INC.****CONDENSED BALANCE SHEETS**January 31, 2012 (Unaudited) and October 31, 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash	\$155,859	\$91,209
Accounts receivable	146,254	191,135
Inventory - net of obsolete inventory reserve of \$65,000 and \$116,439 respectively	603,497	700,931
Deposits on inventory	-	37,896
Total current assets	905,610	1,021,171
PROPERTY AND EQUIPMENT - NET	1,158	1,271
TOTAL ASSETS	\$906,768	\$1,022,442
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$49,924	77,979
Current portion of notes payable	24,859	110,178
Accrued interest expense	104,178	104,703
Due to shareholders	146,600	247,100
Accrued expenses	876	6,470
Total current liabilities	326,437	546,430
Long-term portion of notes payable	359,460	363,160
TOTAL LIABILITIES	685,897	909,590
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.0001 par value, 100,000,000 shares authorized	-	-
Common stock, \$0.0001 par value, 500,000,000 shares authorized, and 18,775,743 issued and outstanding as of January 31, 2012 and October 31, 2011	1,880	1,880
Additional paid-in capital	5,648,161	5,648,161
Accumulated deficit	(5,429,170)	(5,537,189)

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Total stockholders' equity	220,871	112,852
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$906,768	\$1,022,442

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

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INNOVATIVE DESIGNS, INC.

STATEMENTS OF OPERATIONS

(Unaudited)

For the Three Months Ended
January 31, 2012 January 31, 2011

REVENUES	\$ 551,771	\$ 681,009
OPERATING EXPENSES		
Cost of sales	206,372	299,297
Selling, general and administrative expenses	215,684	159,371
INCOME FROM OPERATIONS	129,715	222,341
OTHER INCOME (EXPENSE)		
Interest expense	(21,696)	(22,401)
TOTAL OTHER INCOME (EXPENSE)	(21,696)	(22,401)
NET INCOME	\$ 108,019	\$ 199,940
PER SHARE INFORMATION		
Basic and fully diluted		
Net Income Per Common Share	\$ 0.006	\$ 0.011
Weighted Average Number of Common Shares Outstanding	18,755,743	18,722,743

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

INNOVATIVE DESIGNS, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

January 31, 2012 (Unaudited) and October 31, 2011

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Balance at October 31, 2010	18,730,743	\$ 1,875	\$ 5,643,666	\$ (5,552,255)	\$93,286
Shares issued for services	45,000	5	4,495	-	4,500
Net income	-	-	-	15,066	15,066
Balance at October 31, 2011	18,775,743	1,880	5,648,161	(5,537,189)	112,852
Net income	-	-	-	108,019	108,019
Balance at January 31, 2011	18,775,743	\$ 1,880	\$ 5,648,161	\$ (5,429,170)	\$220,871

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, 2012		January 31, 2011
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 108,019		\$ 199,940
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	113		135
Provision for inventory reserves	(51,439)	-
Increase (decrease) from changes in:			
Accounts receivable	44,881		(117,072
Inventory	148,873		351,265
Deposits on inventory	37,896		(120,244
Accounts payable	(28,055)	7,978
Accrued expenses	(5,594)	(84
Accrued interest expense	(525)	(3,919
Net cash provided by operating activities	254,169		317,999
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payments on shareholder advances	(100,500)	-
Payments on related party note	-		(47,000
Payments on notes payable	(89,019)	(174,053
Net cash used in financing activities	(189,519)	(221,053
Net increase in cash	64,650		96,946
CASH, BEGINNING OF YEAR	91,209		116,950
CASH, END OF THE PERIOD	\$ 155,859		\$ 213,896
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 22,221		\$ 26,320

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, 2012

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, 2011. 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, 2012 or any future period.

2. **FASB ACCOUNTING STANDARDS CODIFICATION TOPIC 210 COMPREHENSIVE INCOME (FASB ASC 210)**

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-11, "*Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*" ("ASU 2011-11"). The amendments within ASU 2011-11 require an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Based on management's review, it was determined that this ASU will have no material effect on the Company's financial statements.

3. **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.

4.

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, 2011 of approximately \$116,000. Based on the company's review of inventory, the Company decreased the reserve to \$65,000 during the quarter ended January 31, 2012. Management will continue to evaluate its obsolete inventory reserve throughout the year and make adjustments as needed.

