

INNOVATIVE DESIGNS INC
Form 10QSB
September 21, 2004

OMB APPROVAL

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

FORM 10-QSB

☒ [X]

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY
THREE MONTH PERIOD ENDED JULY 31, 2004:

OR

☐ []

TRANSITION REPORT UNDER 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

(IRS Employer Identification No.)

223 North Main Street, Suite 1

Pittsburgh, Pennsylvania 15215

(Address of principal executive offices)

(412) 799-0350

(Registrant's telephone number, including area code)

Not applicable

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

All Correspondence to:

Charles C. Torie, Esquire

Leech Tishman Fuscaldo & Lampl, LLC

Citizens Bank Building, 30th Floor

525 William Penn Place

Pittsburgh, Pennsylvania 15025

As of July 31, 2004, there were 16,882,625 shares of the registrant's common stock outstanding.

Transitional Small Business Disclosure Format (Check one): Yes [] No [X]

INNOVATIVE DESIGNS, INC.

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PART 1 - FINANCIAL INFORMATION

INNOVATIVE DESIGNS, INC.

(A DEVELOPMENT STAGE COMPANY)

FINANCIAL STATEMENTS

ITEM 1. FINANCIAL STATEMENTS.

The information in this report for the three months ended July 31, 2004 is unaudited but includes all adjustments (consisting only of normal recurring accruals, unless otherwise indicated) which the "Company" considers necessary for a fair presentation of the financial position, results of operations, changes in stockholders' equity and cash flows for those periods.

The condensed consolidated financial statements should be read in conjunction with the Company's financial statements and the notes thereto contained in the Company's Audited Financial Statements for the year ended October 31, 2003 on the Form 10-KSB filed with the SEC on February 10, 2004.

Interim results are not necessarily indicative of results for the full fiscal year.

INNOVATIVE DESIGNS, INC.

(A Development Stage Company)

BALANCE SHEET

as of July 31, 2004

(Unaudited)

ASSETS

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CURRENT ASSETS

Cash	\$98,151	
Inventory	363,356	
Due from related party	<u>5,000</u>	
Total Current Assets		466,507

PROPERTY & EQUIPMENT, NET

69,848

TOTAL ASSETS

\$536,355

#

LIABILITIES & STOCKHOLDERS' DEFICIT

CURRENT LIABILITIES:

Current portion of long term debt	\$8,476	
Current portion of note payable to related party	672,729	
Note payable	100,000	
Accounts payable	6,232	
Loan payable	<u>6,000</u>	
Total Current Assets		<u>793,437</u>

LONG TERM LIABILITIES:

Long term portion of debt	25,903	
Long term portion of note payable to related party	236,364	
Loan payable to related party	71,000	
Due to stockholder	<u>46,000</u>	
Total Long Term Liabilities		<u>379,267</u>

TOTAL LIABILITIES		\$1,172,704
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STOCKHOLDER'S DEFICIT

Preferred stock, \$.0001 par value, 100,000,000 shares authorized		
Common stock, \$.001 par value, 500,000,000 shares authorized,		
15,467,625 shares issued and outstanding	1,547	
Additional paid in capital	1,171,483	
(Deficit) accumulated during the development stage	<u>(1,809,379)</u>	
Total stockholder's (deficit)	<u>(636,349)</u>	

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT		\$536,355
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INNOVATIVE DESIGNS, INC.

(A Development Stage Company)

STATEMENTS OF OPERATIONS

**FOR THE QUARTER ENDED JULY 31, 2004 AND FOR
THE PERIOD FROM INCEPTION (JUNE 25, 2002) TO JULY 31, 2004**

(Unaudited)

	Three Months Ended July 31,		Nine Months Ended July 31,		Inception to
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	July 31, 2004
REVENUE	\$6,061	\$32,206	\$19,469	\$47,795	\$74,885
OPERATING EXPENSES:					
Cost of sales	2,546	18,679	8,178	29,072	31,379
Non-cash stock compensation	(1,600,000)	-	(1,600,000)	1,050,000	829,030
Selling, general and administrative expenses	<u>106,591</u>	<u>79,750</u>	<u>278,999</u>	<u>256,802</u>	<u>680,487</u>
	(1,490,863)	98,429	(1,312,823)	1,335,874	1,540,896
Income (loss) from operations	<u>1,496,924</u>	<u>(66,223)</u>	<u>1,332,292</u>	<u>(1,288,079)</u>	<u>(1,466,011)</u>
INTEREST EXPENSE:	55,116	50,247	165,441	124,906	343,368
NET INCOME (LOSS)	<u>\$1,441,808</u>	<u>\$(116,470)</u>	<u>\$1,166,851</u>	<u>\$(1,412,985)</u>	<u>\$(1,809,379)</u>

Per share information

basic and fully diluted

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Weighted Average					
Shares Outstanding	<u>17,639,462</u>	<u>15,553,875</u>	<u>16,318,323</u>	<u>15,479,685</u>	<u>14,284,193</u>
Net (loss) per share	<u>(0.08)</u>	<u>(0.01)</u>	<u>0.07</u>	<u>(0.09)</u>	<u>(0.13)</u>

INNOVATIVE DESIGNS, INC.

