

INNOVATIVE DESIGNS INC  
Form 10-K  
January 29, 2009

U.S. SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(X) Annual report under section 13 or 15(d) of the Securities Act of 1934.  
For the fiscal year ended October 31, 2008

( ) Transition report under section 13 or 15(d) of the Securities Act of 1934.  
For the Transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 000-51791

Innovative Designs, Inc.  
(Exact name of registrant as specified in its charter)

(State or other jurisdiction of  
incorporation or organization)

Delaware

03-0465528  
(I.R.S. Employer  
Identification Number)

223 North Main Street, Suite 1  
Pittsburgh, Pennsylvania  
(Address of principal executive offices)

15215  
(Zip Code)

(412) 799-0350  
(Registrant's telephone number including area code)

Securities to be registered pursuant to Section 12(b) of the Exchange Act:

\_\_\_\_\_

Securities registered or to be registered pursuant to Section 12(g) of the Exchange Act:  
Common Stock, \$.001 par value per share  
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

[ ] [X] No  
Yes

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or Section 15 (d) of the Act.

[ ] [X] No  
Yes

Edgar Filing: INNOVATIVE DESIGNS INC - Form 10-K

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 past 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 if disclosure of delinquent filers to Item 405 of Regulation S-K (sec. 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

1

---

Edgar Filing: INNOVATIVE DESIGNS INC - Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. (Check One)

Large accelerated filer [ ]

Accelerated filer [ ]

Non-accelerated filer [ ]

Smaller reporting company [ ]

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes \_\_\_ No

The issuer's revenues for its most recent fiscal year were \$543,137.

The aggregate market value of the voting stock, consisting solely of common stock, held by non-affiliates of the issuer computed by reference to the closing price of such stock was \$2,776,810 as of January 16, 2009.

The number of shares of the issuer's common stock outstanding, as of January 16, 2009 was 18,541,743.

Transitional Small Business Disclosure Format: Yes \_\_\_ No

ITEM 1. DESCRIPTION OF BUSINESS.

The Company, which was incorporated in the State of Delaware on June 25, 2002, markets cold weather recreational and industrial clothing products that are made from INSULTEX, a low density foamed polyethylene, a material with buoyancy, scent block, and thermal resistant properties. We have a license agreement directly with the owner of the INSULTEX Technology.

During 2006, an Involuntary Chapter 7 Petition was filed against us based upon a judgment award from an Italian Arbitration Panel. On October 31, 2007, we were dismissed from the bankruptcy case.

The distribution rights we have are derived from our license agreement. As such, we purchase INSULTEX to be used in the manufacturing of our products. Similarly, other companies are free to purchase INSULTEX from us assuming that it is a company within the distribution jurisdiction that we have, which is worldwide with the exception of Korea and Japan. Other than Korea and Japan, we are the sole worldwide supplier/distributor of the INSULTEX material.

We offer the following products containing INSULTEX:

- Floating Swimwear: Product under our product name "Swimeez". Our swimwear is designed to be a swim aid. The interior lining of our swimwear product is made from INSULTEX, which enhances floatability.
- Hunting Apparel Line: Our hunting apparel provides almost total block from odors provided by the INSULTEX material. The Hunting Apparel Line is being endorsed by Bill Maas, former all pro National Football League football player. We have also added Mr. Tom Nelson, "The American Archer" to our pro staff and have introduced the new "American Archer" – Tom Nelson Hunting Line for 2007. Tom is seen on the Outdoor Channel and is recognized as one of the premier archers in the industry.
- Arctic Armor Line: The Arctic Armor line, introduced in April of 2006, consists of a jacket, bib and gloves. The suit contains 3 layers of INSULTEX for uncompromised warmth and provides the user with guaranteed buoyancy. The gloves contain a single layer of INSULTEX and are windproof, waterproof and good to sub-zero temperatures as are the jacket and bibs.

Our products are manufactured, under agreement, at a facility we currently utilize in Indonesia. We assumed no material costs associated with the design, prototyping, 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 Chief Executive Officer and Vice President of Sales and Marketing for these purposes, their efforts are part of their normal responsibilities; (c) prior to the time we had undertaken to design and prototype of these products, we purchased the materials to accomplish these tasks, the cost of which did not exceed \$1000; and (d) the testing of these products was performed in the "field" by our employees and our Manufacturer's Representative groups, as part of their normal responsibilities.

#### The INSULTEX License and Manufacturing Agreement

Under the terms of the agreement between us and the Ketut Group, Ketut Group agrees to promptly deliver to Innovative Designs, Inc. within twenty-eight (28) days of receiving an order, all INSULTEX ordered by us. Under the terms of the agreement, we are required to pay a fixed amount per meter of INSULTEX. This fixed amount will not change under the agreement for a period of ten (10) years after the date of the agreement was signed, which was April 1, 2006.



The agreement provides that after the ten (10) year period, the price of the INSULTEX shall be adjusted for a subsequent ten (10) year term, no more than twelve percent (12%) per the subsequent ten (10) year period. We order INSULTEX from time to time as needed and are not required to purchase any minimum amount of INSULTEX during the term of the agreement, and we are not required to make any minimum annual payment. However, should we place an order, any quantity ordered must be a minimum of 35,000 meters of INSULTEX. We are not required to pay any part of any sublicense fee that we receives from third party sublicensees, and we are not required to pay any fees to the Ketut Group. This agreement will be in full legal force and effect for an initial term of ten (10) years from the date of its execution. We have the option to renew this agreement for up to three (3) successive terms of ten (10) years each by giving notice of our intention to so renew not less than ninety (90) days prior to the expiration of the then-current term.

#### The Haas Agreement

On June 16, 2003, we completed an agreement with Haas Outdoors in which Haas Outdoors granted us a non-exclusive wholesale license in North America to: (a) manufacture, or sell products or to have manufactured for us, and to sell licensed products of Haas Outdoors; and (b) use the licensed trademark of Haas Outdoors in association with the marketing and sale of licensed products. The agreement defines licensed products as a product which bears or otherwise includes Haas Outdoors' licensed design and is further restricted to mean only our stadium pack. "Licensed design" is defined in the agreement as the camouflage pattern(s) known as the Mossy Oak Break-Up and/or New BreakUp and Duck Blind patterns and which is covered by Haas Outdoors' copyrights, including but limited to United States Copyright Registration No. 2,227,642. The agreement defines "licensed trademark" as Haas Outdoors' trademarks Mossy Oak Break-Up and/or New BreakUp and Duck Blind patterns. The term of the agreement is two years from the effective date of the agreement, May 30, 2003. During 2007, the Company extended the terms of this agreement with Haas Outdoors for an additional two years. We paid a one time \$250 licensing fee for these rights. We are also required to pay to Haas Outdoors a running royalty, which is included in the price of fabrics purchased from licensed vendors of Haas Outdoors.

In addition, the agreement provides that we, as the licensee in the agreement are required to: (a) place on the licensed products in a manner prescribed by copyright laws and unless otherwise indicated, a sufficient copyright notice including the copyright notice, the year of publication, and an identification of Haas Outdoors as the owner; and (b) in all instances where Haas Outdoors so desires, we will include on licensed products the authorized trademark associated with the authorized design. We also agreed that nothing in the agreement will confer upon us any proprietary interest in the licensed designs, the licensed trademarks, or any other copyright, trademark and patents rights owned by Haas Outdoors. In addition, we agreed that Haas Outdoors is the owner of the licensed designs and licensed trademarks and that we will not contest the validity or enforceability of the licensed trademarks or Haas Outdoors copyrights in the licensed designs.

#### The Jordan Agreement.

In April 2008, we entered into a licensed agreement with Jordan Outdoor Enterprises, Ltd. for the use of their REAL TREE and ADVANTAGE trademarked artistic camouflage designs. We may use the designs in our hooded jacket, insulated bibs and waterproof/breathable gloves. We must submit all samples of proposed products for preapproval as well as all catalog, advertising, display or promotional copy. Official hangtags or stickers must be affixed to all covered products. All fabrics with the authorized patters must be purchased from an authorized fabric source. The term of the agreement is for five years with the licensor having the right to the agreement upon thirty days notice. We paid a \$500 execution fee.

### Swimeez Product

Our Swimeez product is intended for use by the following groups that are in the Company's target market for these products:

- Toddlers and children from the ages of 3 to 12 who are learning to swim;
  - Handicapped persons; and
  - Adults learning to swim.

### Hunting Line

Our hunting line products are intended for use by the following consumer group that are in the Company's target market for these products:

- Hunting enthusiasts; and
- Professional hunters.

### Arctic Armor Line

Our Arctic Armor line products are intended for use by the following consumer groups that are in the Company's target market for these products:

- Ice fisherman
- Snowmobilers
- Utility workers
- Oil/gas pipeline workers
- Railroad workers
- Construction workers; and
- Ski resort workers.

### House Wrap

In early January 2008, we announced that we had completed our research and development effort on a new use for INSULTEX as a house wrap for the building construction industry. This house wrap will provide barrier protection plus moisture vapor transmission and the novel feature of approximately R2 insulation. The house wrap was designed specifically to add enhanced insulating characteristics. In addition the house wrap will be priced competitively with existing house wraps that do not provide any insulation. The development efforts were conducted by our own personnel. The testing phase has been completed and we are now preparing to submit it to an independent testing facility

### Website and Retailers

We sell both wholesale and retail products on our website. Our website, located at [www.idigear.com](http://www.idigear.com), contains information on our products, technical information on INSULTEX insulation, e-commerce capabilities with "shopping cart", wholesaler information and order forms, company contact information, and links to retailers that carry our products. We have obtained the services of BA Web Productions who assists us in designing and continually developing our website. Our website features a "wholesaler only" area, allowing our wholesalers access to information, ordering, and reordering. The web site is hosted by Nidhog Hosting. The secure payment gateway provider for our online e-commerce is SkipJack Financial Services.





Our products are offered and sold by retailers, distributors and companies in approximately twenty-five states, Canada, Russia and Finland who purchase our products at wholesale prices which they plan to sell at their retail prices, or use within their industry:

#### Sales

We primarily sell our products through independent sales agents and agencies. Once we have made contact with a potential sales agency or solo agent, we evaluate their existing accounts, the capacity and potential for them to effectively push our products. We also look at their current product lines through the sales channel. Our market area is the outdoor industry which includes all activity done in cold weather. These activities include recreational such as hunting, ice fishing, snowmobiling, and industries such as oil and gas, utilities and construction. Once we agree to bring on an independent sales agent or agency, we enter into a standard agreement.

