

INNOVATIVE DESIGNS INC
Form 10-K
January 29, 2010

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

FORM 10-K

Annual report under section 13 or 15(d) of the Securities Act of 1934.
For the fiscal year ended October 31, 2009

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)

Delaware
(State or other jurisdiction of
incorporation or organization)

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.
 Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to section 13 or Section 15 (d) of the Act.
 Yes No

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

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.
- 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, except for our gloves which are manufactured in China by purchase order, 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.

covered products. All fabrics with the authorized patterns must be purchased from an authorized fabric source. The term of the agreement is for five years with the licensor having the right to terminate the agreement upon thirty days notice. We paid a \$500 execution fee.

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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.

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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, except for our gloves, which are produced in China, 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 2009, we filed a patent application, No. 12 642714, 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 and for our gloves from our supplier in China.

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	Low
Fabric Thickness	0.021 inches	Thin
Thermal Retention	Clo value: 2.0	Good
Air Permeability (protection from wind)	0.01 cubic feet of air/min/ft2 of material (Good)	Low
Moisture Permeability (protection from water)	5 grams/sq. meter/24 hrs. (Good)	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:

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.

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

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INNOVATIVE DESIGNS, INC.

NOTES TO FINANCIAL STATEMENTS

On November 2, 2007, we issued 3,000 shares of our common stock for cash for \$.40 per share or \$1,200. We relied on Section 4(2) of the Act for the sale. We believed that Section 4(2) was available because the sale did not involve a public offering and there was no general solicitation or general advising involved in the sale.

On November 3, 2007, we issued 110,000 shares of our common stock to a noteholder in exchange for the note. The noteholder is a shareholder of the Company. 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 as an offering not involving a public offering.

On November 3, 2007, we issued a total of 6,000 shares of our common stock to a consultant for services relating to the use of our Arctic Armor line of products to the law enforcement community. 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 Company's CEO and the service provider negotiated the value of the services to be performed on behalf of the Company. The negotiated value was divided by the approximate trading value of the Company's common stock on the date the transaction was entered into to calculate the number of shares issued to the service provider. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended as an offering not involving a public offering.

On November 3, 2007, we issued, in a private placement, a total of 47,150 shares of our common stock for cash for \$.40 a share to seven investors. 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 506 of Regulation D promulgated under the Securities Act of 1933, as amended as an offering to "accredited investors" as that term in defined in Regulation D.

On December 20, 2007, we issued each of our director's, and a former director, 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 \$72,000, which approximated the value of the services. The Company's CEO and the service provider negotiated the value of the services to be performed on behalf of the Company. The negotiated value was divided by the approximate trading value of the Company's common stock on the date the transaction was entered into to calculate the number of shares issued to the service provider. The shares were issued without registration pursuant to the exemption provided by Section 4(2) of the Securities Act of 1933, as amended as an offering not involving a public offering.

On December 2, 2007, we issued a total of 118,800 shares of our common stock to five investors in a private placement. Based on the closing price, the value of the common stock issued was \$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.

INNOVATIVE DESIGNS, INC.

NOTES TO FINANCIAL STATEMENTS

On January 4, 2008, we issued 67,500 shares of our common stock for cash to three investors in a private placement. Based on the closing price, the value of the common stock issued was \$30,375. 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 7, 2008, we issued 40,000 shares of our common stock in exchange for debt to a stockholder of the Company. 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 which equaled the amount of debt due to the stockholder. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended as an offering not involving a public offering.

On February 29, 2008, we issued 110,000 shares of our common stock in exchange for debt and accrued interest for \$.35 per share to a stockholder of the Company. Based on the closing price, the value of the stock was \$38,500 which equaled the amount of debt and accrued interest due to the stockholder. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended as an offering not involving a public offering.

On February 29, 2008, we issued 11,100 shares of our common stock for cash for \$.45 per share or \$4,995 in a private placement to one investor. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended as an offering not involving a public offering.

On March 18, 2008, we issued 18,000 shares of our common stock to a consultant for design services for \$.40 per share or \$7,200. The Company’s CEO and the service provider negotiated the value of the services to be performed on behalf of the Company. The negotiated value was divided by the approximate trading value of the Company’s common stock on the date the transaction was entered into to calculate the number of shares issued to the service provider. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended as an offering not involving a public offering.

On May 23, 2008, we issued a total of 25,000 shares of our common stock to two consultants, one for 15,000 shares and the other for 10,000 shares, for consulting services relating to the use of our Arctic Armor products in the railroad industry for \$.40 per share or \$10,000. The Company’s CEO and the service provider negotiated the value of the services to be performed on behalf of the Company. The negotiated value was divided by the approximate trading value of the Company’s common stock on the date the transaction was entered into to calculate the number of shares issued to the service provider. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended as an offering not involving a public offering.

On June 30, 2008, we issued 10,000 shares of our common stock to a consultant for business consulting services relating to our Arctic Armor line of products for \$.40 per share or \$4,000. The Company’s CEO and the service provider negotiated the value of the services to be performed on behalf of the Company. The negotiated value was divided by the approximate trading value of the Company’s common stock on the date the transaction was entered into to calculate the number of shares issued to the service provider. The shares were issued without registration pursuant to the exemption provided by section 4(2) of the Securities Act of 1933, as amended as an offering not involving a public offering.

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