(A Development Stage Company)

STATEMENTS OF CASH FLOW

Six Months Ended July 31, 2004 and 2003, Period from Inception to July 31, 2004

(Unaudited)

	Inception to		
	Nine Months Ended July 31,	July 31,	
	<u>2004</u>	<u>2003</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss)	\$1,166,851	\$(1,412,985)	\$(1,809,379)
Adjustments to reconcile net income to cash provided by operating activities:			
Common stock issued to founders	-	-	1,405
Common stock issued for services	(1,600,000)	1,050,000	827,625
Depreciation	9,339	5,745	17,428
Interest added to related party note	163,638	124,659	340,948
Changes in operating assets and liabilities:			
Accounts receivable	4,820	(4,820)	-
Inventory	(78,102)	(213,523)	(363,356)
Deposits	-	77,000	-
Due to related party	3,500	(5,000)	(5,000)
Accounts Payable	<u>1,946</u>	<u>(5,543)</u>	<u>6,232</u>
Net cash (used in) operating activities	<u>(328,008)</u>	<u>(384,467)</u>	<u>(984,097)</u>

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CASH FLOWS FROM INVESTING
ACTIVITIES:

Purchase of property and equipment	-	(24,520)	(42,276)
Purchase of license agreement	<u>-</u>	<u>(50,000)</u>	<u>-</u>
Net cash (used in) investing activities	<u>-</u>	<u>(74,520)</u>	<u>(42,276)</u>

CASH FLOWS FROM FINANCING
ACTIVITIES

Payments on note payable	(6,737)	(1,204)	(10,621)
Payment on related party note	-	-	(50,000)
Shareholder advances	15,000	7,000	46,000
Proceeds from short term debt	100,000	-	100,000
Proceeds from loan payable to related party	71,000	-	71,000
Proceeds from long-term debt	-	-	-
Proceeds from note payable	6,000	-	6,000
Common stock shares issued for cash	<u>167,420</u>	<u>350,250</u>	<u>962,145</u>
Net cash provided by financing activities	<u>352,683</u>	<u>356,046</u>	<u>1,124,524</u>

Net increase (decrease) in cash	(24,675)	(102,941)	98,151
Cash beginning	<u>73,476</u>	<u>115,280</u>	-
Cash ending	<u>\$ 98,151</u>	<u>\$ 12,339</u>	<u>\$ 98,151</u>

Supplemental cash flow information:

Cash paid for interest	<u>\$ 803</u>	<u>\$ 247</u>	<u>\$ 2,550</u>
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Non-cash investing and financing activities:

License agreement	<u>\$ -</u>	<u>\$ -</u>	<u>\$618,145</u>
Property and equipment acquired with note payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 45,000</u>

**INNOVATIVE DESIGNS, INC.
(A Development Stage Company)**

Notes to Consolidated Financial Statements

JULY 31, 2004

(Unaudited)

1.

BASIS OF PREPARATION

The accompanying unaudited financial statements in the Form 10QSB are presented in accordance with the requirement 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 10KSB for the year ended October 31, 2003. In the opinion of management, all adjustments (consisting only 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 to be expected for the full year.

2.

EARNINGS PER SHARE

The Company calculates net income (loss) per share as required by Statement 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.

3.

STOCKHOLDERS' DEFICIT

During the nine month period ended July 31, 2004, the Company sold 132,000 shares of common stock for an average price of approximately \$0.61 per share or \$80,520.

During July 2004, the Company issued 100,000 shares of common stock for services valued at \$2.00 per share or \$200,000. These shares were returned to the Company for nonperformance of the services. In addition, 800,000 previously issued during 2003 for services valued at \$2.00 were also returned to Company for nonperformance.

The cost of these services was charged to operations and additional paid in capital was increased by \$1,599,920 representing the excess of cost of the services over the par value of the common stock issued. In conjunction with the return of the common stock, non-cash stock compensation was reduced by \$1,600,000 and additional paid in capital by \$1,599,920.

4.

DEBT

During July 2004, the Company borrowed \$100,000 from an individual with interest at 8.00%. The loan plus interest is payable in October 2004. The loan proceeds were used to fund operations.

5.

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 continues to experience significant losses from operations as a result of its investment necessary to achieve its operating plan, which is long-range in nature. For the nine month period ended July 31, 2004 and 2003, the Company incurred a net loss (\$433,149) and (\$1,412,986), respectively. Since the Company's inception, they have incurred a net loss from operations of (\$3,409,379). The Company has a working capital surplus of \$202,540 and a stockholders' deficit of (\$636,349) at July 31, 2004. In addition, the Company has no significant revenue generating operations.

The Company's ability to continue as a going concern is contingent upon its ability to attain profitable operations and secure financing. Further, the Company's ability to continue as a going concern must be considered in light of the problems, expenses and complications frequently encountered by entrance into established markets and the competitive environment in which the Company operates.