A typical sales representative agreement will have a term of one year with the right of either party to terminate upon thirty days written notice. We do not provide any free samples of our products and all sales expenses are the sole obligation of the sales agent. In the case of our agreement for Russia and Finland, the agent is required to prepay for all products ordered.

Certain retailers buy directly from us. We have no verbal or written agreements with them. These retailers purchase our products strictly on a purchase order basis. During our last fiscal year, we sold our products to such retailers as Gander Mountain, Dicks Sporting Goods, and Scheels All Sports, and Frank's Great Outdoors.

We distribute our products to the following:

#### Swimeez Products

We distribute our Swimeez products through sporting goods catalogs, trade shows, and retail outlets and chains.

#### Hunting Apparel Line

We distribute our hunting apparel through national and local retail chains.

Six pocket pants, 1/2 zip pullover jacket with collar, parka jacket, fleece jacket, guide series shirt, bib coveralls in light weight, bib coveralls in arctic weight. We distribute these products to the public, through trade shows, product information mailings to prospective retail buyers, and private showings to targeted buyers in the retail industry.

#### Arctic Armor Line

We distribute the Arctic Armor Line to retailers and distributors across the United States, Canada and in Russia and Finland. These products are also marketed to utility companies, oil/gas pipeline workers, railroad workers and to construction workers.

Our marketing program consists of the following:

#### MARKETING COMPONENT

##### Webisode Development and Internet Marketing

We contract with marketing consultants to:

- (a) increase visitation to our website;
- (b) link with other established websites;
- (c) issue press releases to on-line publications;
- (d) conduct banner advertising;
- (e) develop arrangements with online retailers that purchase our products on a wholesale basis.

##### Sales Representatives

Our vice president of sales and marketing works to:

- (a) sell our merchandise to retail chain stores;
- (b) attend and network trade shows to establish industry related contracts;
- (c) initiate relationships with local and national recreational organizations; and
- (d) provide support to our manufacturer representatives

##### Contract with Manufacturer

We utilize the services of sales agencies to represent our products in the United States, Canada, and Russia and Finland.

##### Public Relations Campaign

Subject to funding, we plan to contract with marketing consultants to develop and distribute press releases regarding company status, product innovations, and other notable events and developments. Currently our public relations are conducted by our own staff.

##### Design and Develop

We presently use our own staff for services related to literature, displays, develop brochures, point-of-sale displays, mailers, media materials, and literature and sales tools for our sales representatives and manufacturer representatives. At such time as we have sufficient funding, we intend to contract out some of these services.

##### Establish Wholesale

We are and continue to develop relationships or distribution relationships with retail points for our products to retail chain outlets and mass merchandisers to sell our products.

##### Develop Trade Show Booth

We use our own personnel to design and develop a portable display booth, and product materials to be used in sporting goods and outdoor apparel trade shows.

7

---

We ship wholesale product orders by United Parcel Service or trucking companies. Retail orders from our website are shipped United Parcel Ground Service or Federal Express overnight. The costs of shipping our finished goods are paid by our customers. We have not instituted any formal arrangements or agreements with United Parcel Service, Federal Express or trucking companies, and we do not intend to do so.

Our "idigear" label is sewn on all of our products. Haas Outdoors, Inc.'s Mossy Oak Break Up and New Break Up and Duck Blind hang tags are attached only to our "Mossy Oak pattern" stadium pack products. Additionally, we will be utilizing the Mossy Oak camouflage on the new products that we are in the development stages of introducing, which will feature the Mossy Oak hang tag with our "idigear" hang tag. REAL TREE and ADVANTAGE hangtags are used for products using these patterns.

INSULTEX will be used in all our finished goods and will be purchased directly from the Ketut Group.

All of our products are sub-manufactured by PT Lidya and Natalia located in Indonesia. 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 on all finished goods, based upon our completed stadium packs. All other products are 6.5% including INSULTEX.

We have no verbal or written agreements or long term agreements with PT Lidya and Natalia and we do not plan to obtain any such agreements. Our products are manufactured on a per order basis.

The fulfillment process involved in completing wholesale orders for non-stocked swimsuit, hunting line and arctic armor products is described below:

- We receive a purchase order for a certain number of items from a wholesale purchaser by hand delivery, fax, courier, or mail, with an authorized signature of the purchaser. We do not accept telephone orders.
- We contact our sub-manufacturers with the details of the order, including the number of units to be produced according to design or model, size, or color. The sub-manufacturer procures all materials required for the product.
- We complete and forward a purchase order to the manufacturer. The manufacturer approves or disapproves a purchase order.
- If the purchase order is approved, the manufacturer responds with a final cost, production schedule and date the goods will be delivered to us.
- Our sub-manufacturers ship finished goods to us.
- We receive finished goods, and facilitate turn-around for shipment to retailers. Goods are received in our distribution center where they are packaged in Master Packs, hang tags attached, and UPC/UCC codes labels applied to items for retailer distribution.

Any inventory we maintain is stored at our warehousing facility. Our warehouse facility has the capacity to hold 250,000 finished products in inventory.

In late 2003, we were granted a trademark for our name "idigear" with the United States Patent and Trademark Office.

In late 2005, we were granted the mark "INSULTEX" by the United States Patent and Trademark Office.

The INSULTEX Technology is protected by a Korean patent. We have been granted a license for marketing and distribution rights for use of INSULTEX in swimeez and stadium packs and the rights to purchase INSULTEX for the manufacture of other apparel and accessory items and any other use containing INSULTEX.

In December 2008, we filed a provisional patent application with the United States Patent and Trademark Office for our Composite House Warp

Our production costs are limited to the invoices we receive from our sub-manufacturer, PT Lidya and Natalia, on a per production basis.

Because we use sub-manufacturers for our products, we do not require any equipment for manufacturing and we do expect to incur any material costs affiliated with purchase of plant and significant equipment. We do not currently have any plant or significant equipment to sell.

We have spent no funds on research and development of our products. In March of 1999, our ex-affiliate, RMF Global, hired and paid \$5,275 to Vartest Laboratories, Inc. to perform testing of the INSULTEX material. Other than the testing performed by Vartest Laboratories, Inc, Innovative Designs, Inc. has spent no significant funds on research and development.

The Vartest Laboratories test results establish the buoyancy and insulation qualities of INSULTEX. The results are as follows:

| Issue   | Test Result   |
|---|---|
| Fabric Weight                                       | 0.042 oz./square yard<br>Low  |
| Fabric Thickness                                    | 0.021 inches<br>Thin  |
| Thermal Retention                                   | Clo value: 2.0<br>Good  |
| Air Permeability<br>(protection from<br>wind)       | 0.01 cubic feet of air/min/ft <sup>2</sup> of material<br>(Good)<br>Low |
| Moisture Permeability<br>(protection from<br>water) | 5 grams/sq. meter/24 hrs. (Good)<br>Low                                 |

During 2005, the Company hired Texas Research Institute Austin, Inc. to perform testing on the permeation of gas on the INSULTEX product. The testing was based upon accepted industry practices. The permeation test resulted in almost no detection of the gas through the INSULTEX throughout the testing procedures.

Although we are not aware of the need for any government approval of our principal products, we may be subject to such approvals in the future.

United States and foreign regulations may subject us to increased regulation costs, and possibly fines or restrictions on conducting our business. We are subject, directly or indirectly, to governmental regulations pertaining to the following government agencies:

9

---

Federal Trade Commission

The product suppliers and manufacturers of our products, to the extent that they are involved in the manufacturing, processing, formulating, packaging, labeling and advertising of the products, may be subject to regulations by the Federal Trade Commission which may bring injunctive action to terminate the sale of such products, impose civil penalties, criminal prosecutions, product seizures, and voluntary recalls. Should we or our suppliers become subject to any such orders or actions, our brand name reputation and that of our suppliers and products will be adversely affected and our business would be negatively affected.

United States Customs Service

We are required to pay a 7.1% importation duty to the United States Customs Service on all finished goods. All other products are 6.5% including INSULTEX. We import INSULTEX from Indonesia from the Ketut Group, in accordance with Innovative Design's agreement with the Ketut Group.

United States Department of Labor's Occupational Safety and Health Administration

Because our sub-manufacturers manufacture our completed products, we and our sub-manufacturers will be subject to the regulations of the United States Department of Labor's Occupational Safety and Health Administration.

We are not aware of any governmental regulations that will affect the Internet aspects of our business. However, due to increasing usage of the Internet, a number of laws and regulations may be adopted relating to the Internet covering user privacy, pricing, and characteristics and quality of products and services. Furthermore, the growth and development of Internet commerce may prompt more stringent consumer protection laws imposing additional burdens on those companies conducting business over the Internet. The adoption of any additional laws or regulations may decrease the growth of the Internet, which, in turn, could decrease the demand for Internet services and increase the cost of doing business on the Internet. These factors may have an adverse affect on our business, results of operations, and financial condition.

Moreover, the interpretation of sales tax, libel, and personal privacy laws applied to Internet commerce is uncertain and unresolved. We may be required to qualify to do business as a foreign corporation in each such state or foreign country. Our failure to qualify as a foreign corporation in a jurisdiction where we are required to do so could subject us to taxes and penalties. Any such existing or new legislation or regulation, including state sales tax, or the application of laws or regulations from jurisdictions whose laws do not currently apply to our business, could have a material adverse affect on our business, results of operations and financial condition.

We currently have no costs associated with compliance with environmental regulations. Because we do not manufacture our products, but rather they are manufactured by our sub-manufacturers, we do not anticipate any costs associated with environmental compliance. Moreover, the delivery and distribution of our products will not involve substantial discharge of environmental pollutants. However, there can be no assurance that we will not incur such costs in the future.

We estimate that all of our revenues will be from the sale of our products. We will sell our products at prices above our original cost to produce our products. Prices for some of our products will be lower than similar products of our competitors, while others will be higher. We expect our product prices to be lower than network marketing companies, but higher compared with retail establishments that directly manufacture their own products.

Products that are sold directly by our website will be priced according to our Manufacturer Suggested Retail Prices. Our wholesale clients will purchase our products at our wholesale prices. We recommend that our retailer clients sell our products at the Manufacturer Suggested Retail Prices that we provide to them which are the same prices for products on our website; however, they are not required to do so and may price our products for retail sale at their discretion. We have established M.A.P. (minimum advertised pricing) on our Arctic Armor™ suit in an attempt to allow all retailers and distributors carrying the line to obtain reasonable gross margin dollars.

