

INNOVATIVE DESIGNS INC  
Form 10QSB  
September 14, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended July 31, 2007

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: 333-103746

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 shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of September 14, 2007, there were 16,916,193 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-QSB for the Quarter Ended July 31, 2007

|  | Page No.       |
|--|----------------|
| <b>Part I — Financial Information</b>  |                |
| <b>Item 1. Condensed Financial Statements (unaudited)</b>  |                |
| Condensed Balance Sheets at July 31, 2007 and October 31, 2006   | 1              |
| Condensed Statements of Operations for the Three Months Ended July 31, 2007 and 2006, Nine months ended July 31, 2007 and 2006 | 2              |
| Condensed Statement of Changes in Stockholders' Deficit at July 31, 2007 and October 31, 2006                                  | 3              |
| Condensed Statements of Cash Flows for the Nine Months Ended July 31, 2007 and 2006  | 4              |
| Notes to Condensed Financial Statements  | 5 - 8          |
| <b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>                           | <b>8 - 11</b>  |
| <b>Item 3. Controls and Procedures</b>   | <b>11</b>      |
| <b>Part II — Other Information</b>   |                |
| <b>Item 1. Legal Proceedings</b>   | <b>12 - 13</b> |
| <b>Item 6. Exhibits</b>  | <b>13</b>      |

---

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

(Debtor-in-Possession)

July 31, 2007 (Unaudited) and October 31, 2006

|  | 2007              | 2006                |
|--|-------------------|---------------------|
| <b><u>ASSETS</u></b>                                       |                   |                     |
| <b>CURRENT ASSETS:</b>                                     |                   |                     |
| Cash   | \$ 7,666          | \$ 66,275           |
| Accounts receivable  | 46,975            | 283,251             |
| Inventory  | 897,482           | 820,413             |
| Other assets   | 5,783             | 11,572              |
| Total current assets                                       | 957,906           | 1,181,511           |
| <b>PROPERTY AND EQUIPMENT, NET</b>                         | <b>16,906</b>     | <b>20,497</b>       |
| <b>TOTAL ASSETS</b>  | <b>\$ 974,812</b> | <b>\$ 1,202,008</b> |
| <b><u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u></b>        |                   |                     |
| <b>CURRENT LIABILITIES:</b>                                |                   |                     |
| Current liabilities not subject to compromise:             |                   |                     |
| Accounts payable   | \$ 6,881          | \$ 6,881            |
| Current portion of notes payable                           | 298,041           | 391,412             |
| Accrued interest expense on debt not subject to compromise | 62,200            | 62,200              |
| Current liabilities not subject to compromise              | 367,122           | 460,493             |
| Current liabilities subject to compromise:                 |                   |                     |
| Accounts payable - related party                           | 28,220            | 28,220              |
| Current portion of related party debt                      | 111,000           | 111,000             |
| Due to shareholders  | 184,500           | 41,500              |
| Accrued expenses   | 2,333             | 4,925               |
| Accrued liability related to arbitration award             | 4,176,000         | 4,176,000           |
| Deferred revenue   | -                 | 213,781             |
| Customer deposits  | 9,000             | -                   |
| Current liabilities subject to compromise                  | 4,511,053         | 4,575,426           |
| Total current liabilities                                  | 4,878,175         | 5,035,919           |
| <b>LONG-TERM LIABILITIES NOT SUBJECT TO COMPROMISE:</b>    |                   |                     |
| Long-term liabilities not subject to compromise:           |                   |                     |
| Long-term portion of notes payable                         | 415,680           | 426,458             |
| Total long term liabilities not subject to compromise      | 415,680           | 426,458             |
| <b>TOTAL LIABILITIES</b>                                   | <b>5,293,855</b>  | <b>5,462,377</b>    |

## STOCKHOLDERS' DEFICIT:

|   |             |              |
|---|-------------|--------------|
| Preferred stock, \$.0001 par value, 100,000,000 shares authorized   |             |              |
| Common stock, \$.0001 par value, 500,000,000 shares authorized, 16,916,193 and 16,901,193 shares issued and outstanding | 1,693       | 1,691        |
| Additional paid in capital  | 4,977,082   | 4,971,084    |
| Accumulated deficit   | (9,297,818) | (9,233,144)  |
| Total stockholders' (deficit)   | (4,319,043) | (4,260,369)  |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT   |             |              |
|   | \$ 974,812  | \$ 1,202,008 |