The Company continues to pursue equity financing for its operations. Failure to secure such financing or to raise additional capital or borrow additional funds may result in the Company depleting its available funds and not being able to pay its obligations.

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.

ITEM 2. PLAN OF OPERATIONS

Plan of Operations

The following discussion provides information that we believe is relevant to our Plan of Operations, and should be read in conjunction with our financial statements and related notes appearing elsewhere in this Form 10-QSB. This discussion contains forward-looking statement based on our current expectations, assumptions, and estimates. The words or phrases believe, expect, may, anticipates, or similar expressions are intended to identify forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of a number of risks and uncertainties pertaining to our business, including: (a) Our limited operating history and our history of losses makes it difficult for you to evaluate our current and future business and prospects and future financial results; (b) If we are unable to obtain additional financing, we will be unable to proceed with our Plan of

Operations and even if we obtain additional debt or equity financing, your equity interest in our stock will be diluted; (c) If RMF Global, Inc. violates the terms of its agreement with Ko-Myung Kim or we violate our agreement with RMF Global, Inc., we may have no eliotex by which to manufacture our products and we will have to terminate our business, and you will lose your entire investment; (d) If our products are found to cause injury, have defects, or fail to meet industry standards, we will incur substantial litigation, judgment, product liability, and product recall costs, which will increase our losses and negatively affect our band name reputation and product sales; (e) Because we offer only six products and our competitors have a variety of products, we may not obtain consumer acceptance of our products, which may adversely affect our ability to generate revenues; (f) We have not established the Innovative Design brand name or the idigear label, and eliotex has little, if any, name recognition, which may prevent us from generating revenues and reduce the value of your investment; (g) we do not have written agreements with certain companies and persons providing us with services and instead receive such services on a per project basis; and (h) other risk factors discussed in our From SB-2 Registration Statement which is available for review at www.sec.gov. The terms we, our, or us are used in this discussion refer to Innovative Designs, Inc. Statements made herein are as of the date of the filing of this Form 10-QSB with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and we specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

We cannot continue to satisfy our current cash requirements for a period of twelve (12) months through our existing capital. We anticipate spending cost in the following areas.

o

Update and develop our web site and develop our online marketing campaign;

o

Contract with manufacturer representatives to sell our online marketing campaign;

o

Design and develop literature, displays, and media and advertising materials;

o

Develop and maintain public relations campaigns;

o

Develop trade show booths;

o

Attend trade shows;

o

Develop and initiate online marketing campaign;

o

Establish relationships with retail chain outlets and mass merchandisers; and

o

Warehouse lease payments.

Accordingly, we will be unable to fund our expenses for our entire one year plan of operations through our existing assets or cash. Our Chief Executive Officer and President have each verbally agreed to loan us up to \$400,000 for our operational needs which will be sufficient to meet our Plan of Operations or Alternative Plans of Operation. We may still need additional financing through traditional bank financing or a debt or equity offering; however, because we are a development stage company with no operating such financing or the amount of the financing may be minimal and therefore inadequate to implement our Plan of Operations. In addition, if we only have nominal funds by which to conduct our operations, we may have to curtail advertising or be unable to conduct any advertising, both of which will negatively impact development of our brand name and reputation. In the event that we do not receive financing or our financing is inadequate, we may have to liquidate our business and undertake any or all of the following actions:

o

Sell or dispose of our assets, if any;

o

Pay our liabilities in order of priority, if we have available cash to pay such liabilities;

o

If any cash remains after we satisfy amounts due to our creditors, distribute any remaining cash to our shareholders in an amount equal to the net market value of our net assets;

o

File a Certificate of Dissolution with the State of Delaware to dissolve our corporation and close our business;

o

Make the appropriate filings with the Securities and Exchange Commission so that we will no longer be required to file periodic and other required reports with the Securities and Exchange Commission, if, in fact, we are reporting company at that time; and

o

Make the appropriate filings with the National Association of Security Dealers to affect a delisting of our stock.

Based upon our current assets, however, we will not have the ability to distribute any cash to our shareholders.

If we have any liabilities that we, or our President and/or Chief Executive Officer on our behalf, are unable to satisfy and we qualify for protection under the U.S. Bankruptcy Code, we may voluntarily file for reorganization under

Chapter 11 or liquidation under Chapter 7 or Chapter 11 or liquidation under Chapter 7. Our creditors may also file a Chapter 7 or Chapter 11 bankruptcy action against us. If our creditors or we file for Chapter 7 or Chapter 11 bankruptcy, our creditors will take priority over our shareholders. If we fail to file for bankruptcy under Chapter 7 or Chapter 11 and we have creditors; such creditors may institute proceedings against us seeking forfeiture of our assets, if any.

We do not know and cannot determine which, if any, of these actions we will be forced to take. If any of these foregoing events occur, you could lose your entire investment in our shares.