We currently have a total of 4 employees, 2 of which are full time employees and 2 of which are part-time employees. We also use a consultant to head our sales and marketing effort.

We have no collective bargaining or employment agreements.

#### Reports and Other Information to Shareholders

We are subject to the informational requirements of the Securities Exchange Act of 1934. Accordingly, we file annual, quarterly and other reports and information with the Securities and Exchange Commission. You may read and copy these reports and other information we file at the Securities and Exchange Commission's public reference rooms in Washington, D.C., New York, New York, and Chicago, Illinois. Our filings are also available to the public from commercial document retrieval services and the Internet world wide website maintained by the Securities and Exchange Commission at [www.sec.gov](http://www.sec.gov).

#### I T E MRISK FACTORS.

##### 1A

#### Competition

The markets served by the Company are highly competitive. Competitive pricing pressure could result in loss of customers or decreased profit margins. Competition by product type includes the following:

The markets for our products are increasingly competitive. Our competitors have substantially longer operating histories, greater brand name and company name recognition, larger customer bases and greater financial, operating, and technical resources than us. Because we are financially and operationally smaller than our competitors, we will encounter difficulties in capturing market share. Our competitors are able to conduct extensive marketing campaigns and create more attractive pricing of their target markets than we are.

Some of our biggest competitors in the floating swimwear market are:

- [www.floatingswimwear.com](http://www.floatingswimwear.com);
- [www.maui.net/~welck](http://www.maui.net/~welck); and
- [www.hotshop.at/enlisch/swimc](http://www.hotshop.at/enlisch/swimc).
- Welck-em Floats located in Lahaina, Hawaii;
- Aqua Leisure Industries located in Avon, Massachusetts; and
- Swim Coach websites located in the United Kingdom.

Some of our biggest competitors in the hunting apparel line are:

- Russell Athletics
- Scentlock
- Various big-box private labels





Some of our biggest competitors in the Arctic Armor™ line are:

- Ice Clam Corporation
- Vexilar
- Mustang Survival

We compete in the following ways:

A. Emphasize the Advantages of our Products.

Floating Swimwear Products

We emphasize the following characteristics of our swimeez swimsuit product:

- inherent buoyancy of INSULTEX which is sewn into our swimsuit and results in a less obtrusive swimming experience while still retaining buoyancy in comparison to some of our competitors; and
- low weight.

Hunting Line

We emphasize the following characteristics and advantages of our hunting line products:

- light weight;
- compactness;
- water proof;
- thermal insulation properties which makes a thinner more compact and warmer garment or accessory than some of our competitors;
- competitive wholesale and retail prices; and
- introduction of a new proprietary technical insulation, i.e. "INSULTEX", to the hunting industry that has fewer such technical insulations in use by that industry; and
- scent barrier.

Arctic Armor Line

We emphasize the following characteristics and advantages of our Arctic Armor line products:

- light weight
- waterproof
- windproof
- sub-zero protection
- buoyancy

The basis for our above product claims is derived from the Vartest Lab Results, a fiber/yarn, fabric and apparel testing firm.

INSULTEX provides a scent barrier which we had a permeation test performed on at the Texas Research Institute Austin, Inc. The product was subjected to gas simulant for an eight-hour period. The product was tested for permeation of the gas every three minutes for the duration of the test with almost no detection of the gas throughout the test. The testing was based upon accepted industry practices as well as the test method used.

B. Utilize our web site to promote, market, and sell our products to consumers.

12

---

C. Utilize professional sales representatives and manufacturer representatives to sell our products to established retailers, especially sporting goods retailers.

D. Utilize product endorsements from professional athletes and sports figures to bolster awareness and image of our products. We currently have former all pro national football league player Bill Maas endorsing our hunting apparel line. We added Mr. Tom Nelson, "The American Archer", who is, and has been seen regularly on The Outdoor Channel.

E. Use television advertising to promote our products. In mid-October 2008, we began a nationwide television advertising campaign. The 60 second spots explain the benefits of our Artic Armor line along with a video showing the suits in a variety of outdoor activities.

Our products have the following disadvantages in comparison to the products of our competitors:

- Lack of brand name recognition or recognition of the properties of INSULTEX and its advantages. We, as well as our products, have little brand name recognition compared to our competitors. And we may encounter difficulties in establishing product recognition. Also, although our products have insulation properties, the material "down" has a widespread and established reputation as being the superior insulation in the market, while the properties and advantages of INSULTEX has little public recognition.

There can be no assurance that we will be able to compete in the sale of our products, which could have a negative impact upon our business.

We do not expect our business to be dependent on one or a few customers or retailers; however, there is no assurance that we will not become so dependent.

#### Cyclicality

The Company's apparel sales fluctuate based on temperature and weather conditions. Our products are suitable primarily for cold weather conditions. This will cause a cyclical effect on sales. It also makes our revenues totally dependent on cold weather

#### Material Acquisition

All of the materials and items required to manufacture our products are purchased by our manufacturer in Indonesia with the exception of the Mossy Oak material and the Real Tree. We order the Mossy Oak material and it is delivered to our manufacturer.

The Company has only one supplier of INSULTEX, the special material which is manufactured within the apparel of our products. Additionally, we have one manufacturer that produces the apparel on behalf of the Company, located in Indonesia. Any delays in getting INSULTEX and/or our finished products adversely affect our revenue stream

Our Indonesia based manufacturer, PT Lidya and Natalia, has sole discretion in the sourcing and ordering of materials for their production runs, the costs of which we reimburse PT Lidya and Natalia.

#### Geographic Concentration

Many of the Company's sales to retailers are concentrated in colder climates of the United States and Canada. To the extent that any regional economic downturn impacts these regions, the Company will be adversely affected.



## Management

The Company is dependent on the management of Joseph Riccelli, Sr., our Chief Executive Officer. The loss of Mr. Riccelli's services could have a negative impact on the performance and growth of the Company for some period of time.

## Stock Price

The Company's stock is thinly traded. Should a major shareholder decide to liquidate its position, there could be a negative effect on the price of the stock until this condition is resolved.

## Penny Stock Considerations

Our shares are "penny stocks" as that term is generally defined in the Securities Exchange Act of 1934 as equity securities with a price of less than \$5.00. Our shares may be subject to rules that impose sales practice and disclosure requirements on broker-dealers who engage in certain transactions involving a penny stock.

Under the penny stock regulations, a broker-dealer selling a penny stock to anyone other than an established customer or "accredited investor" must make a special suitability determination regarding the purchaser and must receive the purchaser's written consent to the transaction prior to the sale, unless the broker-dealer is otherwise exempt. Generally, an individual with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 individually or \$300,000 together with his or her spouse is considered an accredited investor. In addition, under the penny stock regulations the broker-dealer is required to:

- Deliver, prior to any transaction involving a penny stock, a disclosure schedule prepared by the Securities and Exchange Commission relating to the penny stock market, unless the broker-dealer or the transaction is otherwise exempt;
- Disclose commissions payable to the broker-dealer and its registered representatives and current bid and offer quotations for the securities;
- Send monthly statements disclosing recent price information pertaining to the penny stock held in a customer's account, the account's value and information regarding the limited market in penny stocks; and
- Make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction, prior to conducting any penny stock transaction in the customer's account.

Because of these regulations, broker-dealers may encounter difficulties in their attempt to sell shares of our stock, which may affect the ability of shareholders or other holders to sell their shares in the secondary market and have the effect of reducing the level of trading activity in the secondary market. These additional sales practice and disclosure requirements could impede the sale of our securities if our securities become publicly traded. In addition, the liquidity for our securities may be adversely affected, with a corresponding decrease in the price of our securities. Our shares may someday be subject to such penny stock rules and our shareholders will, in all likelihood, find it difficult to sell their securities.

## Sarbanes-Oxley

Unless the current requirement for compliance with Section 404 of the Sarbanes-Oxley is changed, the Company will experience higher internal and auditing costs to comply by the end of fiscal 2008.



### Significant Customer

Earned revenues for the fiscal year ending October 31, 2008 include revenues earned from one major customer. One major customer Cggveritas accounted for approximately 11% of our total revenue. Performance of this customer in its own market could have a negative impact on the Company's sales and results of operations.

### ITEM PROPERTIES.

2.

Since May 2002, we have maintained our executive offices of 1500 square feet at 223 North Main Street, Suite 1, Pittsburgh, Pennsylvania 15215. We pay monthly rent of \$700.00 to Riccelli Properties, a property management firm owned by our Chief Executive Officer, Joseph Riccelli. We have a verbal lease agreement with Riccelli Properties to pay Riccelli Properties \$700 per month. This verbal agreement further provides that we or Riccelli Properties may terminate this verbal lease at any time with 30 days written notice.

In October 2002, we arranged for the lease of warehouse space for our inventory and raw materials at 124 Cherry Street, Etna, Pennsylvania. This facility encompasses 13,000 square feet of storage space on the first floor and 2,000 square feet for our sales department offices located on the second floor. We have entered into a verbal agreement with the owner of the building and we pay \$2,600 per month for the space. This facility is composed of: (a) warehouse and storage areas including four (4) shipping bays and a distribution area consisting of square footage to store upward of 250,000 finished goods products; and (b) four (4) offices, one (1) conference room, with presentation area and sample display and (2) bathrooms totaling approximately 2,000 square feet located on the second floor. The building in which our offices are located is owned by Frank Riccelli, and is subject to a \$120,000 mortgage. Mr. Frank Riccelli is the brother to our Chief Executive Officer. The condition of our leased property is good.

We do not own any property nor do we have any plans to own any property in the future. We do not currently intend to develop properties. We are not subject to competitive conditions for property and currently have no property to insure. We have no policy with respect to investments in real estate or interests in real estate and no policy with respect to investments in real estate mortgages. Further, we have no policy with respect to investments in securities of or interests in persons primarily engaged in real estate activities. We consider the condition of our leased property to be suitable for our needs.

### ITEM LEGAL PROCEEDINGS.

3.

We are subject to dispute and litigation in the ordinary course of our business. None of these matters, in the opinion of our management, is material or likely to result in a material effect on us based upon information available at this time. We applied for a federal trademark for the name "Artic Armor" which was approved by the Patent and Trademark Office. The application has been opposed by a third party who objects to the word "Armor". We are attempting to resolve the matter.