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

**INNOVATIVE DESIGNS, INC.****STATEMENTS OF OPERATIONS**

(Debtor-in-Possession)

Three Months Ended July 31, 2007 and 2006, Nine Months Ended July 31, 2007 and 2006(Unaudited)

|   | Three Months Ended July 31, |             | Nine Months Ended July 31, |            |
|---|-----------------------------|-------------|----------------------------|------------|
|   | 2007                        | 2006        | 2007                       | 2006       |
| REVENUE   | \$ 35,093                   | \$ 41,330   | \$ 293,727                 | \$ 60,709  |
| <b>OPERATING EXPENSES:</b>                      |                             |             |                            |            |
| Cost of sales                                   | 20,354                      | 15,732      | 124,300                    | 23,871     |
| Non-cash stock compensation                     | -                           | 18,500      | 6,000                      | 186,300    |
| Selling, general and administrative expenses    | 63,254                      | 73,341      | 197,606                    | 215,469    |
|   | 83,608                      | 107,573     | 327,906                    | 425,640    |
| (Loss)/income from operations                   | (48,515)                    | (66,243)    | (34,179)                   | (364,931)  |
| <b>OTHER INCOME AND (EXPENSE):</b>              |                             |             |                            |            |
| Interest income (expense)                       | (3,851)                     | (17,311)    | (30,495)                   | 373,557    |
| Extinguishment of related party debt            | -                           | -           | -                          | -          |
| Total other income and (expense)                | (3,851)                     | (17,311)    | (30,495)                   | 373,557    |
| NET (LOSS)/INCOME                               | \$ (52,366)                 | \$ (83,554) | \$ (64,674)                | \$ 8,626   |
| Per share information - basic and fully diluted |                             |             |                            |            |
| Weighted Average Shares Outstanding             | 16,906,193                  | 16,882,552  | 16,902,304                 | 18,304,738 |
| Net income/(loss) per share                     | \$ (.003)                   | \$ (.005)   | \$ (.003)                  | \$ .001    |

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

**INNOVATIVE DESIGNS, INC.****STATEMENTS OF STOCKHOLDERS' DEFICIT**

(Debtor-in-Possession)

July 31, 2007 (Unaudited) and October 31, 2006

|   | Common Stock<br>Shares | Amount   | Additional<br>Paid in Capital | Retained Deficit | Total          |
|---|------------------------|----------|-------------------------------|------------------|----------------|
| Balance at October 31, 2005                                 | 19,224,291             | \$ 1,923 | \$ 4,813,676                  | \$ (5,032,704)   | \$ (217,105)   |
| Shares issued for services                                  | 625,000                | 63       | 259,688                       | -                | 259,751        |
| Shares issued for cash                                      | 611,000                | 61       | 261,059                       | -                | 261,120        |
| Shares returned for<br>nonperformance of services           | (1,650,000)            | (165)    | (168,035)                     | 200              | (168,000)      |
| Reverse shares issued for<br>extinguishment of note payable | (1,909,098)            | (191)    | (763,448)                     | -                | (763,639)      |
| Reversal of license agreement<br>with RMF Global            | -                      | -        | 568,144                       | -                | 568,144        |
| Net loss  | -                      | -        | -                             | (4,200,640)      | (4,200,640)    |
| Balance at October 31, 2006                                 | 16,901,193             | 1,691    | 4,971,084                     | (9,233,144)      | (4,260,369)    |
| Shares issued for services                                  | 15,000                 | 2        | 5,998                         | -                | 6,000          |
| Net loss  | -                      | -        | -                             | (64,674)         | (64,674)       |
| Balance at July 31, 2007                                    | 16,916,193             | \$ 1,693 | \$ 4,977,082                  | \$ (9,297,818)   | \$ (4,319,043) |