Our Plan of Operations to Date:

Here is the status of our accomplishments in fulfilling our Plan of Operations to date:

Completion of Design, Prototype and Testing Phase of New Products:

In November 2002, we completed the design, prototype, and testing phase of our windshirts and our jackets. In January 2003, we completed the design and testing phase of our ball caps. We assumed no direct material costs associated with the testing, prototype, and testing of these products because: (a) we did not utilize the services of any outside consultant or company for these purposes; (b) although we used the services of our Vice President of Sales and Marketing and Chief Executive Officer for these purposes, their efforts were part of their normal responsibilities; (c) prior to the time we had undertaken the design and prototype of these products, we had purchased for less than \$1000; and (d) the testing of these products was performed in-house and were conducted by our Vice President of Sales and Marketing and Chief Executive Officer as part of their normal responsibilities. The design, prototype, and testing of the Swimmeez, sleeping bag and stadium pillow products in which we had obtained an exclusive license to sell such products from our affiliated entity, RMF Global, had been completed by RMF Global.

Leased Warehousing Space:

In October, 2002, we arranged for the lease of warehouse space for our inventory, eliotex, and other raw materials storage at 124 Cherry Street, Etna, Pennsylvania from Frank Riccelli, our President/Director. The warehouse space is being utilized for the following: (a) inventory/raw material storage, (b) sales offices, (c) conference/presentation room, (d) sample/source area, (e) distribution center, and (f) an aquatic area that tests our products.

Website Development, Point of Sale Display, Website Design and Advertising/Product Literature Layout:

In October 2002, we obtained the services on a per project basis of a website marketing consultant, BA Web Productions, located in Pittsburgh, Pennsylvania, to assist with marketing and developing our website, which has included adding new product selections, a product page, and links. Our website became operational on November 10, 2002.

In October 2002, we retained the services on a per project basis of MCM Communications, Inc. located in Pittsburgh, Pennsylvania, to provide us with marketing and advertising services, including creating our point of sale display, text for website, product information, and marketing literature, all of which have been completed.

Retailers:

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In November 2002, the website retailer, Woodlandsoutdoorworld.com, began ordering our sleeping bag and wind shirt products on a wholesale basis for their retail sale. In addition, Woodlands Outdoor World, a retail store, located in Farmington, Pennsylvania, began carrying our sleeping bag product and our wind shirt products and Nemacolin Woodlands Resort and Spa's retail store located in Farmington, Pennsylvania began carrying our wind shirt product in its retail store.

In June 2003, the following retail stores began carrying our Swimeez products:

o

Pool Nation located in Pittsburgh, Pennsylvania;

o

B & R Pools located in Pittsburgh, Pennsylvania;

o

Knabes Swim Shop located in Monroeville, Pennsylvania; and

o

Ross and Sons Pools located in Punxsutawney, Pennsylvania.

In June 2003, the Pittsburgh Shop located in Pittsburgh, Pennsylvania began carrying our windshirts and hats.

The Company received orders from the following retailers to take deliver in the months of August and September 2004. The products are the new idigear hunting line and selected licensed collegiate merchandise.

o

Dicks Sporting Goods

o

Pittsburgh Panthers Store/Peterson Event Center/University of Pittsburgh

o

Salooms Department Store

On May 15, 2004 the Company entered into a strategic marketing agreement for product endorsement with the Duck Zone; a televised hunting series to be aired on the Sportsman Channel beginning in November 2004. Innovative Designs, Inc. will provide the clothing for the show participants/outfitters in exchange for product advertising and branding.

Contract with Manufacturer Representative Group:

In November of 2002, we entered into a verbal agreement with a manufacturer representative group, Havel-Giarusso and Associates, located in Big Lake, Minnesota to sell our products to outdoor retail chains. This manufacturer representative group has relationships with outdoor retailers located in various states.

Additional Hiring:

From March 2003 to May 2003, we hired our Vice Presidents, Joseph A. Riccelli, Jr. and Michelle Griffith, on a full time, salaried position basis. From March 2003 to present, we hired two part time employees for clerical and warehouse duties at the rate of \$7.00 per hour.

Letter Agreement with Victory Junction Gang Camp:

On March 6, 2003, we agreed to partner with Victory Junction Gang Camp in a cause related marketing alliance, and have added the Victory Junction Gang Camp logo and Internet link to our web site.

Manufacturers Agreement:

On June 16, 2003, we completed an agreement with Haas Outdoors, Inc. located in West Point, Mississippi, which grants a non-exclusive license in North America to manufacture or sell products or to have manufactured, and to sell Haas Outdoors licensed products. In conjunction with the rights conferred to us in this agreement, we plan to use Haas Outdoors Mossy Oak fabric on the outside portion of our Stadium Pillow products using the trademarked and registered Mossy Oak pattern and Mossy Oak hang tags.

Increase the Utility of our Web Site

We intend to continually improve the utility and design of our website. We have added the following features since March 1, 2003:

o

Simple navigational menu;

o

Testimonials and third party product reviews, including a customer testimonial for our sleeping bag;

o

Product information and pictures/graphics;

o

Wholesaler only area disclosing confidential price list; and

o

Links to pertinent/affiliated websites, including a link to the Victory Junction Gang Camp's website.