On July 30, 2008, Elio D. Cattani and Eliotex srl filed a Motion to Strike Satisfaction of Judgment in the action filed at 04-00593 in the United States District Court for the Western District of Pennsylvania. The basis for the relief requested was Cattani's averment that Innovative Designs defrayed certain of the expenses in Greystone, Inc.'s litigation in the United States, and that assistance violated Pennsylvania public policy regarding champerty and maintenance.



Counsel for Innovative Designs, Inc. feels the Motion is spurious. At a hearing on the Motion conducted on December 3, 2008, unrefuted testimony disclosed that no quid pro quo agreement existed between IDI and Greystone at the time of IDI's financial assistance to Greystone, and thus a necessary element of champerty was not present. Final briefs are scheduled for submission on January 30, 2009 and the Court is expected to rule shortly thereafter.

ITEM SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

4.

None

PART II

ITEM MARKET FOR REGISTRANT'S COMMON EQUITY; RELATED STOCKHOLDER MATTERS AND  
5. ISSUER PURCHASES OF EQUITY SECURITIES.

Below is the market information pertaining to the range of the high and low bid information of our common stock for each quarter for the last two fiscal years. Our common stock is quoted on the OTC Bulletin Board under the symbol IVDN. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

|                | FY 2008 | Low    | High   |
|----------------|---------|--------|--------|
| Fourth Quarter |         | \$ .30 | \$ .47 |
| Third Quarter  |         | \$ .37 | \$ .50 |
| Second Quarter |         | \$ .26 | \$ .64 |
| First Quarter  |         | \$ .39 | \$ .90 |
|                | FY 2007 | Low    | High   |
| Fourth Quarter |         | \$ .19 | \$ .65 |
| Third Quarter  |         | \$ .22 | \$ .41 |
| Second Quarter |         | \$ .31 | \$ .47 |
| First Quarter  |         | \$ .25 | \$ .53 |

On January 16 2009, the closing bid price was \$.35.

The source of the above data is <http://finance.yahoo.com>.

Holders.

As of January 16, 2009, we had 169 holders of record of our common stock. We have one class of stock outstanding. We have no shares of our preferred stock outstanding.

Dividends.

We have not declared any cash dividends on our stock since our inception and do not anticipate paying such dividends in the foreseeable future. We plan to retain any future earnings for use in our business. Any decisions as to future payment of dividends will depend on our earnings and financial position and such other factors as the Board of Directors deems relevant.



Recent Sales of Unregistered Securities.

On November 1, 2007, we issued a total of 425,000 shares of our common stock for services for \$.35 per share or \$148,750. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On November 2, 2007, we issued a total of 3,000 shares of our common stock for cash for \$.40 per share or \$1,200. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On November 3, 2007, we issued 110,000 shares of our common stock to a noteholder in exchange for the note. The closing price of our common stock on that date was \$.35 per share making the value of the transaction \$38,500. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On November 3, 2007, we issued a total of 6,000 shares of our common stock to two consultants for their services. The closing price of our common stock on that date was \$.40. Based on the closing price, the value of the common stock issued was \$2,400. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On November 3, 2007, we issued a total of 47,150 shares of our common stock for cash for \$.40 a share. Based on the closing price, the value of the common stock issued was \$18,860. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On December 1, 2007, we issued each of our director's except our CEO and Chairman of the Board 25,000 shares of our common stock for their services. We also issued 25,000 shares to our Vice-president Sales, 30,000 shares to one of our legal counsel for their services and 25,000 shares for marketing services. The closing price of our common stock was \$.40 per share. These shares were accrued in the prior year (October 31, 2007) financial statements as these services were performed during the fiscal year ended October 31, 2007. Based on the closing price, the value of the shares issued was \$62,000. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On December 2, 2007, we issued a total of 118,800 shares of our common stock to five investors in a private placement. Total proceeds were \$50,335. The shares were issued without registration pursuant to the exemption provided in Section 506 of regulation D, promulgated under the Securities Act of 1933, as amended as an offering to "accredited investors" as that term is defined in Regulation D.

On January 4, 2008, we issued 67,500 shares of our common stock for cash. The proceeds were \$30,375. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On January 7, 2008, we issued 40,000 shares of our common stock in exchange for debt. The closing price of our common stock on that date was \$.35 per share. Based on the closing price, the value of the stock was \$14,000. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On February 29, 2008, we issued 110,000 shares of our common stock in exchange for debt and accrued interest for \$.35 per share. Based on the closing price, the value of the stock was \$38,500. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.



On February 29, 2008, we issued 11,100 shares of our common stock for cash for \$.45 per share or \$4,995. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On March 18, 2008, we issued 18,000 shares of our common stock for professional services for \$.40 per share or \$7,200. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On May 23, 2008, we issued 25,000 shares of our common stock for consulting services for \$.40 per share or \$10,000. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On June 30, 2008, we issued 10,000 shares of our common stock for consulting services for \$.40 per share or \$4,000. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On June 30, 2008, we issued 62,500 shares of our common stock for cash for \$.40 per share or \$25,000. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On July 8, 2008, we issued 125,000 shares of our common stock for cash for \$.40 per share or \$50,000. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On July 29, 2008, we issued 50,000 shares of our common stock for cash for \$.40 per share or \$20,000. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended.

On September 8, 2008, we issued 20,000 shares of our common stock for cash for \$.40 per share or \$8,000. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On September 8, 2008, we issued a total of 10,000 shares of our common stock for \$.40 per share or \$4,000 for marketing services. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

On September 18, 2008, we issued a total of 100,000 shares of our common stock for \$.40 per share or \$40,000 for consulting services. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

## ITEMMANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 7. OPERATIONS.

### General

The following information should be read in conjunction with the consolidated financial statements and the notes thereto appearing elsewhere in this report.

### 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

18

---

our expectations, beliefs, plans, intentions, estimates or projections relating to the future, are forward-looking statements within the meaning of these laws. Examples of such statements in this report include descriptions of our plans and strategies with respect to developing certain market opportunities, and our overall business plan. All forward-looking statements are subject to certain risks and uncertainties that could cause actual events to differ materially from those projected. We believe that these forward-looking statements are reasonable; however, you should not place undue reliance on such statements. These statements are based on current expectations and speak only as of the date of such statements. We undertake no obligations to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise.

## Background

Innovative Designs, Inc. (hereafter referred to as the “Company”, “we” or “our”) was formed on June 25, 2002. We market and sell clothing products such as swim wear, 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.

In November 2006, we were placed into involuntary Chapter 7 bankruptcy proceeding which was subsequently converted to a Chapter 11 proceeding. In October 2007, our case was dismissed.

## Results of Operations

Comparison of the fiscal year ended October 31, 2008, with the fiscal year ended October 31, 2007.

The following table shows a comparison of the results of operations between the fiscal years ended October 31, 2008 and October 31, 2007:

|  | Fiscal Year<br>Ended<br>October 31,<br>2008 | % of<br>Sales | Fiscal Year<br>Ended<br>October 31,<br>2007 | % of<br>Sales | \$ Increase<br>(Decrease) | %<br>Change |
|--|---|---------------|---|---------------|---------------------------|-------------|
| REVENUE  | \$543,137                                   | 100%          | \$674,541                                   | 100%          | \$(131,404)               | (19.5%)     |
| OPERATING<br>EXPENSES                              |   |               |   |               |                           |             |
| Cost of sales                                      | 477,645                                     | 87.9%         | 219,665                                     | 32.5%         | 257,980                   | 117.4%      |
| Non-stock<br>compensation                          | 216,351                                     | 39.8%         | 78,000                                      | 11.5%         | 138,351                   | 177.4%      |
| Selling, general<br>and administrative<br>expenses | 401,389                                     | 73.9%         | 259,809                                     | 38.5%         | 141,580                   | 54.5%       |
| (Loss) income from<br>operations                   | (552,248)                                   | (101.7%)      | 117,067                                     | 17.4%         | (669,315)                 | (571.1%)    |
| OTHER INCOME<br>(EXPENSE)                          |   |               |   |               |                           |             |
| Interest<br>income(expense)                        | (66,533)                                    | (12.3)%       | (63,974)                                    | (9.4)%        | 2,559                     | 4.0%        |

Edgar Filing: INNOVATIVE DESIGNS INC - Form 10-K

|                   |             |        |          |      |             |           |
|-------------------|-------------|--------|----------|------|-------------|-----------|
| Arbitration award | 4,176,000   | 768.8% | -        | -    | 4,176,000   | 100.0%    |
| Net income        | \$3,557,219 | 654.9% | \$53,093 | 7.9% | \$3,504,126 | 6,600.00% |

19

---



Fiscal years ended October 31, 2007 and 2006

Revenues for the fiscal year ended October 31, 2008 were \$543,137 compared to \$674,541 for 2007. The decrease was due primarily to the lack of cold weather, the slow ramp-up of a sales agency that we had brought on board in the spring and the fact that a container of products for which we had orders for was late in arriving and did not come in until after the close of the fiscal year. Almost all of our sales for the fiscal year ended October 31, 2008 were for our Artic Armor product line. We have expanded our choices of types of color for our Artic Armor line which we believe will increase demand.

Selling, general and administrative expenses were \$401,389 for the fiscal year ended October 31, 2008 compared to \$259,809 for the fiscal year ended October 31, 2007. Part of the increase was on account of increased professional fees of \$45,315 which included professional fees of \$25,000 relating to our bankruptcy and settling the outstanding judgment. Professional fees for fiscal year 2007 were approximately \$51,000 compared to professional fees of approximately \$91,000 in fiscal year 2008. Our shipping cost also increased from \$29,194 in fiscal year 2007 to \$64,616 for fiscal year 2008. Office expenses increased by approximately \$43,000 in fiscal year 2008. We paid more in commissions, approximately \$13,000, in fiscal year 2008 than for fiscal year 2007, because we sold more of our products through sales agents rather than in house sales. Advertising cost increased by approximately \$8,000 for fiscal year 2008 as we instituted increased advertising programs.

Cost of sales were \$477,645 for the fiscal year ended October 31, 2008, compared with \$219,665 for the prior fiscal year. The increase in cost of sales was because our ending inventory cost was being accounted for at a higher cost than they should have been. This has since been corrected. Our first quarter cost of goods sold ratio to sales will be in line with our sales. We also sold some discontinued products at a price lower than their cost.