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

**INNOVATIVE DESIGNS, INC.**
**STATEMENTS OF CASHFLOW**  
 (Debtor-in-Possession)  
(Unaudited)

 For the Nine Months Ended  
 July 31, 2007                      July 31, 2006
**CASH FLOWS FROM OPERATING ACTIVITIES**

|  |    |           |    |           |
|--|----|-----------|----|-----------|
| Net income (loss)  | \$ | (64,674)  | \$ | 8,626     |
| Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities: |    |           |    |           |
| Common stock issued for services   |    | 6,000     |    | 186,300   |
| Depreciation and amortization  |    | 9,380     |    | 9,753     |
| Interest (reversal) added to related party note  |    | -         |    | (395,495) |
| Changes in operating assets and liabilities:   |    |           |    |           |
| Accounts receivable  |    | 236,276   |    | 44,166    |
| Inventory  |    | (77,069)  |    | (127,064) |
| Accounts payable   |    | -         |    | (6,627)   |
| Accrued expenses   |    | (2,592)   |    | 6,405     |
| Prepaid commissions  |    | -         |    | (8,500)   |
| Customer deposits  |    | 9,000     |    | -         |
| Deferred revenue   |    | (213,781) |    | -         |
| Deferred financing   |    | -         |    | (6,928)   |
| Accrued interest on notes payable  |    | -         |    | (8,321)   |
| Net cash used in operating activities  |    | (97,460)  |    | (297,685) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |    |           |    |           |
| Payments on note payable   |    | (104,149) |    | (86,848)  |
| Shareholder advances (payments)  |    | 143,000   |    | (14,000)  |
| Proceeds from note payable   |    | -         |    | 150,400   |
| Common stock issued for cash   |    | -         |    | 261,120   |
| Net cash (used in) provided by financing activities  |    | 38,851    |    | 310,672   |
| Net increase (decrease) in cash  | \$ | (58,609)  | \$ | 12,987    |
| Cash - beginning of year   |    | 66,275    |    | 42,434    |
| Cash - end of period   | \$ | 7,666     | \$ | 55,421    |

**Supplemental cash flow information:**

|                        |    |       |    |       |
|------------------------|----|-------|----|-------|
| Cash paid for interest | \$ | 5,076 | \$ | 5,343 |
|------------------------|----|-------|----|-------|

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



**INNOVATIVE DESIGNS, INC.**

ITEM 1. NOTES TO THE CONDENSED FINANCIAL STATEMENTS - JULY 31, 2007

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-QSB. 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-KSB/A-1 for the fiscal year ended October 31, 2006. 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, 2007 or any future period.

2. ADOPTION OF SFAS NO. 123 (REVISED 2004) SHARE-BASED PAYMENT

In December 2004, FASB issued SFAS No. 123 (Revised 2004) Share-Based Payment. This Statement 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 Statement does not change the accounting guidance for share-based payment transactions with parties other than employees provided in Statement 123 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 Statement 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 SFAS 123 (Revised 2004) 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 Statement of Financial Accounting Standard No. 128, 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.**

ITEM 1. NOTES TO THE CONDENSED FINANCIAL STATEMENTS - JULY 31, 2007

4. GOING CONCERN

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 has experienced a significant loss from operations as a result of its investment necessary to achieve its operating plan, which is long-range in nature. For the three month period ended July 31, 2007 and 2006, the Company incurred a net loss of (\$58,366) and (\$83,554), respectively. The Company incurred significant losses since inception resulting in a retained deficit of \$9,297,818 at July 31, 2007. The Company has working capital of (\$3,920,269) and \$452,464 and a stockholders' equity (deficit) of (\$4,319,043) and \$43,447 at July 31, 2007 and 2006, respectively.

On November 15, 2006, the Honorable M. Bruce McCullough granted the Petition for Relief filed by Petitioning Creditors with the United States Bankruptcy Court for the Western District of Pennsylvania. The Company and its external legal counsel believe the granting of this petition to be in error. Given the nature of the proceeding, the Company's legal counsel moved to convert the case to one under Chapter 11, which was granted.

Although the Company has and continues its normal business operations during the pendency of the bankruptcy proceedings, the financial statements and notes to the financial statements have been prepared using the guidance of Statement of Position 90-7 Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7).