Develop and Initiate Online Marketing Campaign

We will utilize marketing professionals to focus on increasing our website page rank, which is the numerical location or position of our web site among search engine results. BA Web Productions updates, expands, and develops our web site. This ongoing campaign will start with search engine optimization strategies, and continue with banner advertisements and reciprocal linking campaigns with established web sites with complementary or relevant products and/or services to the company's products.

Our online marketing campaigns will entail the following:

o

Reciprocal linking with well-established websites with related content and/or complementary products;

o

Issuance of press releases about our products to targeted on-line publications; and

o

Strategic placement of banner advertisements on websites.

Hire Sales People

In March 2004, the Company retained two additional independent sales representatives as independent contractors to the idigear label. These salesmen will cover territories including but not limited to the eastern portion of the United States. They will be compensated a 10% commission on all orders received.

The Company hired two in-house sales account representatives as independent contractors to call on regional/national sales accounts focusing on the hunting industry and corporate promotional products accounts. These sales reps will be compensated on a draw against commission basis at a rate of \$500 per month. These individuals will not receive any

additional benefits from the company and will work in the first three months on a probationary basis.

Initially Contract with 5 Manufacturer Representatives

In April 2004, the Company entered into an agreement with the manufacturer representative group Evernham Anderson & Associates of Indianapolis, Indiana for purposes of soliciting, promoting, and arranging sales of our products and otherwise represent the interests of the Company.

Design and Development of Literature, Displays, and Media Materials:

We will develop literature, point-of-sale and media materials in our attempt to integrate our products into large retail store outlets. We will utilize marketing consultants to develop and implement professional photography and graphics, brochures, point-of-sale displays, mailers and literature, which we plan to use as a trade show exhibits, and sales tools for our sales representatives. We estimate that our total expenditure in this area will be \$60,000.

Develop and Initiate Print Advertising:

Throughout our Plan of Operations and as a congruent part of our overall marketing strategy, we intend to initiate our targeted print advertising campaign in specific newspapers, magazines, and trade journals. We plan on beginning an advertising campaign with Teaser Ads, advertisements stating product and company information but not specific ads on one particular product, in outdoor publications and magazines along with trade show brochures. Additionally we will utilize ad space in chain store news and inserted flyers. We will utilize marketing/advertising agencies to assist in the design, development, printing, and distribution of these advertising campaigns, along with our Chief Executive Officer and Vice President of Sales and Marketing.

Develop and Maintain Public Relations Campaigns:

Starting in January 2004 and continuing throughout our Plan of Operations, we intend to utilize marketing consultants to develop advertisements and press releases for apparel and outdoor gear magazines and trade journals. The press releases and advertisements will discuss issues such as company status, product innovations, and other notable events and developments. The estimated cost is \$3,000 for consultant services, advertisements, press release submission via PR Newswire, software and administrative expenses.

The Company entered into a strategic marketing and licensing agreement with Arnold Palmer Enterprises to market the idigear products containing eliotex throughout the golf industry.

In the months of July and August 2004, the Company received non-paid product coverage and reviews from industry publications, as follows:

o

Archery Business: May/June issue

o

Bowhunting Whitetails: August

o

Bowhunting Equipment Buyers Guide: July

o

Deer Hunters Equipment 2004 Buyers Guide

o

Textile Industry News: July

Establish Wholesale Relationships with Retail Chain Outlets and Mass Merchandisers to Carry Our Products and Product Promotion:

We plan to develop wholesale relationships or distribution points for our products. Throughout our Plan of Operations, we plan to implement sales campaigns to established retailers with the goal of establishing wholesale relationships. Our Chief Executive Officer and Vice President of Sales and Marketing will initiate these campaigns.

Our sales campaigns will be on ongoing process and will consist of our sales representatives accomplishing the following:

o

Lead Generation Accomplished through cold calling, follow-up contacts from tradeshow and mailers, and networking with outdoor gear and apparel industry associations;

o

Personal Presentations to Executives and Purchasing Departments of Targeted Retailers Through these sales presentations, we will attempt to convince the retailer to purchase our products at wholesale prices for resale in their store or chain of stores. The orientation of the presentation will be an introduction of the innovative aspects of our products, as well as the advantages of our products over some of our competitors. For example, we will highlight the light weight, compactness, thermal insulation, and buoyancy features of eliotex used in our products. These personal presentations of our products will be on-location at prospects facilities to executives and purchasing departments and will include a product display and a video demonstration of the products in use;

o

Order Acquisition and Management Once the retailer places an order for products, the sales representative is responsible for managing the order fulfillment process, forwarding the purchase order to the distribution manager who will then arrange the shipping specifics, as well as coordinating the physical merchandising of our products on the shelves of the client stores. By maintaining this hands-on approach, we will attempt to continue successful relationships with our distributors; and

o

Relationship Management The sales representative is also responsible for maintaining an ongoing relationship with acquired distributors. Our Vice President of Sales and Marketing will enforce a regimented account management program. This program is to include monthly telephone contacts, and personal visits, once per six months minimum, with the distributor.