#### Liquidity and Capital Resources

During the fiscal year ended October 31, 2008, we funded our operations with revenues from sales, sales of our securities in private transactions and loans from our Chief Executive Officer. We will continue to fund operations from revenues and borrowings and the possible sale of securities.

**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 has been adversely affected by our former 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 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 and the railroad industry and other areas where cold weather clothing is required.

**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. We are attempting to obtain purchase order financing which would greatly assist our cash flow and allow us to expand our marketing efforts.

#### ITEM FINANCIAL STATEMENTS.

8.

Our audited financial statements may be found beginning on page 27 elsewhere in this report.



ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS AND FINANCIAL DISCLOSURE.

None

ITEM 8. CONTROLS AND PROCEDURES.

9A. (T)

Disclosure Controls and Procedures

Management, including our principal executive financial officer, evaluated the effectiveness of the design and operation of disclosure controls and procedures as of October 31, 2008 and, based on their evaluation, our principal executive/financial officers have concluded that these controls and procedures are not operating effectively. Effective March 19, 2008, our Chief Executive Officer temporarily assumed the duties of the Chief Financial Officer. As of the date of filing this Form 10-K, the Chief Executive Officer continues to assume these duties. Consequently, during the fourth quarter a number of adjusting journal entries were recorded in order to adjust the ending inventory balance to the correct balance. The nature of these entries related primarily to inventory valuation with regards to inventory cost. The Chief Executive Officer is currently in the process of evaluating the Company's controls and procedures surrounding the valuation of inventory.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal controls over financial reporting as defined in Rule 13-15(f) of the Securities Exchange Act. Our management determined that our internal control over financial reporting was effective as of October 31, 2008.

Our management has conducted an evaluation of the effectiveness of our internal control over financial reporting as of October 31, 2008, based on the framework and criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

There have been no significant changes in our internal control over financial reporting during the fiscal year ended October 31, 2008 and 2007, or subsequent to October 31, 2008, that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting, except as discussed above.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

10.

Directors and Executive Officers

Our executive officers are elected annually by our board of directors. A majority vote of the directors who are in office is required to fill vacancies on the board. Each director shall be elected for the term of one (1) year and until his successor is elected and qualified, or until his earlier resignation or removal. The directors named below will serve

until the next annual meeting of our shareholders or until a successor is elected and has accepted the position.

Our directors and executive officers are as follows:

| Name               | Age | Position   | Term   |
|--------------------|-----|--|--------|
|                    |     | Chief Executive Officer/Chief<br>Financial Officer/Chairman<br>and Principal Accounting<br>Officer |        |
| Joseph Riccelli    | 58  | Officer  | 1 year |
| Dean P. Kolocouris | 36  | Director   | 1 year |
| Robert D. Monsour  | 56  | Director   | 1 year |
| Daniel P. Rains    | 54  | Director   | 1 year |

Joseph Riccelli has been our Chief Executive Officer and Chairman of the Board since our inception in June 2002. Mr. Riccelli was the owner of Pittsburgh Foreign and Domestic, a sole

proprietor car dealership located in Glenshaw, Pennsylvania. Joseph Riccelli attended Point Park College located in Pittsburgh, Pennsylvania from 1971 to 1972.

Dean P. Kolocouris has been one of our Directors since our inception in June 2002. From December 1996 to present, Mr. Kolocouris has been a Loan Officer and Assistant Vice President at Eastern Savings Bank located in Pittsburgh, Pennsylvania. In June 1993, Mr. Kolocouris received a Bachelors Degree in Finance from Duquesne University located in Pittsburgh, Pennsylvania.

Robert D. Monsour has been one of our Directors since our inception in June 2002. From November 1997 to 2005, Mr. Monsour was the Administrator of RGM Medical Management, a medical management firm headquartered in Pittsburgh, Pennsylvania. Thereafter he has acted as a consultant specializing in litigation support to various attorneys and law firms in Western Pennsylvania. Mr. Monsour received the following degrees from the University of Pittsburgh located in Pittsburgh, Pennsylvania: (a) Juris Doctor Degree in May 1983; (b) completed the course of study for a Masters Degree in International Affairs at the Graduate School of Public and International Affairs in May 1983, with the exception of a required Masters Thesis; and (c) Bachelor of Arts Degree in Political Science in May 1978.

Daniel P. Rains has been a director since March 2007. Mr. Rains is currently Vice President of business development at McCarl's, Inc., and a mechanical contracting firm. He has held this position for fifteen years. From 1981 through 1987, Mr. Rains was a professional football player for the Chicago Bears. He is a graduate of the University of Cincinnati.

#### Section 16(a) Beneficial Ownership Reporting Compliance

##### Code of Ethics

We have not, as yet, adopted a code of ethics. We have only one full time executive officer/ chief financial officer who also acts as our principal accounting officer. To date, our operations have been so minimal and our staff so small that we have not considered a formal standard relating to the conduct of our personnel.

#### ITEM 11. EXECUTIVE COMPENSATION.

The following Executive Compensation Chart highlights the terms of compensation for our Executives.

Summary Compensation Table

| Name and<br>Principal<br>Position                                | Year | Salary<br>(\$) | Bonus<br>(\$) | Stock<br>Awards<br>(\$) | Option<br>Awards<br>(\$) | Non-Equity                                | Nonqualified                                 | All                           | Total<br>(\$) |
|--|------|----------------|---------------|-------------------------|--------------------------|---|--|-------------------------------|---------------|
|  |      |                |               |                         |                          | Incentive<br>Plan<br>Compensation<br>(\$) | Deferred<br>Compensation<br>Earnings<br>(\$) | Other<br>Compensation<br>(\$) |               |
| Joseph<br>Riccelli,<br>Chief<br>Executive<br>Officer<br>Chairman | 2008 | - 0 -          | - 0 -         | - 0 -                   | - 0 -                    | - 0 -                                     | - 0 -  | - 0 -                         | - 0 -         |

|   |      |       |       |       |       |       |       |       |       |
|---|------|-------|-------|-------|-------|-------|-------|-------|-------|
| Joseph Riccelli,<br>Chief Executive Officer<br>Chairman | 2007 | - 0 - | - 0 - | - 0 - | - 0 - | - 0 - | - 0 - | - 0 - | - 0 - |
|---|------|-------|-------|-------|-------|-------|-------|-------|-------|

Our Chief Executive Officer has not been paid any compensation since inception.

There are no employment agreements between us and our executive officer Joseph Riccelli, Sr. There are no change of control arrangements, either by means of a compensatory plan, agreement, or otherwise, involving our current or former executive officers. There are no automobile lease agreements or key man life insurance policies that are to the benefit of our executive officers, in which we would make such payments. There are no standard or other arrangements in which our directors are compensated for any services as a director, including any additional amounts payable for committee participation or special assignments. There are no other arrangements in which any of our directors were compensated during our last fiscal year for any service provided as a director.

#### Director Compensation

| Name                  | Fees Paid<br>Or Paid in<br>Cash<br>(\$) | Stock<br>Awards<br>(\$) | Option<br>Awards<br>(\$) | Non-Equity<br>Incentive<br>Plan<br>Compensation<br>(\$) | Nonqualified<br>Deferred<br>Compensation<br>Earnings<br>(\$) | All<br>Other<br>Compensation<br>(\$) | Total<br>(\$) |
|-----------------------|---|-------------------------|--------------------------|---|--|--------------------------------------|---------------|
| Dean P.<br>Kolocouris | - 0 -                                   | - 0 -                   | - 0 -                    | - 0 -   | - 0 -  | - 0 -                                | - 0 -         |
| Robert D.<br>Monsour  | - 0 -                                   | - 0 -                   | - 0 -                    | - 0 -   | - 0 -  | - 0 -                                | - 0 -         |
| Daniel P. Rains       | - 0 -                                   | - 0 -                   | - 0 -                    | - 0 -   | - 0 -  | - 0 -                                | - 0 -         |
| Joseph Riccelli       | - 0 -                                   | - 0 -                   | - 0 -                    | - 0 -   | - 0 -  | - 0 -                                | - 0 -         |

Our directors did not receive any compensation for their services as directors during the fiscal year ended October 31, 2008.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT, AND DIRECTOR INDEPENDANCE

The following table sets forth the ownership as of January 16,, 2008 (a) by each person known by us to be the beneficial owner of more than five percent (5%) of our outstanding common stock, and/or (b) by each of our directors, by all executive officers and our directors and executive officers as a group.

To the best of our knowledge, all persons named have sole voting and investment power with respect to such shares, except as otherwise noted. There are not any pending or anticipated arrangements that may cause a change in our control.

#### Security Ownership of Management

| Title of Class | Name and Address                           | Amount      | Nature   | Percent |
|----------------|--|-------------|----------|---------|
| Common Stock   | Joseph Riccelli<br>Chief Executive Officer | 10,500,000  | Direct   | 56.9%   |
|                | Chairman of the Board of<br>Directors      | (1) 831,000 | Indirect | 4.5%    |

142 Loire Valley Drive  
Pittsburgh, PA 15209



## Security Ownership of Management (Continued)

| Title of Class                                  | Name and Address  | Amount     | Nature | Percent |
|---|---|------------|--------|---------|
| Common Stock                                    | Robert D. Monsour<br>Director<br>6131 Saltzburg Road<br>Murrysville, PA 15668 | 65,500     | Direct | *       |
| Common Stock                                    | Dean P. Kolocouris<br>Director<br>120 Timberglen Drive<br>Imperial, PA 15126  | 52,000     | Direct | *       |
| Common Stock                                    | Daniel P. Rains<br>2509 Wigham Road<br>Aliquippa, PA 15001                    | 75,000     | Direct | *       |
| All Directors and Executive Officers as a Group |   | 11,523,500 |        | 62.4%   |

\* Represents less than one percent.

(1) Represents 561,000 shares of common stock held in the Gino A. Riccelli Trust and 240,000 shares of common stock held in the Joseph A. Riccelli Trust. Both Trusts are for the sons of our Chief Financial Officer. Mr. Joseph Riccelli, Sr. is the trustee of both trusts.

By virtue of his stock ownership or control over our stock, Mr. Riccelli may be deemed to “control” the Company.