Under Chapter 11, certain claims against the Debtor in existence prior to the filing of the petitions for relief under the federal bankruptcy laws are stayed while the Company continues business operations as Debtor-in-possession. These claims are reflected in the July 31, 2007 and October 31, 2006 balance sheets as "liabilities subject to compromise." Additional claims (liabilities subject to compromise) may arise subsequent to the filing date resulting from rejection of executory contracts, including leases, and from the determination by the court (or agreed to by parties in interest) of allowed claims for contingencies and other disputed amounts. Claims secured against the Company's assets ("secured claims") also are stayed, although the holders of such claims have the right to move the court for relief from the stay. Secured claims are secured primarily by liens on various Company assets as well as the personal property of Joseph Riccelli, Chief Executive Officer.

As of September 14, 2007, the Company has not filed its plan of reorganization with the United States Bankruptcy Court, nor has it determined its reorganization value. Consequently, the assets and liabilities are reflected in the July 31, 2007 and October 31, 2006 financial statements, at historical cost with no adjustments being made to reflect estimated settlement amounts. The Company continues to pay its obligations, as they become due.

The Company's ability to continue as a going concern is contingent upon its ability to expand its operations and secure additional financing and emerge out of bankruptcy. The Company is currently pursuing financing for its operations and seeking to expand its operations. The Company's Chief Executive Officer has been funding the Company's operations. As further discussed in Note 5, the Company and its legal counsel have been and will continue to resolve its bankruptcy matter. Failure to secure such financing or expand its operations may result in the Company not being able to continue as a going concern.

**INNOVATIVE DESIGNS, INC.**

ITEM 1. NOTES TO THE CONDENSED FINANCIAL STATEMENTS - JULY 31, 2007

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 or to emerge from bankruptcy.

5. CONTINGENCIES AND UNCERTAINTIES

District Court Case No. 04-00593-AJS

Bankruptcy Court Case No. 06-23921-MBM

The United States Court of Appeals for the Third Circuit has scheduled oral argument on IDI's appeal for the week of October 29-November 2, 2007. Eliotex, SRL (Eliotex") and Elio D. Cattan ("Cattan") have filed no brief with the Appeals Court, which is considering the matter on the basis of IDI's brief alone. IDI intends to pursue the appeal to its conclusion and vindicate its position on the merits of the dispute.

The judgment entered against IDI by Eliotex and Cattan has been purchased by French company Greystone, Inc. ("Greystone"). Greystone was involved in litigation with Eliotex and Cattan in arbitration proceedings in France on claims strikingly similar to those in dispute between IDI and Eliotex/Cattan. The Greystone matter was fully adjudicated by a French arbitration panel, which awarded Greystone a judgment against Eliotex and Cattan, jointly and severally, in the amount of approximately \$133,000 USD plus interest.

Greystone, after determining that Eliotex/Cattan had no assets in Europe with which to pay the award, brought an action to recognize and enforce its award in the United States District Court for the Western District of Pennsylvania under the United Nations Convention for the Recognition and Enforcement of Foreign Arbitral Awards at Case No. 07-00595. Neither Eliotex nor Cattan appeared to defend the action, and judgment was entered in favor of Greystone.

Greystone subsequently recorded its judgment in the District Court and evidenced the judgment in the Court of Common Pleas of Allegheny County, Pennsylvania at Docket No. GD-07-012299. It thereupon filed a Motion for Supplementary Relief in which it sought leave of Court to attach and execute upon the Eliotex/Cattan judgment against Innovative Designs and expose it to sheriff's sale. Eliotex and Cattan filed a Response in Opposition to the Motion, and oral argument thereon took place. On July 25, 2007, the Honorable R. Stanton Wettick, Jr., Administrative Judge for the Court of Common Pleas of Allegheny County, Pennsylvania, Civil Division, ruled in favor of Greystone. No appeal was taken from that ruling. At sheriff's sale conducted September 5, 2007, Greystone purchased the Eliotex/Cattan judgment against Innovative Designs. An assignment of that judgment to Greystone was filed on September 10, 2007.

Greystone and Innovative Designs have reached an accommodation that provides for all claims relating to the judgment to be withdrawn. The Eliotex/Cattan judgment was the basis for the Involuntary Bankruptcy Petition filed against Innovative Designs, and Greystone, will shortly be filing a Withdrawal of Claim in the Bankruptcy Court, after which Innovative Designs will file Objections to Claims of the remaining Petitioning Creditors and seek the dismissal of the Case.