In the months of March and April 2004, the Company made presentations to the following national retailers that placed orders with Innovative Designs, Inc. for product delivery beginning August 2004 through the fall of 2005:

Dick's Sporting Goods, Inc.

Pittsburgh, PA

Jay's Sporting Goods

Clare, Michigan

In February 2004, Innovative Designs, Inc. licensed to MirTek, Inc. of Sparta, Michigan the right to purchase eliotex through Innovative Designs, Inc. for the manufacture of hunting apparel in the Intrigue and 3-D Leafy camouflage containing eliotex.

In the month of June, 2004 the Company manned a booth at the Sports, Inc. buying show held in Indianapolis, IN August 26-28, 2004. This show focused on the spring 2005 season, taking orders for delivery of products in spring 2005. The Company displayed the hunting line containing the eliotex material.

Sub Manufacturing, Raw Materials Procurement and Fulfillment Process:

We will conduct our sub-manufacturing, raw materials procurement and fulfillment process as follows:

Sources of Availability of Raw Materials:

eliotex will be used in all our finished goods and will be purchased from our affiliate/licensor, RMF Global.

Raw materials to be Provided for our Floating Swimwear Products:

o

Eliotex

eliotex will be used to create the buoyant quality of our floating swimwear product.

o

Lycra

We will purchase Lycra from Yasha Fabrics which is located in Los Angeles, California. Lycra is an elastic polyurethane fiber or fabric used especially for close-fitting sports clothing and will be used for the outer shell and inside lining of our floating swimwear product.

o

Zippers

We will purchase zippers from Barbie International Corporation which is located in New York, New York.

The delivery time involved for these raw materials from the date of order to date of delivery is less than two weeks.

Raw materials to be provided for our Sleeping Bags and Stadium Pillow Products:

o

eliotex

eliotex will be used in our sleeping bags, Swimeez and stadium pillow products as insulation and to provide buoyancy to these products.

o

Rip Stop Nylon

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We will purchase Rip stop Nylon from Roberts Textile Company located in New York, New York. Rip Stop Nylon is a manufactured fiber that is strong and is resistant to both abrasion and damage from many chemicals. Rip Stop Nylon fabric is non-absorbent, durable, fast drying, resistant to moths and other insects, water, perspiration and standard dry cleaning agents. The Rip Stop Nylon fabric also contains an added nylon cross weave to prevent tearing of the material. Rip Stop Nylon is commonly used in women's hosiery, knitted or woven lingerie, socks and sweaters, rugs and carpets, sleeping bags, duffle bags, racquet strings, and fishing lines. Rip Stop Nylon is used in our sleeping bags and stadium pillow products as the exterior shell.

o

Nylon polyester tricot

We will purchase nylon tricot from Roberts Textile Company or Fab Industries, both of which are located in New York, New York. Nylon tricot is made from very fine or single yarns, providing a suede-like texture. Nylon tricot is typically used for underwear, sportswear, bathing suits and gloves. Nylon tricot is used in our sleeping bags as the inside lining.

o

Compression sacks

We will purchase compression sacks from Equinox located in Williamsport, Pennsylvania. Compression sacks are small Rip Stop Nylon bags, approximately 12 inches by 8 inches. They are separate from our sleeping bag and are used to compress our sleeping bag when not in use. Rip Stop Nylon is the sole component of the compression sacks.

o

Mossy Oak Break and New Break-Up Camouflage Patterns

We will purchase Mossy Oak Break and New Break Up camouflage patterns from Haas Outdoors, Inc. for the outside portion of our stadium pillow products.

Raw Materials to be provided for our Jackets, Windshirts, and Ball Caps:

o

eliotex

eliotex will be used to provide insulation in our jackets, windshirts, and ball caps.

o

Polyester peached micorfiber

We will purchase polyester peached microfiber which is a type of grade microfiber from Roberts Textile Company located in New York, New York. It is durable and water repellent treated for our jackets, windshirts, and ball caps.

o

Rib Knit

We will purchase rib knit for our jackets, windshirts and ball caps from Green Mountain located in Knitter, Vermont. Rib knit is a mix of cotton and Lycra and is elastic and is used for the trip around the collars, waistbands and cuffs.

The delivery time involved for our new raw materials from the date of order to the date of delivery is less than one week for all stocked materials. Non-stocked materials or special orders may take up to two weeks for delivery.

The only raw product we store on a continual basis is eliotex which we store in our warehouse. Our warehouse space is sufficient for our storage of eliotex. For the other raw materials that are below 1000 piece goods, we have the materials shipped directly to the sub-manufacturer. For production runs in excess of 1000 piece goods, we arrange for the raw materials to be shipped to our warehouse facility, which is sufficient for that use; thereafter, we distribute to the sub-manufacturer the quantity needed for each production run and we store the remaining quantity. Payment typically will be due on an average of 30 to 60 days after receipt of the raw materials by our sub-manufacturer or our warehouse facility. Our Indonesia based manufacturer, PT. Lidya & Natalia, has sole discretion in the sourcing and ordering of raw materials for their production runs, the costs of which we reimburse them.