#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Our officers and directors may encounter conflicts of interests between our business objectives and their own interests. We have not formulated a policy for the resolution of such conflicts. Future transactions or arrangements between or among our officers, directors and shareholders, and businesses they control, may result in conflicts of interest, and the conflicts may be resolved in favor of businesses that our officers or directors are affiliated, which may have an adverse affect on our revenues.

Our officers and directors have the following conflicts of interests:

- We lease our executive offices from Riccelli Properties, which is solely owned by our Chief Executive Officer, Joseph Riccelli, Sr., for which we pay \$700 per month for a total of \$8,400 per year and we lease our warehouse space from the brother of our Chief Financial Officer. We pay \$2,600 per month for a total of \$31,200 per year.

ITEM PRINCIPAL ACCOUNTANT FEES AND SERVICES.

14.

Audit Fees

The aggregate fees billed for the fiscal years ended October 31, 2008 and 2007 for professional services rendered by the principal accountant for the audit of our annual financial statements and review of the financial statements included in our Form 10-K or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for these fiscal periods were as follows: (a) during fiscal year ended October 31, 2008 and 2007, our current auditors, Louis Plung & Company billed the Company \$15,000 and \$10,000 for professional services, respectively.

Audit Related Fees

None.

Tax Fees

None.

All Other Fees

None.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

| Exhibit Number | Description  |
|----------------|--|
| 3.1            | Certificate of Incorporation*  |
| 3.2            | Bylaws*  |
| 4              | Specimen Stock Certificate*  |
| 10.1           | Exclusive License and Manufacturing Agreement by and between Ko-Myung Kim, Ketut Jaya and Innovative Designs, Inc. [Confidential Treatment Requested] ** |
| 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*   |
| 100            | Test Results from Texas Research Institute Austin, Inc.*   |

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

\*\* Previously filed as exhibit to Form 10-KSB filed on February 8, 2008

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.

Reports on Form 8-K

None



SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INNOVATIVE DESIGNS, INC.  
(Registrant)

Date: January 28, 2009

by:

/s/ Joseph Riccelli  
Joseph Riccelli  
Chief Executive Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: January 28, 2009

by: /s/ Joseph Riccelli  
Joseph Riccelli  
Chief Executive Officer,  
Chief Financial Officer, and  
Chairman of the Board of Directors

Date: January 28, 2009

by: s/s Dean P. Kolocouris  
Dean P. Kolocouris  
Director

Date: January 28, 2009

by: s/s Robert D. Monsour  
Robert D. Monsour  
Director

Date: January 28, 2009

by: s/s Daniel Rains  
Daniel Rains  
Director

INNOVATIVE DESIGNS, INC.  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT  
October 31, 2008 and 2007

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors  
Innovative Designs, Inc.  
Pittsburgh, Pennsylvania

We have audited the accompanying balance sheet of Innovative Designs, Inc. as of October 31, 2008, and the related statements of operations, stockholders' deficit, and cash flows for the years ended October 31, 2008 and 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Innovative Designs, Inc. as of October 31, 2008, and the results of its operations, and its cash flows for the years ended October 31, 2008 and 2007, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has incurred significant losses from operations and has working capital and stockholders' deficiencies. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to this matter are also discussed in Note 2. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ Louis Plung & Company, LLP

Pittsburgh, Pennsylvania  
January 27, 2009

## INNOVATIVE DESIGNS, INC.

BALANCE SHEET  
October 31, 2008

## ASSETS

|                             | 2008         |
|-----------------------------|--------------|
| <b>CURRENT ASSETS:</b>      |              |
| Cash                        | \$ 22,523    |
| Accounts receivable         | 159,128      |
| Inventory                   | 732,295      |
| Deposits on inventory       | 305,000      |
| Total current assets        | 1,218,946    |
| <br>                        |              |
| PROPERTY AND EQUIPMENT, NET | 10,675       |
| <br>                        |              |
| TOTAL ASSETS                | \$ 1,229,621 |

## LIABILITIES AND STOCKHOLDERS' DEFICIT

|   |              |
|---|--------------|
| <b>CURRENT LIABILITIES:</b>   |              |
| Accounts payable  | \$ 88,889    |
| Customer deposits   | 9,823        |
| Current portion of notes payable  | 169,530      |
| Accrued interest expense  | 118,000      |
| Accounts payable - related party  | 28,220       |
| Current portion of related party debt   | 128,000      |
| Due to shareholders   | 328,500      |
| Accrued expenses  | 17,485       |
| Total current liabilities   | 888,447      |
| <br>  |              |
| <b>LONG-TERM LIABILITIES</b>  |              |
| Long-term portion of notes payable  | 397,115      |
| Total long term liabilities   | 397,115      |
| <br>  |              |
| TOTAL LIABILITIES   | 1,285,562    |
| <br>  |              |
| <b>STOCKHOLDERS' DEFICIT:</b>   |              |
| Preferred stock, \$.0001 par value, 100,000,000 shares authorized                                 |              |
| Common stock, \$.0001 par value, 500,000,000 shares authorized, 18,455,243 issued and outstanding | 1,846        |
| Additional paid in capital  | 5,565,045    |
| Accumulated deficit   | (5,622,832)  |
| Total stockholders' (deficit)   | (55,941)     |
| <br>  |              |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT   | \$ 1,229,621 |

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



## INNOVATIVE DESIGNS, INC.

STATEMENTS OF OPERATIONS  
For the Years Ended October 31, 2008 and 2007

|  | 2008         | 2007       |
|--|--------------|------------|
| REVENUE  | \$ 543,137   | \$ 674,541 |
| OPERATING EXPENSES:                                |              |            |
| Cost of sales                                      | 477,645      | 219,665    |
| Non-cash stock compensation                        | 216,350      | 78,000     |
| Selling, general and<br>administrative expenses    | 401,390      | 259,809    |
|  | 1,095,385    | 557,474    |
| (Loss) income from operations                      | (552,248)    | 117,067    |
| OTHER INCOME AND (EXPENSE):                        |              |            |
| Interest expense                                   | (66,533)     | (63,974)   |
| Arbitration award                                  | 4,176,000    | -          |
|  | 4,109,467    | (63,974)   |
| Net income   | \$ 3,557,219 | \$ 53,093  |
| Per share information -<br>basic and fully diluted |              |            |
| Weighted Average<br>Shares Outstanding             | 18,150,675   | 16,906,152 |
| Net income   | .196         | .003       |

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

## INNOVATIVE DESIGNS, INC.

STATEMENTS OF STOCKHOLDERS' DEFICIT  
For the Years Ended October 31, 2008 and 2007

|   | Common<br>Stock<br>Shares | Amount   | Additional<br>Paid in<br>Capital | Retained<br>Deficit | Total          |
|---|---------------------------|----------|----------------------------------|---------------------|----------------|
| 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          |
| Services performed -<br>shares to be issued | 180,000                   | 18       | 71,982                           | -                   | 72,000         |
| Net income                                  | -                         | -        | -                                | 53,093              | 53,093         |
| Balance at October 31, 2007                 | 17,096,193                | 1,711    | 5,049,064                        | (9,180,051)         | (4,129,276)    |
| Shares issued for cash                      | 505,050                   | 50       | 208,716                          | -                   | 208,766        |
| Shares issued for services                  | 594,000                   | 59       | 216,291                          | -                   | 216,350        |
| Shares issued for<br>extinguishment of debt | 260,000                   | 26       | 90,974                           | -                   | 91,000         |
| Net income                                  | -                         | -        | -                                | 3,557,219           | 3,557,219      |
| Balance at October 31, 2008                 | 18,455,243                | \$ 1,846 | \$ 5,565,045                     | \$ (5,622,832)      | \$ (55,941)    |

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

## INNOVATIVE DESIGNS, INC.

## STATEMENTS OF CASHFLOW

For the Years Ended October 31, 2008 and 2007

|  | 2008         | 2007      |
|--|--------------|-----------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                  |              |           |
| Net income   | \$ 3,557,219 | \$ 53,093 |
| Adjustments to reconcile net income<br>to cash used in operating activities: |              |           |
| Common stock issued for extinguishment of debt                               | 91,000       | -         |
| Common stock issued for services   | 216,350      | 78,000    |
| Depreciation and amortization  | 5,277        | 6,745     |
| Changes in operating assets and liabilities:                                 |              |           |
| Accounts receivable  | 49,873       | 74,251    |
| Inventory  | 313,795      | (225,677) |
| Deposits on inventory  | (305,000)    | -         |
| Customer deposits  | 59,823       | -         |
| Prepaid commissions  | -            | 6,377     |
| Deferred financing   | -            | 5,196     |
| Accounts payable   | 29,575       | 2,433     |
| Accrued expenses   | 13,009       | (449)     |
| Accrued interest on notes payable  | 26,005       | 29,795    |
| Accrued liability related to arbitration award                               | (4,176,000)  | -         |
| Deferred revenue   | -            | (213,781) |
| Net cash used in operating activities  | (119,074)    | (184,017) |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                 |              |           |
| Purchase of property and equipment   | (2,200)      | -         |
| Net cash used in investing activities  | (2,200)      | -         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                 |              |           |
| Payments on note payable   | (145,523)    | (160,703) |
| Payment on related party note  | (18,000)     | (20,000)  |
| Proceeds from shareholder advances   | -            | 195,000   |
| Payment of shareholder advances  | (3,000)      | -         |
| Common stock issued for cash   | 208,765      | -         |
| Proceeds from loan payable to related party                                  | 95,000       | 40,000    |
| Proceeds from notes payable  | -            | 70,000    |
| Net cash provided by financing activities                                    | 137,242      | 124,297   |
| Net increase (decrease) in cash  | 15,968       | (59,720)  |
| Cash - beginning of period   | 6,555        | 66,275    |
| Cash - end of period   | \$ 22,523    | \$ 6,555  |

Supplemental cash flow information:

|                        |    |        |    |       |
|------------------------|----|--------|----|-------|
| Cash paid for interest | \$ | 46,938 | \$ | 6,147 |
|------------------------|----|--------|----|-------|

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

INNOVATIVE DESIGNS, INC.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations - Innovative Designs, Inc. (the "Company"), which was incorporated in the State of Delaware on June 25, 2002, markets cold weather recreational and industrial clothing products that are made from INSULTEX, a low density foamed polyethylene, a material with buoyancy, scent block, and thermal resistant properties. These products are offered and sold by retailers, distributors, and companies throughout the United States, Canada, Russia and Finland.

Basis of Accounting - The financial statements are prepared using the accrual basis of accounting in which revenues are recognized when earned and expenses are recognized when incurred.

