

INNOVATIVE DESIGNS INC  
Form 10-Q  
June 12, 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 April 30, 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 June 6, 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 April 30, 2013

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

## CONDENSED BALANCE SHEETS

April 30, 2013 (Unaudited) and October 31, 2012

	2013	2012
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$30,228	\$54,995
Accounts receivable	18,432	102,350
Inventory - net of obsolete inventory reserve of \$58,000 and \$65,000, respectively	574,044	623,722
Deposits on inventory	49,602	44,514
Prepaid insurance	18,573	4,360
Total current assets	690,879	829,941
<b>PROPERTY AND EQUIPMENT - NET</b>	<b>19,505</b>	<b>20,448</b>
<b>TOTAL ASSETS</b>	<b>\$710,384</b>	<b>\$850,389</b>
<b><u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$91,794	\$64,455
Current portion of notes payable	116,963	91,298
Accrued interest expense	203,715	190,859
Due to shareholders	162,100	266,600
Loss contingency	190,000	190,000
Accrued expenses	22,136	876
Total current liabilities	786,708	804,088
Long-term portion of notes payable	340,170	347,663
<b>TOTAL LIABILITIES</b>	<b>1,126,878</b>	<b>1,151,751</b>
<b>STOCKHOLDERS' DEFICIT</b>		
Preferred stock, \$0.0001 par value, 100,000,000 shares authorized	-	-
Common stock, \$0.0001 par value, 500,000,000 shares authorized, and 18,965,743 and 18,935,743 issued and outstanding as of April 30, 2013 and October 31, 2012	1,899	1,896

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Additional paid-in capital	5,697,642	5,688,645
Accumulated deficit	(6,116,035)	(5,991,903)
Total stockholders' deficit	(416,494 )	(301,362 )
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$710,384	\$850,389

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

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**INNOVATIVE DESIGNS, INC.**

## CONDENSED STATEMENTS OF OPERATIONS

Three and Six Month Periods Ended April 30, 2013 and 2012 (Unaudited)

	Three Month Periods Ended April 30,		Six Month Periods Ended April 30,	
	2013	2012	2013	2012
REVENUES - NET	\$ 55,010	\$ 45,471	\$ 350,056	\$ 597,242
OPERATING EXPENSES:				
Cost of sales	15,184	20,657	142,815	227,029
Selling, general and administrative expenses	137,043	194,288	287,107	409,972
	152,227	214,945	429,922	637,001
LOSS FROM OPERATIONS	(97,217 )	(169,474 )	(79,866 )	(39,759 )
OTHER EXPENSE:				
Interest expense	(19,943 )	(14,455 )	(44,266 )	(36,151 )
Total other expense	(19,943 )	(14,455 )	(44,266 )	(36,151 )
NET LOSS	\$ (117,160 )	\$ (183,929 )	\$ (124,132 )	\$ (75,910 )
PER SHARE INFORMATION				
Basic and fully diluted				
Net Loss Per Common Share	\$ (0.006 )	\$ (0.010 )	\$ (0.007 )	\$ (0.004 )
Weighted Average Number of Common Shares Outstanding	18,964,732	18,783,132	18,949,997	18,779,397

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

**INNOVATIVE DESIGNS, INC.**

## CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

April 30, 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)
Shares issued for services	30,000	3	8,997	-	9,000
Net loss	-	-	-	(124,132 )	(124,132)
Balance at January 31, 2013	18,965,743	\$ 1,899	\$ 5,697,642	\$(6,116,035 )	\$(416,494)

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



**INNOVATIVE DESIGNS, INC.****CONDENSED STATEMENTS OF CASH FLOWS**(Unaudited)

	For the Six Month Periods Ended	
	April 30, 2013	April 30, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (124,132 )	\$ (75,910 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Common stock issued for service	9,000	10,500
Depreciation	943	226
Provision for inventory reserves	(7,000 )	(51,439 )
Increase (decrease) from changes in:		
Accounts receivable	83,918	153,897
Inventory	56,678	122,953
Deposits on inventory	(5,088 )	37,896
Prepaid insurance	(14,213 )	(10,579 )
Accounts payable	27,339	(35,716 )
Accrued expenses	21,260	2,508
Accrued interest expense	12,856	10,714
Net cash provided by operating activities	61,561	165,050
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on shareholder advances	(124,500 )	(109,500 )
Proceeds from shareholder advances	20,000	-
Payments on notes payable	(84,224 )	(91,982 )
Proceeds from notes payable	102,396	-
Net cash used in financing activities	(86,328 )	(201,482 )
Net decrease in cash	(24,767 )	(36,432 )
CASH, BEGINNING OF YEAR	54,995	91,209
CASH, END OF THE PERIOD	\$ 30,228	\$ 54,777
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 31,410	\$ 25,437

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

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**INNOVATIVE DESIGNS, INC.**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Three and Six Month Periods Ended April 30, 2013 and 2012 (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 April 30, 2013, the changes therein for the three and six month periods then ended and the results of operations for the three and six month periods ended April 30, 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 and six month periods ended April 30, 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. Based upon management's review, the Company decreased the reserve to \$58,000, during the quarter ended April 30, 2013, due to the continued sale of hunting apparel. 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 April 30, 2013 and October 31, 2012, the Company had \$49,602 and \$44,514, respectively on deposit for the production of apparel.