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INNOVATIVE DESIGNS, INC.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the Three Month Period Ended January 31, 2012

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, 2012, the Company had no deposits for the production of apparel.

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.

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

7. **SHIPPING AND HANDLING COSTS**

The Company pays shipping and handling costs on behalf of customers for purchased merchandise. The shipping and handling costs are billed back to the customer through the billing invoice. The shipping handling costs were approximately \$41,000 and \$37,000 for the quarters ending January 31, 2012 and 2011, respectively. These costs are included in selling and general and administrative expenses.

8. **SUBSEQUENT EVENTS**

The Company has evaluated subsequent events in accordance with Accounting Standards Codification Topic 855, Subsequent Events, through March 16, 2012, which is the date financial statements were available to be issued. During the evaluation no subsequent event items were identified by the Company.

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INNOVATIVE DESIGNS, INC.

For the Three Month Period Ended January 31, 2012

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, 2011.

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

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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.

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INNOVATIVE DESIGNS, INC.For the Three Month Period Ended January 31, 2012**Results of Operations**

Comparison of the Three Months Ended January 31, 2012 with the Three Months Ended January 31, 2011.

Revenues

The following table shows a comparison of the results of operations between the three month periods ended January 31, 2012 and January 31, 2011:

	Three Months Ended January 31, 2012	% of Sales	Three Months Ended January 31, 2011	% of Sales	Increase (Decrease)	% Change
REVENUE	\$ 551,771	100.00 %	\$ 681,009	100.00 %	\$(129,238)	-18.98 %
OPERATING EXPENSES						
Cost of sales	206,372	37.40 %	299,297	43.95 %	(92,925)	-31.05 %
Selling, general and administrative expenses	215,684	39.09 %	159,371	23.40 %	56,313	35.33 %
Income/(loss) from operations	129,715	23.51 %	222,341	32.65 %	(92,626)	-41.66 %
OTHER INCOME/(EXPENSE)						
Interest expense	(21,696)	-3.93 %	(22,401)	-3.29 %	705	-3.15 %
Net income	\$ 108,019	19.58 %	\$ 199,940	29.36 %	\$(91,921)	-45.97 %

Revenues for the quarter ended January 31, 2012, were \$551,771 compared to revenues of \$681,009 for the quarter ended January 31, 2011. The decrease was a result of our selling less of our cold weather product line as a result of the warm winter experienced in our market areas. Approximately 65 percent and 27 percent of our revenues for the period

were from our Artic Armor cold weather product line and our hunting apparel line, respectively.

Our selling, general and administrative expenses were \$215,684 for the three months ended January 31, 2012 compared to \$159,371 for the three months ended January 31, 2011. Part of the increase was a result of our paying our Chief Executive Officer \$40,000 as compensation in December 2011. We also incurred an increase in bank service charges of approximately \$14,000 for the period. We used more advertising during the period resulting in an increase of approximately \$5,600 for the period compared to the period ended January 31, 2011.

In February 2012, we announced in a press release that our House Wrap product had drawn the interest of several large homebuilders and that samples had been sent to them for evaluation.

INNOVATIVE DESIGNS, INC.

For the Three Month Period Ended January 31, 2012

Liquidity and Capital Recourses

During the quarter ended January 31, 2012, 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 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.

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. During the fourth quarter ended October 31, 2011, our principle executive/financial officer concluded that these control and procedures were ineffective. During the fourth quarter ended October 31, 2011 and the first quarter ended January 31, 2012, the Company was not able to close the books and records in a timely fashion. Consequently, the Company was not able to file its Form 10K or its Form 10Q within the timeline established by the SEC. There were no reclassifications made during the first quarter of 2012. Management will take action to correct these procedures moving forward.

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.

For the Three Month Period Ended January 31, 2012

PART II

ITEM 6. EXHIBITS

*3.1 Certificate of Incorporation

*3.2 By Law

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

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INNOVATIVE DESIGNS, INC.

For the Three Month Period Ended January 31, 2012

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 16, 2012 By: /s/ Joseph Riccelli
Joseph Riccelli, Chief Executive
Officer
and Chief Financial Officer