Fiscal Year End - The Company's fiscal year ends on October 31.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results may differ from these estimates and assumptions.

Cash and Cash Equivalents - The Company defines cash and cash equivalents as those highly liquid investments purchased with a maturity of three months or less.

Revenue Recognition - The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collectibility is probable. Revenue is derived from sales of the Company's recreational products such as arctic armor, stadium packs, floating swimwear and hunting apparel. Sales of these items are recognized when the items are shipped. The Company offers a 5 day return policy and no warranty on all of its products. All sales outside the United States are entered into using the U.S. dollar as its functional currency.

Financial Instruments - Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of October 31, 2008 and 2007. The respective carrying value of certain on-balance-sheet financial instruments approximated their fair values. These financial instruments include cash, accounts receivable, accounts payable and notes payable. Fair values were assumed to approximate carrying values for these financial instruments because they are short term in nature and their carrying amounts approximate fair values. The carrying value of the Company's long-term debt approximated its fair value based on the current market conditions for similar debt instruments.

Allowance for Bad Debts - The Company considers all accounts receivable balances to be fully collectable at October 31, 2008, accordingly, no allowance for doubtful accounts is provided. If amounts become uncollectible, they will be charged to operations when the determination is made.

Inventory - Inventory consists principally of purchased finished goods. Inventory is stated at the lower of cost or market on a first-in, first-out basis.



INNOVATIVE DESIGNS, INC.

NOTES TO FINANCIAL STATEMENTS

Property and Equipment - Property and equipment are recorded at cost. Depreciation is computed using the straight line method over the estimated useful lives of the related assets.

Property and equipment are summarized by major classification as follows:

|                        |         |
|------------------------|---------|
| Equipment              | 7 years |
| Furniture and fixtures | 7 years |
| Leasehold improvements | 5 years |
| Automobiles            | 5 years |

Maintenance and repairs are charged to operating expenses as incurred, significant improvements are capitalized. When property is sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations.

Impairment of Long-Lived Assets - The Company reviews the carrying value of its long-lived assets annually or whenever events or changes in circumstances indicate that the historical cost-carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. There was no impairment of long-lived assets during 2008.

Income Taxes - The Company follows SFAS 109 "Accounting for Income Taxes" for recording the provision for income taxes. Deferred tax assets and liabilities are computed based upon the difference between the financial statement and income tax basis of assets and liabilities using the enacted marginal tax rate applicable when the related asset or liability is expected to be realized or settled. Deferred income tax expenses or benefits are based on the changes in the asset or liability each period. If available evidence suggests that it is more likely than not that some portion or all of the deferred tax assets will not be realized, a valuation allowance is required to reduce the deferred tax assets to the amount that is more likely than not to be realized. Future changes in such valuation allowance are included in the provision for deferred income taxes in the period of change.

Net Income (Loss) Per Common Share - The Company calculates net income (loss) per share as required by Statement of Financial Accounting Standards (SFAS) 128, "Earnings per Share." Basic earnings (loss) per share is calculated by dividing net income (loss) by the weighted average number of common shares outstanding for the period. The Company did not compute dilutive earnings per share because there is only one class of stock.

Stock-Based Compensation - The Company accounts for equity instruments issued to employees for services based on the fair value of the equity instruments issued and accounts for equity instruments issued to other than employees based on the fair value of the consideration received or the fair value of the equity instruments, whichever is more reliably measurable.





INNOVATIVE DESIGNS, INC.

NOTES TO FINANCIAL STATEMENTS

The Company accounts for stock based compensation in accordance with SFAS 123, "Accounting for Stock-Based Compensation." The provisions of SFAS 123 allow companies to either expense the estimated fair value of stock options or to continue to follow the intrinsic value method set forth in APB Opinion 25, "Accounting for Stock Issued to Employees" (APB 25) but disclose the pro forma effects on net income (loss) had the fair value of the options been expensed. The Company has elected to continue to apply APB 25 in accounting for its stock option incentive plans.

Recent Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("FAS 157"). The purpose of FAS 157 is to define fair value, establish a framework for measuring fair value and enhance disclosures about fair value measurements. In February 2008, the FASB issued FASB Staff Position (FSP) 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13", ("FSP 157-1") and FSP 157-2, "Effective Date of FASB Statement No. 157" ("FSP 157-2"). In October 2008, the FASB issued FASB Staff Position (FSP) 157-3, "Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active" ("FSP 157-3"). FSP 157-1 amends FAS 157 to remove certain leasing transactions from its scope. FSP 157-2 delays the effective date of FAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of fiscal year 2010. FSP 157-3 clarifies how FAS 157 should be applied when valuing securities in markets that are not active. It also reaffirms the notion of fair value as an exit price as of the measurement date. FSP 157-3 was effective upon issuance in Sept 2008, including prior periods for which financial statements have not been issued. Its adoption in fiscal year 2008 did impact our financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("FAS 159"), including an Amendment of FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115"). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. However, the amendment to FAS 115 "Accounting for Certain Investments in Debt and Equity Securities" applies to all entities with available-for-sale and trading securities. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provision of FAS 157, "Fair Value Measurements". The Company presently does not expect the adoption of FAS 159 to have an effect on its financial statements.

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141R ("FAS 141 R"), Business Combinations, which establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, goodwill acquired in the business combination or a gain from a bargain purchase. FAS 141R is effective for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company presently does not expect the adoption of FAS 141R to have an effect on its financial statements.



INNOVATIVE DESIGNS, INC.

NOTES TO FINANCIAL STATEMENTS

In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No.160 ("FAS 160"), Noncontrolling Interests in Consolidated Financial Statements, which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The Company presently does not expect the adoption of FAS 160 to have an effect on its financial statements.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

## 2. GOING CONCERN AND LEGAL PROCEEDINGS

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 significant losses from operations. In addition, the Company has an accumulated deficit of \$5,622,832 at October 31, 2008.

The Company's ability to continue as a going concern is contingent upon its ability to expand its operations and secure additional financing. The Company is currently pursuing financing for its operations and seeking to expand its operations. Failure to secure such financing or expand its operations may result in the Company not being able to continue as a going concern.

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.

During 2007, the Company was a party to two cases. The first case related to petitioning creditors forcing the Company into Chapter 11 bankruptcy. The second case was with Catan and Eliotex seeking relief ancillary to the \$4,176,000 judgment obtained by Catan and Eliotex against the Company. Both of these cases were settled by the Company in favor of the Company. Consequently, the \$4,176,000 judgment was previously reflected in the Company's books and records and has been removed during 2008 and reflected in the statement of operations in other income.

We are subject to dispute and litigation in the ordinary course of our business. None of these matters, in the opinion of our management, is material or likely to result in a material effect on us based upon information available at this time. We applied for a federal trademark for the name "Artic Armor" which was approved by the Patent and Trademark Office. The application has been opposed by a third party who objects to the word "Armor". We are attempting to resolve the matter.

On July 30, 2008, Elio D. Cattan and Eliotex srl filed a Motion to Strike Satisfaction of Judgment in the action filed at 04-00593 in the United States District Court for the Western District of Pennsylvania. The basis for the relief requested was Cattan's averment that Innovative Designs defrayed certain of the expenses in Greystone, Inc.'s litigation in the United States, and that assistance violated Pennsylvania public policy regarding champerty and maintenance.



## INNOVATIVE DESIGNS, INC.

## NOTES TO FINANCIAL STATEMENTS

Counsel for Innovative Designs, Inc. feels the Motion is spurious. At a hearing on the Motion conducted on December 3, 2008, unrefuted testimony disclosed that no quid pro quo agreement existed between IDI and Greystone at the time of IDI's financial assistance to Greystone, and thus a necessary element of champerty was not present. Final briefs are scheduled for submission on January 30, 2009 and the Court is expected to rule shortly thereafter.

## 3. PROPERTY AND EQUIPMENT

Property and equipment are summarized by major classifications as follows:

|                               |           |
|-------------------------------|-----------|
|                               | 2008      |
| Equipment                     | \$ 17,002 |
| Furniture and fixtures        | 11,092    |
| Leasehold improvements        | 4,806     |
| Automobile                    | 10,294    |
|                               | 43,194    |
| Less accumulated depreciation | 32,519    |
|                               | \$ 10,675 |

Depreciation expense for the years ended October 31, 2008 and 2007 was \$5,277 and \$4,788, respectively.

## 4. BORROWINGS

Borrowings at October 31, 2008 consisted of the following:

|  |            |
|--|------------|
| Related Party Borrowings   | 2008       |
| Loan Payable - Related party; Riccelli Properties. Loan Payable is non-interest bearing with no payment terms. | \$ 108,000 |
| Subtotal   | \$ 108,000 |

## INNOVATIVE DESIGNS, INC.

## NOTES TO FINANCIAL STATEMENTS

|   | 2008       |
|---|------------|
| Subtotal from page 37   | \$ 108,000 |
| Loan Payable - Dean Kolocouris due on demand; interest is 10%.  | 20,000     |
| Total Related Party Borrowings  | \$ 128,000 |
| Other Borrowings  |            |
| Note Payable - James Kearney; interest is flat rate of \$8,000; principal and interest due and payable in full at any time after December 10, 2005.       | \$ 75,000  |
| Loan payable - Citizens National Bank - due March 26, 2009; interest is 8% per annum; payable in monthly installments of \$193.27.                        | 179        |
| Note Payable - Redevelopment Authority of Allegheny County; due June 2010; payable in monthly installments of \$290. This is a non-interest bearing note. | 6,092      |
| Note Payable - U.S. Small Business Administration; due December 2035; payable in monthly installments of \$1,820 including interest at 2.9% per annum.    | 404,752    |
| Loan Payable - Enterprise Bank line of credit; interest is prime rate plus 2.25%.   | 80,622     |
| Total Other Borrowings  | \$ 566,645 |
| Total Borrowings  | \$ 694,645 |
| Less current portion of Related Party Borrowings  | (128,000)  |
| Less current portion of Other Borrowings  | (169,530)  |
| Total Long-Term Borrowings  | \$ 397,115 |

## INNOVATIVE DESIGNS, INC.

## NOTES TO FINANCIAL STATEMENTS

Maturities of debt for the next five years after October 2008 are as follows:

| Year Ending October 31, | Related<br>Party<br>Borrowings | Other<br>Borrowings | Total      |
|-------------------------|--------------------------------|---------------------|------------|
| 2009                    | \$ 128,000                     | \$ 169,530          | \$ 297,530 |
| 2010                    | -                              | 13,159              | 13,159     |
| 2011                    | -                              | 10,859              | 10,859     |
| 2012                    | -                              | 11,178              | 11,178     |
| 2013 and thereafter     | -                              | 361,919             | 361,919    |
|                         | \$ 128,000                     | \$ 566,645          | \$ 694,645 |

In July 2005, the Company received a no interest loan with Redevelopment Authority of Allegheny County in the amount of \$13,923. The Company qualified for a loan due to the significant loss of inventory, raw materials, and equipment when its leased warehouse, in which it maintained these items, was flooded by the remnants of Hurricane Ivan in September 2004. The loan is to be repaid over a forty-seven month period in equal payments of approximately \$290, commencing July 1, 2006. The loan balance was \$6,092 at October 31, 2008.