**INNOVATIVE DESIGNS, INC.**

ITEM 1. NOTES TO THE CONDENSED FINANCIAL STATEMENTS - JULY 31, 2007

District Court Case No. 06-00582-AJS

On February 26, 2007, Judge Schwab Ordered the parties to file Motions for Summary Judgment. The Motions were filed on March 27, 2007 and April 6, 2007. Responses in Opposition were filed on April 18, 2007 and April 20, 2007. On July 20, 2007, Judge Schwab entered an Order denying both Motions without prejudice, citing the likelihood that the disposition of the IDI appeal pending in the Third Circuit would have a substantial impact upon the legal landscape of the case, “especially given that IDI’s brief stands unchallenged by Cattan and Eliotex”.

The withdrawal of all claims relating to the Eliotex/Cattan judgment removes the basis for the claims asserted against the Defendants in this Case, which do not directly implicate IDI.

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-KSB/A-1 for the fiscal year ended October 31, 2006.

**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.

**INNOVATIVE DESIGNS, INC.****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 sleeping bags, 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:

- Formulating and developing our business plan;
- Raising funding either through the sale of our common stock or through borrowing;
  - Developing our marketing plan;
- Completing the development, design and prototypes of our products, and
  - Obtaining retail stores to offer and sell our products.

In November 2006, we were placed into involuntary Chapter 7 bankruptcy proceeding which was subsequently converted to a Chapter 11 proceeding.

**Results of Operations**

Comparison of the Three and Nine Months Ended July 31, 2007 with the Three and Nine Months Ended July 31, 2006.

**Revenues**

The following table shows a comparison of the results of operations between the three months ended July 31, 2007 and three months ended July 31, 2006:

|  | Three Months<br>Ended<br>July 31, 2007 | % of<br>Sales | Three Months<br>Ended<br>July 31, 2006 | % of<br>Sales | \$ Increase<br>(Decrease) | % Change |
|--|--|---------------|--|---------------|---------------------------|----------|
| <b>REVENUE</b>                                     | \$ 35,093                              | 100%          | \$ 41,330                              | 100%          | \$ (6,237)                | (15.1)%  |
| <b>OPERATING EXPENSES</b>                          |  |               |  |               |                           |          |
| Cost of sales                                      | 20,354                                 | 58.0%         | 15,732                                 | 38.1%         | 4,622                     | 29.4%    |
| Non-stock<br>compensation                          | -                                      | -             | 18,500                                 | 44.8%         | (18,500)                  | (100.0)% |
| Selling, general and<br>administrative<br>expenses | 63,254                                 | 180.2%        | 73,341                                 | 177.5%        | (10,087)                  | (13.8)%  |
|  | 83,608                                 | 238.2%        | 107,573                                | 260.3%        | (23,965)                  | (22.3)%  |
| Income (loss) from<br>operations                   | (48,515)                               | (138.2)%      | (66,243)                               | (160.3)%      | 17,728                    | 26.8%    |
| <b>OTHER INCOME (EXPENSE)</b>                      |  |               |  |               |                           |          |
| Interest income<br>(expense)                       | (3,851)                                | (10.9)%       | (17,311)                               | (41.9)%       | 13,460                    | 77.8%    |
|  | (3,851)                                | (10.9)%       | (17,311)                               | (41.9)%       | 13,460                    | 77.8%    |

Edgar Filing: INNOVATIVE DESIGNS INC - Form 10QSB

|                   |    |          |          |    |          |          |    |        |       |
|-------------------|----|----------|----------|----|----------|----------|----|--------|-------|
| Net income (loss) | \$ | (52,366) | (149.2)% | \$ | (83,554) | (202.1)% | \$ | 31,188 | 37.3% |
|-------------------|----|----------|----------|----|----------|----------|----|--------|-------|

- 9 -

---

**INNOVATIVE DESIGNS, INC.**Three Months ended July 31, 2007 and 2006

Revenues for the three months ended July 31, 2007, were \$35,093 compared to \$41,330 for the three months ended July 31, 2006. The decrease in revenue is a result less retailers selling our products. Because of our adverse financial condition as a result of our being in bankruptcy, we are only offering our cold weather products, Artic Armor and our hunting line. Therefore, there is a very seasonal nature to our sales cycle. Customers did not purchase our current product lines to any large extent during the three months ended July 31, 2007. We do not anticipate purchases to be very significant for the next three month period. However, as discussed below we do have written orders for delivery late in the year. And as the year progresses, we expect orders to continue to increase as the cold season approaches.