Manufacturing

Swimeez Products

Our completed Swimeez swim suit products are sub-manufactured by R&M Apparel located in Gallitzen, Pennsylvania.

Sleeping Bag Products

Our completed sleeping bag products are sub-manufactured by Equinox located in Williamsport, Pennsylvania.

Stadium Pillow, Ballcap, and Jacket Products:

Our completed Stadium Pillow, ball cap, and jacket products are sub-manufactured by PT. Lidya & Natalia located in Sidoarjo, Indonesia. Because the predominant function of the Stadium Pillows is a sleeping bag, they are imported as sleeping bags. Indonesia does not impose quotas that limit the time period or quantity of items which can be imported. The United States Customs Service imposes a 9% importation duty for Indonesia based goods imported into the United States.

Windshirts

Our completed wind shirt products are sub-manufactured by CMT Contractors located in Butler, Pennsylvania.

We have no verbal or written agreements or long term agreements with any of our sub-manufacturers, and we do not plan to obtain such agreements. Our sub-manufacturers manufacture our products on a per order basis.

Product Design and Development

We plan to expand our sleeping bag and floating swimwear products and research and develop other apparel and accessory items containing eliotex . We plan to continually evaluate trends, monitor the needs and desires of consumers by conducting customer purchase follow-up, ongoing market research, and maintaining open channels of communication with our distributor retailers and manufacturer representatives. We plan to consult with our sub-manufacturers and raw material suppliers regarding the development and use of new materials and the enhancement of our product designs. In addition, we will continually evaluate our product lines for proper positioning in the marketplace, by:

- o

Consulting with experts in the textiles and design engineering; and

- o

Consulting with third-party apparel designers and outdoor equipment experts.

The steps involved in our prospective design and development are:

- o

Product conception and design by our Chief Executive Officer, Vice Presidents, and/or third party designers;

- o

Patterns made from design concept;

o

Pattern cut and distributed to contracted sub-manufacturer;

o

Sample manufactured The manufacturer constructs one or a few of the sample garments by combining and sewing the appropriate materials as specified in the design presentation;

o

Sample testing We plan to forward the sample garment to Vartest Laboratories, Inc. for testing regarding weight, water repellency, and thermal insulation properties or other aspects depending on the type of product being tested and product functions. In addition, our Officers and Directors will be asked to use the prototype products to provide feedback to the designer of the product and possible product improvements; and

o

Final manufacturing plans submitted to manufacturer for production sample.

Based on previous product development experience, we expect that our product development cycle, from initial design to product introduction will take three to twelve months, depending upon the complexity of the design and associated testing. Based on our previously established relationships with garment manufacturers, we estimate new product design and development costs at roughly \$5,000 per new item. We estimate that we will develop no more than two new products during our Plan of Operations from February 2004 to September 2004. We have not yet designed or commenced development of any new products.

Although we are not currently developing products that will contain eliotex for use in the military and airline industries, we may do so in the future. Because eliotex has insulation and water repellent properties, it potentially has widespread application to products that may be used by the military and airline industries, such as additional sleeping bag products or flotation devices. We anticipate that we will not begin to develop such products until we have effectively penetrated the sporting goods market or established sufficient market share that enables us to allocate resources for this type of industry specific application development and material testing procedures, which we do not anticipate until we complete our Plan of Operations over the next 12 months as detailed above.

Our Plan of Operations is dependent upon our ability to generate revenues to fund our operations; however, our revenues may be insufficient to provide adequate funding. If our revenues are insufficient, Joseph Riccelli, our Chief Executive Officer, and Frank Riccelli, our President, have verbally agreed to loan us sufficient funds to meet our Plan of Operations or Alternative Plans of Operation. Messrs. Joseph and Frank Riccelli have further verbally agreed to loan us sufficient funds at no interest, with no specified term for the repayment of the loan. We may seek financing through traditional bank financing. However, because we are a development stage company with a poor financial condition, financial institutions may not provide us with financing, in which case we may have to curtail or cease our operations and you may lose your entire investment.

Intellectual Property

In April 2004 the Company received the TM and ® for the mark “i.d.i.gear” from the United States Patent and Trademark Office.

ITEM 3. CONTROLS AND PROCEDURES

As of July 31, 2004, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, our management, including our Chief Executive Officer and Principal Financial Officer, concluded that our disclosure controls and procedures were effective as of July 31, 2004.

There have been no significant changes in our internal control over financial reporting during the quarter ended July 31, 2004, or subsequent to July 31, 2004, that have materially affected or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 2. RECENT SALES OF UNREGISTERED SECURITIES

During the quarter ended July 31, 2004, the Company sold 33,000 to Patrick E. Murphy for a price of \$0.61 per share.

During the quarter ended July 31, 2004, the Company sold 33,000 to David H. Lennox for a price of \$0.61 per share.

During the quarter ended July 31, 2004, the Company sold 33,000 to James J. Kearney for a price of \$0.61 per share.

During the quarter ended July 31, 2004, the Company sold 33,000 to Anthony J. Kesslak for a price of \$1.00 per share.