In July 2005, the Company was approved for a low interest promissory note from the U.S. Business Administration in the amount of \$280,100. The Company qualified for the loan due to the significant loss of inventory, raw materials, and equipment when its leased warehouse, in which it maintained these items, was flooded by the remnants of Hurricane Ivan in September 2004. The note bears interest at an annual rate of 2.9%. Monthly installment payments, including principal and interest, will be \$1,186 beginning five months from the date of the promissory note. The note will be payable over 30 years. Certain guarantees of collateral were made by the Company's Chief Executive Officer and shareholder, Joseph Riccelli to service the note. The Company is to use the loan proceeds to repair or replace the following: approximately \$6,200 for machinery and equipment; approximately \$80,100 for furniture and fixtures; approximately \$148,700 for inventory; and approximately \$45,100 for working capital. The Company has received the full amount of this loan at October 31, 2005. In January 2006 the Company amended the promissory note with the Small Business Administration increasing the principal balance to \$430,500. The note still bears an annual interest rate of 2.9% and matures on July 13, 2035. Monthly payments, including principal and interest, will increase to \$1,820 due every month beginning February 13, 2006. All remaining principal and accrued interest are due and payable on July 13, 2035. The loan balance was \$404,752 at October 31, 2008.

In September 2005, the Company entered into a 42 month loan payable with Citizens National Bank for \$7,000 due March 2009. This loan was used to finance a pick-up truck purchased by the Company. The loan is payable in monthly installments of \$193.27 including interest at 8.5% per annum. The loan balance was \$179 on October 31, 2008.

In September 2005, the Company signed a new loan agreement with James Kearney for a note payable. This new agreement is for a prior note payable of \$100,000, dated July 2004, in addition to accrued interest of \$62,000. This note bears interest at a flat rate of 8.000%. The principal of \$75,000 and interest of \$112,000 are payable in full at any

time after December 10, 2005.



INNOVATIVE DESIGNS, INC.

NOTES TO FINANCIAL STATEMENTS

On May 18, 2006, the Company entered into a loan of credit agreement with Enterprise Bank for borrowing up to \$900,000 with a rate of interest computed at Prime plus 2.25%. The terms of this agreement were modified on June 1, 2006 to reduce borrowings to a maximum of \$300,000 with interest computed at prime rate plus 2.25%. Interest is calculated from the date of each advance until repayment of each advance. The payment of all borrowings and accrued interest is due on demand. Borrowings as of October 31, 2008 were \$80,622. This loan is collateralized with a First lien on all business assets of the Company business including, but not limited to, the licensing agreement to manufacture and distribute products containing INSULTEX insulation. Personal property of the Chief Executive Officer of the Company was also used as collateral.

In November 2006, the Company entered into a loan payable with a related party, Dean Kolocouris for \$40,000. This loan was to be used to fund operations of the Company. This loan is due on demand, including interest at 10% per annum. The loan balance at October 31, 2008 was \$20,000.

In October 2006, the Company entered into three loans payable with Daryl Zaonotz for \$100,000. These loans were to be used to purchase inventory. The first loans was for \$30,000 to be paid back in full on or before October 14, 2007, including interest at 14% per annum. The second loan for \$30,000 is to be paid back in full on or before February 8, 2008, including interest at 15% per annum. The third loan for \$40,000 was to be paid back in full on or before December 10, 2007, including interest at 10% per annum.

On November 7, 2006, the \$30,000 principal plus interest that was due on or before October 14, 2007 was converted to 110,000 shares of the Company's common stock. During 2008, the Company issued 260,000 shares of the Company's common stock valued at \$.35 per share or \$91,000 to extinguish the remaining principal and accrued interest.

5. EXCLUSIVE LICENSING AND MANUFACTURING AGREEMENT

On April 16, 2006, the Company entered into an Exclusive License and Manufacturing Agreement (the "Agreement") with the Ketut Group, with an effective date of April 1, 2006, whereby the Company acquired an exclusive license to develop, use, sell, manufacture and market products related to or utilizing INSULTEX™, Korean Patent Number, (0426429) or any Insultex Technology. At the behest of the Board of Directors, the Insultex trademark was chosen as the mark to identify the product utilized by Innovative since its inception, and was originally registered by Joseph Riccelli on February 17, 2005. The new trademark, intended to avoid confusion arising from the use of the old Eliotex trademark in association with a new, subsequent, different and separately-patented product, was assigned by Mr. Riccelli to the Company on April 25, 2006, with that assignment to become effective upon final approval of the Statement of Use by the United States Patent and Trademark Office. The License was awarded by the Korean inventor, an individual who is part of the Ketut Group, and the manufacturer of INSULTEX™. The Company received an exclusive forty (40) year worldwide license, except for Korea and Japan, with an initial term of ten (10) years and an option to renew the License for up to three (3) successive ten (10) year terms. Additionally, the Company was granted the exclusive rights to any current or future inventions, improvements, discoveries, patent applications and letters of patent which the Ketut Group controls or may control related to INSULTEX™. Furthermore, the Company has the right to grant sub-licenses to other manufacturers for the use of INSULTEX™ or any Insultex Technology.



INNOVATIVE DESIGNS, INC.

NOTES TO FINANCIAL STATEMENTS

6. CONCENTRATIONS

Earned revenues for the fiscal year ending October 31, 2008 include revenues earned from one major customer. The major customer accounted for approximately 11% of total Company earned revenue for fiscal year. There were no open accounts receivable from this customer at October 31, 2008.

Earned revenues for the fiscal year ending October 31, 2007 includes earned revenue to one major customer. The major customer accounted for approximately 22% of total Company earned revenue for the fiscal year. Accounts receivable from this customer was approximately \$120,000 at October 31, 2007.

## INNOVATIVE DESIGNS, INC.

## NOTES TO FINANCIAL STATEMENTS

The Company only has one supplier of INSULTEX, the special material which is manufactured within the apparel of the Company. Additionally, the Company only has one manufacturer that produces the apparel on behalf of the Company, located in Indonesia.

## 7. INCOME TAXES

The Company accounts for income taxes under SFAS 109, which requires use of the liability method. SFAS 109 provides that deferred tax assets and liabilities are recorded based on the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, referred to as temporary differences. Deferred tax assets and liabilities at the end of each period are determined using the currently enacted tax rates applied to taxable income in the periods in which the deferred tax assets and liabilities are expected to be settled or realized.

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate to income before provision for income taxes. The sources and tax effects of the differences are as follows:

|  | 2008 | 2007 |
|--|------|------|
| Income tax provision at the federal statutory rate | 34%  | 34%  |
| Effect of operating losses                         | 34%  | 34%  |
|  | -    | -    |

The Company's deferred tax asset is as follows:

|                           | 2008     | 2007      |
|---------------------------|----------|-----------|
| Deferred tax assets       | \$ 8,065 | \$ 15,899 |
| Less: valuation allowance | (8,065)  | (15,899)  |
| Net deferred taxes        | \$ -     | \$ -      |

The Company has a net operating loss of approximately \$1,204,672 and \$1,954,292 at October 31, 2008 and 2007, respectively, which can be carried forward through October 31, 2025. The principal difference between the net operating loss for book purposes and income tax purposes results from common shares issued for services aggregating of \$216,350 and \$6,000 at October 31, 2008 and 2007, respectively.

FASB Interpretation 48, "Accounting for Uncertainty in Income Taxes", is effective for fiscal years beginning after December 15, 2006. This interpretation clarifies the accounting for uncertainty in income taxes recognized in enterprise's financial statements in accordance with FASB Statement FASB No. 109, Accounting for Income

Taxes. The interpretation prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Company does not believe this will have an impact on the financial statements.

## INNOVATIVE DESIGNS, INC.

## NOTES TO FINANCIAL STATEMENTS

## 8. COMMITMENTS

The Company currently maintains two offices which are leased pursuant to an oral agreement on a month-to-month basis for approximately \$3,300 per month. For the years ended October 31, 2008 and 2007, rent expense totaled approximately \$39,600 for each year.

## 9. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

| 2008                                      | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Year         |
|---|------------------|-------------------|------------------|-------------------|--------------|
| Revenue                                   | \$ 234,183       | \$ 34,133         | \$ 85,141        | \$ 189,680        | \$ 543,137   |
| (Loss) from<br>operations                 | (17,895)         | (255,759)         | (87,041)         | (191,553)         | (552,248)    |
| NET INCOME<br>(LOSS)                      | \$ (24,916)      | \$ (26,981)       | \$ 4,088,393     | \$ (479,277)      | \$ 3,557,219 |
| Weighted average<br>shares<br>outstanding | 17,522,343       | 18,024,073        | 18,034,743       | 18,455,243        | 18,150,675   |
| Basic loss per share                      | (.0014)          | (.0015)           | 22.67            | (.026)            | .196         |
| 2007                                      | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Year         |
| Revenue                                   | \$ 215,683       | \$ 42,951         | \$ 35,093        | \$ 380,814        | \$ 674,541   |
| Income (loss) from<br>operations          | 54,081           | (45,745)          | (48,515)         | 157,246           | 117,067      |
| NET INCOM<br>(LOSS)                       | \$ 46,882        | \$ (65,190)       | \$ (52,366)      | \$ 123,767        | \$ 53,093    |
| Weighted average<br>shares<br>outstanding | 16,906,030       | 16,906,030        | 16,906,030       | 16,906,193        | 16,906,152   |
| Basic income (loss)<br>per share          | .003             | (.004)            | (.003)           | .007              | .003         |



Page Intentionally Left Blank