The following table shows a comparison of the results of operations between the nine months ended July 31, 2007 and nine months ended July 31, 2006:

|  | Nine Months<br>Ended<br>July 31, 2007 | % of<br>Sales | Nine Months<br>Ended<br>July 31, 2006 | % of<br>Sales | \$ Increase<br>(Decrease) | % Change |
|--|---------------------------------------|---------------|---------------------------------------|---------------|---------------------------|----------|
| <b>REVENUE</b>                                     | \$ 293,727                            | 100%          | \$ 60,709                             | 100%          | \$ 233,018                | 383.8%   |
| <b>OPERATING EXPENSES</b>                          |                                       |               |                                       |               |                           |          |
| Cost of sales                                      | 124,300                               | 42.3%         | 23,871                                | 39.3%         | 100,429                   | 420.7%   |
| Non-stock<br>compensation                          | 6,000                                 | 20.4%         | 186,300                               | 306.9%        | (180,300)                 | (96.8)%  |
| Selling, general and<br>administrative<br>expenses | 197,606                               | 67.3%         | 215,469                               | 354.9%        | (17,863)                  | (8.3)%   |
|  | 327,906                               | 111.6%        | 425,640                               | 701.1%        | (97,734)                  | (22.9)%  |
| Income (loss) from<br>operations                   | (34,179)                              | (11.6)%       | (364,931)                             | 601.1%        | 330,752                   | (90.6)%  |
| <b>OTHER INCOME (EXPENSE)</b>                      |                                       |               |                                       |               |                           |          |
| Interest income<br>(expense)                       | (30,495)                              | (10.4)%       | 373,557                               | 615.3%        | (404,052)                 | (108.2)% |
|  | (30,495)                              | (10.4)%       | 373,557                               | 615.3%        | (404,052)                 | (108.2)% |
| Net (loss) income                                  | \$ (64,674)                           | (22.0)%       | \$ 8,626                              | 14.2%         | \$ (73,300)               | (849.8)% |

Nine Months ended July 31, 2007 and 2006

Revenues for the nine months ended July 31, 2007, were \$293,727 compared to \$60,709. The increase was due primarily to our use of sales agents who were familiar with the industries that had a need for our Artic Armor line of products. A strong majority of our sales for the nine month period ended July 31, 2007 was for this product line.

As of July 31, 2007, we had written orders for approximately \$201,000 of our products. The orders are from retail customers and deliveries are scheduled for October, November and December of 2007. The orders do not require any monetary deposit and can be cancelled by the customer.

**INNOVATIVE DESIGNS, INC.**

**Liquidity and Capital Resources**

During the quarter ended July 31, 2007, we funded our operations with revenues from sales and loans from our Chief executive Officer. 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 adversely affected by our status in bankruptcy.

Short Term: We funded our operations with revenues from sales and loans from our Chief Executive Officer. Our ability to obtain outside funding of either debt or equity was adversely affected by our status in bankruptcy. Further, the bankruptcy status has resulted in customers reducing their sales activity or ceasing to do business with us or all together. The loss of this revenue had an adverse impact on the Company's short term liquidity. 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.

Long Term: The Company will continue to fund operations from revenues, borrowings and the possible sale of its securities. The Company is currently pursuing financing to fund its long-term liquidity needs.