During the quarter ended July 31, 2004, the Company sold 33,000 to Marc H. Nathan for a price of \$0.61 per share.

The Company relied upon the exemption under Section 4(2) of the Securities Act of 1933 for these sales because the sales did not involve a public offering.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a)

Exhibits:

Number

Description

3.1

Certificate of Incorporation*

3.2

Bylaws*

4

Specimen Stock Certificate*

5

Opinion of Hamilton, Lehrer & Dargan, P.A.***

10.1

Agreement between us and RMF Global, Inc.

10.2

Exclusive Agency, Distribution and Marketing Agreement between RMF Global and Mr. Ko-Myung Kim

10.3

Agreement between us and C. Dillow & Company, Inc.*

10.5

Agreement between Innovative Designs, Inc. and Haas Outdoors, Inc.**

10.6

Letter of commitment from Innovative Designs, Inc. to Victory Junction Gang Camp**

23.1

Consent of Malone & Bailey PLLC, Certified Public Accountants****

23.2

Consent of Hamilton, Lehrer & Dargan P.A.

31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1

Certification Pursuant to 18 U.S. C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

99

Test results from Vartest Lab*

*Previously filed as exhibits to Registration Statement on Form SB-2 filed on March 11, 2003

**Previously filed as exhibits to Registration Statement on Form SB-2 Amendment 2 filed on July 8, 2003

***Previously filed as exhibit to Registration Statement on Form SB-2 Amendment 3 filed on August 7, 2003

****Previously filed as exhibit to Registration Statement on Form SB-2 Amendment 4 filed on September 9, 2003

We hereby incorporate the following additional documents by reference: (a) our Registration Statement on Form SB-2 and all amendments thereto which was filed on March 11, 2003, and amended on May 22, 2003, July 8, 2003, August 7, 2003, and September 9, 2003; (b) our Form 8-K filed on September 29, 2003 and amended on October 27, 2003; and (c) our Form 10-KSB filed on February 10, 2004.

(b)

Reports on Form 8-K. The Company filed a report on Form 8-K on June 29, 2004 to report that Louis Plung & Company had been engaged to act as the Company's independent certified public accountants effective May 6, 2004.

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.

/s/ Joseph Riccelli

By:

Joseph Riccelli

Chief Executive Officer

/s/ Anthony Fonzi

By:

Anthony Fonzi

Chief Financial Officer, Principal

Accounting Officer, and Director

Date:

9/14/04

Exhibit 32.1

CERTIFICATIONS

I, Joseph Riccelli, certify that:

1.

I have reviewed this quarterly report on Form 10-QSB of Innovative Designs, Inc.;

2.

Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Innovative Designs, Inc. as of, and for, the periods presented in this report;

4.

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Innovative Designs, Inc. and have:

(a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Innovative Designs, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b)

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c)

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Evaluated the effectiveness of Innovative Designs, Inc. s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based n such evaluation; and

(d)

Disclosed in this report any change in Innovative Designs, Inc. s internal control over financial reporting that occurred during the small business issuer s most recent fiscal quarter (the small business issuer s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer s internal control over financial reporting; and

5.

The registrant s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Innovative Designs, Inc. s board of directors (or persons performing the equivalent functions):

(a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Innovative Designs, Inc. s ability to record, process, summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in Innovative Designs, Inc. s internal control over financial reporting.

/s/ Joseph Riccelli

Date:

9/14/04

By:

Joseph Riccelli, Chief Executive Officer

Exhibit 32.1

CERTIFICATIONS

I, Anthony Fonzi, certify that:

1.

I have reviewed this quarterly report on Form 10-QSB of Innovative Designs, Inc.;

2.

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Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3.

Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of Innovative Designs, Inc. as of, and for, the periods presented in this report;

4.

The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for Innovative Designs, Inc. and have:

(a)

Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to Innovative Designs, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b)

Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c)

Evaluated the effectiveness of Innovative Designs, Inc.'s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d)

Disclosed in this report any change in Innovative Designs, Inc.'s internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5.

The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to Innovative Designs, Inc.'s board of directors (or persons performing the equivalent functions):

(a)

All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect Innovative Designs, Inc.'s ability to record, process,

summarize and report financial information; and

(b)

Any fraud, whether or not material, that involves management or other employees who have a significant role in Innovative Designs, Inc.'s internal control over financial reporting.

/s/ Anthony Fonzi

Date:

9/14/04

By:

Anthony Fonzi, Chief Financial Officer,

Principal Accounting Officer, and Director

Exhibit 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO SECTION 906 OF THE

SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-QSB Quarterly Report of Innovative Designs, Inc. (the "Company") for the period ended July 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

o

the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

o

the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph Riccelli

Date:

9/14/04

By:

Joseph Riccelli

Chief Executive Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-QSB Quarterly Report of Innovative Designs, Inc. (the Company) for the period ended July 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the Report), the undersigned hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

o

the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

o

the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Anthony Fonzi

Date:

9/14/04

By:

Anthony Fonzi

Chief Financial Officer, Principal

Accounting Officer, and Director