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**INNOVATIVE DESIGNS, INC.**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Three and Six Month Periods Ended April 30, 2013 and 2012 (Unaudited)

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. 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 \$24,000 and \$69,000 for the six month periods ending April 30, 2013 and 2012, respectively. These costs are included in selling, general and administrative expenses.

NOTE 8. COMMON STOCK

On February 4, 2013, the Company issued an aggregate of 30,000 shares of our common stock to three individuals for professional services. These shares issued were valued at \$.30 a share or an aggregate price of \$9,000. We believe that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advertising involved in the sale. We placed legends on the stock certificates stating that the securities were not registered under the Securities Act and set forth the restrictions on their transferability and sale.

NOTE 9.

DEBT

The Company entered into three Note Payable Agreements, with private lenders, during the three month period ended April 30, 2013, totaling \$39,396. These borrowings were used to fund operations during the quarter.

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**INNOVATIVE DESIGNS, INC.**

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

Three and Six Month Periods Ended April 30, 2013 and 2012 (Unaudited)

NOTE 10.

SUBSEQUENT EVENTS

The Company has evaluated subsequent events in accordance with Accounting Standards Codification Topic 855, “*Subsequent Events*”, through June 12, 2013, which is the date financial statements were available to be issued.

Subsequent to the quarter ended April 30, 2013, Joseph Riccelli, President and CEO of the Company, was awarded the patent for the composite fabric material utilized in the production of the Company’s apparel.

Subsequent to the quarter ended April 30, 2013, the Company received a short-term advance of \$90,000 from a shareholder.

## **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 Month Period Ended April 30, 2013 with the Three Month Period Ended April 30, 2012.

The following table shows a comparison of the results of operations between the three month periods ended April 30, 2013 and April 30, 2012:

	Three Month Period Ended April 30, 2013	% of Sales	Three Month Period Ended April 30, 2012	% of Sales	Increase (Decrease)	% Change	
REVENUE	\$ 55,010	100.00 %	\$ 45,471	100.00 %	\$ 9,539	20.98	%
<b>OPERATING EXPENSES</b>							
Cost of sales	15,184	27.60 %	20,657	45.43 %	(5,473 )	-26.49	%
Selling, general and administrative expenses	137,043	249.13 %	194,288	427.28 %	(57,245 )	-29.46	%
Loss from operations	(97,217 )	-176.73 %	(169,474 )	-372.71 %	72,257	-42.64	%
<b>OTHER INCOME/(EXPENSE)</b>							
Interest expense	(19,943 )	-36.25 %	(14,455 )	-31.79 %	(5,488 )	37.97	%
Net loss	\$ (117,160 )	-212.98 %	\$ (183,929 )	-404.50 %	\$ 66,769	-36.30	%

Revenues for the quarter ended April 30, 2013 were \$55,010 compared to revenues of \$45,471 for the quarter ended April 30, 2012. As a result of 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 \$137,043 for the three months ended April 30, 2013 compared to \$194,288 for the three months ended April 30, 2012.



**INNOVATIVE DESIGNS, INC.****Results of Operations**Comparison of the Six Month Period Ended April 30, 2013 with the Six Month Period Ended April 30, 2012.

The following table shows a comparison of the results of operations between the six month periods ended April 30, 2013 and April 30, 2012:

	Six Month Period Ended April 30, 2013	% of Sales	Six Month Period Ended April 30, 2012	% of Sales	Increase (Decrease)	% Change
REVENUE	\$ 350,056	100.00%	\$ 597,242	100.00%	\$(247,186)	-41.39 %
<b>OPERATING EXPENSES</b>						
Cost of sales	142,815	40.80 %	227,029	38.01 %	(84,214 )	-37.09 %
Selling, general and administrative expenses	287,107	82.02 %	409,972	68.65 %	(122,865 )	-29.97 %
Loss from operations	(79,866 )	-22.82 %	(39,759 )	-6.66 %	(40,107 )	100.88 %
<b>OTHER INCOME/(EXPENSE)</b>						
Interest expense	(44,266 )	-12.64 %	(36,151 )	-6.05 %	(8,115 )	22.45 %
Net loss	\$ (124,132 )	-35.46 %	\$ (75,910 )	-12.71 %	\$(48,222 )	63.53 %

Revenues for the six months ended April 30, 2013 were \$350,056 compared to revenues of \$597,242 for the six months ended April 30, 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 \$278,107 for the six months ended April 30, 2013 compared to \$409,972 for the six months ended April 30, 2012.

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**INNOVATIVE DESIGNS, INC.**

**Liquidity and Capital Recourses**

During the quarter ended April 30, 2013, we funded our operations from revenues from sales and short-term advances. During the quarter, we received three short-term advances totaling \$39,396 from private lenders. Subsequent to the quarter ended April 30, 2013, we received a short-term advance totaling \$90,000 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 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 April 30, 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. There were no reclassifications made during the second 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.

**INNOVATIVE DESIGNS, INC.**

ITEM 6. EXHIBITS

\*3.1 Certificate of Incorporation

\*3.2 By-Laws

10.1 Note Agreement between Aaron Riccelli and Innovative Designs, Inc. dated April 18, 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: June 12, 2013 by: /s/ Joseph Riccelli  
Joseph Riccelli, Chief Executive Officer  
and Chief Financial Officer