**ITEM 3. 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. Management, including our principal executive and financial officer, evaluated the effectiveness of the design and operation of disclosure controls and procedures as of July 31, 2007 and, based on their evaluation, our principal executive and financial officers have concluded that these controls and procedures are operating effectively. Disclosure controls and procedures are controls and other procedures that are designed to ensure that information we are required to disclose in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports we file under the Exchange Act is accumulated and communicated to management, including the principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

There were no significant changes in our internal control over financial reporting during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



**INNOVATIVE DESIGNS, INC.**

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

District Court Case No. 04-00593-AJS

Bankruptcy Court Case No. 06-23921-MBM

The United States Court of Appeals for the Third Circuit has scheduled oral argument on IDI's appeal for the week of October 29-November 2, 2007. Eliotex, SRL (Eliotex") and Elio D. Cattan ("Cattan") have filed no brief with the Appeals Court, which is considering the matter on the basis of IDI's brief alone. IDI intends to pursue the appeal to its conclusion and vindicate its position on the merits of the dispute.

The judgment entered against IDI by Eliotex and Cattan has been purchased by French company Greystone, Inc. ("Greystone"). Greystone was involved in litigation with Eliotex and Cattan in arbitration proceedings in France on claims strikingly similar to those in dispute between IDI and Eliotex/Cattan. The Greystone matter was fully adjudicated by a French arbitration panel, which awarded Greystone a judgment against Eliotex and Cattan, jointly and severally, in the amount of approximately \$133,000 USD plus interest.

Greystone, after determining that Eliotex/Cattan had no assets in Europe with which to pay the award, brought an action to recognize and enforce its award in the United States District Court for the Western District of Pennsylvania under the United Nations Convention for the Recognition and Enforcement of Foreign Arbitral Awards at Case No. 07-00595. Neither Eliotex nor Cattan appeared to defend the action, and judgment was entered in favor of Greystone.

Greystone subsequently recorded its judgment in the District Court and evidenced the judgment in the Court of Common Pleas of Allegheny County, Pennsylvania at Docket No. GD-07-012299. It thereupon filed a Motion for Supplementary Relief in which it sought leave of Court to attach and execute upon the Eliotex/Cattan judgment against Innovative Designs and expose it to sheriff's sale. Eliotex and Cattan filed a Response in Opposition to the Motion, and oral argument thereon took place. On July 25, 2007, the Honorable R. Stanton Wettick, Jr., Administrative Judge for the Court of Common Pleas of Allegheny County, Pennsylvania, Civil Division, ruled in favor of Greystone. No appeal was taken from that ruling. At sheriff's sale conducted September 5, 2007, Greystone purchased the Eliotex/Cattan judgment against Innovative Designs. An assignment of that judgment to Greystone was filed on September 10, 2007.

Greystone and Innovative Designs have reached an accommodation that provides for all claims relating to the judgment to be withdrawn. The Eliotex/Cattan judgment was the basis for the Involuntary Bankruptcy Petition filed against Innovative Designs, and Greystone, will shortly be filing a Withdrawal of Claim in the Bankruptcy Court, after which Innovative Designs will file Objections to Claims of the remaining Petitioning Creditors and seek the dismissal of the Case.

District Court Case No. 06-00582-AJS

On February 26, 2007, Judge Schwab Ordered the parties to file Motions for Summary Judgment. The Motions were filed on March 27, 2007 and April 6, 2007. Responses in Opposition were filed on April 18, 2007 and April 20, 2007. On July 20, 2007, Judge Schwab entered an Order denying both Motions without prejudice, citing the likelihood that the disposition of the IDI appeal pending in the Third Circuit would have a substantial impact upon the legal landscape of the case, "especially given that IDI's brief stands unchallenged by Cattan and Eliotex".



**INNOVATIVE DESIGNS, INC.**

**PART II - OTHER INFORMATION**

The withdrawal of all claims relating to the Eliotex/Cattan judgment removes the basis for the claims asserted against the Defendants in this Case, which do not directly implicate IDI.

**ITEM 6. EXHIBITS**

\*3.1 Certificate of Incorporation

\*3.2 By Laws

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

31.2 Rule 13a - 14a Certification of Chief Financial Officer

32.1 Section 1350 Certification of Chief Executive Officer

32.2 Section 1350 Certification of 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: September 14, 2007

/s/ Joseph Riccelli

\_\_\_\_\_  
Joseph Riccelli, Chief Executive Officer

Date: September 14, 2007

/s/ Anthony Fonzi

\_\_\_\_\_  
Anthony Fonzi, Chief Financial Officer